



# KEY TO BANK VIVA

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**[An exclusive PDF file for the viva preparation for the post of Assistant Director (General Side) of Bangladesh Bank and Senior Officer, Officer & Officer (Cash) of Sonali/Agrani/Janata/Rupali Bank Ltd.; BASIC Bank Ltd./BDBL; Bangladesh Krishi/Rajshahi Krishi Unnayan/Probashi Kallyan Bank); Karmashangosthan/Ansar-VDP Unnayan/Palli Sanchay Bank]**

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**প্রিয় ভাই/বোনবৃন্দ,**

বাংলাদেশ ব্যাংকের সহকারী পরিচালক (জেনারেল সাইড) পদে নিয়োগের লক্ষ্যে গত ২৭/০৭/২০১৮ইং তারিখে অনুষ্ঠিত লিখিত পরীক্ষার গত ০৭/১১/২০১৮ইং তারিখে প্রকাশিত হয়েছে। লিখিত পরীক্ষায় উত্তীর্ণ হওয়া সাপেক্ষে আপনারা যারা আগামী ১৮/১২/২০১৮ইং থেকে ০৪/১২/২০১৮ইং তারিখের মধ্যে অনুষ্ঠিতব্য মৌখিক পরীক্ষায় অংশগ্রহণ করবেন এবং তৎপরবর্তীতে বিভিন্ন সময় বিভিন্ন সরকারি এবং বেসরকারি বাণিজ্যিক/বিশেষায়িত ব্যাংকে সিনিয়র অফিসার, অফিসার ও অফিসার (ক্যাশ) পদে মৌখিক পরীক্ষায় অংশগ্রহণ করবেন (বিশেষতঃ যারা অ-বাণিজ্য অনুষদ থেকে স্নাতক ও স্নাতকোত্তর ডিগ্রীধারী) তারা আমার লেখা ১৪২ পৃষ্ঠার এই PDF ফাইলটি ভালভাবে পড়লে বেশ উপকৃত হবেন এবং কম সময়ে সন্তোষজনক/আশানুরুপ প্রস্তুতি গ্রহণে সক্ষম হবেন বলে আশা করা যায়। বাংলাদেশ ব্যাংকের সহকারী পরিচালক পদে নিয়োগের নিমিত্তে ২০১৩, ২০১৪, ২০১৬ এবং ২০১৭ সালে অনুষ্ঠিত মৌখিক পরীক্ষা এবং অফিসার (জেনারেল সাইড) পদে ২০১৬ ও ২০১৮ সালে অনুষ্ঠিত মৌখিক পরীক্ষা ও অফিসার (ক্যাশ) পদে ২০১৮ সালে অনুষ্ঠিত মৌখিক পরীক্ষায় অংশগ্রহণকারী চাকুরীপ্রার্থীদেরকে যেসকল প্রশ্ন জিজ্ঞাসা করা হয়েছিল তার ভিত্তিতে ও আলোকে ফাইলটি তৈরি করা হয়েছে। আজকের ফাইলটি একই নামে আপনাদের গ্রুপে আপলোড করা পূর্ববর্তী ফাইলটির সম্পূর্ণ ও হালনাগাদ সংস্করণ।

- ❖ ফাইলটিতে জাতীয় বাজেট ২০১৮-২০১৯, অর্থনৈতিক সমীক্ষা-২০১৮ ইত্যাদিসহ বাংলাদেশের অর্থনীতি ও ব্যাংক খাত সম্পর্কিত সাম্প্রতিক বিভিন্ন গুরুত্বপূর্ণ তথ্য ও উপাত্ত ব্যবহার করেছি এবং বাংলাদেশ ব্যাংক এবং তফসিলীভূক্ত রাষ্ট্রায়ত্ত বাণিজ্যিক ও বিশেষায়িত ব্যাংকসমূহের বিভিন্ন পদে নিয়োগের উদ্দেশ্যে অনুষ্ঠিত মৌখিক পরীক্ষায় চাকুরীপ্রার্থীদেরকে সচরাচর যেসকল প্রশ্ন জিজ্ঞাসা করা হয় বা জিজ্ঞাসা করার সম্ভাবনা বেশি থাকে তার আলোকে সহজ ইংরেজি ভাষা ব্যবহার করে বিষয়গুলো গুছিয়ে ও পর্যায়ক্রমে ধাপে ধাপে সহজভাবে উপস্থাপনের জন্য আন্তরিকভাবে চেষ্টা করেছি।
- ❖ বিশ্ববিদ্যালয় পর্যায়ে আপনারা প্রত্যেকে যে যে বিষয়ের উপর স্নাতক ও স্নাতকোত্তর ডিগ্রী অর্জন করেছেন তারা সংশ্লিষ্ট সেই বিষয়ের মৌলিক ধারণা নিয়ে রাখবেন কেননা মৌখিক পরীক্ষার সময় বোর্ডের সদস্যরা সবসময়ই কিছু না কিছু গুরুত্বপূর্ণ সাবজেক্টিভ ও টেকনিক্যাল টার্ম জিজ্ঞাসা করে থাকেন। মনে রাখবেন যে, বিশেষায়িত ও মূলধারার বিশ্ববিদ্যালয়সমূহের স্নাতক ও স্নাতকোত্তর পর্যায়ের সকল অনুষদের (বিজ্ঞান, বাণিজ্য, সামাজিক বিজ্ঞান ও কলা অনুষদ) প্রায় সকল পাঠ্যবিষয়ের উপর বোর্ড সদস্যবৃন্দের কম-বেশি জ্ঞানের গভীরতা রয়েছে।
- ❖ মৌখিক পরীক্ষার দিন বাংলা মাসের নাম ও তারিখ এবং ঐ দিন প্রকাশিত প্রথম সারির ২/৩টি জনপ্রিয় দৈনিক বাংলা ও ইংরেজি সংবাদপত্রের প্রথম পাতায় প্রকাশিত শিরোণামসমূহ (বিশেষ করে ব্যাংক ও অর্থনীতি সংশ্লিষ্ট), ডলার ও ব্রিটিশ পাউন্ডের বিপরীতে বাংলাদেশী টাকা/মুদ্রার বিনিময় মূল্য, বাংলাদেশ ব্যাংকের বৈদেশিক মুদ্রার রিজার্ভের পরিমাণ ইত্যাদি তথ্য-উপাত্ত পড়ে যাবেন।
- ❖ পাশাপাশি আপনারা আপনাদের সংশ্লিষ্ট জেলার গৌরবময় ইতিহাস-ঐতিহ্য, নদী ও দর্শনীয় স্থানসমূহ, বিখ্যাত ব্যক্তিবর্গ, রাজনীতিবিদ, সমাজ-সংস্কারক, লেখক, কবি-সাহিত্যিক, শিক্ষাবিদদের পরিচিতি সম্পর্কে ধারণা নিয়ে রাখবেন।

**** আপনাদের সকলের জন্য অনেক অনেক শুভকামনা রইল। সবাই ভাল থাকবেন। ধন্যবাদ ****

*...Shyamal Kanti Biswas ...*

**বিশেষ দ্রষ্টব্যঃ** সরকারি ও বেসরকারি খাতের বাণিজ্যিক ও বিশেষায়িত ব্যাংকের মৌখিক পরীক্ষার ক্ষেত্রে ভাল প্রস্তুতি গ্রহণ ও সন্তোষজনক নম্বর পাওয়ার উদ্দেশ্যে চাকরিপ্রার্থীদের কথা বিবেচনা করেই মূলতঃ এই ফাইলটি তৈরি করা হয়েছে। তাই, কোন বাণিজ্যিক উদ্দেশ্যে ফাইলটি প্রিন্ট করে বা তা ছাপিয়ে বাজারে চাকরিপ্রার্থীদের কাছে বিক্রয় না করার জন্য বিশেষ অনুরোধ রইল।

## Why do you want to join Bangladesh Bank?

- I have passion about banking job from my student life and I want to join Bangladesh Bank because it is the country's apex monetary authority as well as the central bank. It is also a suitable place to create innovative environment.
- Being a central bank, Bangladesh Bank is not involved in conventional commercial banking. It is actually doing the work of policymaking and regulating banking system and I want to be a policymaker and a part of our government.
- Banking sector is one of the fastest growing and promising sectors of Bangladesh and it provides great career opportunities. Bangladesh Bank can provide me a stable career with good growth prospects. Besides, it ensures financial solvency.
- Bangladesh Bank has good working atmosphere and chances to directly interact with the public.
- If I get the job, it will upgrade my social position/status and ensure a smooth life.
- So, if I get the job in Bangladesh Bank, I will not try for another one. Otherwise, I will continue my search for a suitable job. That is why I have come to attend the interview today.

## Why do you want to join Sonali, Agrani, Janata, Rupali, BASIC Bank, BDBL, BLB or RAKUB?

- Banking sector is now one of the fastest growing sectors in Bangladesh and this sector is helping greatly in our socioeconomic development. Bank job is more secured in any category of private job and it has social recognition. Besides, banks pay handsome salaries than any other sector. So, I am interested to join the banking sector.
- Banking and finance is a good path to follow as I want to work in a traditional corporate structure at a large business. In Bangladesh, banking sector is one of the stable industries where one can grow career smoothly. Besides, I have an interest in the financial sector. I think job in a bank will meet my career goal and expectation.
- I have always seen the potential in the banking sector. During any recession or economic slowdown, banks have always topped the chart in regular business with no downfall. It has also a great career development potential that no other industry can provide.
- Bank is the pillar of our economy. The soundness of our economy depends on the performance of the banking sector. So, it is a huge opportunity for me to contribute to our national economy. Besides, banking sector has good career growth with attractive salary growth.

## We see that you have completed your graduation and post-graduation in XYZ (Physics, Chemistry, CSE, Fisheries, Bangla, English, Political Science, Journalism, Public Administration, Sociology).
## If we appoint you in this post, then how you will apply your knowledge base in the banking sector?
## How you will relate your knowledge base to the banking sector?

- Actually there is no major resemblance between my academic knowledge base and the type of works of Bangladesh Bank (or the conventional commercial banks). So, there is no scope that I would directly apply my knowledge base in the banking sector. But if the bank management recruit me in this post and provide me enough training facilities, then I may show my potentiality as I am a very much sincere person and also a quick learner.
- Although I have completed my graduation and post-graduation in XYZ, I have been trying to get a Class-I or Class-II job in the banking sector or the government sector as nowadays a government job is more secure and prestigious in comparison to the private sector jobs.

## Please mention some genuine reasons as to why we should select you for this post
## Please tell us about your strength in favour of getting the this job

Sir, I think I am fit for (eligible for) the central bank job because I have extracurricular activities, analytical ability, adjustability, good communication skills, practical knowledge on ICT and so on.

**Strength**:

- ✓ I am an innovative and hardworking person.
- ✓ I am a quick learner and a positive thinker.
- ✓ I can do work under pressure in a cool mind.
- ✓ I have good communication skills.
- ✓ I am also good at analytical ability.
- ✓ I am puncyual, passionate, sincere and dedicated to my assigned task.
- ✓ Finally I have the mentality of providing services to the people.

**Weakness**:

- ✓ I am a talkative person and I trust people very quickly and easily.
- ✓ I always think others as like me.
- ✓ It is very much difficult for me to tell a lie.
- ✓ I am emotional in some context and become angry at the moment when I see any kind of injustice.

## Difference between job and career

A **career** is the pursuit of a lifelong ambition or the general course of progression towards lifelong goals. A career is a series of connected employment opportunities where a person builds up skills at earlier employment opportunities to move him into higher paying and higher prestige employment opportunities later on.
**Job** is an activity through which an individual can earn money. It is a regular activity in exchange of payment.
If there is promotion of position based on performance, then it is career.
Any type of work is job. All careers are job, but all jobs are not a career.

## বাংলাদেশ ব্যাংকের সহকারী পরিচালক (জেনারেল সাইড) পর্যায়ের কর্মকর্তাবৃন্দের কার্যাবলী কী কী??

উত্তরঃ- সহকারী পরিচালকবৃন্দ (জেনারেল সাইড) ব্যাংকিং খাত ও দেশের অর্থনীতি সংশ্লিষ্ট বিভিন্ন বিষয়ে নতুন নীতিমালা প্রণয়ন বা পূর্ববর্তী নীতিমালার সংশোধন/পরিমার্জন/পরিবর্ধনের নিমিত্তে কিংবা বিভিন্ন ব্যাংক, ব্যাংকের শাখা, ব্যাংক কর্মকর্তা ও ব্যক্তি বিশেষদের (বিদেশে টাকা পাচারকারী) আর্থিক অনিয়ম ও দুর্নীতির বিষয়ে প্রমাণাদি উপস্থাপনসহ যথাযথ কার্যকরী পদক্ষেপ গ্রহণের জন্য নোট উপস্থাপন করে থাকেন যা ঊর্ধ্বতন কর্তৃপক্ষ (গভর্নর/ডেপুটি গভর্নর মহোদয়) কর্তৃক অনুমোদিত হয় ও তদপ্রেক্ষিতে যথাশীঘ্র প্রয়োজনীয় কার্যব্যবস্থা গ্রহণ করা হয়।

## What type of tasks does an Assistant Director (General Side) of Bangladesh Bank usually do?

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| 1. | Depending on the type, nature and pattern of policy works of the department he/she is posted in, an Assistant Director generally prepares (writes up) different sorts of notes (places case) highlighting the issues in summarised format (mostly restricted within 1-2 page/s) in a bid to —<br>➢ formulate new guidelines on greater interest and for the betterment of the country's banking sector and economy;<br>➢ bring necessary modification/amendment to the existing and previous banking laws and regulations;<br>➢ place proper evidence (documents) and recommend necessary punitive actions/steps against concerned bank officials and other people who are found responsible in financial irregularities & corruption and fund embezzlement during the investigation, inspection and audit carried out by the officials of Bangladesh Bank. |
| | |
| 2. | An Assistant Director also places notes and recommend for taking necessary actions if he/she find any abnormal mismatch and irregularities in the weekly, fortnight, monthly, quarterly, half-yearly and yearly statements and reports which are sent to Bangladesh Bank by the schedules banks. |
| 3. | The Assistant Directors usually writes up notes on the abovementioned issues and these notes are finally approved by the Deputy Governors and Governor. Once the notes get approval, actions/steps are taken instantly according to the recommendations mentioned in the approved notes. |
| 4. | An Assistant Director also performs many operational tasks if he/she is posted in the operational departments (FRTMD, FEOD, EMD) and branch offices. |
| 5. | Bangladesh Bank has different functions therefore the type of work varies a lot from department to department. The job profile of an Assistant Director depends on the department s/he is posted in. There is no particular norm that is followed for a particular designation. Currently Bangladesh Bank has as many as 53 departments. There are many clusters and categories namely — banks, financial markets, monetary policy and research, regulation & risk management and supervision & inclusion in which an Assistant Director is assigned. For example: an Assistant Director working with Department of Banking Inspection (DBI) inspects and ensures that commercial banks are properly complying with the directives of Bangladesh Bank. Candidates who join Bangladesh Bank as Assistant Directors enter an exciting world of managing monetary resources of the economy helping Bangladesh achieve its aspirations. |
| 6. | **Typical functions carried out by the Assistant Directors (General Side) at the Head Office**:<br>Banking supervision, policy-making, debt market, foreign exchange market, rural credit and financial inclusion require an Assistant Director to learn the job for few months before s/he becomes fully productive. In these functions, the job is also knowledge intensive s/he will have to read various guidelines and prepare written notes for taking up policy related decisions from the senior management. S/he will be sent for meetings and inspections of banks and non-bank financial institutions (NBFI). Overall there is not much work pressure in Bangladesh Bank but for those who are enthusiastic and energetic, there is enough variety and enormous scope to improve things. |
| 7. | A job at Bangladesh Bank is not a typical bank job and it will make the person part of the decision-making process which affects the banking industry in Bangladesh. The nature of Bangladesh Bank is regulatory and supervisory. So, everyday is full of challenges in terms of formulating new policies and guidelines for banks on varied issues like financial inclusion, KYC norms, bank deposits, cash reserve ratios and interest rates. Also, it is important to ensure banks comply with Bangladesh Bank rules. The Assistant Directors of Bangladesh Bank lead such activities from the front. |
| 8. | Bangladesh Bank offices are divided into two parts — Head Office and Branch Offices (there are 10 branch offices). The Head Office is entrusted with policy-making and supervision work while the branch offices do the regulation work. The Head Office issues circulars and gazette notifications on policy decisions. The implementation of these is looked after by the branch offices. |

## The duties and responsibilities of an Assistant Director (General Side) of Bangladesh Bank

1. To process and issue licenses to commercial, Islamic and microfinance banks and their branches as per the approved criteria.
2. To process approvals for appointment of Directors/President/CEO of the scheduled banks.
3. To propose policy interventions for strengthening the corporate governance culture in the banking industry.
4. To update Banking Laws/Prudential Regulations and to review/decide references received under these laws/regulations.
5. To assist in formulating & implementing anti-money laundering regime in line with international standards
6. To keep a close liaison with both internal & external stakeholders and propose changes in policies to respond to the changes taking place in the banking industry.

## বাংলাদেশ ব্যাংকের অফিসার (জেনারেল সাইড) পর্যায়ের কর্মকর্তাবৃন্দের কার্যাবলী কী কী??

উত্তরঃ- বাংলাদেশ ব্যাংকে কর্মরত অফিসারবৃন্দ সহকারী পরিচালকবৃন্দের ন্যায় বিভিন্ন জনগুরুত্বপূর্ণ ও নীতি-নির্ধারণী বিষয়ে কোন নোট উপস্থাপন না করলেও তারা সহকারী পরিচালকদের কাজে সহযোগিতা করেন এবং যে ডিপার্টমেন্টে পোস্টিং পান সেই ডিপার্টমেন্টের কাজের ধরণ ও নীতিমালা সম্পর্কে জ্ঞানার্জনের পর অভ্যন্তরীণ বিভিন্ন কম গুরুত্বপূর্ণ বিষয়ে নোট/কেস উপস্থাপন করেন যেমন: বিভিন্ন তফসিলীভূক্ত ব্যাংকের মাসিক/পাক্ষিক/ত্রৈমাসিক/অর্ধ-বার্ষিক/বার্ষিক প্রতিবেদন ও বিবরণী ধারাবাহিকভাবে সাজানো ও রেজিষ্ট্রারে নথিভূক্ত/এন্ট্রি দেওয়া এবং সংশ্লিষ্ট ডিপার্টমেন্টের বিভিন্ন চিঠিপত্র প্রয়োজনীয় ব্যবস্থা গ্রহণের পর সেগুলো যথাযথভাবে নির্ধারিত নথি/ফাইলে সংরক্ষণের ব্যবস্থা করা।

## What type of tasks does an Officer (General Side) of Bangladesh Bank usually do?

- ❖ Depending on the type, nature and pattern of policy works of the department he/she is posted in, an Officer (General Side) of Bangladesh Bank prepares (write up) notes and office notes on department-related less important (internal) issues in summarised format (mostly restricted in 1-2 page/s) which are approved at the Joint Director, Deputy General Manager (DGM) or General Manager level of the concerned department.
- ❖ Sometimes Officers perform tasks assigned by the Assistant Directors. For an example: Officers give entry in the register of inwards & outwards and sequentially & categorically arrange the weekly, fortnight, monthly, quarterly, half-yearly and yearly statements and reports sent to the concerned department of Bangladesh Bank from the scheduled banks.
- ❖ The Officers also complete filing (properly keeping documents in the name-wise files) of the approved and settled cases, letters and supporting papers after taking necessary actions on those.

## Duties and responsibilities of an Officer (Cash) of Bangladesh Bank

The job duties and responsibilities of an Officer (Cash) of Bangladesh Bank are quite different from that of the conventional commercial banks to some extent. An Officer (Cash) of Bangladesh Bank has to deal with the people as well as different enlisted commercial banks (the banks only which have individual accounts with Bangladesh Bank). The skills required for an Officer (Cash) are communication, honesty and sincerity.
An Officer (Cash) plays very an important role in the Cash Counter as he has to interact with the customers on daily basis for solving queries and handling money over the counter.
Here are some job duties and responsibilities of an Officer (Cash) of Bangladesh Bank:-

- ❖ To receive money through treasury “Challan” forms
- ❖ To make payment against different government Cheques and debit vouchers
- ❖ To receive the money of (or to make payment against) government draft, payment order, bank draft and Cheques of different enlisted and scheduled banks
- ❖ Sales and encashment of the government savings certificates & national investment bonds
- ❖ Sales and purchase of prize bonds with face value of Tk.100 each
- ❖ To receive claims of (or to make payment against claim of) prize bonds with face value of Tk.100 each
- ❖ To give exchange value against defective prize bonds
- ❖ To give pension money to the pensioners (retired government employees)
- ❖ To receive and give the exchange value of defective (non-issue), damaged or mutilated banknotes which are claimable/refundable as per the Bangladesh Bank (Note Refund) Regulations-2012
- ❖ Sales of commemorative coins and notes

It should be noted that there is no Cash Department as well as cash transactions anywhere in the Head Office of Bangladesh Bank. The Cash Department is run under the Motijheel Office.

**What type of daily works you may have to do as a Senior Officer (or an Officer) if you are given posting in a rural branch of this bank (Sonali/Agrani/Janata/Rupali/BDBL/BASIC/BKB)?**

- Being a Senior Officer of a conventional bank, I may have to do/perform any type of work for the sake of the bank.
- For example:— If I am given posting in the rural areas, then I may have to take the charge of the branch manager after a certain period of time.
- Besides, I may have to perform other banking tasks — normally related to general banking, foreign exchange, loan and advance, posting of daily debit and credit vouchers in the system of the bank.
- In absence of the Cash Officer, I may have to temporally perform the role of cashier in any branch in accordance to the decision taken by the bank management.

**Duties & responsibilities of a Senior Officer of the conventional commercial banks (Sonali/Agrani Bank)**

- Account opening
- Scrutinising the customer application submitted by the sourcing channels and accordingly capturing the customer information/instruction/transactions in the core banking system as per the bank's policies.
- Highlighting discrepancies in the customer application to the sourcing channels for rectification and compliance.
- Executing and completing the allocated tasks assigned by the manager within the stipulated timelines.
- Processing the customer queries/complaints raised by branches/contact centre by providing end to end resolution.
- Working efficiently towards the assigned tasks with accuracy and minimal error.
- Maintaining data on activities and provide regular management information system (MIS) for review with top management as per requirements.

**Mention the risks that are associated with the post of an Officer (Cash) of a bank**
**The types of risks that the Officers (Cash) generally face**

- As the Officers (Cash) are involved in the front banking, they generally face a lot of challenges and risks in their job. Once an amount of cash money is wrongly given to a person, then there will be a little hope of getting the money back.
- If an Officer (Cash) does a mistake in cash handling, he will have to make the compensation for his mistake with his hard-earned money (monthly salaries). Besides, he will loss his dignity that he has achieved over the years in his career.
- The loopholes for an Officer (Cash) are Cheque forgery, counterfeit banknotes and his simple belief towards the people.
- The clients or parties will try to make a good relationship with an Officer (Cash). If the Cashier does not maintain a minimum unseen distance in the banker-customer relationship, the Officer (Cash) may face bitter experiences.
- A cashier's good relationship and risks with a client are closely related simultaneously. The Officer (Cash) will be always made responsible for any type of unexpected incidents which are related to the vault of the bank.

- The types of major risks and challenges that the Officers (Cash) generally face are given below:—
  - Maintaining efficiency and accuracy in calculation, cash transactions and data entry
  - Self-auditor (Gaining knowledge in detection of Cheque forgery and counterfeit banknotes)
  - Maintaining patience at the cash counter and handling the rude customers efficiently
  - Daily transaction balancing (double-checking of the cashier's transactions if any error arises)
  - Shortfall in receipts and payments

The bank management often arranges sufficient training facilities for the Officers (Cash) so that they can easily avoid such problems.

**Responsibility of the concerned Officer (Cash) in the event of shortfall of money at the cash counter**

In most of the time of the daily office hours, an Officer (Cash) has to receive a lot of deposit receipts and give different types of payments in the cash counter. So, the job of an Officer (Cash) is boring or tiresome to some extent. An Officer (Cash) has to handle a lot of financial transactions totalling large amounts of money. As a result, sometimes shortfall of money in the cash counter appears as a common matter. In the event of shortfall of money, the concerned Officer (Cash) should carefully check the transactions for properly adjusting the accounts so that the mismatched amount of money can easily be found out.

**What do you feel are the most important qualities for an Officer (Cash) position?**

A banker needs to have good judgment, service orientation and the ability to cope well under stressful circumstances. Organisational skills, time management and a strong work ethic are also essential for this job.

## Some key characteristics (qualities) that a banker needs to possess for a successful career

Currently, the banking sector is a very dynamic space to work in. The digital revolution has dramatically changed the banking industry. Banks no longer just take deposits and offer loans and mortgages; they have turned into financial institutions that offer a plethora of financial products and services ranging from credit cards to business loans to the customers. The face of the banking industry has also evolved. The traditional jack-of-all-trades banker has been replaced by numerous specialist management positions such as mortgage loan officer, auto loan officer, commercial loan manager, controller, risk manager and various other financial managers.
Here are some essential characteristics that put a banker on the path of a successful banker:

**Exhibiting professionalism:** Banking is an exceptionally knowledge driven and competitive business. Customers come with all their savings and wealth to the bank. A successful banker must be professional in his approach to ensure that the customers build confidence in the bank and entrust them with all their finances.

**Relationship building***:* This skill is perhaps the most intangible but considered to be one of utmost importance, particularly as private bankers climb the career ladder. Social and relationship building skills (such as being able to deal with difficult people in extreme situations) having a high energy and positive attitude that exudes power but also an "I understand your needs" attitude and developing and maintaining client relationships are characteristics that bankers must possess in order to be successful.

**Relationship management**: A successful banker is one who has a precise understanding of the client segment's profitability and performance. Based on this understanding, the solution provided by the banker should be customised according to the client's requirement. The product offering would then be differentiated from the service provided by other bankers. This will allow the banker to command a premium for the solution provided. Clients satisfied with the banker's products and services will refer potential leads — which will lead to bringing more business to the bank.

**Personal integrity and morality**: Personal integrity is an invaluable quality and effective operational principle for those working in the banking sector. It may seem that careers in banking sector mostly centre around technical skills such as math, economics and the ability to speculate on market trends. Although these abilities are crucial, banking career also require personal strengths and characteristics. A bank needs a strong base of integrity in its employees. Successful operation of a bank depends on the moral compass of those involved.

**Customer-oriented attitude:** The most important aspect in the service industry is the customer satisfaction.
A successful banker has to always remember to put the customer interests first and commit to deliver superior customer service to him/her. To do this always, a banker needs to be a problem solver, empathetic to the customer, and positively oriented.

**Ability to anticipate client's needs**: Based on the understanding of the client, a banker should be able to anticipate the client's future requirement and be ready with the solution. This will not just give an opportunity of cross-sell but will also go a long way to instil confidence and trust in the client.

**Good negotiation skills:** A successful banker is one who is able to engage and network with internal and external customers for the desired results. S/he is the one who has the negotiation skills to be able to comprehend and find solutions to difficult conflict situations and resolve all customer queries.

**Confidentiality & privacy of the client's data:** Confidentiality is one of the most important key selling propositions for a banker. Clients will tend to feel threatened if inadequate privacy is maintained by banks with regard to their data. If the confidential information within a bank is leaked out to competitors, it may result in the bank losing its competitive advantage or a major deal/client.

**Risk management:** A banker needs to be cautious while managing all the risks involved in the transactions s/he carries out on behalf of his/her customer. S/he should be able to practice due diligence at all points of time.

**Sound judgement in the use of advanced technology:** A banker has to be vigilant to be able to avert frauds. The industry has become highly prone to fraudulent activities in spite of several processes in place. Even with advanced technology, the online hackers and fraudsters can still breach the system. So, a banker should be compliant, process driven, and totally dedicated to carrying the task to 100% completion.

**Salesmanship**: A good banker should possess the trait of salesmanship (The ability to persuade others to accept his/her advice).

**Patience**: A successful career in finance is no longer all about making the most amount of money in the shortest amount of time. It requires patience. The onset of tough regulation and long vesting periods requires patience, strategic skilfulness and most of all a calm, disciplined nature.

**Good communication skills:** A banker should firstly listen and then talk to the customers or bank officials. Understanding the issue & adapting to the situation to give the right solution is the key to good communication skills.

**Being responsible:** Since the bank is a financial institution based on trust, a successful banker should be extremely responsible and ethical. S/he should own the work and the customer he/she handles.

**Qualities of a Loan Officer:** Loan officers represent a significant number of the low- and midlevel management

**In addition**, some other factors like dressing properly, punctuality and good behaviour are the basic requirements that a good banker needs to maintain. A banker needs to have a strong motivation level and social skills. A combination of these qualities would go a long way in making one a successful banker.

**Financial Intermediary** is an entity that acts as the middleman between two parties in a financial transaction. While a commercial bank is a typical financial intermediary, this category also includes other financial institutions such as investment banks, insurance companies, broker-dealers, mutual funds and pension funds.
Financial intermediaries offer a number of benefits to the average consumer including safety, liquidity and economies of scale. Financial intermediaries encompass a wide range of entities in terms of size and scale of operation, ranging from a small insurance brokerage to giant global institutions that provide a complete range of financial services including commercial banking, investment banking and asset management.

**Financial Derivatives** are securities which are linked to other securities (such as stocks or bonds). Their value is based on the primary security they are linked to. Financial derivatives are sound investment vehicles that make investing and business practices more efficient and reliable. Financial derivative can be used for a number of purposes, including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard-to-trade assets or markets.

**Depository Institution** is an institution that is legally allowed to accept monetary deposits from consumers. Depository institutions solicit and accept savings of people as demand deposits or time deposits and pay a fixed or variable rate of interest. Examples of depository institutions are savings bank, commercial banks, savings and loan associations, credit unions, leasing companies, merchant banks, specialised financial institutions.

**Banking** can be defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn profit. However, with the passage of time, the activities covered by banking business have widened and now various other services are also offered to the bank customers by the banks. The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country.

**Bank** is a financial institution where people deposit their money to keep it safe. Banks play an important role in the financial system and the economy. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner.

**Bank Products**: Example of bank products are Savings account, house building loans, car loans, personal loans, Certificates of Deposit (Term deposits), debit cards, credit cards, ATM cards, premium banking, private banking, insurance, remittance, Cheque, traveler's Cheques, mortgages, FAST (Fast & Secure Transfers) and overdraft.

**Banking Instruments** are referred to as the documents used in processing the activities of banks. There are several banking instruments such as deposit slip, demand draft, payment order and cheque.

**Six Sigma concept within banking system**
Six Sigma is very useful in the banking industry for a variety of reasons. With the focus on customer service and satisfaction, it is important that all processes run as efficiently as possible. The Six Sigma methodology used in the banking industry is referred to as the DMAIC process. It denotes: define, measure, analyse, improve and control. DMAIC itself has five stages:—

- To define opportunities
- To measure performances
- To analyse opportunity
- To improve performances
- To control performances

**The positive effect of the inception of new banks in the banking sector in Bangladesh**
Comparatively better services can be expected from the newly emerged banks. As there will be a rise of competition, every bank will try to provide better services than before to the clients so that they can attract more clients.

**Why the banking sector is growing so fast in Bangladesh**
Currently the economy of Bangladesh is boom. The main reason behind it is commercial banking. Banking sector is growing faster and faster because it provides quality service and reasonable lending capital to the borrowers. Another reason is that it provides reasonable interest rate to the public. The main motive of commercial banking is to invest the capital and to gain the profit which is really very helpful for the development of the economy. There are various schemes which really attract the customers such as opening the account in a minimum balance. There is a competition among the banks which enhance the better quality of services.
So, the banking sector is growing so fast.

**Main Problems of the Banking Sector in Bangladesh**
**(1) Low quality of assets:** 22% of total credit is classified. The ratio of classified loans of nationalised commercial banks is 29%, private commercial banks 12%, foreign commercial banks 3% specialised banks 47%.
**(2) Lack of good governance, accountability and transparency:** Illegal credit facilities taken by directors in false names; interference of directors in routine matters of the bank.
**(3) Inadequacy of effective risk management system**: Increased credit risk, inappropriate management of assets and liabilities, weaknesses in exchange transactions, absence of effective internal control and compliance culture have caused weak accountability.

## SWOT (Strength, Weakness, Opportunities and Threats) Analysis of the Banking Sector in Bangladesh

**Strength**:

- Wide network of branches with about 50% branches in the rural areas
- Economy witnessing fast changes
- Banks are operating in the global village in terms of quality of banking and use of modern technology
- Technology driven banking
- Multi products, multi channels, multi currency
- Employment creation
- Staff dealing in all types of advances at branches
- Banks known for due diligence, fair practice

**Weakness**

- Stiff competition
- Low profit margin
- High levels of non-performing loans (NPLs)
- Slow pick-up in implementation of infrastructure projects
- Low profitability
- Senior staff with low productivity
- Security threats
- Frauds and irregularities

**Opportunities**

- Fasted growing economy
- Huge infrastructure in rural areas
- Huge foreign investment to take place
- Housing sector to prosper
- Financial inclusion is picking up fast
- Mobile banking is picking up fast
- Youth population to dominate

**Threats**

- Global uncertainties (Brexit and Greece-Spanish debit crisis)
- Declining asset quality
- Low and declining profit margin
- Too many small banks, chances of failures
- Security concerns
- Frauds are on rise
- Low and declining interest spread
- High operating costs

## In the changing banking scenario, what are the most important needs of the banking industry?

We are living in the digital age where technological innovations are changing our style of living, doing the business and even the way we do a commercial transaction. The banks will have to catch up and offer (a) multi channel optimisation, (b) digital distribution and most importantly (c) effective sales efforts. Some other essential requirements are given below:-

- ➢ Proper implementation of the Basel III guidelines
- ➢ Improve the digital customer experience
- ➢ Enhance data analytics capabilities
- ➢ Reduce operating costs
- ➢ Increase investment in innovation
- ➢ Meet regulatory and compliance requirements
- ➢ Update or replace components of the Core Operating System
- ➢ Recruit and Retrain Talent Officials
- ➢ Enhance security and authentication

## What are your recommendations in implementing these changes by the banks,?

Banking sector has to achieve competitive differentiation, banks must define a clear strategy and customer proposition, and then develop the capabilities to reach these goals. The banks should:

- ❖ Establish an overall strategy that includes the appropriate capability mix and investment choices.
- ❖ Develop an appropriate sourcing strategy to enable scale and deliver required capabilities at higher speed.

By following these next generation approach, banks can position for growth, improve performance and achieve a competitive advantage in the near and long-term.

## How it will affect the economy if the government takes loan from Bangladesh Bank?

If the government takes loan from Bangladesh Bank, the country's rate of inflation will increase because Bangladesh Bank will be needed to issue fresh banknotes to disburse loan to the government.

## How it will affect the economy if the government takes loan from private commercial banks?

If the government takes loan from the private banks, the individual or private investment in the country will decrease or fall because the private entrepreneurs will be unable to avail loan facilities from the private banks.

## The impact on the banking sector if the government's loans taken from banks increase

The impact depends on which sector the government is using the loan. In Bangladesh, the government uses bank loans in a bid to provide subsidies in the energy and power (oil and electricity) sectors. As a result, the private entrepreneurs become unable to avail loan facilities from the banks. With the downfall in the investment, the rate of unemployment increases. So, it becomes difficult to continue the economic growth flow. The government is bound to pay the loan with interest in the future. So, all overall economic system as well as the bank will fall into risk if the amount of loans taken by the government from banks increases.

## How does the government directly borrow from the people (Describe with an example)?

At the end of the taxation period, the government remains in a sticky situation — how should it raise money when the economy is depressed. One great way to deal with this problem is public borrowing. If the government gives consumers or investors bonds in exchange for their money, the money they hand the government becomes an investment that promises to repay the money with some amount of interest after a certain period of time.

## The impact of recession on the banking sector

As seen in the private sector much of the job-cuts are caused due to global slowdown. It is the public sector undertaking banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security.

## Why the 2008-2012 global economic recession did not affect badly on the economy of Bangladesh

The international business of Bangladesh is confined to some specific products (readymade garments & knitwear items and leather products). So, the economy of Bangladesh does not have any sound connection with the world economy. That is why Bangladesh has not suffered much due to economic recession. Besides, the inward remittance inflow and exports earnings from readymade garments (RMG) items were satisfactory for Bangladesh.

| **Co-relation between Bank and Economics** |
|---|
| Bank and economics are very closely interrelated. Banks work as the driving force to ensure the country's economic growth and development. For example: In the national budget of the 2017-2018 fiscal year, the government has taken loan equivalent to Taka 28,203 crore from the banking sector. Besides, the banks play an important role in providing remittance and other services. |
| **Difference between Banking and Finance** |
| The term banking and finance are two very different terms but are often associated together. These two terms are often used to denote services that a bank and other financial institutions provide to its customers.<br>**Finance** is a process of wealth management. Finance is generally related to all types of financial activities — this could be accounting, insurance and policies. Before starting any business, a person needs to formulate a plan where and how to invest money for better return — for which there are some business tools and strategies available to analyse the project before going head.<br>**Banking** is everything that happens in a bank only. Banks engage in the business of keeping money for savings and checking accounts or for exchange or for issuing loans and credit etc. Banks play an important role of intermediary mostly of cash handling between business to business and business to client. |

| **Key differences between Economics and Finance** | | |
|---|---|---|
| Factors | **Economics** | **Finance** |
| Definition | Economics is a social science that studies the management of goods and services, including the production and consumption and the factors affecting them. | Finance is the science of managing funds keeping in mind the time, cash at hand and the risk involved. |
| Concept | Economics is a social science. The science of economics studies the production, consumption and distribution of services or goods. The science of economics is trying to explain how economies work and how do different economies interact. The analysis of the science of economics is applied in various fields like finance, business, government, education, politics and social institutions. | Finance is a fund management science. There are 03 general areas of finance which are namely — business finance, public finance and personal finance. The basic principle of finance is saving money and lending money. These operations are accomplished with the help of financial institutions. The science of finance deals with the interrelation of the concepts of time, risk and money. |
| Focus | Economics focuses on the optimisation of valued goals. Finance is the study of the financial markets which are coordinating the interests of the lenders and borrowers that are doing business in the market. | Finance focuses entirely on the maximisation of wealth. The study of economics is more the study of the goods and services which are circulating in the same market. |
| Branches | Branches of economics include macro and micro economics. | Branches of finance include personal finance, corporate finance and public finance. |
| Management | Professional economists are hired as consultants by private and public sector. | Finance is managed by companies, banks or other institutions. |

**What is Lender of the Last Resort? Which institution acts as Lender of the Last Resort in Bangladesh?**

A lender of last resort is the institution in a financial system that provides liquidity to commercial banks and other financial institutions which are experiencing financial difficulties or are considered highly risky or near collapse.
So, a lender of last resort is the institution that acts as the provider of liquidity to a bank or financial institution which finds itself unable to obtain sufficient liquidity in the interbank lending market. The main task in front of the lender of last resort is to preserve the stability of the banking and financial system by protecting the funds deposited with the banks by the individuals and preventing panic-ridden withdrawing from banks with temporary limited liquidity.
In Bangladesh, Bangladesh Bank acts as the lender of last resort to the financial institutions that do not have any other means of borrowing and whose failure to obtain credit would dramatically affect the economy of the country.
In most of the developing and developed countries, the lender of last resort is the country's central bank.

**Which institution is the regulatory body of the financial sector of Bangladesh?**

Bangladesh Bank is the central bank and apex regulatory body for the country's monetary and financial system.

**Who is the monetary authority in Bangladesh?**

Bangladesh Bank (the central bank of Bangladesh) has been given the authority by the government to control money supply by raising or reducing interest rates. It controls the money supply with the objective of controlling inflation or interest rates. It also oversees exchange rate policy and supervises the banking sector.

**Bangladesh Bank** is the central bank and apex regulatory body for the monetary system of Bangladesh which controls and regulates all other state-owned and private banks and performs duty as the treasury of the government. It controls inflation by systematically controlling the supply of money in the market and through increasing the SLR and CRR rates and tightening the banking rules and regulations regarding loan disbursement.
**Bangladesh Bank** acts as the central bank of Bangladesh which was established on December 16, 1971 through the enactment of Bangladesh Bank Order—1972 [President's Order—127 of 1972 (Amended in 2003)]. The general superintendence & direction of the affairs and business of Bangladesh Bank have been entrusted to the Board of Directors which is headed by the Governor who is also the Chief Executive Officer of this institution.
In Strategic Plan (2010-2014), the vision of BB has been stated as, "To develop continually as a forward looking central bank with competent and committed professionals of high ethical standards, conducting monetary management & financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh".

**Establishment of Bangladesh Bank**: Bangladesh Bank was established in Dhaka as a body corporate vide the Bangladesh Bank Order, 1972 with effect from 16th December, 1971. At present it has 10 offices located at Motijheel, Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal, Rangpur and Mymensingh in Bangladesh; total manpower stood at 5807 (officials 3981, subordinate staff 1826) as on March 31, 2015.

<table>
<tr><th colspan="2">Features of the Monogram of Bangladesh Bank</th></tr>
<tr><td></td><td>বাংলাদেশ ব্যাংকের হিউম্যান রিসোর্সেস ডিপার্টমেন্ট গত ০৮/০৩/২০০৬ তারিখে মনোগ্রাম প্রসঙ্গে একটি প্রশাসনিক পরিপত্র নং-০৬/২০০৬ জারী করে। এতে বাংলাদেশ ব্যাংকের সকল প্রকার লেটারহেড, কলিং কার্ড ও অন্যান্য ডকুমেন্টে অনুমোদিত বিভাজন অনুযায়ী রং ও ডিজাইনে এ মনোগ্রাম ব্যবহার করার জন্যে সংশ্লিষ্ট সকলকে পরামর্শ প্রদান করা হয়।</td></tr>
<tr><td colspan="2">স্বাধীনতাত্তোর বাংলাদেশের কেন্দ্রীয় ব্যাংক হিসেবে বাংলাদেশ ব্যাংকের মনোগ্রামটি ১৯৭২ সালে ডিজাইন করেছিলেন পটুয়া কামরুল হাসান। কালের পরিক্রমায় মুদ্রণ ব্যবস্থার পর্যায়ক্রমিক পরিবর্তনের ফলে মূল মনোগ্রামের ডিজাইনে ইচ্ছা বা অনিচ্ছাকৃতভাবে অনেকে পরিবর্তন করার চেষ্টা করেছেন। এটা সম্পূর্ণ অনাকাঙ্ক্ষিত। অন্যদিকে, বিষয়টি বাংলাদেশ ব্যাংকের জন্যও অগ্রহণযোগ্য। মনোগ্রামের সঠিক রূপটি নিশ্চিত করে সকল ক্ষেত্রে একই রূপ ও রংয়ের মনোগ্রাম ব্যবহার করা অত্যন্ত জরুরি। এ লক্ষ্যে, বাংলাদেশ ব্যাংকের মূল মনোগ্রাম পুনরুদ্ধার করার জন্য বাংলাদেশ ব্যাংকের একটি কমিটি ২০০৫ সালে দায়িত্ব পালন করে। কমিটির পক্ষ থেকে বাংলাদেশ ব্যাংকের মনোগ্রাম ডিজাইন ও রঙের বিভিন্নতা পরিহার করে মনোগ্রামের মূল ডিজাইন ঠিক রেখে একটি সুনির্দিষ্ট রং মনোনয়নের বিষয়ে দেশের প্রথিতযশা শিল্পী মুস্তাফা মনোয়ারের পরামর্শ গ্রহণ করা হয়। শিল্পী মুস্তাফা মনোয়ারের সার্বিক তত্ত্বাবধান এবং দিক নির্দেশনায় পটুয়া কামরুল হাসান অঙ্কিত বাংলাদেশ ব্যাংকের মনোগ্রামের ডিজাইন অপরিবর্তিত রেখে মনোগ্রামের জন্য রং সুনির্দিষ্ট করা হয়। সুজলা, সুফলা নদীমাতৃক বাংলাদেশের কৃষি নির্ভর অর্থনৈতিক কর্মকাণ্ডের প্রতিভূ হিসেবে বাংলাদেশ ব্যাংকের মনোগ্রামে ব্যবহৃত বিভিন্ন চিহ্নের প্রতীক অর্থ ও রং-এর ব্যাখ্যা দেয়া হলো :</td></tr>
<tr><td>মনোগ্রামের রং (গাঢ় সবুজ)ঃ এ রং বাংলাদেশের সবুজ পতাকা ও সবুজ মাঠের প্রতীক হিসেবে ব্যবহৃত হয়েছে।<br>রং-এর মিশ্রণঃ<br>নীল (Cyan Blue): ১০০%, হলুদ: ১০০% এবং কালো: ৩০%।</td><td>মাঝের ধানের গোলাঃ মনোগ্রামের ঠিক মাঝখানে রয়েছে ডিজাইনকৃত ধানের গোলা এবং এর ঢাকনা। ধানের গোলা আর্থিকভাবে সুখী সমৃদ্ধশালী বাংলাদেশের প্রতিভূ হিসেবে ব্যবহৃত হয়েছে।</td></tr>
<tr><td>গোলার নিচে নদীর ঢেউঃ গোলার নিচে দু'টি বক্ররেখা নদীর ঢেউ এর প্রতীক হিসেবে দেখানো হয়েছে। নদীমাতৃক বাংলাদেশকে বুঝাতে এটি ব্যবহৃত হয়েছে।</td><td>দু'পাশে ধানের ছড়াঃ ধানের গোলার দু'পাশে দু'টি ধানের ছড়া দেখানো হয়েছে। মাঠভরা সোনালী ফসল বুঝাতে এটি ব্যবহৃত হয়েছে।</td></tr>
<tr><td>নিচে পাটের তিনটি পাতাঃ ধানের গোলার নিচে একটি কুঁড়িতে তিনটি পাটের পাতা রয়েছে। দেশের বৈদেশিক মুদ্রা আয়ের প্রধান উৎস হিসেবে (তৎকালীন) পাট পাতাকে যুক্ত করা হয়েছে।</td><td>গোলাকার বৃত্তঃ নদীমাতৃক বাংলাদেশের মাঠভরা সোনালী ফসল দিয়ে বৈদেশিক মুদ্রা আয়সহ সমৃদ্ধশীল আর্থিক বুনিয়াদ গড়ে তোলার প্রত্যয়ে বাংলাদেশ ব্যাংক বৃত্তাবদ্ধ হয়ে সকলের সাথে কাজ করবে- এটি বুঝাতে গোলাকার বৃত্ত ব্যবহৃত হয়েছে।</td></tr>
</table>

## Is Bangladesh Bank a government organisation or an autonomous organisation?

Bangladesh Bank is an autonomous organisation. The Bangladesh Bank Order—1972 (PO No. 127 of 1972) and the Bank Company Act—1991 have given Bangladesh Bank the required degree of operational autonomy. The Banking Company Act—1991 has empowered it to regulate banking sector as an autonomous body.

**The sources of income of Bangladesh Bank**: Bangladesh Bank earns income mainly from interests.

- Interest income is obviously the key to Bangladesh Bank's finances
- Its main source of income is an interest earned on bond holdings through open market operations or purchase and sale of government securities
- Interest income related to banknote issuance (known as "seigniorage income)
- Capital gain on securities
- Profit on sale of securities (mainly Treasury bills)
- Yields on government securities and bonds
- Interest received on other securities
- Interest received from foreign exchanges reserves, gold and domestic assets. Interest on these foreign holdings makes for another major share of the revenue
- Interest received on loans given to the government
- Interest received on loans given to commercial banks by means of liquidity adjustment facilities (Repo & Reverse Repo) and marginal standing facilities
- Interest received on loans and advances given to bank employees
- Discount received from bank rate where Bangladesh Bank earns on rediscounting of bills from banks
- Commission received from the government accounts management (by managing public debt)
- Exchange gains
- Fees, fines and rents realised

Bangladesh Bank holds foreign assets in form of foreign exchange reserves. It also holds gold and domestic assets. Foreign assets mainly consist of the US treasury bills and government bonds of other countries (minimal part may include assets backed securities collateralized by high quality assets). Domestic assets mainly consist of government bonds (minimal part may include bills of exchange, assets backed securities and mortgage backed securities).

## 10 branch offices of Bangladesh Bank

1. Motijheel Office
2. Chittagong Office
3. Rajshahi Office
4. Khulna Office
5. Bogra Office
6. Sylhet Office
7. Rangpur Office
8. Barisal Office
9. Sadarghat Office
10. Mymensingh Office

**List of the Governors of the Bangladesh Bank**

| Serial | Name | Took Office | Left Office |
|---|---|---|---|
| 01 | A. N. M. Hamidullah | 18/01/1972 | 18/11/1974 |
| 02 | AKN Ahmed | 19/11/1974 | 13/07/1976 |
| 03 | Mohammad Nurul Islam | 13/07/1976 | 12/04/1987 |
| 04 | Segufta bakhta Chowdhury | 12/04/1987 | 19/12/1992 |
| 05 | Khorshed Alam | 20/12/1992 | 21/11/1996 |
| 06 | Md Lutfur Rahman Sarkar | 21/11/1996 | 21/11/1998 |
| 07 | Mohammed Farashuddin | 24/11/1998 | 22/11/2001 |
| 08 | Dr. Fakhruddin Ahmed | 29/11/2001 | 30/04/2005 |
| 09 | Dr. Salahuddin Ahmed | 01/05/2005 | 30/04/2009 |
| 10 | Dr. Atiur Rahman | 01/05/2009 | 15/03/2016 |
| 11 | Fazle Kabir | 16/03/2016 | — |

**Board of Directors of Bangladesh Bank**

The Board of Directors of Bangladesh Bank consists of 10 members (but currently 09 members).
The Governor (currently Fazle Kabir) is the Chairman of the Board while an Executive Director (currently Kazi Sayedur Rahman) is its Member Secretary. The seven other directors are:—
(1) Md. Nojibur Rahman
(2) Md. Eunusur Rahman
(3) Mohammad Muslim Chowdhury
(4) Dr. Mrs. Rushidan Islam Rahman
(5) Dr. Jamaluddin Ahmed
(6) A. K. M. Aftab-ul Islam
(7) and the senior most Deputy Governor (currently Abu Hena Mohd. Razee Hassan)

## About Fazle Kabir: The 11th Governor of Bangladesh Bank

The government on March 15, 2016 appointed former Finance Secretary & Chairman of state-run Sonali Bank Limited Fazle Kabir as the new Governor of Bangladesh Bank for 04 years. The Ministry of Public Administration issued a notification on his appointment as per Section 10 (5) of the Bangladesh Bank Order-1972.

Fazle Kabir was born in a respectable Muslim family of Munshiganj on July 4, 1955. He obtained his Honours and Master's degrees in Economics from the University of Chittagong in 1979. He started his professional career in the Bangladesh Civil Service (Railway: Transportation and Commercial) cadre back in October 1980.

Later, he joined the BCS (Administration) service in October 1983. During his 34-year tenure in the civil bureaucracy, Fazle Kabir served in various key positions in different ministries as well as in the field administration. He served as the deputy commissioner and district magistrate of Kishoreganj, Joint Secretary in the Ministry of Education, Director General of the National Academy for planning and Development and BCS Administration Academy and as the Secretary of Ministry of Railways before joining as Finance Secretary in July 2012. During his career, he represented Bangladesh in many conferences abroad and also actively participated in state level negotiations at home and abroad.

He led the Bangladesh delegation to the United Nations Finance and Budget Committee sessions in October 2008. His wife Mahmuda Sharmin Benu is an Additional Secretary to the Ministry of Public Administration.

## About Dr. Atiur Rahman

Dr. Atiur Rahman was the 10th Governor of Bangladesh Bank. He is a renowned economist. He was born in a remote village of Jamalpur district in 1951. He went to the school but had to quit after grade-III because of poverty. However, his unwavering determination and visionary attitude helped him conquer all the hurdles.

He had to sit for the class IV final examinations without attending any class. But when the result came out, his name topped the list.

Dr. Rahman went to the village school till grade VI. After grade VI he wanted to go to a Cadet College for better education. Eventually he got admitted to the prestigious Mirzapur Cadet College. A school teacher of his village Foyez Moulavi collected charity to facilitate his admission. Considering his financial inability, the college authority granted him free tuition. Thus he could continue at the college from where he passed the SSC and HSC examinations with outstanding results securing positions in the merit list both times.

He went to the Dhaka University for studying economics. After completion of his graduation, he was awarded the prestigious Commonwealth Scholarship. He went to the School of Oriental and African Studies, University of London, from where he obtained his Ph.D. in 1977. His Ph.D. thesis later came out as a book under the title "**Peasants and Classes**" published by the Oxford University Press, which is much admired by the economists worldwide and is being used as a reference book in many universities throughout the world.

Prior to his assumption of office as the Governor of Bangladesh Bank, he was a Professor of Economics in the Department of Development Studies (2006-2009) at the University of Dhaka.

His previous roles also include Director of Sonali Bank, Chairman of the Board of Directors of Janata Bank and a long tenure as a Senior Research Fellow at the Bangladesh Institute of Development Studies (BIDS).

He conducted various research works on economic development and published extensively on the micro-finance revolution in Bangladesh. For many years, Dr. Rahman also steered the Credit Development Forum (CDF) in Bangladesh as Chairman. He has been a known public face advocating for more humane development including pro-poor participatory budgeting. He is considered an authority on matters related to the fiscal budget in Bangladesh.

Dr. Atiur Rahman received many national and international awards for his contribution towards poverty alleviation and development of the banking sector.

Bangla Academy honored Dr. Atiur Rahman with **'Bangla Academy Literature Award 2015'** for his significant literary contribution with articles on Rabindranath Tagore, Language Movement, Liberation War and Bangabandhu.

Dr. Atiur Rahman was selected as **the Central Bank Governor of the Year 2015 for Asia** for his contribution to the successful maintenance of macroeconomic stability in Bangladesh.

**Some books written by Dr. Atiur Rahman**

- সার্ক: রাজনৈতিক অর্থনীতি, ১৯৮৬
- কৃষি প্রশ্ন: ঐতিহাসিক রুশ বিতর্ক এবং তৃতীয় বিশ্বতার প্রাসঙ্গিকতা, ১৯৮৯
- গরীবের বাজেট ভাবনা ও দারিদ্র বিমোচন, ১৯৯৬
- মুক্তিযুদ্ধেও মানুষ মুক্তিযোদ্ধাদের স্বপ্ন, ১৯৯৭
- বাঁশের লড়াই বাঁচার লড়াই, ১৯৯৭
- আরেক বাংলাদেশ, ১৯৯৮
- মানবিক উন্নয়ন, ২০০০
- জনগণের বাজেট, ২০০০
- আগামী দিনের বাংলাদেশ, ২০০১
- বাংলাদেশ উন্নয়নের সংগ্রাম, ১৯৯১, ২য় সংস্করণ-২০০২
- আলো আঁধারের বাংলাদেশ: মানব উন্নয়নের সম্ভবনা ও চ্যালেঞ্জ, ২০০৩
- মুক্তিযুদ্ধ জনযুদ্ধ: মুক্তিযুদ্ধের আর্থসামাজিক পটভূমি, ২০০৩
- সুশাসনের সন্ধানে, ২০০৩
- Peasants and Classes: A Study in Differentiation in Bangladesh
- Sustainable Environment Management Programme

| Hierarchy of Bangladesh Bank |
|---|
| Governor |
| ↓ |
| Deputy Governor (DG) |
| ↓ |
| Executive Director (ED) |
| ↓ |
| General Manager (GM) |
| ↓ |
| Deputy General Manager (DGM) |
| ↓ |
| Joint Director (JD) |
| ↓ |
| Deputy Director (DD) |
| ↓ |
| Assistant Director (AD) |
| ↓ |
| Officer |
| ↓ |
| Senior Data Entry/Control Operator (SDECO) |
| ↓ |
| Data Entry/Control Operator (DECO) |
| ↓ |
| Caretaker Grade-I |
| ↓ |
| Caretaker Grade-II |
| ↓ |
| MLSS/Jomader |
| ↓ |
| Door Keeper/Mali/Khedmotgar |

| Name of the 53 Departments of Bangladesh Bank | | | |
|---|---|---|---|
| 01 | Accounts & Budgeting Department | 28 | Financial Integrity and Customer Services Department |
| 02 | Agricultural Credit Department | 29 | Financial Sector Support and Strategic Planning Department |
| 03 | Bangladesh Bank Library | 30 | Financial Stability Department |
| 04 | Bangladesh Bank Training Academy | 31 | Foreign Exchange Investment Department |
| 05 | Bangladesh Financial Intelligence Unit | 32 | Foreign Exchange Operation Department |
| 06 | Bankers' Selection Committee Secretariat | 33 | Foreign Exchange Policy Department |
| 07 | Banking Regulation and Policy Department | 34 | Forex Reserve & Treasury Management Department |
| 08 | Chief Economist's Unit | 35 | Governor's Secretariat |
| 09 | Common Services Department-1 | 36 | Grihayan Tahbil & Fund Management Unit |
| 10 | Common Services Department-2 | 37 | Human Resources Department 1 |
| 11 | Credit Information Bureau | 38 | Human Resources Department 2 |
| 12 | Debt Management Department | 39 | Information Systems Development Department |
| 13 | Department of Banking Inspection 1 | 40 | Integrated Supervision Management Department |
| 14 | Department of Banking Inspection 2 | 41 | Internal Audit Department |
| 15 | Department of Banking Inspection 3 | 42 | Investment Promotion & Financing Facility Project Cell |
| 16 | Department of Banking Inspection 4 | 43 | IT Operation & Communication Department |
| 17 | Department of Communications and Publications | 44 | Law Department |
| 18 | Department of Currency Management | 45 | Monetary Policy Department |
| 19 | Department of Financial Institutions and Markets | 46 | Payment Systems Department |
| 20 | Department of Foreign Exchange Inspection | 47 | Research Department |
| 21 | Department of Off-Site Supervision | 48 | Secretary's Department |
| 22 | Deposit Insurance Department | 49 | Security Management Department |
| 23 | Equity and Entrepreneurship Fund Unit | 50 | SME & Special Programmes Department |
| 24 | Expenditure Management Department-1 | 51 | Special Studies Cell |
| 25 | Expenditure Management Department-2 | 52 | Statistics Department |
| 26 | Financial Inclusion Department | 53 | Sustainable Finance Department |
| 27 | Financial Institutions Inspection Department | | |

| Some Core and Banking Policymaking Departments of Bangladesh Bank | |
|---|---|
| 01 | Banking Regulation and Policy Department (BRPD) |
| 02 | Bangladesh Financial Intelligence Unit (BFIU) |
| 03 | Department of Off-Site Supervision (DOS) |
| 04 | Monetary Policy Department (MPD) |
| 05 | Foreign Exchange Policy Department (FEPD) |
| 06 | Foreign Exchange Investment Department (FEID) |
| 07 | Foreign Exchange Operation Department (FEOD) |
| 08 | Forex Reserve & Treasury Management Department (FRTMD) |
| 09 | Department of Banking Inspection (Wing—1, 2, 3 & 4) |

## Functions of Some Core and Policymaking Departments of Bangladesh Bank

### Functions of Bangladesh Financial Intelligence Unit (BFIU)

BFIU is the central agency of Bangladesh responsible for analysing Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) & information related to money laundering (ML)/financing of terrorism (TF) received from reporting agencies & other sources and disseminating information/intelligence thereon to relevant law enforcement agencies. BFIU has been entrusted with the responsibility of exchanging information related to money laundering and terrorist financing with its foreign counterparts. The main objective of the BFIU is to establish an effective system for prevention of money laundering, combating financing of terrorism and proliferation of weapons of mass destruction.

BFIU was established in June 2002, in Bangladesh Bank named as 'Anti Money Laundering Department'. To enforce and ensure the operational independence of FIU, Anti Money Laundering Department has been transformed as the Bangladesh Financial Intelligence Unit (BFIU) in 25 January, 2012 under the provision of Money Laundering Prevention Act, 2012 and has been bestowed with operational independence. BFIU also achieved the membership of Egmont Group in July, 2013.

### Functions of Banking Regulation and Policy Department (BRPD)

This department is basically responsible for issuance of prudential regulations and guidelines to ensure a sound and stable banking system. The major areas covered are:

01.Review and drafting of banking statutes.
02. Determination of bank rate, capital adequacy requirements, asset classification and provisioning standard.
03. Prescribing Criteria for corporate governance and insider lending and monitoring thereof.
04. Setting criteria for internal control and risk management system of banks and monitoring thereof.
05. Determination of accounting standards and disclosure requirements for banks.
06. Issuance of license for opening of new bank and new business center of existing banks.
07. Effecting disciplinary action against Board of Directors/CEO of banks.
08. Monitoring of law suits lodged by and against banks relating to recovery of loans.
09. Attending to works relating to development of priority/special sectors of the economy.
10. Issuance of directives and compliance thereof under the Banking Companies Act—1991.

### Objectives of the Department of Off-Site Supervision (DOS)

To enhance the safety, soundness and stability of the banking system by overseeing individual banks on the basis of various returns/financial statements and ensure banking discipline as well as depositor's interest and confidence in the banking system.

**Main Functions**

1. Performance analysis and monitoring of the scheduled banks on the basis of CAMELS. Banks having weaknesses in any areas of operation are brought under Early Warning category or Problem Bank category and monitored very closely to improve their performance.
2. Monitoring maintenance of Statutory Liquidity Requirements (CRR & SLR) of scheduled banks. Imposing and realising penal interest and penalty for the shortfall of CRR and SLR.
3. Assessment and monitoring of Capital Adequacy of banks. Review and monitoring of loans/deposits of Government and state owned Enterprises with scheduled banks.
4. Monitoring the overall credit, deposit, investment and liquidity position of the banking system.
5. Monitoring the activities of the state owned commercial Banks (Sonali Bank Ltd.; Janata Bank Ltd. Agrani Bank Ltd. and Rupali Bank Ltd.) and two specialized banks (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) in accordance with the conditions of MOU signed by the respective banks.
6. Review of the minutes of the Board of Directors, Executive Committee, Board Audit Committee meetings and the audited Financial Statements of scheduled banks and advising the banks to take necessary remedial measures theiragainst.
7. Provide deposit insurance coverage and safety nets to protect depositor's interest and thus enhance market discipline and systemic stability.
8. Review of the Large Loan portfolio of the scheduled banks.
9. Maintaining asset/liability of the liquidated banks and dealing with the court cases relating to the properties of liquidated banks, as official liquidator.

### Functions of the Monetary Policy Department (MPD)

The Monetary Policy Department (MPD) is responsible to execute all sorts of ground work related to formulation of monetary and exchange rate policies of the Government of the People's Republic of Bangladesh. For this purpose, MPD performs various regular jobs at the department level which are summarised below.

1. The MPD prepares Monetary Policy Statements (MPS), the half-yearly release of Bangladesh Bank's monetary policy stance, based on the assessment of Bangladesh's existing monetary and credit situation and macroeconomic developments and near future outlooks in real, external, and fiscal sectors.
2. The MPD arranges Monetary Policy Committee (MPC) meetings on monthly basis or as per instruction of its chairperson (Governor, BB), prepares minutes of the meetings and circulates it for implementation of the decisions taken by MPC.
3. The MPD issues circulars for banks and financial institutions on monetary policy measures such as changes in policy rates which are related to the department.
4. The MPD prepares statements on liquidity forecasting on daily basis for managing the excess reserves and for maintaining the targeted growth path of reserve money in order for tracking the growth of broad money (M2) on the programmed path.
5. The MPD analyses borrowing of scheduled banks from Bangladesh Bank on monthly basis.
6. The MPD calculates nominal and real effective exchange rate (NEER and REER) indices on daily basis, with a view to monitoring the external competitiveness of Taka vis-a-vis other major currencies of the world.
7. The MPD prepares fortnightly and monthly reviews of the current economic situation covering developments in real and financial sector of the economy.

## Functions of a typical central bank

- The banker, agent and advisor to the government
- The bank of issue
- The custodian of the cash reserves of the commercial banks
- The bank of the central clearance, settlement and transfer
- The lender of the last resort
- The control of credit
- The custodian of the nation's foreign exchange reserves

## Functions of Bangladesh Bank (As per the website of Bangladesh Bank)

Bangladesh Bank performs all the core functions of a typical monetary and financial sector regulator, and a number of other non core functions. The major functional areas include:

- Formulation and implementation of monetary and credit policies
- Regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets
- Management of the country's international reserves
- Issuance of currency notes
- Regulation and supervision of the payment system
- Acting as banker to the government
- Money Laundering Prevention
- Collection and furnishing of credit information
- Implementation of the Foreign exchange regulation Act
- Managing a Deposit Insurance Scheme

## The main functions of Bangladesh Bank mentioned in the Section 7A of Bangladesh Bank Order, 1972)

Article 7A of the President's Order (PO) Number 127 of 1972 determines the functions of Bangladesh Bank where issuing of currency, to ensure a secure and efficient payment system are the main functions. This order does not give other commercial bank to do so.

- To formulate and implement monetary policy;
- To formulate and implement intervention policies in the foreign exchange market;
- To manage the official foreign exchange reserves;
- To promote, regulate and ensure a secure and efficient payment system, including the issue of bank notes;
- To regulate and supervise banking companies and financial institutions;
- To play the role of advisor to the government on the impact of various policy measures on the economy.
- To apply Exchange Regulation Act, 1947 on behalf of the government;
- To exercise the authority given on Bangladesh Bank by the Money Laundering Prevention Act—2003.
- To hold and manage the official foreign reserves of Bangladesh
- To give advice to the Government on the interaction of monetary policy with fiscal and exchange rate policies, on the impact of various policy measures on the economy and to propose legislative measures it considers necessary or appropriate to attain its objectives and perform its functions.

## Functions of Bangladesh Bank

- To issue banknotes
- To formulate and implement the monetary policies
- To determine the official interest rates
- To control the nation's entire money supply
- To act as the banker of the government and the other banks (lender of the last resort)
- To manage the country's foreign currency exchange & gold reserves and the government's stock register
- To regulate and supervise the banking sector

## Regular Functions of Bangladesh Bank

- Monetary Policy
- Foreign Exchange management
- Exchange rate management
- Financial sector supervision
- AML/CFT activities
- Digital payment system

## Development Functions of Bangladesh Bank

- Agriculture
- Small and Medium Enterprises (MSEs)
- Green finance
- Digitisation
- Financial inclusion

## Major functional areas of Bangladesh Bank

- Regulation and supervision of banks and NBFIs
- Promotion and development of domestic financial markets
- Management of the country's foreign exchange reserves
- Issuance of currency notes
- Regulation and supervision of the payment system
- Acting as the banker to the government
- Implementation of the Money Laundering Prevention Act
- Collection and furnishing of credit information
- Implementation of the Foreign Exchange Regulation Act

## Responsibilities of Bangladesh Bank

The first concern of Bangladesh Bank is to maintain a soundly based commercial banking structure. Central bank remains core of the banking sector. It must cooperate with the government in formulation of monetary policy.

## Vision of Bangladesh Bank (As per the website of Bangladesh Bank)

To develop continually as a forward-looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh.

## Mission of Bangladesh Bank (As per the website of Bangladesh Bank)

- Bangladesh Bank is carrying out its following main functions as the country's central bank:
- Formulating monetary and credit policies;
- Managing currency issue and regulating payment system;
- Managing foreign exchange reserves and regulating the foreign exchange market;
- Regulating and supervising banks and financial institutions, and advising the government on interactions and impacts of fiscal, monetary and other economic policies.

## Goals of Bangladesh Bank

- Reasonable price stability
- Full employment of resources
- Sustainable economic growth
- A stable balance of payment mechanism
- Prevention of fraudulence in the banking and financial sector

**Off-site Supervision** is fundamental in monitoring the conduct of business activities of licenses it entails reviewing and analysing of the audited financial statements statutory returns and any other reports submitted by licensees. The review allows the regulatory body to ascertain whether compliance status of licensees with relevant laws and ascertain the financial soundness and solvency position of licensees.

## Off-site Supervision of Bangladesh Bank:

The primary objective of the off-site supervision is to monitor the financial health of the banks through CAMELS rating, identifying the banks which show financial deterioration and would be source for supervision concerns. This acts as a tigger for a timely remedial action. The functions of off-site supervision include:-

- Determining the financial health of the banks through CAMELS rating.
- Assessing comprehensive risk management rating of the banks.
- Monitoring risk management activities of the banks and determining risk rating through analyzing Risk Assessment Report, Minutes and Questionnaire and taking corrective action to minimise different types of risk such as credit risk, market risk, liquidity risk and operational risk.
- Ensuring proper maintenance of CRR and SLR.
- Ensuring statutory obligation regarding single borrower exposure and large loan limit.
- Monitoring weak banks and appointment of observer.
- Monitoring state-owned commercial banks and two specialised banks and any other weak banks.
- Reviewing and scrutinising the minutes of the Board/Executive Committee/Audit/Risk Committee Meeting of the banks to ensure corporate governance in the banks and financial institutions.
- Monitoring the top 20 loan defaulters of the bank on quarterly basis.
- Ensuring maintenance of adequate capital to take up the risk of loss.
- Monitoring Internal Control and Compliance status of the bank through analysing Self-Assessment of Anti-Fraud Internal Controls report
- Monitoring the liquidity position of the banks monthly through liquidity profile

## How does Bangladesh Bank affect the economy of Bangladesh?

- Bangladesh Bank indirectly makes the decision how much amount of money will be in the hand of general public — so demand for money may decline or rise which have further effect on aggregate demand. In order to mobilise/accelerate the growth of the economy of Bangladesh, Bangladesh Bank can do so.
- Bangladesh Bank plays an important role in the economy of the country as it helps stimulate growth and control inflation in the country — through tactically controlling the flow of money in the economy.
- Inflation targeting and giving a boost to growth by making credit available at cheaper rate for investors are two major important concerns which Bangladesh Bank looks at before taking a stance on monetary policy as these two are on opposite path (one happens at the expense of other. For example: If we want loan at cheap rate and subsequent growth, we will have to experience inflation and vice-versa).
- Bangladesh Bank also controls the value of Taka — how well it performs in comparison to other currencies (Exchange Rate). Foreign exchange reserve is one of the important tool at Bangladesh Bank's hand which it can use to control exchange rate. If the Taka appreciates, exports can reduce because it gets more expensive for buyers to buy. As a result, imports can increase because it is cheaper than it was before the appreciation.
- Bangladesh Bank regulates the banks in the country and also works as a banker to the government.

## The importance and necessity of Bangladesh Bank as the central bank of Bangladesh

Bangladesh Bank is merely the nerve centre of the national economy of Bangladesh which controls all economic activities of the country both directly and indirectly. The importance and necessity of Bangladesh Bank are —

- Proper management of currencies
- Ensuring the development of the country's whole banking system
- Proper implementation of the government's development agenda and plans
- Maintaining the currency value in respect to different foreign currencies
- Maintaining the stability of price level in the market
- Proper supervision of the credit system in the country
- Ensuring the development of the internal trade and foreign trade
- Extending assistance to the scheduled banks
- Representation in favour of the government
- Ensuring the development of the money market
- Creation of employment opportunities
- Ensuring equal and balanced regional development (through giving licenses for new branches of banks)
- Controlling the foreign currency reserves

## What is the role of Bangladesh Bank in the development of the economy of Bangladesh?

- Being the country's central bank, Bangladesh Bank performs multiple vital roles for national economic development. Bangladesh Bank is not only the guardian of the money market; but also the guardian of the national economy.
- Being the central bank of Bangladesh, Bangladesh Bank plays multi-facet role by executing multiple functions — such as formulating and overseeing the monetary policy, issuing banknotes, managing foreign exchange, working as the bank of the government and as the banker of scheduled commercial banks (lender of the last resort).
- To curb inflation, Bangladesh Bank increases repo rate which will make borrowing costly for banks. Banks will pass this increased cost to their customers which make borrowing costly in the whole economy. Fewer people will apply for loan and aggregate demand will get reduced.
- The roles of Bangladesh Bank in the economic development of Bangladesh are —
- Ensuring development of the banking and financial system
- Ensuring modernisation and expansion of the banking system
- Ensuring economic stability
- Controlling money supply in the market
- Enhancing savings and investment in the country
- Assistance to foreign trade
- Proper implementation of the Annual Development Programmes (ADP) of the government
- Providing fund to different public welfare-oriented and development activities/projects of the government
- Meeting the budget deficit
- Ensuring the development of the capital market
- Arranging different training programmes in a bid to enhance the skills of the government officials
- Conducting different economic and development researches
- Acting as the financial advisor to the government

## Why the central bank of a country is called the Lender of Last Resort

Lender of last resort is an institution (usually a country's central bank) that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse. In Bangladesh, Bangladesh Bank acts as the lender of last resort to institutions that do not have any other means of borrowing and whose failure to obtain credit would dramatically affect the economy of the country.

## The main objectives of monetary policy of Bangladesh Bank

- Price stability (both internal & external)
- Sustainable growth and development
- High employment
- Economic and efficient use of resources
- Stability of financial and payment system

## How does Bangladesh Bank control the banks and NBFIs?

Bangladesh Bank is the regulatory body of banks, insurance companies and other financial institutions. Bangladesh Bank can control these types of institutions by controlling the interest rate, money supply, reserve requirements (CRR and SLR) and open market operations.

## How does Bangladesh Bank attempt to achieve economic stability?

Bangladesh Bank attempts to achieve economic stability by varying the quantity of money in circulation, the cost and availability of credit, and the composition of the country's national debt.

## How does Bangladesh Bank serve the people?

The people keep their deposits with scheduled banks and they also take loan from the scheduled banks.
The scheduled banks are controlled and regulated by Bangladesh Bank. More importantly, Bangladesh Bank always tries to ensure the utmost interest of the people. This may be procedure of serving people.

## How does Bangladesh Bank serve the nation?

Being the country's central bank, Bangladesh Bank serves the nation in many ways.
The most important tasks that touch upon daily lives of a common citizen are given below.

1. **As a controller of Inflation**: Despite many variables that impact inflation are out of the control of Bangladesh Bank, still in our country Bangladesh Bank is the only authority that is mandated to control inflation.
2. **As a Regulator and developer of the banking system**: Without Bangladesh Bank, we cannot imagine how the commercial banking would have looked like. Each and every rule in banking system is formulated and monitored by Bangladesh Bank.
3. **Exchange Rate Management and Bangladesh's Foreign Exchange Rreserve Management**:
4. This is the exclusive responsibility of Bangladesh Bank. We cannot imagine how our Bangladeshi Taka would have looked like had Bangladesh Bank had not been intervened in the market to halt its depreciation. <u>Besiddes, Bangladesh Bank is sole guardian of Bangladesh's foreign exchange reserve</u>.
5. **Rural Development and Job creation:** Over the years through its policies of priority sector lending, Bangladesh Bank has made immense contribution in the rural economy.
6. **Financial Inclusion and Financial Literacy:** Over the last 10 years, Bangladesh Bank has been working to spread banking in every possible corner of our country to implement the agenda of financial inclusion.
7. **Regulator of Payment System**: All of our mobile banking and internet banking activities are being governed by Bangladesh Bank.
8. **Manager of Foreign Exchange:** Bangladesh Bank manages the Foreign Exchange Regulations (Amendment) Act, 2015 to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in Bangladesh.
9. **Issuer of currency:** Bangladesh Bank issues and exchanges or destroys currency and coins not fit for circulation in order to give the public adequate quantity of supplies of currency notes and coins and in good quality.
10. **Protection of Consumers and Depositor**: Through its schemes like Customer's Complaint Hotline (16236) service, Bangladesh Bank is trying to provide relief to the customers.

The list is long which includes Regulation of banks and NBFIs, research on Bangladesh Economy for better policymaking, banker to the government and banks, manager of public debt etc.

## Why should Bangladesh Bank look into the share market besides BSEC, DSE and CSE?

The whole economy of Bangladesh is bank-oriented and bank-depended. Besides, the merchant banks invest in share market. So, Bangladesh Bank should look into the matter. On the other hand, the general investors incur loss in share market and indirectly blame Bangladesh Bank for this.

## How does Bangladesh Bank inject money into the economy?

Bangladesh Bank uses several different methods to increase (or decrease) the amount of money in the banking system. These actions are referred to as the monetary policy. Bangladesh Bank could print paper currency at its prudence in an effort to increase the amount of money in the economy – but generally this is not the measure used. Here are 03 methods that Bangladesh Bank uses in order to inject (or withdraw) money from the economy:

- Bangladesh Bank can influence the money supply by modifying reserve requirements — which is the amount of funds that banks must hold against deposits in the bank accounts.
  By lowering the reserve requirements, banks are able to disburse more money in the form of loan — which increases the overall supply of money in the economy. Conversely, by raising the reserve requirements of the scheduled banks, Bangladesh Bank is able to decrease the size of the money supply.
- Bangladesh Bank can also alter the money supply by changing short-term interest rates.
  By lowering (or raising) the discount rate that banks pay on short-term loans from Bangladesh Bank, Bangladesh Bank is able to effectively increase (or decrease) the liquidity of money. Lower rates increase the money supply and boost economic activity. However, decreasing trend in the interest rates causes inflation.
  So, Bangladesh Bank must be careful not to lower interest rates too much for too long.
- Finally, Bangladesh Bank can affect the money supply by conducting open market operations.
  In open operations, Bangladesh Bank buys and sells government securities in the open market. If Bangladesh Bank wants to increase the money supply, it buys government bonds. Conversely, if Bangladesh Bank wants to decrease the money supply, it sells bonds from its account — thus taking in cash and removing money from the economic system.

## Role of Bangladesh Bank in implementation of better risk management practices

In the last decade in the country's banking sector, the quality of assets had been poor and classification rate was high because of absence of good risk management policies, practice, processes and structure in the banks.
In this backdrop, Bangladesh Bank has taken initiative to take a set of recommendations on best practice for five core-risk areas (credit risk management, asset-liability management, exchange risk management, internal control and compliance and anti-money laundering). Bangladesh Bank regularly gives directives to the scheduled banks to introduce with implementation deadline for the processes, policies and structures based on the recommendations. Bangladesh Bank regularly organises training programmes to establish effective risk management system. It has strengthened the on-site supervision system to enable risk based audits.

## Bangladesh Bank updates guidelines for risk management

After a group of Chinese hackers broke into Bangladesh Bank's system to steal its money deposited into an account with the New York Federal Reserve Bank, Bangladesh Bank on March 8, 2016 asked all banks to follow the updated guidelines for internal control and compliance risk management. The guidelines was prepared in 2003 and updated in January 2016 on the basis of the recommendations from all stakeholders. Bangladesh Bank said as banking is a diversified and multifarious financial activity which involves different risks, the issues of an effective internal control system, good governance, transparency of all financial activities and accountability towards its stakeholders and regulators have become momentous to ensure smooth performance of the banking industry. It further said that an effective internal control and compliance system has become essential in order to strengthen effective risk management practices and to ensure smooth performance of the banking industry.

**How to strengthen Bangladesh Bank**: Amendment of Bangladesh Bank Order—1972: the Board of Directors is empowered to formulate and implement all regulations without the approval of the government.

- Reorganisation and modernisation: modernisation of structure and working system of Bangladesh Bank
- Computerisation of the functions of Bangladesh Bank
- Human Resources Development: Training of officers/staff and reforming policy supporting promotion and employment purely on the basis of talent
- Capacity Building: Strengthening Research Department, prudential regulation and supervision and accounting and audit standards.
- Strengthening the legal framework

## Deepening of Money Market — Recent Measures taken by Bangladesh Bank

- Introduction of Repo (July 2002) and Reverse Repo (April 2003).
- Secondary market activities of government securities in the inter-bank repo market.
- Electronic registry of treasury bills and bonds.
- Introduction of bonds with 5-10 years tenure (28 December, 2003) to facilitate introduction of private sector bonds.
- Primary dealership system of government securities has started working (11 December, 2003).
- Private commercial papers are now allowed in the markets.

## Laws initiated by Bangladesh Bank to ensure good governance, accountability, transparency in banking sector

- Debarring a person to be a director for a bank for more than 6 years at a stretch.
- Restriction on near relations to be directors for a bank.
- Preparation and disclosure of financial information in accordance with International Audit Standard.
- Stricter enforcement of banking laws/regulations by Bangladesh Bank. (So far 5 MDs and 2 Chairman have been removed and over 50 bank officials have been fined).

## Remarkable progresses of Bangladesh Bank in supply of banknotes/currencies

- Bangladesh Bank and chest branches of Sonali Bank supply banknotes or currencies as per public demand;
- Withdrawal of soiled and torn notes from circulation has been made easier and quicker;
- Acceptance of torn and soiled notes from the public is now mandatory for the banks;
- Banks are instructed to bring reissuable and non-reissuable notes sorted separately while depositing them in Bangladesh Bank;
- Printing of new notes and their supply increased along with quicker withdrawal of torn and soiled notes.
- To reduce the risk of being cheated by counterfeit notes, several security features have been introduced including watermark in notes, security thread, intaglio print and values printed in Optically Variable Ink.
- Public awareness about security features of genuine notes are created through press releases, colourful posters and television video clips.

## Role of Bangladesh Bank in foreign exchange reserve management

- Rising trend in reserve position achieved.
- In the interest of investment liquidity and security, Bangladesh Bank (like other central banks) carefully invests it reserves in major convertible currencies with important central banks and some international commercial banks with high credit ratings.
- Like other central banks, Bangladesh Bank avoids earning profit through risky currency trading arising from exchange fluctuations of different currencies.

## Role of Bangladesh Bank in determining exchange rate & its intervention in the foreign exchange market

- Bangladesh Bank (from time to time) buys US dollar at prevailing rate from local market in the interest of keeping exchange rate competitive for exports and raising level of foreign exchange reserves.
- Successful and stable introduction of market based floating exchange rate of Bangladesh Taka from 31 May 2003.
- This system has enabled the economy to face shocks without seriously hampering productive activities.
- Exchange rate of Taka is indirectly influenced by changing liquidity supply in the call money market through repo and reverse repo.

## Role of Bangladesh Bank in implementation of Monetary Policy

- To keep broad money supply on desired growth path, Bangladesh Bank implements Money and Credit programmes.
- Changes in the broad money supply are effected by increasing/decreasing reserve money (total of currency issued both by government and Bangladesh Bank and balances of banks with Bangladesh Bank).
- Auctions of government treasury bills and bonds and auction of repo and reverse repo are used.
- Supply of broad money can be influenced through changing cash reserve ratio (CRR) and effecting market interest rates by varying discount rate of central bank.

## Banking Laws and Regulations of Bangladesh

A set of acts, laws, regulations and guidelines have been enacted and implemented time to time since the establishment of Bangladesh Bank which helped Bangladesh Bank perform its role as a central bank — particularly to control and regulate the country's monetary and financial system. The important laws include:

01. Bangladesh Bank Order, 1972 (President Order No. 127 of 1972)
02. Bank Company Act, 1991
03. Bank Company (Amendment) Act, 2013
04. The Negotiable Instruments Act, 1881
05. The Bankers' Book Evidence Act, 1891
06. Foreign Exchange Regulations (Amendment) Act, 2015
07. Foreign Exchange Regulations Act, 1947
08. Financial Institutions Act, 1993
09. Financial Reporting Act, 2015
10. Bank Deposit Insurance Act, 2000
11. Money Loan Court Act, 2003
12. Micro Credit Regulatory Authority Act, 2006
13. Money Laundering Prevention (Amendment) Act, 2015
14. Money Laundering Prevention Act, 2012
15. Anti-Terrorism (Amendment) Act, 2013

## Key Features of the Bank Company (Amendment) Act—2013

The number of directors at any bank shall not exceed 20 including 3 independent directors.
If the number of directors is less than 20 in any bank, then the number of independent directors shall be 2.

- The banks will not be allowed to make investment in stocks more than 25% of their total capital. Earlier, the permissible exposure limit was equivalent to 10% of a bank's total liabilities.
- If any bank purchases share of other companies, it will not be more than 5% of the bank's paid-up capital and reserved capital.
- The amendment has empowered Bangladesh Bank to remove the errant managing directors of the state-owned commercial and specialised banks.
- The amendment has lowered the minimum job experiences of the aspirants for the posts of Managing Directors to 10 years from 15 years.
- The central bank has been empowered with the authority to visit and inspect the cooperative societies found collecting funds from people who are not their members and providing for imposition of large amounts of fine on banks failing to meet capital inadequacy within a specific deadline.
- The amendment has allowed a director of a bank to become a director of an insurance company simultaneously.
- The minimum Paid-up Capital and Reserve Fund of banking companies shall be Taka 400 crores — of which the Paid-up Capital shall be not less than Taka 200 crore.

## What is the difference between Bangladesh Bank and Sonali Bank Limited?

**Bangladesh Bank** is the banker of **Sonali Bank Limited**. Bangladesh Bank is also the guardian of Sonali Bank Limited. Bangladesh Bank is a non-trading concern but Sonali Bank Limited is a fully trading concern. Bangladesh Bank does not perform its duty with the public but Sonali Bank Limited performs its duty with the public.

## Sonali Bank Limited acts as the representative of Bangladesh Bank

## What is the specialty of the Sonali Bank Limited in contrast to any other state-owned commercial banks

- ❖ The area where there is not any branch of Bangladesh Bank there Sonali Bank Limited does their work as the representative of Bangladesh Bank.
- ❖ Although Sonali Bank Limited, Janata Bank Limited, Agrani Bank Limited and Rupali Bank Limited all are the leading and largest state-owned commercial banks, Sonali Bank Limited works as the treasury bank of the government while other banks does not play such role.

## An overview of the Sonali Bank Limited

Following the independence of Bangladesh, Sonali Bank emerged as the largest and leading Nationalised Commercial Bank by proclamation of the Bangladesh Banks (Nationlisation) Order—1972 (Presidential Order No—26) liquidating the then National Bank of Pakistan, Premier Bank and Bank of Bhwalpur.
The bank was converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15, 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatisation, the management of the bank has been given required autonomy to make the bank competitive and to run its business effectively. Sonali Bank Limited is governed by a Board of Directors consisting of 11 members. The Bank is headed by the CEO and Managing Director who is a well-known banker and a reputed professional.

| Basic information of Sonali Bank Limited | |
|---|---|
| Inception | Through proclamation of the Bangladesh Banks (Nationlisation) Order—1972 (Presidential Order No—26) |
| Merger of | National Bank of Pakistan, Premier Bank and Bank of Bhwalpur |
| Incorporation Date | June 3, 2007 |
| Chairman | Md. Ashraful Moqbul |
| CEO and MD | Md. Obayed Ullah Al Masud |
| Authorised Capital | Taka 6000.00 Crore |
| Paid-up Capital | Taka 4130.00 Crore |
| Number of branches | 1213 |
| Number of Foreign branches | 02 |

## Functions of Sonali Bank Limited

Sonali Bank Limited is considered as the most important bank in our country's economic acts. Commercial as well as all types of work is done by the bank for the general people. The functions performed by the bank can be divided into four parts. This is described by the flowing chart:

**1. General Banking Functions**: As a general banking institute in our country, Sonali Bank Limited has to do the flowing works:—

- **Taking deposit and giving interest**: The main function of Sonali Bank Limited is to collect money from the general people, various institutes or organisations as deposit and give them interest on that money by various accounts. The bank collects current, saving and permanent accounts deposit. But they give more interest on saving account than the current account. This bank generally does not pay any interest on the current account.
- **Disbursement of loans and collection of interest**: Sonali Bank Limited gives the deposited money of the general people to various people, institutions and traders based on their need by a fixed interest rate and the bank also takes interest from them. The bank takes a fixed security amount against the loan. This bank takes more interest on loan than the interest which is given to the general people on their deposited money.
- **Creation medium of exchange**: As a big commercial bank in the Bangladesh, Sonali Bank Limited makes a convenient and feeless transition by offering Cheque and bank-draft. That is why customers can finish their exchange very easily.
- **Honour of Cheque**: Whenever the depositors want the money according to their Cheque, the bank is bound to pay the money to the customer as it is also their important work.
- **Encourage to savings**
- **Discount bill of exchange**

**2. Representative Functions:**

- **Transfer of money**: Sonali Bank Limited helps the customers to transfer their money from one place to another place by the money order and telegraphic transfer.
- **Acceptance of bill of exchange**: Sonali Bank Limited is given power from the customer to give the exchange bill.
- **Buying and selling of securities**: Sonali Bank Limited buys and sells share, security, bond and loan paper under the interest.
- **Role as a trustee**: Sometimes the bank does as a trustee of the customer wealth.
- **Representative of Bangladesh Bank**: The area where there is not any branch of Bangladesh Bank there Sonali Bank Limited does their work as the representative of Bangladesh Bank.

**3. Other Functions:**

1. Payment of insurance premium
2. Payment of tax to the government
3. Payment of rent
4. Receiving of house rent
5. Receiving part of profit from the company
6. Receiving of investment profit
7. **Public utility functions**: Sonali Bank Limited does various beneficial works for the people. These are described in the flowing:
    - **Protection of assets**: The bank arranges various types of lockers for the customer's gold, silver and important papers to reserve in safe.
    - **Underwriter**: The bank does as an underwriter between the government and the company for selling their share security.
    - **Issue of solvency certificate**: The bank issues a certificate as a confession on behalf of the business customer.
    - **Counseling**: Being an important bank, this bank works as an advisor in the economic and trade sectors.
    - **Help in traveling**: Sonali Bank Limited helps the people in their traveling inside and outside of the country by issuing draft and traveler's cheque.

**4. Special Functions**: For the development of the country's economy, Sonali Bank Limited performs a variety of functions such as:—

- The bank helps the import and export traders directly
- The bank finances for the obsolete agricultural crops
- Though there is agricultural bank but this bank helps the farmers by giving them loan
- The bank participates in the urban banking
- The bank provides the primary teachers monthly salaries as the representative of the government
- The bank distributes pension to the retired government employees
- The bank collects the stamp duty and registration fee on behalf of the government

Thus Sonali Bank Limited has been doing every types of work for the development of the country as much as they can.

## How the commercial banks are established and incorporated in Bangladesh?

The scheduled commercial bank both in the public and private sectors are established under the Bank Company Act—1991 and incorporated as public limited companies under the Companies Act—1994 to carry out banking business in Bangladesh.

## Incorporation of Sonali Bank Limited, Janata Bank Limited and Agrani Bank Limited

State-owned Sonali Bank, Janata Bank and Agrani Bank formally emerged as public limited companies (PLCs) with 100% ownership of the government through the signing of separate 'vendor' agreements to this effect on November 15, 2007. The agreements aimed at converting the nationalised commercial banks into incorporated companies — giving them real autonomy.

The three state-owned commercial banks started functioning as public limited companies from November 15, 2007 through taking over all assets, liabilities and businesses.

After necessary gazette notification, the three state-owned commercial banks are being operated by independent management and Board of Directors in accordance with the Bank Company Act—1991.

**Establishment of Different Banks**

| Name of the Banks | Establishment | Year |
|---|---|---|
| Sonali Bank Limited | Bangladesh Bank (Nationlisation) Order—1972 (PO No. 26 of 1972) | 1972 |
| Agrani Bank Limited | By taking over two abandoned Pakistani banks (Habib Bank and Commerce Bank) under the Bangladesh Banks (Nationalisation) Order—1972 | 1972 |
| Janata Bank Limited | By combining the erstwhile United Bank Limited and Union Bank Limited under the Bangladesh Banks Nationalisation Order (President's Order No. 26) of 1972 | 1972 |
| Rupali Bank Limited | Through the merger of three erstwhile commercial banks (Muslim Commercial Bank Limited, Australasia Bank Limited and Standard Bank Limited which operated in the then East Pakistan) under the Bangladesh Banks (Nationalisation) Order—1972 | 1972 |
| Bangladesh Krishi Bank | Under the President Order No. 27 of 1973 | 1973 |
| Rajshahi Krishi Unnayan Bank | Under the President's Ordinance No. 58 of 1986 | 1986 |
| BDBL | Incorporated on 16 November, 2009 as a Public Company Limited by shares under the Companies Act-1994 by amalgamation of former Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha.<br>Bangladesh Shilpa Rin Sangstha (BSRS) was established on October 31, 1972 as per Bangladesh Shilpa Rin Sangstha Order, 1972 (President's Order No. 128 of 1972). | 2009 |
| BASIC Bank Limited | It was egistered under the Companies Act-1913 on 02 August, 1988. Now it is governed by the Banking Companies Act 1991. | 1988 |
| Probashi Kallyan Bank | Established by the Government of Bangladesh | 2010 |

## Inception of privatisation policy in the banking sector in Bangladesh

The banking sector had to start a fresh journey in the war-ravaged Bangladesh after independence in December 1971. The government took over all banks under a nationalisation order in 1972. The banking sector got a new and dynamic shape after the government took up the privatisation policy in 1983. Pubali Bank Limited and Uttara Bank Limited were denationalised and the sector opened up to the private sector. By 1985, a dozen new banks hit the market under private ownership.

## Economic role of the government

The government increases efficiency by promoting competition, reducing externalities like pollution and providing public goods. The government promotes equity by using tax and expenditure programmes to redistribute income toward particular group. It also controls prices of commodities in the market by monitoring the market.

## Name of the four divisions of the Ministry of Finance

The Ministry of Finance is comprised of four Divisions namely —

1. Finance Division
2. Economic Relations Division
3. Internal Resources Division
4. Financial Institutions Division

## Economic Roles of the Ministry of Finance

It formulates and implements the national budget every year. It is also the regulatory body of Bangladesh Bank. It is also formulating budget for the other ministries of the government.

## Functions of the Ministry of Finance

- The Ministry of Finance manages the financial assets of the government, proposes economic and financial policies and coordinates and supervises these actions as empowered by the law.
- It prepares the annual fiscal budget and issues adequate regulations for its execution.
- It manages the financial assets of the government.
- It proposes bills related to the management of government employees (particularly bills related to staffing, salaries, benefits and pensions).
- It repays debt and coordinates financial activities carried out within the scope of its power for the different ministries and their related entities.
- It participates in the negotiation of international free trade and financial agreements.

## Which institution plays the key role in managing (controlling) the fiscal policy in Bangladesh?

The Ministry of Finance plays the key role in formulating and implementing the fiscal policy in Bangladesh. The Ministry of Planning also play a supporting role to some extent in this matter.

**Central Bank** is the apex monetary institution which has been specially empowered to control and regulate the entire banking system of a country. It works for the public welfare and economic development of a country. It is governed by the government of a country. It doesn't operate with a profit motive. Its primary aim is to achieve the objectives of the economic policy of the government and maximise the public welfare through monetary measures. It is generally a state-owned institution. It doesn't deal directly with the public. It doesn't compete with the commercial banks. Rather it helps them by acting as the lender of the last resort. It has the monopoly of note-issue. It is the custodian of the foreign exchange reserves of the country. It acts as the banker to the government.

**Commercial Bank** is a financial institution in the banking system that grants loans, accepts deposits and offers basic financial products like savings accounts and certificates of deposit to individuals and businesses. Commercial banks focus on business customers. The commercial banks might need to accept payments from customers, rely heavily on lines of credit to manage cash flow and they might use letters of credit (L/Cs) to do business overseas. Some of the loans offered by a commercial bank include house-building loans, motor vehicle loans, mortgages, business loans and personal loans.
Commercial banks have profit earning as their primary objective. They are normally privately owned institutions. They directly deal with the public. They compete with their counterpart banks to attract more clients. They can not issue bank notes. They are only the dealers in foreign exchange and perform foreign exchange business only on the approval of the central bank. They act as bankers to the general public.
Commercial banks make money primarily by providing different types of loans to customers and charging interest. The bank's funds come from money deposited by the bank customers in saving accounts, current accounts and certificates of deposit (CDs). The depositors earn interest on their deposits with the bank. However, the interest paid to depositors is less than the interest rate charged to borrowers.

## By reading the name of a bank, how you will understand that it a commercial bank?

If the word "Limited" remains mentioned at the end of a bank's name, then we can easily understand that the bank is a scheduled commercial bank in the public or private sector which was initially established under the Bank Company Act—1991 and subsequently it was incorporated as a public limited company under the Companies Act—1994 to conduct banking business in Bangladesh. For example: Sonali Bank Limited (public sector bank) and Pubali Bank Limited (private sector bank) are commercial banks.

| Basic differences between Conventional Banking and Islamic Banking | |
|---|---|
| **Conventional Banking** | **Islamic (Nonconventional) Banking** |
| Money is a commodity besides medium of exchange and store of value. Therefore, it can be sold at a price higher than its face value and it can also be rented out. | Money is not a commodity though it is used as a medium of exchange and store of value. Therefore, it cannot be sold at a price higher than its face value or rented out. |
| Time value is the basis for charging interest on capital. | Profit on trade of goods or charging on providing service is the basis for earning profit. |
| Interest is charged even in case the organisation suffers losses by using bank's funds. Therefore, it is not based on profit and loss sharing. | Islamic bank operates on the basis of profit and loss sharing. In case, the businessman has suffered losses, the bank will share these losses based on the mode of finance used (Mudarabah and Musharakah). |
| No agreement for exchange of goods and services is made while disbursing cash finance, running finance or working capital finance. | The execution of agreements for the exchange of goods and services is a must while disbursing funds under Murabaha, Salam & Istisna contracts. |
| Conventional banks use money as a commodity which leads to inflation. | Islamic banking tends to create link with the real sectors of the economic system by using trade related activities. Since, the money is linked with the real assets therefore it contributes directly in the economic development. |

| Certain basic differences between a Central Bank and a Commercial Bank | |
|---|---|
| **Central Bank** | **Commercial Bank** |
| The central bank is the apex monetary institution which has been specially empowered to control and regulate the entire banking system of a country. The central bank works for the public welfare and economic development of a country.<br>A central bank is governed by the government of a country. | The commercial bank is a constituent unit of the banking system. The majority of stake is held by the government as well as the private sector. |
| The central bank does not operate with a profit motive. The primary aim of the central bank is to achieve the objectives of the economic policy of the government and maximise the public welfare through monetary measures. | Commercial banks have profit earning as their primary objective. |
| The central bank is generally a state-owned institution. | Commercial banks act as state-owned or private-owned institution. They are normally privately owned institutions. |
| The central bank does not deal directly with the public. | Commercial banks directly deal with the public. |
| The central bank does not compete with the commercial banks. Rather it helps them by acting as the lender of the last resort. | Commercial banks compete with their counterpart commercial banks to attract more clients. |
| The central bank has the monopoly of note-issue. | Commercial banks do not enjoy such right. |
| The central bank is the custodian of the foreign exchange reserves of the country. | Commercial banks are only the dealers in foreign exchange. They perform foreign exchange business only on the approval of the central bank. |
| The central bank acts as the banker to the government. | Commercial banks act as bankers to general public. |
| The central bank acts as the bank of other banks: (a) The commercial banks are required to keep a certain proportion of their reserves with the central bank; (b) the central bank helps them at the time of emergency; and (c) the central bank acts as the clearing house for the commercial banks. | Commercial banks perform no such function. |

| Key Differences between Bank and Non-Bank Financial Institutions (NBFIs) | |
|---|---|
| **Banks** | **NBFIs** |
| Banks are the financial institutions which get license to operate under Bank Company Act—1991 (Amended in 2013). | NBFIs are those types of financial institutions which are regulated under Financial Institution Act—1993 and controlled by Bangladesh Bank. |
| Bank is a financial institution whose liabilities (deposits) are widely accepted as a means of payment in the settlement of debt. | NBFIs are those institutions whose liabilities are not accepted as means of payment for the settlement of debt. |
| Bank is a financial intermediary (authorised by the central bank or the government) that aims at providing banking services to the general public. | An NBFC is a company that provides banking services to people without holding a bank license. |
| Banks have been formed under the rule of Bank Company Act-1991. | NBFIs have been formed under The Financial Institution Act-1994. |
| Commercial banks have the ability to generate multiple expansion of credit. | NBFIs do not have such ability. They simply mobilise savings for investment. |
| The credit creation activities of the commercial banks are determined by the excess reserves and the cash-reserve ratio of the banks. | The activities of the NBFIs (saving mobilisation & lending activities) are largely governed by the structure of interest rates. |
| Credit creation activities of the banks involve lesser time. | The lending activities of the NBFIs involve longer time. |
| The credit creation activities of the commercial banks are regulated and controlled by the central bank. | NBFIs are not generally under the control of central bank and thus their activities may create hurdles in the way of effective implementation of monetary policy. |
| Commercial banks raise funds costlessly because no interest is paid on demand deposits. | NBFIs have to pay higher interest to attract more funds. |
| People deposit money in the banks for safety, convenience and liquidity considerations. | People invest their savings in the NBFIs with the motive of earning extra income. |
| Bank generally deals with short-term loans in the money market. | NBFIs mostly deal with all types of loans (short, medium and long-term loans). |
| Banks can issue cheques, pay-orders or demand drafts. | NBFIs cannot issue cheques, pay-orders or demand drafts. |
| Banks can be involved in foreign exchange financing | NBFIs cannot be involved in foreign exchange financing. |
| Maintenance of reserve ratios is compulsory for the banks. | Maintenance of reserve ratios is not required for the NBFIs. |

## What are criteria for the banks in Bangladesh to be fulfilled before being a Scheduled Bank?

A scheduled bank is a bank which is declared as scheduled bank through notification in the official gazette issued by Bangladesh Bank according to Article 36(2) of Bangladesh Bank Order—1972. The banks which get license to operate under Banking Companies Act—1991 are termed as scheduled banks.

Bangladesh Bank may declare any bank to be scheduled bank under Article 36(2) of Bangladesh Bank Order, 1972 which is carrying on the business of banking in Bangladesh and —

- Which is a banking company, or a co-operative bank, or a corporation or a company incorporated by or established under any law in force in any place in or outside Bangladesh.
- Which has a paid-up capital and reserves of an aggregate value of an amount not less than that required to be maintained under Section 13 of Banking Companies Act—1991.
- Which satisfies the Bangladesh Bank that its affairs are not being conducted in a manner detrimental to the interests of its depositors.
- These banks have to submit details of their activities to Bangladesh Bank every week.
- The bank shall also satisfy Bangladesh Bank that its affairs are not carried out in a manner harmful to the interest of the depositors.
- The bank needs to be a corporation rather than a sole-proprietorship or partnership firm.
- Scheduled banks enjoy certain rights such as:
  - Right to receive refinance facility from the apex bank
  - Entitled for currency chest facility.
  - Right to become members of clearing house

It is mentionable that Bangladesh Bank, being empowered by the provision under section 13(2) of the Banking Companies Act—1991 and in consultation with the Government, through the notification no. BRPD(R-1)717/2008-511 dated on 12/08/2008 has refixed that the minimum Paid-up Capital and Reserve Fund of banking companies shall be Taka 400 crore of which the paid-up capital shall be not less than Taka 200 crore.

**Comparison between Scheduled Banks and Non-Scheduled Banks**

| Factors | Scheduled Banks | Non-Scheduled Banks |
|---|---|---|
| Meaning | The banks which get license to operate under Bank Company Act—1991 (Amended in 2013) are termed as Scheduled Banks. | The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives — are termed as Non-Scheduled Banks. These banks cannot perform all functions of scheduled banks. |
| Compliance with BB rules | Scheduled Banks are the banks which fully comply with the rules specified by Bangladesh Bank. | Non-Scheduled Banks are the banks which do not comply with the rules specified by Bangladesh Bank. |
| Number and categories | There are 59 scheduled banks in Bangladesh which operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order—1972 and Bank Company Act—1991.<br>State-owned commercial banks: 06<br>Specialised banks: 03<br>Conventional private commercial banks: 33<br>Islami Shariah based private CBs: 08<br>Foreign commercial banks: 09 | There are now 6 non-scheduled banks in Bangladesh which are:<br>❖ Ansar VDP Unnayan Bank<br>❖ Karmashangosthan Bank<br>❖ Grameen Bank<br>❖ Jubilee Bank<br>❖ Palli Sanchay Bank |
| CRR | CRR is maintained with Bangladesh Bank. | CRR is maintained with themselves. |
| Borrowing | Scheduled Banks are allowed to borrow money from Bangladesh Bank for regular banking purposes. | Non-Scheduled Banks are not allowed to borrow money from Bangladesh Bank for regular banking purposes. |
| Returns | To be submitted periodically. | No such provision of submitting periodic returns. |
| Clearing House membership | It can become a member of clearing house. | It cannot become a member of clearing house. |

## How does a bank make profit?

A bank usually makes profit in many ways such as disbursing loans and opening Letter of Credit (L/C). Commercial banks make money by providing loans and earning interest income from those loans. Customers deposit their money in current accounts, savings accounts and certificates of deposit (CDs) — thus providing banks with the capital to make loans. Customers who deposit money into these accounts effectively lend money to the bank and they are paid interest. However, the interest rate paid by the bank on money they borrow is less than the rate charged on money they lend. The spread between the two rates (known as net interest income) is how the bank makes money.

## How the banks earn commissions?

- A bank's income is made up of two streams of income—interest income and other income. Other income includes fees and commissions received by the bank. These are earned from sales of third-party products — such as mutual funds, insurance policies, gold coins, treasury income and fees from charges levied on customers for all products including banking products. Within other income, almost half comprises of commissions.
- Commissions (or fee incomes) from sale of third-party products are important for the profitability of the banks. Commission is a significant part of the operating profits of the banks. Banks earn commission income by distributing insurance and mutual fund products to their customer base.
- Commission to net profit ratio also indicates how important commissions are to banks. The higher the ratio, the more crucial is the commission income for banks. When commission contributes a large portion to net profit, banks would want to concentrate on the more lucrative part of business. Within the bucket of commissions, majority of third-party income comes from sale of insurance. Banks generally do not disclose commissions from sale of third-party products.
- When we walk into a bank branch or talk to our relationship manager, we would often be advised to buy insurance or mutual funds. This advice may not be backed by a need analysis but by the commission the bank will earn if we buy the product. Bank employees often arm twist clients into investing in mutual funds or insurance to earn commissions.
- Some bank branches often mis-sell insurance and churn mutual fund portfolios to get more commissions. Commissions from mutual funds range between 0.5% and 10% (highest commissions are for products with lock-in period).
- Banks bargain hard on mutual funds and insurance commissions at the start of a financial year by stating that they would sell a certain amount during the year. They receive the commissions and have to work to meet that sales target.
- Commissions for insurance sales could be as high as 40% in the first year, depending on the insurer and the insurance policy. Mostly bankers compel the public to take a policy even when the request is to open a savings bank account. Life insurance policies are almost made compulsory for those taking any loan—gold, personal, housing or educational loans.

| The earning sources of a conventional bank? | |
|---|---|
| Banking is acceptance of the deposits from the public for the purpose of lending loans and investment in securities. Nowadays, banks are performing various categories of businesses. | |
| ❖ Interest on loans<br>❖ Interest dividend & rents receipt on investment<br>❖ Fees income<br>❖ Foreign exchange operations<br>❖ Commission exchange and brokerage<br>❖ Levying interest rate on loans<br>❖ Service charges<br>❖ Interbank lending<br>❖ Auction of assets<br>❖ Trading in securities<br>❖ Charges for financial advice & services<br>❖ Charges for vaults for preservation of gold & other assets | ❖ Letter of Credit (LC) selling<br>❖ Treasury services<br>❖ Bond interest<br>❖ Discount on discounted bills<br>❖ Fees for account maintenance charges<br>❖ Account transfer fee<br>❖ Account close charge<br>❖ Money transfer fee<br>❖ Telephonic transfer (TT) charge<br>❖ Interest earned from the loans (computer, car and house-building loans) given to the bank employees |

| The sources of funds of a commercial bank | |
|---|---|
| ❖ Paid-up Capital | ❖ Shareholders' Capital |
| ❖ Reserve capital | ❖ Accumulated fund from deposit account |
| ❖ General Reserve | ❖ Borrowings from other financial institutions and money market |
| ❖ Statutory Reserve | ❖ Service fees |
| ❖ Loss Off-setting Reserve | ❖ Cash handling charge |
| ❖ Share Premium | ❖ Interests earned from loan disbursement |
| ❖ Undistributed Profit | ❖ Deposit (current deposit, saving deposit and fixed deposit) |
| ❖ Borrowed Funds | ❖ Other sources of bank fund (bonds, debentures, cash certificates and bill of exchange) |

## Expenses sectors of the banks

- Interest given on deposits
- Management and operational costs
- Assets preservation costs
- Assets using loss
- Loss on sales of investment
- Gold and unmovable assets

## Some core liabilities of a commercial bank

- Share Capital and Reserves
- Reserve Funds
- Deposits (Fixed, Savings, Current & Others)
- Borrowings
- Other Liabilities

Liabilities are either the deposits of customers or money that banks borrow from other sources to use to fund assets that earn revenue. Deposits are like debt in that it is money that the banks owe to the customer but they differ from debt in that the addition or withdrawal of money is at the discretion of the depositor rather than dictated by contract.

**Non-bank Financial Institution (NBFI)** is a financial institution that does not have a full banking license or is not supervised by its national banking regulatory agency or the central bank like Bangladesh Bank. NBFIs facilitate bank-related financial services such as investment, risk pooling, contractual savings, and market brokering.

## How do NBFIs collect deposit?

The central bank has recently relaxed its rules allowing the NBFIs to collect fixed deposit from individuals and organisations for three months instead of six months earlier. Under the amended rules, the NBFIs are allowed to collect deposit from individuals and organisations for three months — which will not be allowed premature encashment. The NBFIs which are struggling to sustain business growth have decided to intensify their deposit collection measures to reduce dependence on costly bank funds. As part of the move, many non-banks have set up liability management units in the last few months to mobilise deposits from sources other than banks.
The finance companies are working to come up with new and diversified products to compete with the banks. Presently, the non-banks cannot take deposits for less than six months or open current and savings accounts.

**Liquidity Crisis** refers to an acute shortage of liquidity. It is a negative financial situation characterised by a lack of cash flow. For a single business, liquidity crisis occurs when the otherwise solvent business does not have the liquid assets (cash) necessary to meet its short-term obligations, such as repaying its loans, paying its bills and paying its employees. If the liquidity crisis is not solved, the bank or company must declare bankruptcy.

## Causes of Liquidity Crisis of banks and financial institutions

- Excessive loan-taking by the government from the banks
- Existing high rate of inflation in the country
- Unusual investment in the share market
- When there is apprehension that the invested capital of the banks can rapidly go into bankruptcy
- If the loan flow of the banks continue
- Lower bank rate policy (If the interest rate policy of the banks does not remain relaxed or it remains comparatively very low in contrast to the interest rate of the neighbouring countries, then the bank depositors attempt to withdraw their money from banks and invest the money in other countries — which subsequently result in liquidity crisis as the volume of savings declines)

## How to resolve liquidity crisis (Remedies of liquidity crisis)

**Government Interference**: The government should formulate necessary laws in a bid to maintain discipline in the banking sector and collect or realise the huge amount of bad loans given by the banks.
**Stopping of taking excessive loans from banks**: The government should stop taking excessive loans from the state-owned banks which will help the banks to run their usual commercial activities smoothly.
**Disbursing microcredit loans**: The banks should refrain from disbursing more long-term loans in a bid to recover from liquidity crisis. Considering the present scenario, the banks should disburse microcredit loans.
**Resolving political influence and obstruction**: It is essential to resolve all political influences and obstructions in proper implementation of the loan policies of the banks. Upon political influence and pressure, banks often disburse loans in many unproductive projects which subsequently turn into bad loans.
**Revising the monetary policy**: The government should modify the monetary policy in a bid to accelerate savings. In this regard, the government should remain cautious so that the monetary policy does not further influence on the liquidity crisis of the banks.
**Controlling inflation efficiently**: It is the responsibility of the government to control inflation. So, it should take necessary and time-befitting steps in this regard.
**Bringing back or restring normalcy in the stock markets**: The existing liquidity crisis of the banks will be resolved to some extent if the government recovers the money from those involved in the manipulation of share market and reinvest the recovered money in the share market for restoring normalcy in the market.

**Monetary Policy** is the process by which the monetary authority (central bank) of a country controls the supply of money, often targeting a rate of interest in order to attain a set of objectives oriented towards the growth and stability of the economy. Monetary policy is maintained through actions such as increasing the interest rate or changing the amount of money that the banks need to keep in the vault (bank reserves). Monetary policy aims at controlling inflation and stabilise currency.
Monetary policy tries to protect the value of money by regulating the national money supply. Policy instruments for doing so include the sale and purchase of government securities (known as open-market operations), regulating banking reserve requirements and setting short-term interest rates (such as discount rate).

**Types (Classification) of Monetary Policy**: There are two types of monetary policy applied by the monetary authority to control the inflationary or recessionary pressures in the economy — expansionary monetary policy and contractionary monetary policy.

**Expansionary Monetary Policy** is adopted when the economy is in a recession and the unemployment is the problem. The expansionary policy is undertaken with an aim to increase the aggregate demand by cutting the interest rates and increasing the supply of money in the economy. The money supply can be increased by buying the government bonds, lowering the interest rates and the reserve ratio. By doing so, the consumer spending increases, the private sector borrowings increases, unemployment reduces and the overall economy grows.
The central banks use expansionary monetary policy to lower unemployment and avoid recession.
They lower interest rates, buy securities from member banks and use other tools to increase liquidity.

**Contractionary Monetary Policy** is applied when the inflation is a problem and economy needs to be slowdown by curtailing the supply of money. The inflation is characterised by increased money supply and increased consumer spending. Thus, the contractionary policy is adopted with an aim to decrease the money supply and the spendings in the economy. This is primarily done by increasing the interest rates so that the borrowing becomes expensive.
The central banks use contractionary monetary policy to reduce inflation. They have many tools to do this.
The most common tools are raising interest rates and selling securities through open market operations.

**Accommodative Monetary Policy** is an accommodative monetary policy is a strategy implemented by a central bank in order to stimulate and encourage economic growth by lowering money supply and short term interest rates. This in turn, makes money less expensive for consumers and businesses to borrow. It is also called loose credit or easy monetary policy — opposite of tight monetary policy.

**Which countries use of accommodative monetary policy?**
Thailand's central bank use accommodative monetary policy to aid the country's economic recovery.

**What type of monetary policy Bangladesh Bank has recently announced?**
Keeping balance with the fiscal policy, Bangladesh Bank has recently announced a contractionary monetary policy statement for the first half (July-December) of the current fiscal year (2018-2019) to control the supply of credits and inflation in a bid to maintain economic stability. The new monetary policy statement anticipates an obstruction to the circulation of money in the market — which could push up inflation and see increases in money laundering.
The monetary policy stance of Bangladesh Bank is quite perfect as it aims to control inflation in the next 06 months — especially before the general election when money flow usually increases.
Monetary policy plays a vital role in controlling the supply of money — often by setting up a target of inflation rate or interest rate. A contractionary monetary policy is also known as tight monetary policy.

- Monetary policy is either expansionary or contractionary where the expansionary policy increases the total money supply in the economy more rapidly than usual.
- **Contractionary Policy** reduces the money supply than usual with the aim to control the inflation.

| Tools of Monetary Policy | |
|---|---|
| ❖ Interest rate | ❖ Reverse repo |
| ❖ Bank rate | ❖ Interest rate of saving scheme |
| ❖ CRR | ❖ Open market operations |
| ❖ SLR | ❖ Yield of treasury bills |
| ❖ Repo | ❖ Interest of other short-term monetary instruments |

**3 major instruments of Monetary Policy**
The central bank has three instruments available to it in order to implement monetary policy:

- ❖ Open market operations
- ❖ Reserve requirements
- ❖ Discount Window

## Targets of Monetary Policy

- Growth of money supply has to be consistent with GDP growth rate to ensure a stable inflation rate
- Credit flow has to be channelled to productive activities to ensure faster economic growth

## Objectives of Monetary Policy

The primary objective of central banks is to manage inflation. The second is to reduce unemployment, but only after they have controlled inflation. It seeks healthy economic growth. That is a 2-3% annual increase in the nation's GDP. The objective of monetary policy varies from country to country and from time to time.

- Neutrality of money
- Stability of exchange rates
- Price stability
- Full Employment
- Economic Growth
- Equilibrium in the Balance of Payments (BoP)

## Role and importance of Monetary Policy

- Economists view monetary policy as the first line of defence against economic slowdowns.
- Compared with fiscal policy, monetary policy has the advantages of the central bank's ability to act faster than the administration.
- The central bank can adjust monetary policy more quickly than the administration can adjust fiscal policy.
- The monetary policy is a remedy to economic decline as it attempts to increase the amount of money in circulation — thereby cutting interest rates.
- Monetary policy may be more effective in fighting inflation.

## The key objectives of Monetary Policy in developing countries like Bangladesh

- Maintaining the stability of price level in the market
- Enhancing savings and investment in the country
- Creation of more employments
- Harmonisation or adjustment between the demand for and supply of currency
- Maintaining stability of the foreign currency exchange rates
- Ensuring the national economic development
- Development of the government loan-taking system
  (The governments of the developing countries like Bangladesh take loans from the state-owned banks to meet the budget deficit. These loans are spent mostly in the unproductive sectors — which results in increasing the inflation. So, the objectives of the monetary policy should check creation of inflation in the country because of government loan-taking trend).

## The methods and techniques for credit control system of Bangladesh Bank

- Bank Rate or Discount Rate Policy
- Open Market Operations Policy (sales of government savings instruments and treasury bonds)
- Reserve ratio checking policy (Increasing or lowering the CRR and SLR rates)
- Formulation of specific guidelines for the commercial banks for disbursement of loans in specific sectors
- Direct punitive actions (increasing bank rate and CRR/SLR rates) for the banks those found to be responsible in not complying with the directions and guidelines of Bangladesh Bank
- Cooperation of the scheduled banks in proper implementation of the Monetary Policy
- Regulation of Consumer's Credit: Reducing the purchase parity power of the consumers by increasing or decreasing the number of payment instalments of the consumer commodity items which are sold on monthly instalment payment system.

**Credit Policy**: The policy formulated by the central bank of a country particularly to control credit flow of the commercial banks is called credit policy. Credit policy is a part of monetary policy. Credit policy is the use of the financial system to influence aggregate demand of money. Monetary policy affects aggregate demand through the central bank controlling interest rates and the money supply. Fiscal policy affects aggregate demand through the use of government spending and taxation.
Credit policy looks at factors such as:—

- Bank lending rates to firms and households in the economy.
- The supply of credit and availability of loans from banks to firms and households.

**Currency Policy:** The central bank of a country reserves a certain amount of gold equivalent to the value of the money that will be printed — this is called Currency Policy.

**Fiscal Policy** (in economics) is the use of government revenue collection (taxation) and expenditure to influence macroeconomic conditions. Through fiscal policy, regulators attempt to improve unemployment rates, control inflation, stabilise business cycles and influence interest rates in an effort to control the economy.
The two instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. Fiscal policy is the sister strategy of monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Democratically elected governments may have more trouble using fiscal policy to fight inflation than unemployment. Fighting inflation requires government to take unpopular actions like reducing spending or raising taxes — while traditional fiscal policy solutions to fighting unemployment tend to be more popular since they require increasing spending or cutting taxes. Fiscal policy may be more suited to fighting unemployment.

## The key objectives of fiscal policy in developing countries like Bangladesh

- The main objective of the fiscal policy of the developing countries is to accelerate the economic development through the full utilisation of unused natural resources of the country
- Accelerating the rate of forming capital
- Achieving full employment
- Controlling inflation
- Creation of socioeconomic infrastructure
- Reducing the income discrimination
- Ensuring proper distribution of wealth
- Reducing regional development discrimination
- Transferring resources to the productive sector
- Undertaking social safety programmes (disbursement of different allowances) for the welfare of the unemployed people, destitute, people with disabilities, old people and widows.

## Difference between Monetary Policy and Fiscal Policy

Both monetary policy and fiscal policy are used to influence the performance of the economy in the short run. They are both used to pursue policies of higher economic growth or controlling inflation.

| Monetary Policy | Fiscal Policy |
|---|---|
| Monetary Policy is typically implemented by a central bank. | Fiscal Policy decisions are set by the government (mainly the Ministry of Finance). |
| Monetary Policy involves changing the interest rate and influencing the money supply. | Fiscal Policy involves the government changing tax rates and levels of government spending to influence aggregate demand in the economy. |
| Monetary Policy deals with the money supply, lending rates and interest rates and it is often administered by the central bank. | Fiscal Policy deals with taxation and government spending and it is often administered by an executive under laws of a legislature. |
| Monetary Policy may be more effective in fighting inflation. | Fiscal Policy may be more suited to fighting unemployment. |
| Most of the central banks including Bangladesh Bank formulate Monetary Policy twice every year. Bangladesh Bank announces monetary policy for the periods July to December and January to June. | The time period of the fiscal policy is one year (July to June in Bangladesh). |

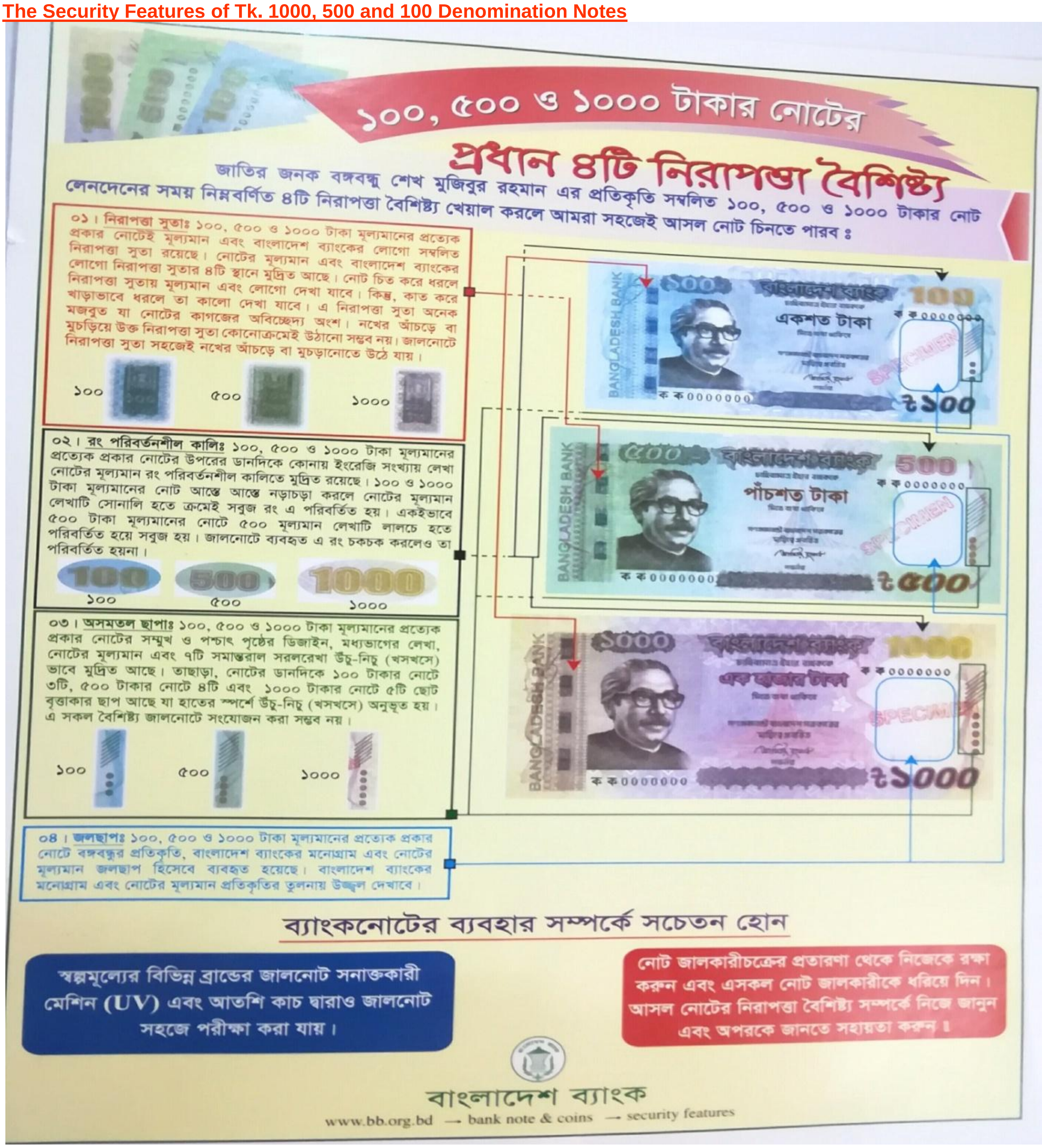
## History of Bangladeshi banknotes and metal coins

Banknotes were first introduced in Bangladesh on March 4, 1972.
The first banknotes introduced in Bangladesh on March 4, 1972 were of Taka 1 and Taka 100 denominations.
Metal coins were first introduced in Bangladesh on March 5, 1972.
Artist KG Mustafa is the designer of Tk 1 & Tk 2 in Bangladesh.
Artist KG Mustafa designed the first paper currencies, coins and postage stamps of Bangladesh.
Coins with denominations of Tk. 1/-, 2/- and 5/- are government coins.
Papernotes with denominations of Tk. 1/-, 2/- and 5/- are government notes.
The Ministry of Finance of the Government of Bangladesh issues government currency notes.
There are 9 kinds of papernotes in Bangladesh of Tk. 1, 2, 5, 10, 20, 50, 100, 500 & 1000 denominations.
Banknotes issued by Bangladesh Bank are of Tk. 10, 20, 50, 100, 500 and 1000 denominations.
Total value of all Bangladeshi paper notes = (1+2+5+10+20+50+100+500+1000) = 1688
Total value of all Bangladeshi banknotes = (10+20+50+100+500+1000) = 1680
The government issued newly introduced Tk. 5 note as the government currency note on June 05, 2016.

Bangladesh Bank cancelled banknotes of Taka 100 denominations on the 30th March, 1974 as those did not get acceptance in absence of security shadow and the use English language.

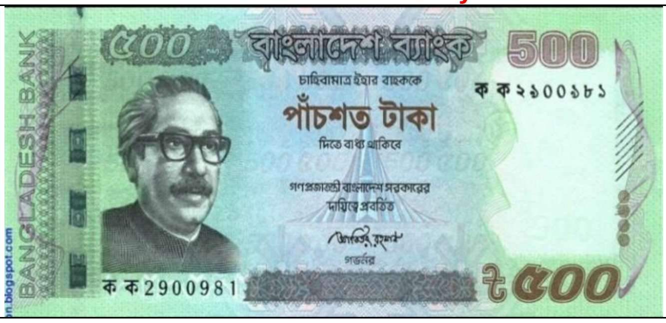
**Seigniorage** [the term derived from old French 'seigneuriage' (right of the lord (seigneur) to mint money)] is the difference between the value of money and the cost of printing and distributing it.

### The Security Features of Tk. 1000, 500 and 100 Denomination Notes



| How to identify genuine coins of Bangladesh (How to recognise a fake coin in Bangladesh) | |
|---|---|
|  | **5 Taka**<br>Obverse: National Emblem<br>Reverse: Picture of the Jamuna Multipurpose Bridge |
|  | **2 Taka**<br>Obverse: National Emblem<br>Reverse: Design having the Slogan “Bangladesh: Education for All” |
|  | **1 Taka**<br>Obverse: National Emblem<br>Reverse: Four human figures with the slogan "Planned family- Food for All" |
|  | **1 Taka**<br>Obverse: National Emblem<br>Reverse: Four human figures and an engraved slogan "Planned family- Food for All" |
|  | **1 Taka**<br>Obverse: National Emblem<br>Reverse: Four human figures and an engraved slogan "Planned family- Food for All" |

## Security Features of 500 Taka Denomination Note





1. The size of this note is 152×65mm duly signed by previous Governor of Bangladesh Bank Dr. Atiur Rahman or present Governor of Bangladesh Bank Fazle Kabir.
2. This note is printed on highly durable paper containing synthetic fibre.
3. This note contains the following watermarks:
   —The Portrait of Father of the Nation Bangabandhu Sheikh Muzibur Rahman
   —Numerical ‘500’ as very bright electrotype watermark just below the portrait;
   —Bangladesh Bank’s logo on the left side of the portrait which is brighter than the portrait.
4. This note contains the following things in intaglio ink which are felt rough when felt by finger:
   —Seven parallel slanted straight lines in the right hand side which can be easily felt rough,
   —Portrait of the Father of the Nation Bangabandhu Sheikh Muzibur Rahman in the left hand side
   —Four small dots at the right hand side for the blinds to recognize the note
   —Bengali 500, English 500, relevant text of the middle portion of the front side
   —Photograph of cultivation of the back side.
5. The colour of ‘500’ printed with Optically Variable Ink (OVI) in the upper right hand side will shift from red to light green and vice versa in the event of oscillation of the note.
6. The note has a 4mm security thread embedded on the left side of the note containing the logo of the Bangladesh Bank and the text ‘৫০০ টাকা’. Both the ‘Bank logo’ and the text ‘১০০০ টাকা’ appear white when seen directly and black when seen from 90 degree angle.
7. ‘৫০০’ printed latently in the lower border will be found if the note is hold horizontally.
8. Repeated microprints in vertical straight line of the text ‘BANGLADESH BANK’ can be seen in the vertical straight line left to the security thread and just inside the text ‘FIVE HUNDRED TAKA’ on the left-back side.
   These microprints can only be seen with the help of a magnifying glass.
9. The front left-side of the note contains the portrait of Father of the Nation Bangab andhu Sheikh Muzibur Rahman.
   The picture of National Monument is printed in light color in the middle of the front side of the note.
10. There are repeated microprints of the text ‘BANGLADESH BANK’ over the denomination ‘500’ which is printed in light color at the bottom-left corner on the back side of the note.
    The microprints can only be seen with the help of a magnifying glass.
11. There is a photograph of cultivation printed in intaglio ink on the back side of the note.

## Security Features of 1000 Taka Denomination Note



1. The size of this note is 160×70mm duly signed by previous Governor of Bangladesh Bank Dr. Atiur Rahman or present Governor of Bangladesh Bank Fazle Kabir.
2. This note is printed on highly durable paper containing synthetic fibre.
3. This note contains the following watermarks:
   —The Portrait of Father of the Nation Bangabandhu Sheikh Muzibur Rahman
   —Numerical '1000' as very bright electrotype watermark just below the portrait
   —Bangladesh Bank's logo on the left side of the portrait which is brighter than the portrait.
4. This note contains the following things in intaglio ink which are felt rough when rubbed by finger:
   —Seven parallel slanted straight lines in the right hand side.
   —Portrait of the Father of the Nation Bangabandhu Sheikh Muzibur Rahman in the left hand side.
   —Five small dots at the right hand side for the blinds to recognize the note.
   —Bengali 1000, English 1000, relevant text of the middle portion of the front side.
   —Photograph of National Parliament building.
5. The colour of '1000' printed with Optically Variable Ink (OVI) in the upper right hand side will shift from golden to green and vice versa in the event of oscillation of the note.
6. The note has a 4mm security thread embedded on the left side of the note containing the logo of the Bangladesh Bank and the text '১০০০ টাকা'. Both the 'Bank logo' and the text '১০০০ টাকা' appears white when seen directly and black when seen from 90 degree angle.
7. '১০০০' printed latently in the lower border will be found if the note is hold horizontally.
8. Repeated microprints of the texts '1000 TAKA' and 'BANGLADESH BANK' in two distinct vertical straight lines can be found on the left to the security thread. Also there are vertical straight lines of the text 'BANGLADESH BANK' just inside the pattern on the back-left side and of the text 'ONE THOUSAND TAKA' on the back-right side.
   These microprints can only be seen with the help of a magnifying glass.
9. The text 'BANGLADESH BANK' is printed on the 'Iridescent Stripe' in light blue colour.
   The colour will vary when the note is oscillated.
10. The front left-side of the note contains the portrait of Bangabandhu Sheikh Muzibur Rahman, Father of the Nation. The picture of National Monument is printed in light color in the middle of the front side of the note.
11. There are repeated microprints of the text 'BANGLADESH BANK' over the denomination '1000' which is printed in light color at the bottom-left corner on the back side of the note.
    The microprints can only be seen with the help of a magnifying glass.
12. There is a photograph of National Parliament building printed in intaglio ink on the back side of the note.

<u>**Optical Variable Ink (OVI)**</u> is an important security feature in identifying a banknote issued by Bangladesh Bank. The color shifting flag made of Optical Variable Ink (OVI) has been added to enhance the anti-counterfeiting resilience and ease in identification by the general public.



A Hundred Taka Note with signature of former Governor Dr. Salehuddin Ahmed and the inscription '100' on its left-hand upper side with colour shifting ink (OVI) was issued since 28 June, 2005.



OVI used in the numeric Bengali inscription <u>১০০০</u> appears golden when looked directly & green when viewed obliquely.

## Which banknote of Bangladesh Bank contains a famous painting of Shilpacharya Zainul Abedin?


Picture of the famous painting "Moi Deya" or "Levelling the Ploughed Field" (1943) by Shilpacharya Zainul Abedin
Date of issue: 07-03-2012 with the signature or the then Bangladesh Bank Governor Dr. Atiur Rahman

**Mutilated Note**: As per the Article 3 of the Bangladesh Bank (Note Refund) Regulations-2012, "Mutilated Banknote" means a note of which a portion is missing or a banknote which is composed of pieces provided that the note presented is clearly more than half a note in area and that if the note is composed of pieces of a note joined together, each piece is, in the opinion of Prescribed Officer, identifiable as the part of the same note.
Essential portions in a currency note are name of issuing authority, guarantee, promise clause, signature, national emblem/portrait of Father of the Nation Bangabandhu Sheikh Mujibur Rahman and water mark.
Refund value of these notes is paid as per Bangladesh Bank (Note Refund) Regulations-2012.
These can also be exchanged at the counters of any state-run commercial bank branch, any currency chest branch of a private sector bank or any Issue Office of the Bangladesh Bank without filling any form.

## Difference between Coins and Banknotes

The only difference between coin and banknote is that the coin has more inherent value than the note.
Coins are usually made of metal which has some inherent value. Notes are just receipts issued by central banks (printed on paper or polymer) backed by governments and has no inherent value in them.
Coins are used for low-value amounts because those are much more resistant to wear and are easy to process mechanically (in coin counters and vending machines). Coins are also cheap and easy to produce. Paper money has traditionally been used for higher amounts because those bills see less use than coins so wear is less of an issue. Besides, it is easier to add anti-counterfeiting features to paper/polymer money than to coins. So, it is less risky for the government to issue large-denomination bills versus large-denomination coins.

## Why Tk. 5/- has been made treasury note (government note)?

The Government of Bangladesh has taken over control on notes and coins of Taka 5 denomination — primarily to expand its bases on the legal tenders. Such extended control over the paper currency and coins is apparently aimed at helping the government meet its deficits. As per the government's observations, the lower-denomination notes are gradually being 'useless' and Tk 1 and Tk 2 are getting phased out naturally; so there is need for another denomination that will actually work as guarantee of the banknotes. Previously, the government used to issue Tk 1 & Tk 2 notes and coins. Their usages have been declining fast following high inflation in the economy.
There is a trend of controlling such type of low-denomination currencies by the government historically — not in Bangladesh but across the world. During the era of Gold Standard, the government used to provide guarantee of giving gold the equivalent of the notes given by the bearer. But, in modern era, the government promises to give the same amount of legal tenders to meet the financial obligations. The amount is equivalent to the notes or coins that bearer wants to exchange for.
At present, notes of Tk. 10 denomination and above are issued by Bangladesh Bank and Tk. 1 & Tk. 2 coins and notes by the Ministry of Finance with signature of the Finance Secretary.
Bangladesh has now Tk. 5 paper currency numbering 700 million pieces and coins of the same denomination counting 50 million pieces.

## What is the difference between a coin of Tk. 5/- denomination and a note of Tk. 5/- denomination?

Coins are made up of metals so they contain the actual value of what is mentioned on them. For example: A coin of Tk. 1 denomination contains the metal of actually Tk. 1 and the same applies for Tk. 2/- & Tk. 5/- coin also. So, when a person has a coin in his pocket no one owes him anything because he is already having that value. But in contrast if he is having a banknote in his pocket, Bangladesh Bank owes him that much amount of money meaning if he is going to Bangladesh Bank having a Tk. 100/- note asking them to give him the value of it they have to give him coins of Tk. 100. So, the same promise is also mentioned on every note.

## What is the need of Tk. 5/- note while coin is already there?

Notes are used in foreign currency exchange while coins cannot be used in foreign currency exchange because Bangladesh Bank is not liable to give anything in return of coins.
The notes (except Taka 1, 2 and 5 denominations) have the signature of the Governor of Bangladesh Bank.
So, it is valid for all kind of transactions including foreign currency exchange. The coins are of same monetary value but in foreign exchange, coins are not allowed.
So, for a resident in the country, both coins and notes are of same value. But if a British tourist brings back Bangladeshi coins to his country, he can't exchange it for the currency of his country.

## Why is there the need of Taka 5/- coin if the note is so valuable?

Coins are having real values while notes are just the representation of money through which Bangladesh Bank promises us to give that value. Many people consider that coins are more durable too. Though coins are suppose to carry actual value of whatever is mentioned on them but after replacing gold coins and silver coins they (today's coins) may carry a little less value than originally mentioned. But still they are considered to be carrying the equal value.

## Difference between Banknotes and Government Notes

Now-a-days the government notes serve as money. They are issued either directly by governments or indirectly through their central banks. Notes issued by the central banks are often called banknotes, but they are functionally the same as government notes. However, some significant and important differences exist between banknotes under the gold standard and government notes.

Government notes promise to pay with no provision for payment. They are debt payable at the pleasure of the issuing government. Such payment is almost never made.

Economics drives the issue of banknotes and determine the quantity in circulation. Politics drives the issue of government notes and determines the quantity in circulation. Government notes are low quality currency.

As long as the the gold standard is maintained, banknotes are high quality currency.

| Difference between Banknote and Promissory Note |
|---|
| A **Promissory Note** is a signed financial instrument that contains a written promise by one party (the issuer of the note) to pay a specified person or party (the payee of the note) a specified sum of money — either on demand or at a specified future date. A promissory note typically contains all the terms pertaining to the indebtedness — such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature. If the promissory note is unconditional and readily salable (able to be sold), then it is called a negotiable instrument. |
| A **Banknote** (also called paper money) is a negotiable promissory note issued by a bank. A banknote is payable to the bearer on demand (on request) without interest and it is acceptable as money. The amount of the banknote payable is apparent on the face of the note. Along with coins, banknotes are legal tender and can be used to settle any and all debts. |

## Where are the Bangladeshi banknotes printed in Bangladesh?

The Security Printing Corporation (Bangladesh) Limited (SPCBL) is a 100% owned subsidiary of Bangladesh Bank. It is situated at Joydevpur in Gazipur district. SPCBL is supervised and controlled by Bangladesh Bank. SPCBL is engaged in the production of banknotes, coins, non–judicial stamps, postage stamps and other government related documents for Bangladesh.

The Government of the Peoples Republic of Bangladesh empowered Bangladesh Bank to establish a security printing press. Bangladesh started its security printing facilities in 1989 initially with banknote production.

The country is now self-sufficient in printing all its security documents including banknotes, postal and non-postal stamps, judicial and non-judicial stamps, cheque books, tax labels etc. along with a host of other printing works involving security features.

**Legal Tender** is any official medium of payment recognised by law that can be used to extinguish a public or private debt or meet a financial obligation. The national currency (coins or banknotes) is legal tender in practically every country. A creditor is obligated to accept legal tender toward repayment of a debt. Money is legally valid for the payment of debts and it must be accepted for that purpose when offered.

**Money** is an officially-issued legal tender generally consisting of notes and coin. Money is the circulating medium of exchange as defined by a government. It is often synonymous with cash & includes various negotiable instruments. Each country has its own money that is used as a medium of exchange within that country.

## The Four Functions of Money

**(a) Money is a unit of account (Measure of Value)**: Money serves as a common measure of value or a unit of account because everything in the economy is quoted in terms of it. Under barter economy, there was no common measure of value in which the values of different goods could be measured and compared with each other. Money has also solved this difficulty. Money serves as a yardstick for measuring the value of goods and services. As the value of all goods and services is measured in a standard unit of money, their relative values can be easily compared.

**(b) Money is a medium of exchange**: The most important function of money is that it serves as a medium of exchange because it can be used it to buy goods and services in an attempt to satisfy unlimited needs and wants. In the barter economy, a great difficulty was experienced in the exchange of goods as the exchange in the barter system required double coincidence of wants. Money has removed this difficulty. Now a person A can sell his goods to B for money and then he can use that money to buy the goods he wants from others who have these goods.

**(c) Money is a store of value**: Money acts as store of value. Money being the most liquid of all assets is a convenient form in which to store wealth, that is, money can be held as an asset. Thus store of value function is also called asset function of money.

**(d) Standard of deferred payment**: Money performs this function of standard for deferred payments for current purchases because its value remains more or less stable. Deferred payments mean those payments which are to be made in the future. If a loan is taken today, it would be paid back after a period of time.

| Differences between Capital and Money | |
|---|---|
| People often interchange the words capital and money — believing they mean the same thing. But there is a really big difference between the two. | |
| **Capital** | **Money** |
| Capital involves the aspects of the company that help shape and grow it and it includes any of its assets that can benefit the company in the long-term future. | Money refers to the instrument used to purchase goods and services between companies and/or individuals — serving a more immediate purpose. |
| Capital is more durable than money and is used to produce something and build wealth. Property rights give capital its value and allow it to generate revenues and build wealth. Examples of capital include equipment, machinery, patents, trademarks, brand names, buildings and land. | Money is less durable than capital. |
| Capital is used to generate wealth through investment. | Money is used to purchase goods and services for consumption. |

**What is the Quantity Theory of Money (QTM)?**

The quantity theory of money is a theory about the demand for money in an economy. The theory states that the general price level of goods and services is directly proportional to the amount of money in circulation (money supply). The concept states that there is a direct relationship between the quantity of money in an economy and the level of prices of goods and services sold. According to the concept, if the amount of money in an economy doubles, the price levels also double — causing inflation (the percentage rate at which the level of prices is rising in an economy). Therefore, the consumer pays twice as much for the same amount of the good or service.

**Money Supply** is the entire stock of currency and other liquid instruments circulating in a country's economy as of a particular time. Money supply includes safe assets — such as cash, coins and balances held in checking and savings accounts that businesses and individuals can use to make payments or hold as short-term investments.

**Narrow Money (M1)** is the sum of currency outside banks and demand deposits. M1 includes currency in circulation and demand deposits held ~~by~~ at the central bank and deposit money banks.

**Broad Money (M2)** is defined as narrow money plus time deposits accepted by other deposit money banks. Interbank deposits and Government deposits are excluded from monetary measures in this case.

**Broad Money (M3)** is defined as M2 plus deposit liabilities of nonbank depository corporations plus national savings scheme deposits.
M3 consists of currency outside depository banks, demand and time deposits with depository banks, and national savings scheme deposits. Interbank deposits and government deposits are excluded from monetary measures in this case.

| |
|---|
| **Narrow Money (M1)**: A category of money supply that includes all physical money like coins and currency along with demand deposits and other liquid assets held by the central bank. In the USA, narrow money is classified as M1 (M0 and demand accounts). |
| **Broad Money**: In economics, broad money refers to the most inclusive definition of the money supply.<br>Since cash can be exchanged for many different financial instruments and placed in various restricted accounts, it is not a simple task for economists to define how much money is currently in the economy. Therefore, the money supply is measured in many different ways. Broad money is used colloquially to refer to a broad definition of the money supply. |

## Some specialised monetary institutions

- Investment Corporation of Bangladesh (ICB)
- Bangladesh Development Bank Limited (BDBL)
- Bangladesh Krishi Bank Limited
- House Building Finance Corporation (HBFC)

## Some financial institutions (except banks) in Bangladesh

- Leasing Company
- Bangladesh Investment Board
- Insurance Company
- House Building Company

**Commercial Banks** are financial institutions that provide services, such as accepting deposits, giving business loans and auto loans, mortgage lending and basic investment products like savings accounts and certificates of deposits. Traditional commercial banks are equipped with tellers, safe deposit boxes, vaults and ATMs.

## How do the commercial banks help Bangladesh Bank in the implementation of Monetary Policy?

The commercial banks help the economic development of a country by faithfully following the Monetary Policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

## Functions of the commercial banks

- To receive deposits of various types and disburse loans
- To make advance and investment against with or without securities
- To create medium of exchange through Cheque, bank draft and payment order
- To issue letters of credit
- To make correspondent banking with overseas banks
- To place foreign currency funds with correspondences abroad

## What are the major important roles of the commercial banks in a developing country like Bangladesh

Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture. The major important roles of the commercial banks are —

- Mobilising savings for capital formation
- Financing industry
- Financing trade
- Financing agriculture
- Financing consumer activities
- Financing employment generating activities
- Lending and deposit business
- Asset management
- Foreign exchange trading

## Contributions of private banks in changing the socioeconomic condition of Bangladesh

The private banks are disbursing loans in various sectors related to the economy of Bangladesh. As a result, the readymade garments sector has developed in great extent in Bangladesh. Moreover, private banks give much amount to the vulnerable groups of people under the activities of their corporate social responsibilities (CSR).

## Important role of commercial banks in economic development (or in developing countries like Bangladesh)

A well-developed banking system is essential for the economic development of a country. In case of developing countries like Bangladesh, the commercial banks are considered to be the backbone of the economy.
Besides performing the usual commercial banking functions, banks in developing countries like Bangladesh play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture. There is acute shortage of capital. People lack initiative and enterprise. The commercial banks help in overcoming these obstacles and promoting economic development.
The commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country. Commercial banks are considered not merely as dealers in money but also the leaders in economic development. They are not only the store houses of the country’s wealth but also the reservoirs of resources necessary for economic development. They play an important role in the economic development of a country. Commercial banks can contribute to a country’s economic development in the following ways:

| | |
|---|---|
| ❖ Mobilising Savings for Capital Formation | ❖ Financing Industry |
| ❖ Accelerating the Rate of Capital Formation | ❖ Financing Trade |
| ❖ Financing Employment Generating Activities | ❖ Financing Agriculture |
| ❖ Fulfilment of Socio-economic Objectives | ❖ Financing Consumer Activities |
| ❖ Help in Implementation of Monetary Policy | ❖ Regional Development |
| ❖ Help in achieving balanced and regional development in different regions of the country | |

## Why banks are nationalised in Bangladesh?

After the independence, Bangladesh was under immense financial hardships. The savings of the people were drained out and citizens were unable to lead a normal life. Since banks were the lifeblood of the economy, the government felt that nationalising banks would restore the faith in the banking system that was required to revive the economy. Hence the government nationalised the nation's banks. Sonali Bank is the largest bank in Bangladesh and it is a nationalised bank. Nationalisation of banks creates great interest among various sections of the public. Many hopes are raised in the middle class and poor people with regard to the financial assistance. The nationalised banks draw up a number of schemes to assist new types of customers and plans to make each of these banks to adopt a few selected districts and concentrate on their intensive development.

The nationalisation of commercial banks has increased the role of public sector banks in Bangladesh.

There are many reasons behind the nationalisation of major commercial banks in Bangladesh.

**Efficiency issue**: Nationalisation increases the efficiency of commercial banks. Deposits will increase because of increasing confidence in public sector bank. Increase in bank resources will lead to economics of scale.

The government can appoint experienced personnel to run and manage the banks. The government will have the countrywide administrative network. Hence, it can make suitable changes in the banking policies according to the prevailing trends in the economy. Nationalised banks can have the main motive of public service. Public sector banks can give preference to priority sectors in advancing loans. Thus, nationalisation promotes efficiency.

**Monetisation Issue**: Commercial banks accumulate deposits from the public. So, they are in a position to bring changes in the supply of money. Such an important power should not be given in the private sector. It is the public sector that should have the control over money supply.

**Integration issue**: The central bank is established by the government for overall monetary control in the economy and is not aiming at profit. But commercial banks are started mainly to earn profit. Thus there are contradicting objectives between the central bank and commercial banks. In this situation, the central bank may find it difficult to implement its policies when the commercial banks oppose them.

So, in the interest of coordination and cooperation between them, commercial banks should be nationalised.

**Socialisation issue:** When a country aims at socialistic pattern of society, then the role of public sector undertaking should be extended in all spheres of the economy. To start and run the public sector undertaking, the government requires enormous financial requirements. Private commercial banks may obstruct such policies and may not finance public sector undertakings and above all they may discriminate against them.

So, the nationalisation of commercial banks will be necessary if the government wants to establish socialism.

**Channel the bank finance to the planned-priority sectors**: Banks collect savings from the general public.

If it is in the hand of private sector, the national interests may be neglected. Besides, in Five-Year Plans, the government gives priority to some specified sectors like agriculture, small-industries etc. Thus, nationalisation of banks ensures the availability of resources to the plan-priority sectors.

**Greater mobilisation of deposits**: The public sector banks open branches in rural areas where the private sector has failed. Because of such rapid branch expansion there is possibility to mobilise rural savings.

**Help to agriculture**: If banks fail to assist the agriculture in many ways, agriculture cannot prosper in a country like Bangladesh where more than 40% of the population depends upon agriculture. Thus, for providing increased finance to agriculture, banks have to be nationalised.

**Balanced regional development**: In Bangladesh, certain areas remained backward for lack of financial resource and credit facilities. Private Banks neglect the backward areas because of poor business potential and profit opportunities. Nationalisation helps provide bank finance in such a way as to achieve balanced inter-regional development and remove regional disparities.

**Greater control by the central bank**: In a developing country like Bangladesh, there is need for exercising strict control over credit created by the banks. If the banks are under the control of the government, it becomes easy for the central bank to bring about coordinated credit control. This necessitated the nationalisation of banks.

**Greater stability of banking structure**: Nationalised banks are sure to command more confidence with the customers about the safety of their deposits. Besides this, the planned development of nationalised banks will impart greater stability for the banking structure.

**Better service conditions to staff**: Nationalisation ensures the staff of banks to enjoy greater job security and higher emoluments. In this way the banks can motivate their staff and thereby the operational efficiency of banks will be increased. Nationalised banks are able to keep the confidence of public. The government is regarded efficient in terms of running and managing the banks. The government has a countrywide administrative network. The policies can be changed as per the change in economy. These banks are formed on the basis of public service.

## The Importance of public sector banks

The most important use of public sector banks is the fact that it is used by the government to dispense the pension amounts for the retired employees of the government of Bangladesh. During the disbursement of loans, the nationalised banks give priority to some specified sectors like agriculture and small-industries etc. Thus, nationalised banks ensure the availability of resources to the plan-priority sectors.

**Specialised Banks** are formed to fulfil special needs of industries and exports units etc. These are foreign exchange banks, industrial development banks and export-import banks. These banks provide financial aid to industries, heavy turnkey projects and foreign trade agencies.

**Nationalisation** is the process of a government taking control of a company or industry which can occur for a variety of reasons. When nationalisation occurs, the former owners of the companies may or may not be compensated for their loss in net worth and potential income. Nationalisation is most common in developing countries subject to frequent leadership and regime changes. In these instances, nationalisation is often a way for a government to expand its economic resources and power.

**Privatisation** is the transfer of ownership of property or businesses from a government to a privately owned entity in a bid to maximise the profit. Privatisation is considered to bring more efficiency and objectivity to the company. When a publicly traded company becomes private, investors can no longer purchase a stake in that company.

## Differences between nationalised banks and private banks

A nationalised bank is any commercial bank that is bought and controlled by the government. Private banks are owned, controlled and managed by an individual or conducted by a partnership. A nationalised bank is formed by taking a bank and its assets into the public ownership. The national government of the country holds the ownership of nationalised banks. In nationalised banks the government controls the bank. This could refer to taking control of the public shares, change in management and new corporate strategy. Private banks and nationalised banks differ in the powers that control them and hence they both differ in many characteristics.

- Private sector banks are owned by the private lenders while private banks are managed and controlled by private promoters and these promoters are free to operate according to the market forces.
- The interest rates of private banks are costly as compared to public sector banks.
- The role of government is very important in nationalised banks. These banks sustain easily with the aid of the government. Many of the commercial banks were nationalised in order to save them from financial debts. These banks provide more security to the customers in comparison to the banks that are private.
- The nationalised banks are often associated with the social welfare and thus the policies of such banks also reflect the same. The private banks focus on profitability though they provide better and quick services.
- The high end customers of private banks are very important for the private banks. However, in case of a major financial loss, the future of a private bank remains unpredictable and the customers remain confuse about the actual scenario.

**Basel II** is the methodology to determine capital adequacy for commercial banks in a country. It is a set of banking regulations put forth by the Basel Committee on Bank Supervision — which regulates finance and banking internationally for risk management. Basel II attempts to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring institution liquidity.

**Objectives and importance of Basel II**

- Ensuring that capital allocation is more risk sensitive;
- Enhance disclosure requirements which would allow market participants to assess the capital adequacy of an institution
- Ensuring that credit risk, operational risk and market risk are quantified based on data and formal techniques
- Attempting to align economic and regulatory capital more closely to reduce the scope for regulatory arbitrage

**Basel III**: It is a global voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. It is a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector. The Basel Committee on Banking Supervision published the first version of Basel III in late 2009, giving banks approximately three years to satisfy all requirements. Largely in response to the credit crisis, banks are required to maintain proper leverage ratios and meet certain capital requirements.
Basel III was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11, and was scheduled to be introduced from 2013 until 2015; however, changes from 1 April 2013 extended implementation until 31 March 2018 and again extended to 31 March 2019.

**CAMELS Rating System** is an international bank-rating system where bank supervisory authorities rate institutions according to six factors. It is a supervisory rating system originally developed in the US to classify a bank's overall condition. It is applied to every bank and credit union in the USA and is also implemented outside the USA by various banking supervisory regulators. The six factors are represented by the acronym CAMELS.
Capital adequacy — Asset quality — Management quality — Earnings — Liquidity — Sensitivity to Market Risk.
Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two, it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

**CRM (Core Risk Management)** is the process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance. Inadequate risk management can result in severe consequences for companies as well as individuals. For example, the recession that began in 2008 was largely caused by the loose credit risk management of financial firms.

**Purposes of Core Risk Management (CRM) in Bangladesh**

The purposes of CRM are to provide directional guidelines to the banking sector that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities and assist on the ongoing improvement of the banking sector in Bangladesh.

**Risk Management** is the study of how to control risks and balance the possibility of gains. All businesses take risks based on two factors: the probability an adverse circumstance will come about and the cost of such adverse circumstance.

**Cash Ratio Reserve (CRR)** refers to a portion of bank deposits (as cash) which banks are supposed to keep or maintain with the central bank. This serves two purposes. It ensures that a portion of bank deposits is totally risk-free and secondly it enables that the central bank control liquidity in the system and control inflation by tying their hands in lending money. If the central bank decides to increase the percent of this, the available amount with the banks comes down. The central bank is using this method (increase of CRR rate) to pull out the excessive money from the banks.
When inflation is high (money supply is high), Bangladesh Bank increases the CRR rate. That means the commercial banks will have to keep more percentage of deposits with Bangladesh Bank — this in turn will reduce the lending capacity of the commercial banks.

**Statutory Liquidity Ratio (SLR)** is a part of bank deposits that the commercial banks are supposed to maintain with themselves in liquid form. Liquid form means cash, gold or government bonds. This is to ensure sufficient liquidity with the commercial banks. Banks are required to invest a portion of their deposits in government securities as a part of their SLR requirements. What SLR does is again restrict the bank's leverage in pumping more money into the economy.

**Differences or Comparison between CRR and SLR**

- The important difference between CRR and SLR is that CRR has to be maintained in cash while SLR can be maintained either in cash or in assets that Bangladesh Bank suggests. Banks do not earn any returns from the money parked in the form of CRR. However, banks can earn returns from SLR.
- Both CRR and SLR are instruments in the hands of Bangladesh Bank to regulate money supply in the hands of banks that they can pump in economy.
- CRR is cash reserve ratio that stipulates the percentage of money or cash that banks are required to keep with Bangladesh Bank.
- SLR is statutory liquidity ratio and specifies the percentage of money a bank has to maintain in the form of cash, gold, and other approved securities.
- CRR controls liquidity in economy while SLR regulates credit growth in the country.
- While banks themselves maintain SLR in liquid form, CRR is with Bangladesh Bank maintained as cash.
- SLR limits the influences that banks have in putting more money into the economy. It also effectively regulates the credit growth in the economy.
- CRR regulates the liquidity in the economy and staves off inflation.

**Differences between CRR and SLR**

| Factors | SLR | CRR |
|---|---|---|
| Description | The ratio of liquid assets to demand and time liabilities are known as SLR. | The minimum ratio as stipulated by Bangladesh Bank is known as CRR. |
| Stands for | Statutory Liquidity Ratio | Cash Reserve Ratio |
| Meeting the guidelines | They can meet the SLR by cash, gold or approved securities. | They can meet the CRR only by cash. |
| Controls | SLR limits the influences that banks have in putting more money into the economy. It also effectively regulates the credit growth in Bangladesh economy. | CRR regulates the liquidity in the economy and staves off inflation. |
| Maintenance | It is maintained in liquid form with banks themselves. | It is maintained in cash form with RBI. |
| Intended | It is intended to make banks invest in government securities. | It is intended to maintain the purchasing power of money in order to curb inflation. |

**Bank Rate** is the rate at which the central bank lends money to other domestic commercial banks or financial institutions. The bank rate signals the central bank's long-term outlook on interest rates. If the bank rate moves up, long-term interest rates also tend to move up. Banks make a profit by borrowing at a lower rate and lending the same funds at a higher rate of interest.
Bank rate is one of the essential tools of the central Bank which regulates the economic activity level.
To control liquidity, the central bank will increase bank rate. As a result of which the borrowing cost of banks goes up (increases) and the credit supply in the economy goes down (decreases).
If Bangladesh Bank hikes the bank rate (currently 5%), the interest that a bank pays for borrowing money (banks borrow money either from each other or from Bangladesh Bank) increases. It, in turn, hikes its own lending rates to ensure it continues to make a profit.

| Differences between Simple Interest and Compound Interest | |
|---|---|
| **Simple Interest** | **Compound Interest** |
| Simple interest is levied only on the loan amount or principal. | Compound interest is levied on the loan amount as well as its interest. |
| Simple interest is a small percentage of the principal as agreed between lender and borrower. | Compound interest is a small percentage of principal and amassed simple interest as mutually agreed |
| Steady wealth growth. | Wealth growth increases at a higher pace due to compounding. |
| Less returns compared to compound interest. | Higher returns compared to simple interest. |
| Wealth growth is comparatively lower. | Wealth accumulation will be at a higher rate. |
| Principal never changes with increased tenure. | Principal increases as interest compounds and gets added to it. |
| Simple interest is easy to calculate using the formula (Principal x Interest Rate x Time Period). | Difficult to calculate using the formula $P\ (1 + r/n)^{nt}$ |

**Call Rate** is the interest rate paid by the banks for lending and borrowing for daily fund requirement. Since banks need funds on a daily basis, they lend to and borrow from other banks according to their daily or short-term requirements on a regular basis.

**Hot Money** is the regular and quick flow of funds (or capital) from one country to another country in order to earn a short-term profit on interest rate differences as the investors scan the market for short-term and high interest rate investment opportunities available. These speculative capital flows are called 'Hot Money' as they can move very quickly in and out of markets — potentially leading to market instability. Hot money continuously shifts from countries with low-interest rates to those with higher rates; these financial transfers affect the exchange rate if there is a high sum and also potentially impact a country's balance of payments (BoP).

**Call Money** is the money loaned by a bank that must be repaid on demand. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule. Brokerages use call money as a short-term source of funding to cover margin accounts or the purchase of securities. The funds can be obtained quickly.

**Call Money Market** is a short-term money market — which allows for large financial institutions (such as banks, mutual funds and corporations) to borrow and lend money at interbank rates. The loans in the call money market are very short, usually lasting no longer than a week and are often used to help banks meet reserve requirements.

**Is Bangladesh Bank involved in the call money?**
In some cases where call money rate shows extra-volatility higher and lower than the normal, Bangladesh Bank tries to find the reasoning behind this — whether the pressure comes from demand side of the market or because of seasonality, and whether the rate is going to die out automatically, or whether intervention of Bangladesh Bank is required to stabilise the rate. Of course, the extent to which Bangladesh Bank intervenes in the market depends on the perception of Bangladesh Bank regarding the volatility.

**Repo (Repurchase Agreement)** means the purchase of securities with the agreement to sell them at a higher price at a specific future date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.
Repos are classified as a money-market instrument. They are usually used to raise short-term capital. Bangladesh Bank sells this instrument to the commercial banks with the agreement that it will be bought back after a certain period of time. It is used to control the supply of money in the economy.

**Repo Rate** is the rate at which banks borrow funds from the central bank (Bangladesh Bank) against collateral on the event of a deficiency of funds to meet the gap between the demands they are facing for money (loans) and how much they have on hand to lend. So, Repo Rate is the rate at which the central bank of a country lends money to the commercial banks in the event of any shortfall of funds. The term 'Repo' is an acronym for repurchase option that acts as a source of short-term borrowing in which the banks sell securities to the central bank in return for credit. The securities are government approved securities that act as collateral.
The central bank uses this tool to control money supply in the country's monetary system. The decrease in the repo rate indicates that the bank's cost of borrowing is reduced. If the repo rate goes up, it represents that bank's borrowing rate is expensive — which ultimately results in the fall in money supply in the economy. In this way, it also helps the government authorities to curb inflation.
If Bangladesh Bank wants to make it more expensive for the banks to borrow money, it increases the repo rate. Similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate.

**Reverse Repo Rate** is the exact opposite of repo rate. The rate at which the central bank borrows money from the banks is termed the reverse repo rate. The central bank uses this tool when it feels there is too much money floating in the banking system.
If the reverse repo rate is increased, it means Bangladesh Bank will borrow money from the bank and offer them a lucrative rate of interest. As a result, banks would prefer to keep their money with Bangladesh Bank (which is absolutely risk-free) instead of lending it out. Consequently, banks would have lesser funds to lend to their customers. This helps stem the flow of excess money into the economy. Reverse repo rate signifies the rate at which the central bank absorbs liquidity from the banks, while repo signifies the rate at which liquidity is injected.

**Key Differences between Bank Rate and Repo Rate**

| Factors | Bank Rate | Repo Rate |
|---|---|---|
| Meaning | Bank Rate is the discount rate at which the central bank lends money to other domestic commercial banks or financial institutions. | Repo rate is the rate at which banks borrow funds (short-term loan) from the central bank against collateral to meet the gap between the demands they are facing for money (loans) and how much they have on hand to lend. |
| Repurchase Agreement | There is nothing like repurchase agreement in bank rate. Only the money is lent to banks and financial intermediaries at a fixed rate. | The sale of securities to the central bank on a repurchase agreement (to buy back the securities at a predetermined rate and date in the future). |
| Deals with | Loans | Securities |
| Time Frame | Bank rate caters long-term fund requirement of the commercial banks. | The repo rate focuses on providing short-term finance to banks. |
| Collateral | In the case of bank rate, the loan is provided to banks without collateral. | In the case of repo rate, loan is granted to the banks after pledging bonds as security. |
| Which is higher? | The bank rate is normally higher than the repo rate | The repo rate is normally lower than the bank rate. |

**Why is reverse repo rate lower than repo rate?**
Reverse repo is the rate at which banks deposit their excess funds with Bangladesh Bank. Reverse repo is always less than repo rate as Bangladesh Bank cannot give more interest on deposits and charge lesser interest on loans. When we deposit money in bank, they give us 4% interest whereas if we borrow loan, the banks charge us 9%. The difference is bank's profit. Similarly, all banks deposit and borrow from Bangladesh Bank. When banks deposit, Bangladesh Bank would pay less (reverse repo) and when banks borrow from Bangladesh Bank, Bangladesh Bank would charge high (repo rate).

**Why is the repo rate of Bangladesh Bank always greater than reverse repo rate?**
The repo rate is the rate at which Bangladesh Bank lends money to banks that need it. The reverse repo rate is the rate at which Bangladesh Bank borrows money from banks that have surplus.
A bank (any bank) always gives out loans to the people at higher interest rates than savings in order to generate some profits necessary for its own working and to pay the salaries of the employees; Bangladesh Bank does the similar thing by maintaining the repo rate slightly above reverse repo rates.
In order to ensure that there is no multiplicity of the two major policy rates (repo rate and reverse repo rate), Bangladesh Bank has decided to maintain a fixed spread between the two rates so that there is only one policy rate and a clear message goes out to the market in terms of Bangladesh Bank's policy. This is expected to help stabilise the money market and interest rates in the economy.

**Interest Rate Spread** is the amount by which the interest earned by an investment exceeds or fails to exceed its own interest liability. If a bank pays depositors one interest rate and lends the deposited money out at a higher interest rate, the difference between those two interest rates is the interest rate spread. Bank interest rate spread is the extent to which interest earning capacity of an entity exceeds or falls short of its interest cost obligations.

**Inflation** is the continuous and persistent rise in the level of price. Inflation is the overall general upward price movement of goods and services in an economy — often caused by an increase in the supply of money. Sudden rise in the price level is not calculated as inflation. The rise in price due to the holy month of Ramadan is not counted as inflation because it is sudden/seasonal rise in the price level. Moderate inflation (3% to 5%) is good for any economy.
An increase in inflation figures occurs when there is an increase in the average level of prices in goods and services. Inflation happens when there are less goods and more buyers; this will result in increase in the price of goods as there is more demand and less supply of the goods.
Inflation is usually measured by the Consumer Price Index (CPI) and the Producer Price Index (PPI).

**Inflation Rate** is the annual rate or percentage at which the general level of prices for goods and services is rising and the purchasing power of currency is falling. Central banks attempt to limit inflation and avoid deflation in order to keep the economy running smoothly.

**Effects of Inflation**: The effects of inflation are judged in two particular areas of the economy: (i) distribution of income and (ii) national output and employment.
**Effects of Inflation upon Distribution of Income**: The factors of production receive income by taking part in the production of goods and services. Land receives rent, labour receives wages and salaries, capital receives interest and business enterprise receives profit.
We assume that real national income is constant and at full employment level, and then we consider how the share of national income received by different groups of income receivers is affected by inflation.
Thus we got to learn the difference between money income and nominal income and real income.
Money income means the amount of money one receives as wages, rent, interest or profit.
Real income means how much goods and services can be brought with one's money income.
Obviously, if the price level rises faster than one's nominal income, then his/her real income will fall.

| | |
|---|---|
| Formula | % change in real income = % change in nominal income - % change in price level |

Suppose that last year one's nominal income rose by 10% while the price level rose by 5%.
Then his/her real income rose by (10%-5%) = 5%.
**Effects upon the Fixed Income Earners**: White-colour workers and employees of the public sector receive fixed income according to the scales of pay. Landlords receive fixed rents in terms of the agreement with tenants. Retired persons get fixed pensions. All these people suffer from inflation. As prices rise, they can afford to buy less goods and services with their fixed income.
However, people with flexible income may benefit from inflation. For example, if prices of goods rise while costs do not rise, the businessmen are able to earn larger profits.
**Effects upon Savers**: Savers are affected in times of inflation. Suppose, a person saved Tk. 1,000/- for a year in his savings account and earned interest of Tk. 100 at 10% interest rate per year. But prices rose by 10%. Then, the value of his savings Tk. 1,000/- is reduced to Tk. (1100/1.13) = Tk. 973/- [Tk. 1,100/- has been deflated].

**Effects of Inflation upon Debtors and Creditors**
Inflation benefits debtors (borrowers) and harms creditors (lenders). Because of inflation, the borrower takes "Dear Taka" and repays "Cheap Taka".
For example, Five (05) years back a person could buy 1 kg of Hilsa fish for Tk. 500/-. Now it costs Tk. 1,000/-. So, if he borrowed Tk. 1,000/- in 2012, he actually borrowed 1 kg of Hilsa fish. Now he repaid Tk. 1,000/- in 2017; he actually repaid 0.50 kg of Hilsa fish.
The government as a borrower also benefits from public borrowing this way.

**Does inflation favour lenders (banks) or borrowers?**

Inflation can benefit either the lenders (banks) or the borrowers depending on the circumstances.

- If wages increase with inflation and if the borrower already owed the money before the inflation occurred, the inflation benefits the borrower. This is because the borrower still owes the same amount of money, but now he has more money in his pay check to pay off the debt. This results in less interest for the lender if the borrower uses the extra money to pay his debt.
- Inflation can help lenders (banks) in several ways, especially when it comes to new credit that was not previously owed to the lender. First, higher prices mean that more people want credit to buy big-ticket items, especially if their wages have not increased, resulting in an increase in customers for the lender. On top of this, the higher prices of those items earn the lender more interest. For example, if the price of a TV goes from Tk. 15,000 to Tk. 16,000 due to inflation, the lender makes more money because 10% interest on Tk. 16,000 is more than 10% interest on Tk 15,000. Plus, the extra Tk. 1,000 and all the extra interest might take more time to pay off than at the lower price, meaning even more profit for the lender thanks to inflation.
- If prices increase, so does the cost of living. If people are spending more money to live, they have less money to pay off debt, especially if wages do not increase with inflation. This benefits lenders (banks) because people need more time to pay off their previous debts, allowing the lender to charge more interest on the money. However, this could backfire if it results in higher default rates.

## Advantages of inflation
Moderate inflation enables adjustment of prices and wages and inflation can boost economic growth.

## Disadvantages of inflation
Due to inflation, the purchasing power of the people decreases. So the cost of living of the common people increases, cost of production also increases and unemployment decreases. Besides, inflation tends to discourage investment & long-term economic growth. It also reduces the value of savings.

## Main causes (reasons) of inflation
- Increase in the level of money supply in the economy
- Increase in the level of government expenditure in implementing development projects
- Excessive loan disbursement by the commercial banks
- Tax Holiday
- Shortfall in the production of daily necessary commodities
- Influence of trade unions (Because of rise in the wages of the workers)
- Surplus balance in foreign trade
- Meeting war expenditures
- Inflow of foreign aid, assistance and donation
- Stocking of necessary commodities
- Black-marketing of necessary commodities
- Increase in the salaries and allowances of government officials and employees
- Underdeveloped transport and communication system
- Political instability

**Types of Inflation:** Based on magnitude, there are various types of inflation. Different names have been given to inflation depending upon the rate of rise in prices.
i) Creeping Inflation: A sustained rise in prices of annual increases of less than 3% per year
ii) Walking Inflation: 3% to 6% per year
iii) Running Inflation: around 10% per year
iv) Hyperinflation: 20% to 30% or more (Inflation in Argentina and Brazil during 1970-80 was 50% to 700%)

**Deflation** is the continuous decrease in prices of goods and services. Deflation occurs when the inflation rate becomes negative (below zero) and stays there for a longer period.

**Stagflation** is a situation where recession is accomplished by unemployment & high inflation.
In other words, Stagflation is a period of slow economic growth and high unemployment (stagnation) while prices of commodities rise (inflation). It is a combination of stagnation and inflation.

**Hyperinflation** is an extreme case of monetary devaluation that is so rapid and out of control that the normal concepts of value and prices are meaningless. Hyperinflation is often described as inflation exceeding 50% per month, though no strict numerical definition exists. This catastrophic economic situation has occurred many times throughout history, with some of the worst examples far exceeding the conventional threshold of 50% per month.

**Recession** is a downturn in the economy often used to describe a fall in real GDP lasting six months or more.
A true economic recession can only be confirmed if real GDP (Gross Domestic Product) growth is negative for a period of two or more consecutive quarters.

**Key Differences between Demand-Pull Inflation and Cost-Push Inflation**

| Factors | Demand-Pull Inflation | Cost-Push Inflation |
|---|---|---|
| Definition | Demand Pull Inflation arises when the aggregate demand goes up rapidly than the aggregate supply in an economy. | Cost Push inflation means the increase in the general price level caused by the rise in prices of the factors of production due to the shortage of inputs (labour, raw material, capital). |
| How it occurs | It is a type of inflation which occurs when aggregate demand for products and services outruns aggregate supply due to monetary factors and/or real factors. | It results in the decrease in the supply of outputs which mainly use these inputs. So, the rise in prices of the goods emerges from the supply side. |
| Meaning | When the aggregate demand increases at a faster rate than aggregate supply, it is known as demand-pull inflation. | When there is an increase in the price of inputs, resulting in decrease in the supply of outputs, it is known as cost-push inflation. |
| Represents | How price inflation begins? | Why inflation is so difficult to stop after once started? |
| Caused by | Monetary and real factors. | Monopolistic groups of the society. |
| How to control | Monetary and fiscal measures. | Administrative control on price rise and income policy. |

## An example of hyperinflation in real world

Perhaps the best-known example of hyperinflation is that of Weimar Germany. In the period following the World War I, Germany suffered severe economic and political shocks, resulting in large part from the terms of the Treaty of Versailles that ended the war. The treaty required payment of reparations by the Germans through the Bank for International Settlements for the damage caused by the war to the victorious countries. The terms of these reparation payments made it practically impossible for Germany to meet the obligations, and indeed, the country failed to make the payments. Prohibited from making payments in their own currency, the Germans had no choice but to trade it for an acceptable "hard currency" at unfavourable rates. As they printed more currency to make up the difference, the rates worsened, and hyperinflation quickly took hold. At its height, hyperinflation in Weimar Germany reached rates of more than 30,000% per month, causing prices to double every few days. Some historic photos depict Germans burning cash to keep warm because it was less expensive than using the cash to buy wood.

## Which organisation measure inflation In Bangladesh?

Bangladesh Bureau of Statistics (BBS) measures the rate of inflation in view of the Consumer Price Index (CPI) and the base year is 2005-2006.

## The methods frequently used to measure inflation in Bangladesh

There are three indicators of measuring inflation. Such as — (a) Consumer Price Index (CPI) (b) Producer Price Index (PPI) and (c) GDP deflator. In Bangladesh, we use the indicator CPI to measure inflation.

**Consumer Price Index (CPI)**: A measure of price changes in consumer goods and services such as gasoline, food, clothing and automobiles. The CPI measures price change from the perspective of the purchaser.

**Producer Price Indexes (PPI)**: A family of indexes that measure the average change over time in selling prices by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

## Inflation can also be measured in other two ways:

**Point to Point Inflation**: The percentage change in the CPI during the last 12 months.
The general point-to-point inflation rate of Bangladesh was recorded to be 5.54 percentage point in June, 2018.

**Average Inflation (12 month moving average)**: The percentage difference between the average Price Index of last 12 months and the average Price Index of previous 12 months. In the 2017-2018 financial year, the average general inflation of Bangladesh was 5.78%. [As per the Bangladesh Bureau of Statistics—BBS]

## Difference between inflation and bank interest rate

Inflation and interest rates are linked, and frequently referenced in macroeconomics. **Inflation** refers to the rate at which prices for goods and services rises. In general, as **interest rates** are lowered, more people are able to borrow more money. The result is that consumers have more money to spend, causing the economy to grow and **inflation** to increase. The opposite holds true for rising interest rates. As interest rates are increased, consumers tend to have less money to spend. With less spending, the economy slows and inflation decreases.

## The lower the interest rate, the more money demanded & vice versa

It depends on the geopolitical situation of a country as well as the global economic conditions. Currently the interest rates of borrowings are much lower than anytime before in near pasts. As the investment position of our country is in a stagnant state, the notion of trade-offs between interest rate and demand of money is now void.

## Is economic growth more important than inflation?

Nobel prize-winning economist Joseph Stieglitz and Bank of England Governor Mark Carney said that in a trade-off between growth and moderate inflation, they would plump for growth. The need to push growth should take precedence over combating inflation. They think the threat of recession and unemployment is more serious than a moderate rise in inflation. Now the UK economy is experiencing inflation of 5% (above the target of 2%) but economic growth has slowed down and it faces the prospect of a recession. In this situation, the UK government has cut interest rates.

## How does Bangladesh Bank control inflation?

- Controlling currency issue
- Through increasing bank rate
- Controlling loans
- Reducing government costs
- Increasing taxes
- Increasing CRR and SLR requirements
- Open market operations (sales of government savings certificates and bonds to decrease the purchase power of the people)

## Is inflation good or bad for Bangladesh

It is usual that inflation will prevail in a developing country like Bangladesh. Inflation is obviously good only when it remains up to certain level. It should not either zero level or higher level.

**Measures to control inflation (Role of fiscal policy in checking inflation)**

- Reducing government expenses in unproductive sectors
- Increasing the volume of income taxes imposed on the general public
- Increasing the bank rate
- Increasing the CRR and SLR rates
- Open market operations (sales of government treasury bonds)
- Setting up fair price sales centres
- Controlling the highest level wages of the workers
- Increasing the production level
- Increasing the imports of necessary commodity items from abroad to meet the shortfall in the supply of commodities in the local market
- Increasing the duration of repayment of the loans taken from the banks by the government

**Devaluation** is a reduction in the value of currency with respect to other monetary units. It specifically implies an official lowering of the value of a country's currency within fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency.

**Depreciation** is the gradual conversion of the cost of a tangible capital asset or fixed asset into an operational expense over the asset's estimated useful life. Depreciation is permanent and continuing diminution in the quality, quantity or value of an asset. It is the measure of wearing out of a fixed asset. All fixed assets are expected to be less efficient as time goes on.

**Difference between depreciation and devaluation**
Depreciation means a fall in the price of a currency in terms of other currencies. This is determined by the demand for and supply of currencies. But in the case of devaluation, the government declares a lower value for domestic currency against other currencies. Both depreciation and devaluation help improve the balance of trade of a country.

**National Income** is the total value a country's final output of all new goods and services produced in one year.

**Economic Integration** is the process of uniting the economics of a group of countries. It can be achieved through abolition of trade barriers and single set of monetary, fiscal and other government economic policies.

**Trade Union** is an organisation of employees formed for the purpose of collective bargaining with employers over wages, hours, condition of service, job security and managing levels. Trade Union works for achieving common goals like better working conditions.

**Custom Union** is a trade agreement by which a group of companies and countries charges a common set of tariffs and allows free trade among them. Custom Union is a group of countries with free trade between members and a common external tariff on trade with non-members. Its main purpose is to acquire economic integration.

**EPZ** stands for Export Processing Zone. It is a specialised zone for establishing export-based industry.

**Trademark** is a special symbolic sign of a business person or that of products of any company. It is a distinctive symbol that identifies particular products of a trader to the general public. It is a recognisable insignia, phrase or other symbol that denotes a specific product or service and legally differentiates it from all other products.
A trademark serves to exclusively identify a product or service with a specific company. It is a recognition of that company's ownership of the brand. Trademarked products are generally considered a form of property.

**Common Market**: When two or more countries form a customs union and free movement of all factors of production among them then it is called common market. European community has been working as a common market since 1992. Common markets impose common external tariff on imports from non-member countries.

**Open Market** is a situation in which companies can trade without restriction and price depends on the amount of goods and the number of people buying them. It is a competitive marketplace where buyers and sellers can operate without restrictions. An open market is characterised by the absence of tariffs, taxes, licensing requirements, subsidies, unionisation and any other regulations or practices that interfere with the natural functioning of the free market. Anyone can participate in an open market. There may be competitive barriers to entry, but there are no regulatory barriers to entry.

**Open Market Operation** is the buying and selling of government securities by the central bank in order to control the money supply. The central bank buys securities on the open market to increase money supply and sells securities on the open market to reduce the money supply.

**Sources of government earnings**

- Government revenue collection
- Domestic borrowing
- Foreign borrowing
- Foreign Aid

**Fiscal Deficiency/Deficit** occurs when a government's total expenditures exceed the revenue that it generates (excluding money from borrowings). Deficit differs from debt — which is an accumulation of yearly deficits.
Economist John Maynard Keynes believed that deficits help countries climb out of economic recession. Moreover, fiscal conservatives feel that governments should avoid deficits in favour of a balanced budget policy.

**Tell something about Bangladesh in English**

Bangladesh (officially the People's Republic of Bangladesh) is a South Asian country that shares land borders with India and Myanmar. Dhaka is its capital and largest city. The total population of Bangladesh was estimated at 166.4 million (16.64 crore) people in 2018 — according to the latest census figures. Bangladesh is the world's eighth most populous country and it has the highest population density in the world.
The total surface area of Bangladesh is at 1,47,570 square kilometers. Most of Bangladesh is covered by the Bengal Delta (the largest delta on the earth). The country has 700 rivers. The longest unbroken sea beach of the world (Cox's Bazar Beach) is located in the southeast. It is home to the Sundarbans — the largest mangrove forest in the world. Bangladesh is a developing nation. It is one of the largest textile exporters in the world. Bangladesh is one of the largest contributors to United Nations peacekeeping forces. Bangladesh is a founding member of SAARC and BIMSTEC.

**Describe the present economic condition of Bangladesh**

Being a developing country, Bangladesh is doing very good in all the financial sectors for the last few years. The per capita income of the people has stood at US$1,751 at the end of the 2017-2018 fiscal year while the GDP growth rate stood at 7.86%. Bangladesh is maintaining over 6.50 percent GDP growth over the last seven years because of various pragmatic steps taken by the present government while the average economic growth rate of the developing countries is around 5%.
The average inflation of Bangladesh in the 2017-2018 financial year was 5.78% (as per the Bangladesh Bureau of Statistics — BBS) which is satisfactory and under the control of the government.
Non-resident Bangladeshis working abroad sent remittances worth US$14.98 billion during the 2017-2018 fiscal year — the highest ever in a single year. Bangladesh earned USD $36.66 billion (USD $3,666.81 crore) in the 2017-2018 fiscal year by exporting woven, knitwear readymade garments items, frozen foods, agriculture products and pharmaceutical products.
The foreign exchange reserves of Bangladesh crossed the US$33 billion-mark for the first time on 22 June, 2017 (it was US$32.9165 billion as on 30th June, 2018) riding on higher export earnings and good upward trend of remittances and the rise to the decline in oil and food prices in the international market.
According to the approximation of the government and the economic experts, the 6.15-km long Padma Multipurpose Bridge will lead to the economic development of the country and it will also help increase the overall GDP growth of Bangladesh by 1.2% after the bridge becomes operational (after its inauguration).
If political stability can be ensured in the country and discipline can be brought in the banking and financial sector, then Bangladesh will be a middle income country by 2021 which is proposed and envisioned by the current government.

## Preconditions for economic development in the context of Bangladesh
## Essential conditions for the economic development of Bangladesh

- Infrastructure investment (sufficient energy, road and railway infrastructure helps a country develop industry and attract foreign direct investment (FDI)
- Investment in education and health to develop human capital
- Macroeconomic stability (maintaining inflation in tolerable level)
- Good governance (better transparency & accountability among the government & state-owned enterprises)
- Social inclusiveness (elimination of income inequality, reducing rural-urban inequality, reducing disparities between rich and poor and redistribution income by tax reforms)
- Vision for the future for the sake of national development
- Political stability and good multilateral relations with the neighbouring countries
- Open trade and investment regimes
- An active private and flourishing sector as it is the key economic growth engine

## Mention some key challenges for the economy of Bangladesh:

The main challenges for the economy of Bangladesh are —

- Slow growth pace in private investment
- Downfall in manpower exports in foreign countries
- Slow growth pace in exports
- Negative influence in remittance inflow
- Capital shortfalls in the banking sector and structural and institutional inefficiency of the government

## Main obstacles behind the low investments in Bangladesh

There are several reasons behind the low and slow pace of investment in Bangladesh:—

- Political instability
- Lack of infrastructural development
- Lack of capital
- Lack of natural and mineral resources
- Collapse of the state-owned commercial banks and the new private commercial banks

| Main features of the economy of Bangladesh<br>Main problems to the economic development of Bangladesh | |
|---|---|
| Inequality in the distribution of income and wealth | Underutilisation of natural resources |
| Underdeveloped agricultural sector | Unavailability of sufficient natural resources |
| Primitive method of cultivation | Underdeveloped socioeconomic infrastructure |
| Excessive population & rapid rate of population growth | Weak economic infrastructure |
| Increasing trend of unemployment | Presence of colonial administration and exploitation |
| Deficit in international trade | Low per capita income |
| Excessive dependence on the agriculture sector | Political instability |
| Underdeveloped industrial sector | Increasing trend in the prices of commodities |
| Backwardness in industry | Vicious cycle of poverty |
| Corruption | Natural calamities |
| Low food production | Lack of technical and technological knowledge |
| Lack of capital money | Lack of skilled manpower and efficient entrepreneurs |

| Some indicators of measuring economic development of a country | | |
|---|---|---|
| GDP (Gross Domestic Product) | Consumer Confidence Index (CCI) | Per capita income |
| Gross National Product (GNP) | Inflation | Human Development Index (HDI) |
| Money Supply | Employment Rate | Quality of life |
| Consumer Price Index (CPI) | Life expectancy | Poverty rate |
| Producer Price Index (PPI) | Literacy rate | Real national income |

**Finance Bill** is a bill proposed in the Parliament that contains provisions relating to revenue and expenses. The proposals of the government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by the Parliament are submitted to the Parliament through this bill. The Finance Bill is accompanied by a Memorandum containing explanations of the provisions included in it. The recommendation of President is mandatory in the case of finance bill.

**Budget**: A budget is an estimation of revenue and expenses over a specified future period of time. It is compiled and re-evaluated on a periodic basis. It may include planned sales volumes and revenues, resource quantities, costs and expenses, asset liabilities and cash flows. It expresses strategic plans of business units, organisation, activities or events in measurable term. Budgets can be made for a person, a family, a business organisation or a government that makes and spends money. Among companies and organisations, a budget is an internal tool used by management.

**Development Budget** is the budget where the expected income and expected expenditure are presented for the development projects and works of the government.

**Budget Deficit** is the financial situation wherein the expenditures exceed the revenues. The government generally uses this term in reference to its spending rather than business or individuals.

**Why does Bangladesh always have a deficit budget?**

Having a deficit budget means the government is spending more than its earnings and revenue collection.
Not only Bangladesh but most of the developing countries have a budget deficit.
A budget deficit is ok if the government spends for the future sustainable development (education or infrastructure). Having a budget deficit also helps ensure a persistent growth of the GDP. If the government were to cut its spending, it could have a negative effect on its GDP.

**Why developing countries like Bangladesh are always in budget deficit?**

The difference between total revenue collection and total expenditure of the government is termed as fiscal deficit or budget deficit. The cause of the budget deficit is mainly due to the increase in government expenditure.
For many countries, a rising budget deficit is the inevitable result of experiencing a recession or a sustained period of slow growth.
For the developing countries like Bangladesh, budget deficit seems an almost permanent feature.
The government is rarely able to find enough tax revenue collection to cover the annual spending budgets.
A large (and rising) fiscal deficit also give deliberate effect of a government choosing to use expansionary fiscal policy to boost aggregate demand, output and employment at a time when private sector demand (C+I+X = Consumption + Investment + Export) is sluggish or falling.
Not only developing countries like Bangladesh faces budget deficit, even developed countries like the USA and UK are also facing such problem. The CIA World Factbook—2017 shows the deficit and surplus budget of every nation. It is quite surprising to see countries like USA and China are in the top position with deficit budget.
The common reasons behind budget deficit are:-

- Insufficient tax revenue and tax evasion
- Trade deficit
- Cyclic deficit coined by Keynesian economics (previous year deficit would make the country to increase the expenditure to boost the economy, if the policy not succeeded as calculated again it rises the deficit)
- Imbalance Economy (Bangladesh is the best example for this reason)
- Difference between rich and poor, here Rich are liable to pay high tax , but the open tax incentive schemes available like legal tax avoidance are getting utilised by such people
- Emergency situations like natural calamities as above the estimation
- Tax evasion with political support
- Swiz savings probably

Hence, it is clear to know deficit is a common thing to experience in any country. But the deficit is not much to consider if the growth and the aggregate revenue is encouraging (remains on rise).

## Evaluation of the effects of a budget deficit

### 1. Deficit budget depends on the situation of the economy

If the government increases borrowing in a recession, then there is unlikely to be crowding out (when government spending fails to increase overall aggregate demand because higher government spending causes an equivalent fall in private sector spending and investment). In a recession, we get a fall in private sector spending and investment, and a rise in private sector savings. In a recession, there is more surplus savings and therefore higher demand for the 'relatively safe' government bonds. If the government increase borrowing during a period of rapid economic growth, it is more likely to cause crowding out and rising bond yields.

### 2. Deficit budget depends on why the government borrows

If the government borrows to finance infrastructure investment, it can help boost the supply side of the economy and enable higher economic growth. If growth improves, then there will be higher tax revenues to pay back the debt. However, if the government is borrowing to pay pensions or welfare benefits, then there is no supply-side improvement and it will be harder to pay back the debt.

### 3. Economic growth can influence future tax revenues

If the government borrows in a recession as part of expansionary fiscal policy then it can help accelerate an economic recovery and reduce unemployment. This will lead to improved public finances in the medium term and the budget deficit will prove more temporary. However, if the government borrow during a period of high growth, the crowding out will mean growth and cyclical tax revenues will be unchanged.

**Budget Surplus**: A budget surplus occurs when tax revenue is greater than government spending. With a budget surplus, the government can use the surplus revenue to pay off public sector debt. Budget surpluses are quite rare in modern economies because of the temptation for politicians to spend more money and cut taxes.

## When is it appropriate to have a budget surplus?

A budget surplus is appropriate when the economy is in the growth phase of the economic cycle. In a recession, demand is depressed and it is expected to have a budget deficit. Trying to attain a budget surplus in a recession will involve higher taxes and lower spending – but these policies could make the recession worse. So, it is better to wait until the economy recovers and automatic fiscal stabilisers improve (higher growth automatically leads to higher income tax revenues).

## Example of countries with budget surplus

Regions with very high per capita GDP such as Qatar, Kuwait, United Arab Emirates (UAE), Saudi Arabia, Libya, Singapore, Macau, Tuvalu, Norway, Ireland and Russia mostly have budget surpluses every year. China achieved a record growth of 12% in 2007 — the only year it had a small surplus and another record growth of 6.7% in 2016 when it had a record deficit.

**Economic Stability** refers to an absence of excessive fluctuations in the macroeconomy. An economy with fairly constant output growth and low and stable inflation would be considered economically stable.
Economic Stability is term used to describe the financial system of a nation that displays only minor fluctuations in output growth and exhibits a consistently low inflation rate. Economic stability is usually seen as a desirable state for a developed country that is often encouraged by the policies and actions of its central bank.

**Sustainable Development**: As per the World Commission on Environment and Development, presented in 1987, Sustainable Development is the "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." It indicates the idea that social, environmental and economic progresses are all attainable within the limits of our earth's natural resources. Sustainable development approaches everything in the world as being connected through space, time and quality of life.
Sustainable development is a roadmap and action plan for achieving sustainability in any activity that uses resources and where immediate and intergenerational replication is demanded.

## 3 Pillars of Sustainable Development

The three pillars of sustainability are a powerful tool for defining the complete sustainability problem. This consists of at least the economic, social and environmental pillars.
If anyone pillar is weak then the system as a whole is unsustainable.

## Difference between growth and development

Generally growth means increases in the GNP while development means growth plus structural change in the economy.

**The top 10 fastest growing economies in the world in 2018 (Countries with above 7% GDP growth rate)**
Six of ten economies forecast to grow the most in 2018 by the World Bank are from Africa.

| Ranking | Name of the countries | Real GDP growth at market prices |
|---|---|---|
| 01. | Ghana | 8.3% |
| 02. | Ethiopia | 8.2% |
| 03. | India | 7.3% |
| 04. | Ivory Coast | 7.2% |
| 05. | Djibouti | 7% |
| 06. | Cambodia | 6.9% |
| 07. | Bhutan | 6.9% |
| 08. | Senegal | 6.9% |
| 09. | Tanzania | 6.8% |
| 10. | Philippines | 6.7% |

**Economic Growth** is the growth of the Gross National Product (GNP) of a country in a certain period of time. Economic Growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms (which include inflation) or in real terms (which are adjusted for inflation). For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries. Traditionally, aggregate economic growth is measured in terms of GNP or gross domestic product (GDP).
In simplest terms, economic growth refers to an increase in aggregate productivity.

**Sustainable Economic Growth** (in operational terms) is the upward trend in environmentally adjusted net domestic product (EDP) under certain conditions and assumptions.

**"Big-Push Theory" of economic development**: The concept in development economics (given by Professor Paul N. Rosenstein-Rodan) that assumes economies of scale and oligopolistic market structure and explains when industrialisation would happen. This theory is needed in the form of a high minimum amount of investment to overcome to obstacles to development in an underdeveloped economy and to launch it in the path of progress.

**Lorenz Curve** (in economics) is a graphical representation of the cumulative distribution function of the empirical probability distribution of wealth. It was developed by Max O. Lorenz in 1905 for representing inequality of the wealth distribution.

**How to calculate the growth rate of nominal GDP or economic progress**
The gross domestic product (GDP) has become the foremost measure of economic activity for most countries.
It is the measure of a nation's goods and services that it produces over a period of time. The goods and services that are measured are those that the country actually produces within its borders. The GDP is expressed in terms of its own local economy.
GDP = CS + CI + GS + NX
[Consumer spending + Capital investments, inventories, equipment, construction + Govt. Expending + Net Exports]
Nominal GDP growth rate: {(P2Q2- P1Q1)/P1Q1}*100 Real GDP growth rate: {(P1Q2 - P1Q1)/P1Q1}*100
[P1= price of year 1, P2=price of year 2, Q1= output of year one, Q2=output of year 2]

**Gross National Product (GNP)** is an estimated value of the total worth of production and services by the citizens of a country on its own land or on foreign land calculated on the basis of a year.
GNP= GDP+NR (Net income flow from assets abroad or net income receipts) – NP (net payment outflow to foreign assets).

**Gross National Income (GNI)** is the sum of a nation's gross domestic product (GDP) plus net income received from overseas. GNI is defined as the sum of value added by all producers who are residents in a nation, plus any product taxes (minus subsidies) not included in output— plus income received from abroad such as employee compensation and property income.
GNI measures income received by a country both domestically and from overseas. In this respect, GNI is quite similar to Gross National Product (GNP) which measures output from the citizens & companies of a particular nation regardless of whether they are located within its boundaries or overseas.

**GDP (Gross Domestic Product)** is the financial value of the products and services which are produced within a country's geographical area in a certain period of time usually in a year. So, GDP is an estimated value of the total worth of a country's production and services, within its boundary, by its nationals and foreigners, calculated on the basis of a year.

**Real GDP** is the value of the final goods and services produced this year but valued at the prices that prevailed in some specific year in the past.
Real GDP = consumption + investment + (government spending) + (exports – imports)

**Nominal GDP** is the value of the final goods and services produced this year but valued these goods and services at the current prices.

| Major differences between GDP and GNP | | |
|---|---|---|
| **Factors** | **GDP** | **GNP** |
| Meaning | The worth of goods and services produced within the geographical limits of the country is known as Gross Domestic Product (GDP). | The worth of goods and services produced by the country's citizens irrespective of the geographical location is known as Gross National Product (GNP). |
| What is it? | Production of products within the country's boundary. | Production of products by the companies and industries owned by the residents of the country. |
| Basis | Location | Citizenship |
| Formula for Calculation | GDP = Consumption + Investment + (Government Spending) + (Exports−Imports). | GNP = GDP + NR (Net income inflow from assets abroad or Net Income Receipts) – NP (Net payment outflow to foreign assets). [The income earned by the residents abroad less non-residents within the country] |
| Productivity Measurement | On a local scale | On international scale |
| Focus on | Domestic production | Production by nationals (individuals or corporations of the country) |
| Outlines | The strength of the country's domestic economy. | How the residents are contributing towards the country's economy. |

**Relation between GDP growth and note circulation (the printing of currency notes)?**
It is difficult to measure the money supply, but most economists use the M1 and M2. GDP is another government statistic that is tricky to measure perfectly, but nominal GDP tends to rise with the money supply. Real GDP (adjusted for inflation) does not track as cleanly and depends much more on the productivity of economic agents and businesses.

**The impact of GDP on the economy**: The gross domestic product (GDP) is one of the major indicators used to determine the financial health of the economy of a country. It represents the total Dollar value of all goods and services produced over a specific period of time. We can think it as the size of the economy

**How the money supply affects GDP?**
According to standard macroeconomic theory, an increase in the supply of money should lower the interest rates in the economy — leading to more consumption and lending/borrowing. In the short run, this should, but does not always, correlate to an increase in total output and spending and, most probably, GDP. The long-run effects of an increase in the money supply are much more difficult to predict. There is a strong historical tendency for asset prices (such as housing and stocks) to artificially rise after too much liquidity enters the economy.
This misallocation of capital leads to waste and speculative investments — often resulting in recession.
On the other hand, it is possible money is not misallocated, and the only long-term effect is higher prices than consumers normally would have faced.

**How GDP affects the money supply?**
GDP is an imperfect representation of economic productivity and health. Rising economic productivity increases the value of money in circulation since each unit of currency can subsequently be traded for more valuable goods and services. Thus, economic growth has a natural deflationary effect even if the supply of money does not actually get smaller. This phenomenon can still be seen in the technology sector where innovations and productive advancements are growing faster than inflation — consumers enjoy falling prices of TVs, cellphones and computers as a result.

## Can GDP become higher than GNP?

A country's Gross Domestic Product (GDP) measures the value of final goods and services produced within a country's geographical boundaries while Gross National Product (GNP) measures the value of final goods and services produced by a country's residents regardless of where in the world that production takes place.

So, a country's GNP differs from its GDP by the net balance on factor incomes (adding the income received by domestic residents for their contribution to production that takes place in other countries, while subtracting the income paid to foreign residents for their contribution to production that takes place within home country).

The factor incomes included in this calculation comprise compensation of employees (sometimes estimated from worker remittances sent back to the home country), corporate profits (dividends, earnings of unincorporated affiliates and reinvested earnings of incorporated affiliates) and net interest.

Consequently, any country whose residents pay more factor income to foreigners than they receive from foreigners will have a GDP that exceeds its GNP. This might be the case for a country that has borrowed a lot of money from the rest of the world, or has absorbed a lot of foreign direct investment (FDI), or has large numbers of foreign workers, or a combination of all three.

GDP=C + I + G + NX [where C=Consumption; I=Investment; G=Government spending; NX= Net of export-import]

GNP= GDP + Net inflow of money from abroad—Net outflow of money to foreign countries

GNP was once the standard measure of national economies. But, GDP is simpler to understand and is more clearly relevant to what happens within the geographical boundaries of a country. So, GDP has eclipsed GNP as the standard.

For example: The GDP of China is $300 billion greater than its GNP because of the large number of foreign companies operating within its geographical boundaries. It happens when the government focuses on domestic market rather than international market. So, the attention of the investors would be more on developing local economy than investing in another economy which will lead to higher GDP than GNP.

The successful entrepreneurs in domestic market would prefer to move to global market which will allow most financial capital move outward of home country. Starting from buying properties to launching new businesses in foreign nation would cause disturbance to GDP growth and assist GNP incline. In this case, GDP will surge once most investors and entrepreneurs would prioritise domestic market than foreign market.

- If a Bangladeshi firm invests in Nepal, then it will still lead to higher GNP as some national workers will see higher wages. However, the increase in GNP will not be as high as GDP.
- If a county has similar inflows and outflows of income from assets, then its GNP and GDP will be very similar.
- However, if a country has many multinationals who repatriate income from local production, then its GNP will be lower than GDP.
- Luxembourg has a GDP of US$87,400 while a GNP of only US$45,360.
- A country like Ireland has received significant FDI. Therefore for Ireland, there is a net outflow of income from the profits of these multinationals. So, Irish GNP is lower than its GDP.

**Market Segmentation** is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs and priorities and then designing and implementing strategies to target them. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another. Market segmentation strategies may be used to identify the target customers and provide supporting data for positioning to achieve a marketing plan objective. Businesses may develop product differentiation strategies or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment.

**Market Risk** is the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets. The risk that a major natural disaster will cause a decline in the market as a whole is an example of market risk. Other sources of market risk include recessions, political turmoil, changes in interest rates and terrorist attacks.

**Blue Economy Initiative** is recently gaining popularity in various countries of the world. It is an integrated development strategy for fisheries, aquaculture, marine tourism and ecosystem preserving local system of production and consumption. Sustainable development of blue economy is possible through utilisation of the existing natural and mineral resources in the Bay of Bengal and its adjoining oceans. The marine-based economic activities and management of sea and its resources through blue economy may be considered as a new horizon for development of the coastal countries (like Bangladesh) and the small island developing states.

**Market Economy** is one which markets play a dominant role coordinating output and price decisions.
This is a free economy where prices are regulated by buyers and sellers, other market forces and capitalism.
The prices formed in markets convey information and provide motivation for decision-takers.

**Laissez-faire Economy** is an economy of complete non-intervention by the governments in the economy leaving all decisions to the market. The theory (given by Scottish economist Adam Smith) is that the less the government is involved in free market capitalism, the better of business will be and then by extension society as a whole.

**Barter Economy** is an economy where people exchange goods and services directly with another without any payment of money.

**Mixed Economy** is an economic system of a country in which some companies are owned by the state and some are private that means both public and private sectors have an important role to play national-building.

**LDC (Least Developed Country)** are the countries whose 80% population depends on agriculture, more than half of population are unemployed, most of the people are the victim of malnutrition & the illiteracy rate is high.

**Consortium** is a group of companies or banks combining to run a project.

**Capital Gain** is the amount by which the proceeds from the sale of a capital asset exceed its original purchase price. It is an increase in the value of the capital assets (investment or real estate) that gives it a higher worth than the purchase price.

**Tariff** is a tax imposed on imported goods and services. Tariffs are used to restrict trade as they increase the price of imported goods and services making them more expensive to consumers. They are one of several tools available to shape trade policy. Tariffs provide additional revenue for governments and domestic producers at the expense of consumers and foreign producers. They are one of several tools available to shape trade policy. Taxes are collected internally while tariffs are collected on imports.

**Tax** is a sum of money demanded by a government for its support or for specific facilities or services, levied upon incomes, property and sales. Taxes are generally an involuntary fee levied on individuals or corporations that is enforced by a government entity, whether local, regional or national in order to finance government activities.

**Direct Tax** is a tax that is paid directly by an individual or organisation to the imposing entity. A taxpayer pays a direct tax to a government for different purposes (including real property tax, personal property tax, income tax or taxes on assets). Direct taxes are different from indirect taxes, where the tax is levied on one entity (such as a seller) and paid by another (such a sales tax paid by the buyer in a retail setting).

**Indirect Tax** is a tax that increases the price of a good so that consumers are actually paying the tax by paying more for the products. An indirect tax is most often thought of as a tax that is shifted from one taxpayer to another, by way of an increase in the price of the good. Fuel, liquor and cigarette taxes are all considered examples of indirect taxes, as many argue that the tax is actually paid by the end consumer, by way of a higher retail price.

**What type of taxes do you give?**
I give indirect taxes to the government. When I buy commodities (clothes, sweetmeats, cigarette), I give this taxes as the value added tax (VAT) or excise duty are indirectly added or merged with the prices of these commodities.

**Which organisation/institution collects this tax (indirect tax) on behalf of the government?**
The National Board of Revenue (NBR) collects indirect tax on behalf of the government.

**Collection of Indirect Tax in Bangladesh**
Indirect taxes are collected by intermediaries from the person who bears the ultimate economic burden of the tax. The intermediary later files a tax return and forwards the tax proceeds to the government with the return. The major indirect taxes in Bangladesh include: value added tax (VAT), excise duty, trade tax and turnover tax. Nevertheless, the tax structure of Bangladesh is perceived to be regressive as it is heavily dependent on indirect taxes (about 64% in 2017).
In Bangladesh, direct taxes consist of taxes from income tax and other taxes. The sources of income tax can be classified in 7 categories namely —
1. Salaries
2. Interest on securities
3. Income from house property
4. Income from agriculture
5. Income from business or profession
6. Capital gains
7. Income from other sources.

**Tax Holiday** is a government incentive programme that offers a temporary tax reduction or elimination to businesses. Tax holidays are often used to reduce sales taxes by local governments, but they are also commonly used by governments in developing countries to help stimulate foreign investment. In developing countries like Bangladesh, governments sometimes reduce or eliminate corporate taxes for the purpose of attracting foreign direct investment or stimulating growth in selected industries. Governments usually create tax holidays as incentives for business investment. Tax holidays have been granted by governments at national and local levels and have included income, property, sales, VAT and other taxes. Some tax holidays are extra-statutory concessions where governing bodies grant a reduction in tax that is not necessarily authorised within the law.

**Deferred Tax Asset** is an asset on a company's balance sheet that may be used to reduce any subsequent period's income tax expense. Deferred tax assets can arise due to net loss carryovers — which are only recorded as assets if it is deemed more likely than not that the asset will be used in future fiscal periods.

**Capitalism** is an economic system in which private-owned companies and businesses undertake most economic activities (with the goal of generating private profit) and most of work is performed by employed workers and income is distributed through the operations of markets. Capitalism is generally characterised by competition between producers. Capitalism rose to prominence with the end of feudal economies and has become the dominant economic system in the developed countries.

**Consumer Surplus** is an economic measure of consumer satisfaction which is calculated by analysing the difference between what consumers are willing to pay for a good or service relative to its market price.
A consumer surplus occurs when the consumer is willing to pay more for a given product than the current market price.

**Sunk Cost** is a cost that has already been incurred and thus cannot be recovered. A sunk cost differs from other future costs that a business may face (such as inventory costs) because it has already happened.
Sunk costs are independent of any event that may occur in the future.

**Opportunity Cost** (also known as alternative cost) is the cost of a missed opportunity. It is the opposite of the benefit that would have been gained had an action, not taken, been taken—the missed opportunity.
Opportunity cost is the value (not a benefit) of the choice of a best alternative cost while making a decision. Opportunity costs are fundamental costs in economics & are used in computing cost benefit analysis of a project.

**Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services (transportation and food). The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. The goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

**Human Development Index (HDI)** is a tool developed by the United Nations to measure and rank levels of social and economic development of different countries based on some criteria. The HDI makes it possible to track changes in development levels over time and to compare development levels in different countries. A country scores higher HDI when the lifespan is higher, the education level is higher and the GDP per capita is higher. The HDI was developed by Indian economist Amartya Sen and Pakistani economist Mahbub ul Haq which was further used to measure the country's development by the United Nations Development Programme (UNDP).

**Which institution prepares the human development index (HDI) report for the entire world?**
United Nations Development Programme (UNDP) prepares Human Development Index (HDI).

**HDI index measuring indicators**
The HDI is a summary measure for assessing long-term progress in three basic dimensions of human development:— a long and healthy life, access to knowledge and a decent standard of living.

- Life expectancy (lifespan)
- Literacy rate (education level)
- Per capita income or GDP per capita

**Bangladesh ranked 136th in HDI Report—2017**
Bangladesh has moved three notches up to the 136th place among 189 countries in the Global Human Development Index (HDI)—2017 because of the remarkable progress it has made in many socio-economic areas (including life expectancy and per capita income), according to the Human Development Report (HDR) of the United Nations Development Programme (UNDP) released on 14th September, 2018.

**Which country scored the highest in HDI Report—2017?**
Norway retained its Number 1 ranking followed by Switzerland, Australia, Ireland and Germany in the HDI ranking of 189 countries in 2017. On the other hand, Niger, the Central African Republic, South Sudan, Chad and Burundi have the lowest scores in the HDI's measurement of national achievements in health, education and income.

**Purchasing Power** is the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Purchasing power is important because all else being equal, inflation decreases the amount of goods or services we would be able to purchase.

**Purchasing Power Parity (PPP)** is an economic theory and a technique that estimates the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate.

**Public-Private Partnership (PPP)** is a mechanism for the government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector. Where governments are facing lack of infrastructure and require more efficient services, a partnership with the private sector can help foster new solutions and bring finance. PPP combines the skills and resources of both the public and private sectors through sharing of risks and responsibilities. This enables governments to benefit from the expertise of the private sector, and allows them to focus instead on policy, planning and regulation by delegating day-to-day operations. PPPs have contract periods of 25 to 30 years or longer. Financing comes partly from the private sector but requires payments from the public sector and/or users over the project's lifetime.

**FDI (Foreign Direct Investment)** occurs with the purchase of the "physical assets or a significant amount of ownership (stock) of a company in another country in order to gain a measure of management control. FDI is an investment from one country into another that involves establishing operations or acquiring tangible assets (including stakes in other business). Example: An Indian company having a stake in a Bangladeshi company.

**FII (Foreign Institutional Investment)** is an investment made by an investor in the markets of a foreign nation. FII can enter the stock market easily and also withdraw from it easily. But FDI cannot enter and exit that easily as FDI only targets a specific sector.

**Some incentives that Bangladesh offer to the foreign investors**

- Tax Holiday for 5 to 10 years
- Duty-free machinery import facility
- One Stop Services for the foreign investors

**Soft Loan** is a loan with an artificially low rate of interest and such loans are sometimes given to the developing nations by the industrialised nations and multinational development banks (such as the Asian Development Bank), affiliates of the World Bank and government agencies. Soft loans are loans that have interest holidays and lenient terms (such as extended grace periods in which only interest or service charges are due).

**Cartel** is an organisation created from a formal agreement between a group of producers of a good or service to regulate supply in an effort to regulate or manipulate prices. A cartel is a collection of businesses or countries that act together as a single producer and agree to influence prices for certain goods and services by controlling production and marketing. An example of cartel is the OPEC (Organisation of Petroleum Exporting Countries).

**Gresham's Law** is a monetary principle stating that "bad money drives out good." In currency valuation, Gresham's Law states that if a new coin ("bad money") is assigned the same face value as an older coin containing a higher amount of precious metal ("good money"), then the new coin will be used in circulation while the old coin will be hoarded and will disappear from circulation.

**Cheap Money** is the maintenance of low interest rates during a period of depression to encourage investment. It is a loan or credit with a low interest rate or the setting of low interest rates by a central bank.
It is good for borrowers, but bad for investors who will see the same low interest rates on investments like savings accounts, money market funds and bonds.

**Plastic Money** is the generic term for all types of bank cards, credit cards, debit cards & smart cards.
Credit cards & debit cards are considered plastic money as like money they can enable us to get goods and services.

**Speed Money (Bribe)**: In Bangladesh, general people willingly or unwillingly give bribe to the government officials to have their works done (in securing approval or license from the government). The money given in the form of bribe is usually called 'speed money'. This informal dealing is now coined as 'facilitation fee' or 'speed money' not only in Bangladesh but in other countries as well. The menace of bribe or 'speed money' must be eradicated in the government offices.

**Commemorative Coins** are coins that are issued to commemorate some particular events or issues. Bangladesh Bank issued a number of commemorative coins marking important historical events which included Bangladesh's 20th Anniversary of Victory Day, the 1992 Summer Olympic Games, the Silver Jubilee of Independence, the 25th Anniversary of Bangladesh Bank, the Inauguration of Jamuna Bridge and the International Mother Language Day.

**Velocity of Money** is the rate at which money is exchanged from one transaction to another and how much a unit of currency is used in a given period of time. Velocity of money is usually measured as a ratio of GNP to a country's total supply of money. Velocity is important for measuring the rate at which money in circulation is used for purchasing goods and services. This helps investors gauge how robust the economy is and it is a key input in the determination of an economy's inflation calculation.

**Monetary (Money) Base** (also high-powered money) in a country is defined as the portion of the reserves of the commercial banks that are maintained in accounts with their central bank plus the total currency circulating in the public (which includes the currency that is physically held in the vaults of the banks).
The monetary base should not be confused with the money supply which consists of the total currency circulating in the public plus the non-bank deposits with commercial banks.

**Money Multiplier** is the mathematical relationship between the monetary base and money supply of an economy. It explains the increase in the amount of cash in circulation generated by the ability of the banks to lend money out of the funds of their depositors. When a bank makes a loan, it creates money because the loan becomes a new deposit from which the borrower can withdraw cash to spend.
This money-creating power is based on the fractional reserve system under which banks are required to keep at hand only a portion of the funds of their depositors. The rest may be converted into loans, thereby increasing the available cash by a factor that is a multiple of the initial deposit.

**Black Money** is the money earned but not shown in the accounts for the purpose of tax evasion. Black money is the money which is earned through illegal activities controlled by the rules and regulations of a country. Black money proceeds are usually received in cash from underground economic activities and are not taxed. Possible sources of black money include drug trafficking, weapons trading, terrorism, selling counterfeit or stolen goods and selling pirated versions of copyrighted items such as software and musical recordings. Black money can be earned through legal, illegal and extra-legal means. For example, most of the traders and businessmen never reveal their actual incomes while advocates charge much higher fee than shown in their account books.

## Sources of Black Money

1. **Under-invoiced inventories:** Sometimes the amount of inventory is under-invoiced so as to keep extra amount to sale in the black market. The amount of sale is never reported in the account book.
2. **Over-invoiced plant and equipments:** The fixed costs on plant and inventories are reported higher than the actual amount so as to generate black money. For example: companies buy for perhaps Taka 5 Lakh and instead get an invoice for Taka 10 Lakh to cover up Taka 5 Lakh of black money.
3. **Informal sector activities including trade, films and production:** All the film industries in Bangladesh are doing dreadfully bad, but still they continue to produce flop after flop. Perhaps it is because movies are being made simply to hide excess black money.
4. **Illegal holding of precious metals and jewellery:** The most favourite of the sources is hiding metals and jewellery. There are countless instances of the same in the news all the time where prominent personalities' homes are raided and valuables worth crores of Taka are recovered.
5. **Flight of capital for investments abroad:** Black money is also used to fund investments abroad as people try to hide their incomes and put it in foreign banks which are situated in the tax haven countries.
6. **Transfer activities (like secondary share market and real estate) and buying of influence (bribe for work):** Giving and taking bribe in Bangladesh is pretty common in almost every day activities. Another common source of black money is real estate which is covered in detail later.
7. **Illegal activities like smuggling, drugs and crime:** The big fishes of all of these sources are smuggling, drugs and crime. Being illegal activities, all this money is black money as there are no records of how they are generated and used.
8. **Elections in a democratic system and political funding**: Each election in the country involves an expenditure of several crores of Taka. A candidate normally spends more than one million Taka to contest in the national election. It is estimated that a single national election alone could see political parties spend at least 70 crore Taka to pay for poll expenses. Politicians also need to draw on business resources to nurse their constituencies. For funding politicians, even honest corporate houses have no option but to find ways to generate unaccounted for money. Since the expenditure allowed by law for a candidate is limited, elections are generally financed by black money-holders. These people expect political support and economic concessions which are obtained with the consent and the connivance of political elite in power in the form of artificial controls on commodities. All these methods create black money.
9. **Real estate transaction**: Estate transaction is an important source of generating black money. In these days, purchasing a house and/or land is considered to be very profitable. There is a growing tendency to transform rural agricultural land into urban residential land due to paucity of building sites in the urban areas. Establishing unapproved colonies on agricultural land is illegal. The transaction value shown by the colonisers in registration deeds is much less than the actual amount of the market value. This enables the seller of the land to evade capital gain tax. The high rates of stamp duty are a major cause of undervaluation of property and unreported deals.

## Different Sources of Black Income

- Income-tax evasion
- Corporation tax evasion
- Excise duty evasion
- Customs duty evasion
- Black income from exports
- Bribes
- Illegally earned commissions
- Goods supply to black market
- Unaccounted stock-market profit
- Interest earned from unorganised credit markets

**Effects/Consequences of Black Economy:** The effects of black money in a country are discussed under the following heads:

1. **False Information about the Economy**: The most important effect of black money is that it provides false information about the actual economy because it remains outside the purview of the economic policies. The presence of a sizeable black money casts doubts on the validity of the data on national income estimates, per capita income and distribution of income, consumption, savings and investment. The economic planning losses its worth because they are based on macro-economic parameters which completely ignore the black money.
2. **Impact on Fiscal System**: The government is fully based on tax revenue. Evasion of taxes has serious consequences for the economy's fiscal system. In long-run consequence of such revenue loss is to reduce the built-in elasticity of the tax system. To raise a given target of revenue the government is obliged to depend increasingly on discretionary hikes in tax rates or to expand the array of taxes.
3. **Implications for Monetary Policy**: The black money is related to the stock of 'black liquidity'. The stock of 'black liquidity' is defined as the accumulation of black savings (from black incomes) in the form of cash and other readily convertible assets such as gold and silver. It is the 'black liquidity' which creates a lot of problems for monetary authorities to regulate the economy.
4. **Create Inequalities**: The black money creates inequalities among people. The excess of money leads to purchase non- essential articles, which gives demonstration effect. The overall consumption pattern goes in favour of rich and elite classes.
5. **Misguiding on Resource Allocation**: Black money distorts resource allocation in the economy and often leads to wasteful and often leads to wasteful use of money. It leads to conspicuous consumption and in turn results in the diversion of large funds to unproductive channels which ultimately put the economy out of order.
6. **A large chunk of national resources remain idle**: The nation is not short of resources but because of the existence of black economy, a large chunk of resources are not only wasted but are either lying idle or are siphoned off out of the country.

**Conversion of Black Money to White Money**

We cannot easily make out whether black money is being used by households or white money is used in the market. Black money in the financial market is limited to some extent due to compulsory legislation, but the money used for daily needs do not come into picture. If a person buys some groceries from the retail superstores like Swapno, Agora and Meena Bazaar using black money, it has instantly been converted into white money the moment a receipt is obtained.
The methods which are followed in real life to convert black money into white money are given below:—

- By declaring black money (and paying tax on this money)
- Sale of gold and diamonds
- Increasing the sale price of an asset
- Showing income as agriculture income
- Showing cash income from profession
- Sale of personal belonging like Jewelry
- Converting black money by investment
- Getting Black money as gifts from relatives and friends on different occasions
- Depositing black money on name of family members

**Tax Evasion** is an illegal action in which individuals or corporations deliberately avoid paying a true tax liability. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting — such as declaring less income, profits or gains than the amounts actually earned or overstating deductions. The people found evading taxes are generally subject to criminal charges and substantial penalties.

**The main causes of tax evasion and the creation of black money**

- High rates of taxation
- Economy of shortages and licensing system
- Donations to political parties
- Corruption
- Ineffective enforcement of tax laws
- Corruption in business practices

**Hundi** is a traditional system of transferring money used in South Asia whereby the money is paid to an agent who then instructs an associate in the relevant country or area to pay the final recipient. The Hawala is simply understood as manual transportation of huge amounts of money at once.
Hundi is a controversial, informal and unrecognised fund (money/remittance) transfer channel which basically prevails in India and Bangladesh. A Hundi is a financial instrument that developed in the Indian sub-continent for use in trade and credit transactions. Hundis are used as a form of remittance instrument to transfer money from place to place, as a form of credit instrument or IOU to borrow money and as a bill of exchange in trade transactions.
The term Hundi includes all indigenous negotiable instruments whether they are in the form of notes or bills.
Hundis are governed by the custom and usage of the locality in which they are intended to be used and not by the provision of the Negotiable Instruments Act—1881.

**Money Laundering** is the process of concealing the source of money obtained by illegal means. It is the process of changing large amounts of money obtained from crimes (such as drug trafficking) into origination from a legitimate source. Money laundering is committed by passing money secretly through legitimate business channels by means of bank deposits, investment or transfers from one place to another.

**Money Laundering Prevention Act-2012** aims at tackling the illegal money transfer to different countries.
A huge amount of money is being transferred outside the country illegally as a good number of Bangladeshis are building their second home in 8-10 countries globally. So, necessary action is needed to be taken after identifying the way of money shifting in abroad. The Paris-based international organisation (FATF) has recognised Bangladesh in combating money laundering and terror financing by delisting the name of the country from its "Grey List".

**Financial Action Task Force (FATF)** is an inter-governmental policymaking body established in 1989 by the ministers of its member jurisdictions to combat money laundering and terrorist financing. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. There are currently 36 members of the FATF; 34 jurisdictions and 2 regional organisations (the Gulf Cooperation Council and the European Commission). These 36 Members are at the core of global efforts to combat money laundering and terrorist financing.

**Which issues have been mentioned in the Section 9 of the Money Laundering Prevention Act-2012?**

**Section 9: Investigation and trial of an offence.-**
(1) Notwithstanding anything contained in any other law, the offences under this Act shall be considered as the scheduled offences under the Anti-Corruption Commission Act, 2004 (Act No. V of 2004) and shall be investigated by the Anti Corruption Commission or any officer of the Commission empowered by it in this behalf or any officer of any other investigating agency authorized by the Anti Corruption Commission.
(2) The offences under this Act shall be tried by a special judge appointed under section 3 of the Criminal Law Amendment Act, 1958 (Act No. XL of 1958).
(3) For the purpose of the investigation and identification of property of an accused person, the Anti Corruption Commission may, besides this Act, also exercise the powers vested in it under the Anti Corruption Commission Act, 2004 (Act N0. V of 2004) and an officer of any other investigating agency authorized by the Anti Corruption Commission may, besides this Act, also exercise the powers vested in it under any other law

**In which Section of the Money Laundering Prevention Act-2012 the responsibilities of Bangladesh Bank have been mentioned?**

**Section 23: Powers and responsibilities of Bangladesh Bank in restraining and preventing the offence of money laundering**.
(1) For the purposes of this Act, Bangladesh Bank shall have the following powers and responsibilities, namely:- (a) To analyse or review information related to cash transactions and suspicious transactions received from any reporting organisation and to collect additional information relating thereto for the purpose of analyzing or reviewing from the reporting organisations and maintain data on the same and, as the case may be, provide with the said information to the relevant law enforcement agencies for taking necessary actions;
(b) Ask for any information or obtain a report from reporting organisations with regard to any transaction in which there are reasonable grounds to believe that the transaction involves in money laundering or a predicate offence;
(c) Issue an order to any reporting organisation to suspend or freeze transactions of any account for a period not exceeding 30 days if there are reasonable grounds to suspect that any money or property has been deposited into the account by committing any offence: Provided that such order may be extended for additional period of a maximum of 6 months by 30 days, if it appears necessary to find out correct information relating to transactions of the account;
(d) Issue, from time to time, any directions necessary for the prevention of money laundering to the reporting organisations;
(e) Monitor whether the reporting organisations have properly submitted information and reports requested by Bangladesh Bank and whether they have duly complied with the directions issued by it, and where necessary, carry out on-site inspections of the reporting organisations to ascertain the same;
(f) Arrange meetings and seminars including training for the officers and staff of any organisation or institution, including the reporting organisations, considered necessary for the purpose of ensuring proper implementation of this Act by Bangladesh Bank;
(g) Carryout any other functions necessary for the purposes of this Act.

**Clearing House** is the computerised inter-bank central office for exchanging cheques and bills.
It is a central collection place where banks exchange cheques. The participants maintain an account against which credits or debits are posted.

**SWIFT** (Society for Worldwide Interbank Financial Telecommunication) provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardised and reliable environment. The members of this society can exchange the international financial news easily, quickly and accurately by this network. SWIFT also sells software and services to financial institutions.
The majority of international interbank messages use the SWIFT network. As of 2016, SWIFT linked more than 12,000 financial institutions in 209 countries and territories. SWIFT does not facilitate funds transfer, rather it sends payment orders which must be settled by correspondent accounts that the institutions have with each other. Each financial institution (to exchange banking transactions) must have a banking relationship by either being a bank or affiliating itself with one (or more) so as to enjoy those particular business features.

**CHIPS** (Clearing House Interbank Payments System) is an electronic funds transfer system that handles over 95 percent of all international dollar payments. It is the largest private-sector US dollar funds-transfer system in the world, clearing and settling an average of $1.5 trillion in cross-border and domestic payments daily.
It combines best of two types of payments systems: the liquidity efficiency of a netting system and the intraday finality of a RTGS. Located in New York City, CHIPS settles transactions through adjustments in special account balances at the Federal Reserves Bank of New York City. Together with the Fedwire Funds Service (which is operated by the Federal Reserve Banks), CHIPS forms the primary US network for large-value domestic and international USD payments.

**Payment Systems in Bangladesh**: Payment systems are the means by which funds are transferred among the financial institutions, businesses and households and are considered as the critical factor for the functioning of a country's financial system. With the mandate of Bangladesh Bank Order-1972, Payment Systems Department endeavours for promoting new payment, clearing and settlement systems to ease financial transactions and ensure circulation of money throughout the economy and bring public confidence on the financial sector.
In the journey of modernising the country's payment and settlement systems, Bangladesh Bank launched several technology driven systems — such as Bangladesh Automated Cheque Processing Systems (BACPS) in 2010, Bangladesh Electronic Fund Transfer Network (BEFTN) in 2011, Mobile Financial Services in 2011 and the National Payment Switch of Bangladesh (NPSB) in 2012 for improving the retail payments segment of the country. With the launching of Bangladesh Real Time Gross Settlement (BD-RTGS) System in 2015, the large value payments have also been modernised. These modernisations took the Payment Systems of Bangladesh as per with the international standard.

**RTGS** (Real Time Gross Settlement) is an advanced technology that facilitates interbank fund transfers on real time basis, for both local and foreign currency transactions.
In other words, an RTGS system is a gross settlement system of money or securities in which both processing and final settlement of funds transfer instructions can take place continuously (in real time).

**BD-RTGS System** (Bangladesh Real Time Gross Settlement) is an electronic inter-bank settlement system where transfer of funds takes place from one bank to another bank on a 'real time' and on 'gross' basis. Settlement in 'real time' means transaction is not subjected to any waiting period. 'Gross Settlement' means the transaction is booked in the central bank's account on one to one basis without netting with any other transaction. BD—RTGS system accommodates high value (Taka 1,00,000/- and above) local currency and domestic foreign currency transactions in five different currencies.

- RTGS system has a substantial impact on current operations in the banks — particularly in the area of treasury, payment division, corporate banking and cash management.
- RTGS helps boost business to business (B2B) transactions, along with other general transactions by enabling instant settlement of high value local currency transactions, as well as government securities and foreign currency based transactions.
- RTGS systems are usually operated by Bangladesh Bank as it is seen as a critical infrastructure for the country's economy. Economists believe that an efficient national payment system reduces the cost of exchanging goods and services and it is vital to the functioning of the interbank and capital markets.

**Financial Transactions can be effected instantly through RTGS**
With a view to enabling the country's payment systems to be more prompt, efficient, sound and secured, Bangladesh Bank on October 29, 2015 installed world standard RTGS system to address both Taka and domestic foreign currency transactions. The term 'Real Time' means instant and 'Gross Settlement' means individual transaction by transaction settlement.
In RTGS system, a customer of one bank can make payment or transfer money to another account holder of any other banks at the earliest by only issuing an instruction to his/her bank.

**Automated Clearing House (ACH)** is a computer-based clearing and settlement facility established to process the exchange of electronic transactions between participating depository institutions. Such electronic transactions take the place of paper cheques.

**BACH** (Bangladesh Automated Clearing House) is the first ever electronic clearing house of Bangladesh.
It is an electronic payment platform for inter-bank clearing of both instrument and instruction based payment and ensures prompt, efficient, cost effective and secured payment and settlement for the whole economy.
Among the two wings of the BACH, BACPS deals with instrument based inter-bank payment while BEFTN deals with instruction based inter-bank clearing.
08 branches of Bangladesh Bank and 12 branches of Sonali Bank Limited conduct the Clearing House activities.
A bank has to mandatorily deposit Tk. 20 Lakh with Bangladesh Bank to become a member of Clearing House.

**BACPS** (Bangladesh Automated Cheque Processing System) was launched in 2010 and it replaced the country's traditional cheque clearing system with state-of-the art Cheque Imaging and Truncation (CIT) technology. BACPS enabled inter-bank cheques or paper-based instruments to clear and settle within one day throughout the country. There are two clearing wings available under BACPS, cheque valued Tk. 5,00,000 or above may be cleared in High Value (HV) same-day clearing window and other cheques may be cleared at a Regular Value (RV) clearing window — for which the customers may get the fund in the next day.
Bangladesh Bank introduced the Magnetic Ink Character Recognition (MICR) technology for making the country's cheques machine readable which intern ensured faster clearing and settlement.

**BEFTN** (Bangladesh Electronic Funds Transfer Network) is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system — which facilitates inter-bank payments, clearing and settlement of electronic credits as well as debits.

**EFT** (Electronic Funds Transfer) is a transaction that takes place over a computerised network, either among accounts at the same bank or to different accounts at separate financial institutions. EFT means moving funds between different accounts in the same or different banks through the use of wire transfer, automatic teller machines (ATMs) but without the use of paper documents. EFTs include direct-debit transactions, wire transfers, direct deposits, ATM withdrawals and online bill pay services. Transactions are processed through the Automated Clearing House (ACH) network, credit unions and other financial institutions.
The increased use of EFTs for online bill payments, purchases and pay processes is leading to a paper-free banking system where a large number of invoices and payments take place over digital networks

**What is CORE banking solutions (CBS) as we often hear that all bank branches are turning CBS**
CBS stands for CORE banking solutions under which the branches of the banks are interconnected with each other through intranet with a central database server. The platform where communication techonology and information technology are merged to suit core needs of banking is known as CORE banking solutions (CBS). With this facility, bank customers having an account in a certain branch of the bank may access their funds and other simple transactions from any other branch of the same bank. They do not need to visit the same branch to operate their accounts. The CORE word in CBS stands for Centralised Online Real-time Exchange.

**National Payment Switch Bangladesh (NPSB or NPS)**: Bangladesh Bank has taken initiative to establish National Payment Switch (NPS) in order to facilitate interbank electronic payments originating from different delivery channels such as — Automated Teller Machines (ATM), internet and mobile applications.
The main objective of NPS is to create a common platform among the existing shared switches already built-up by different private sector operators. NPS will facilitate the expansion of the card based payment networks substantially and promote e-commerce throughout the country. Online payment of government dues, using cards and account number information through internet will greatly be enhanced using NPS.

**MICR (Magnetic Ink Character Recognition)** is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents.
The MICR encoding is at the bottom of cheques and other vouchers and typically includes the document-type indicator, bank code, bank account number, cheque number, cheque amount and a control indicator.
The technology allows MICR readers to scan and read the information directly into a data-collection device. Unlike barcodes and similar technologies, MICR characters can be read easily by humans.

**Letter of Credit (L/C)** is an important document for international trade. A promissory letter is issued by a bank mentioning the statement that the due money for the dispatched goods will be paid from the importers at the right time is called Letter of Credit (L/C). L/Cs are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his bank to render this service.
An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC protects the buyer since no payment obligation arises until the goods have been shipped as promised.

**Advantages of L/Cs (from the seller's perspective)**

- The seller has the obligation of buyer's bank to pay for the shipped goods.
- Reducing the production risk if the buyer cancels or changes his order.
- The opportunity to get financing in the period between the shipment of the goods and receipt of payment (especially in case of deferred payment).
- The seller is able to calculate the payment date for the goods.
- The buyer will not be able to refuse to pay due to a complaint about the goods.

**Advantages of L/Cs (from the buyer's perspective)**

- The bank will pay the seller for the goods on condition that the latter presents to the bank the determined documents in line with the terms of the letter of credit.
- The buyer can control the time period for shipping of the goods.
- By a L/C, the buyer demonstrates his solvency.
- In the case of issuing a L/C providing for delayed payment, the seller grants a credit to the buyer.
- Providing a L/C allows the buyer to avoid or reduce pre-payment.

**Back-To-Back Letters Of Credit (LC)** is an arrangement in which one irrevocable LC serves as the collateral for another — the advising bank of the first LC becomes the issuing bank of the second LC.
In contrast to a transferable LC, permission of the ultimate buyer (the applicant or account party of the first LC) or that of the issuing bank is not required in a back-to-back LC. It is used mainly by intermediaries to hide the identity of the actual supplier or manufacturer. Like most LCs, back-to-back LCs are used primarily in international transactions, with the first LC serving as collateral for the second.

**Revolving L/C** is a single letter of credit that covers multiple-shipments over a long period. Instead of arranging a new L/C for each separate shipment, the buyer establishes a L/C that revolves either in value (a fixed amount is available which is replenished when exhausted) or in time (an amount is available in fixed instalments over a period such as week, month or year). L/Cs revolving in time are of two types: in the cumulative type, the sum unutilised in a period is carried over to be utilised in the next period; whereas in the non-cumulative type, it is not carried over.

**Difference between a bank guarantee and a L/C**: A bank guarantee and a LC are similar in many ways but there are two different things. L/C ensures that a transaction proceeds as planned while bank guarantees reduce the loss if the transaction does not go as planned.

**How to account for a letter of credit (L/C) on the balance sheet**

The letter of credit (L/C) can be accounted for as an asset on the balance sheet.
Record the bank's issue of the L/C. Debit a "Letter of Credit" account and credit "Cash" or "Line of Credit" account. This journal entry moves the payment amount from a cash or credit line account to the "Letter of Credit" account. This entry reserves the payment amount by decreasing cash (asset) or increasing the amount owed on a line of credit (liability). The balance of the "Letter of Credit" account is used specifically for payment of the amounts specified on the bank's L/C.
Complete the order/transaction with the seller or other party involved. Once the terms of the order are complete and the seller can present the required documents stated on the L/C, the bank can issue payment to the seller. For example, in transactions involving international sales, when goods are delivered and the proof of delivery document is presented to the bank, payment is made to the seller.
Record the payment of the L/C to the seller. Debit the "Inventory" or other asset account for the value of the goods purchased, and credit the "Letter of Credit" account for the payment issued by the bank. This journal entry eliminates the cash or credit reserved for the L/C and records an asset for the inventory or other resources received from the transaction.

At the Time of Purchase,
Purchase/Asset A/c Dr.
To Letter of Credit A/c
At the time of Settlement,
Letter of Credit A/c Dr.
To Bank A/c

Hence, in the Balance Sheet, the Letter of Credit (L/C) of Credit appears on Credit side under Current Liabilities when the initial transaction takes place and will get reduced by the amount of obligation performed when the transaction is completed.

## What is Jettison?

Jettison is the act of throwing overboard from a vessel part of the cargo (in case of extreme danger) to lighten the ship. To jettison cargo is a maritime term that is a last resort in an emergency situation where the crew throws cargo overboard in order to stabilise the vessel. If there is a threat to a ship due to damage to the hull and weather conditions, the staff will jettison cargo.

**Down Payment** is a type of payment made in cash during the onset of the purchase of an expensive goods or service. The payment typically represents only a percentage of the full purchase price — in some cases it is not refundable if the deal falls through. Financing arrangements are made by the purchaser to cover the remaining amount owed to the seller. Making a down payment and then paying the rest of the price through instalments is a method that makes expensive assets more affordable for the typical person.

**Balance of Payment (BoP)** of a country is defined as the record of all economic transactions between the residents of a country and the rest of the world in a year. These transactions are made by individuals, firms and government bodies. Thus BoP includes all visible and non-visible transactions of a country in a year.
All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.
Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice this is rarely the case. BOP tells the observer if a country has a deficit or a surplus economy.

**Balance of Trade (BoT)** is the difference in value between a country's imports & its exports over a period of time. BoT is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad & domestic investments abroad. Credit items include exports, foreign spending in the domestic economy & foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus.

**Basic differences between Balance of Trade (BoT) and Balance of Payment (BoP)**

Two statements are prepared to keep a record of the transactions made by a country with the remaining world. They are Balance of Trade (BOT) and Balance of Payments (BOP). The balance of payment keeps a track of transaction in goods, services and assets between the country's residents with the rest of the world. On the other hand, the balance of exports and import of the product and services is termed as Balance of Trade. The scope of BOP is greater than BOT. Balance of Trade is a major section of Balance of Payment.

| Factors | Balance of Trade | Balance of Payment |
|---|---|---|
| Meaning | Balance of Trade is a statement that captures the country's export and import of goods with the remaining world during a particular period (generally one year). | Balance of Payment is a statement that keeps track of all economic transactions done by the country with the remaining world during a course of time (generally one year). |
| Records & Items | It records transactions related to goods only. | Transactions related to both goods and services are recorded. |
| Capital Transfers | Capital transfers are not included in the Balance of Trade. | Capital transfers are included in Balance of Payment. |
| Which is better? | It gives a partial view of the country's economic status. | It gives a clear view of the economic position of the country. |
| Result | It can be favorable, unfavorable or balanced. | Both the receipts and payment sides tallies. |
| Component | It is a component of Current Account of Balance of Payment. | Current Account and Capital Account. |
| Segment | The Balance of Trade is a major segment of Balance of Payment. | Balance of Payment is a vast conception in comparison to Balance of Trade. |

**Financial Inclusion** is the availability of banking services at an affordable cost in order to include the weaker section of the society in the banking system and financial network. Financial inclusion has been increasingly recognised as an important instrument for increasing savings habit, alleviating poverty, improving household welfare and promoting micro and small business activities.

Financial inclusion has several benefits for individuals and households and for the economy as a whole. Moreover, financial inclusion can help the poor to manage their day-to-day needs, to better cope with risks, and to undertake investment opportunities that enable them to improve their income and assets.

Financial inclusion has emerged as a tool of achieving inclusive growth for the poverty reduction since 2005 as International Microcredit Year declared by the United Nations. Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals.

The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020.

## Tools of Financial inclusion

- Financial inclusion requires provision of access to a range of financial products that goes beyond microcredit to include savings, micro-insurance, payment facilities, remittances, money transfer.
  It is also needed to provide quality financial services at affordable prices in a convenient manner through a range of delivery channels including bank branches, non-bank institutions and insurance companies.
- **Microfinance as a tool for financial inclusion and reduction of poverty**: Microfinance has assumed immense importance throughout the world in view of its efficacy in credit dispensation, loan repayment and reduction of poverty. Several countries like Bangladesh, Indonesia, Philippines and Kenya have implemented microfinance programmes with encouraging and positive results. In the context of Bangladesh, the microfinance sector has witnessed an unprecedented growth in the last few years and it has firmly established itself as significant potential contributor in the government's agenda of Financial Inclusion. Microfinance aims at providing broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor and low-income households and their micro enterprises.
- **Technology:** Financial inclusion is one of the pillars of progress for any economy. Technology can play a significant role in helping the banks to achieve their financial inclusion goals in a cost-efficient manner.
- Technological innovations — such as use of POS (Point of Sale) banking — can help increase financial inclusion in the country by reducing the transaction costs of reaching out to remote areas.
- If the commercial banks use agent banking, a cost-effective approach could be a feasible solution towards Financial Inclusion.

## Recent Steps taken by Bangladesh Bank for Financial Inclusion

Bangladesh Bank has taken strong initiatives in the last few years to widen the coverage of banking services — especially by including the unbanked and disadvantaged section of the society in the formal financial system. Recent initiatives — such as the provision for 2.5% credit for agriculture, opening of more rural banking branches, having the post office conduct financial services, agent Banking, mobile banking and technology have also contributed to financial inclusion. The diversity of financial institutions and services, encouraging technology based banking services, mobile banking, agent banking and infrastructure facilities are among the key contributory activities of Bangladesh Bank for increasing the financial inclusion.

- Bangladesh Bank has been pursuing financial inclusion as a policy priority for accelerated economic growth.
- A first ever Tk. 5.00 billion refinancing line has been adopted against loans to landless sharecroppers in partnership with a recognised MFI.
- Up to June 30, BRAC disbursed of Tk. 2.65 billion at 10% interest rate to 0.234 million sharecroppers in 171 Upazilas under 37 districts.
- "Agricultural Credit Monitoring System" has been newly created in Bangladesh Bank.
- Opening bank accounts for farmers:
  - At free of charge with initial deposits of only Taka 10.
  - Already opened around 9.5 million accounts.
  - Till to date, about 10 billion of diesel subsidy has been disbursed to farmers through this account.
  - A farmer can open deposit account at any state-owned commercial and specialised bank against national ID/birth registration card and agricultural equipment assistance card issued by the Department of Agricultural Extension.
  - No bindings of maintaining minimum balance on the said account.
  - No impose of any charges/fees on these accounts.
- A Taka 2 billion revolving fund has been created to support financing of renewable energy generation.
- Banks have been directed to mandatorily allocate at least 5% of loan portfolio to green finance by 2017.

**Mortgage** is a contract whereby a borrower provides a lender with a lien on real property as security against a loan. It is a method of using property as a security for the performance of an obligation, usually the payment of a debt.

**Collateral** is a form of security such as life insurance policies or shares use to secure a bank loan. Collateral is a specific asset pledged against possible default on a bond. Mortgage bonds are backed by claims on property. Collateral trusts bonds are backed by claims on other securities.

**Security** refers to anything pledged to cover a loan and interest thereupon for stipulated period of time.

**Debt** is an amount of money borrowed by one party from another. Many corporations/individuals use debt as a method for making large purchases that they could not afford under normal circumstances.
A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date usually with interest.

**National Debt** is the amount of money borrowed at different times by the government for the expenditure which cannot be met from budgetary revenue allocation. This money can be used for productive purposes or unproductive purposes.

**Capital Budgeting** is an investment appraisal and the process in which a business determines and evaluates potential expenses or investments that are large in nature. These expenditures and investments include projects such as building a new plant or investing in a long-term venture. Often times, a prospective project's lifetime cash inflows and outflows are assessed in order to determine whether the potential returns generated meet a sufficient target benchmark.

**Methods/Tools of Capital Budgeting**
**The techniques used in investment appraisal**
Capital budgeting consists of various methods:

| | | | |
|---|---|---|---|
| Payback Period | Net Present Value (NPV) | Internal Rate of Return (IRR) | Sensitivity Analysis |
| Discounted Payback Period | Accounting Rate of Return (ARR) | Profitability Index | |

All of the above techniques are based on the comparison of cash inflows and outflow of a project however they are substantially different in their approach.

**Breakeven Point** is that point of activity (measured as sales volume) where total sales and total costs are equal so that there is neither profit nor loss. Breakeven point is the production level where total revenues equals total expenses.
In other words, breakeven point is where a company produces the same amount of revenues as expenses either during a manufacturing process or an accounting period. Since revenues equal expenses, the net income for the period will be zero. The company didn't lose any money during the period, but it also didn't gain any money either.
It simply broke even. Breakeven Point is the point in time (or in number of units sold) when forecasted revenue exactly equals the estimated total costs where loss ends and profit begins to accumulate. This is the point at which a business, product or project becomes financially viable.

**Net Present Value (NPV)** is the difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyse the profitability of a projected investment or project.
The following is the formula for calculating NPV:

$$NPV = \sum_{t=1}^{T} \frac{C_t}{(1+r)^t} - C_o$$

$C_t$ = net cash inflow during the period t
$C_o$ = total initial investment costs
r = discount rate, and
t = number of time periods
A positive NPV indicates that the projected earnings generated by a project or investment (in present Taka) exceeds the anticipated costs (also in present Taka). Generally, an investment with a positive NPV will be a profitable one and one with a negative NPV will result in a net loss.

**Internal Rate of Return (IRR)** is the discount rate that causes the net present value of future cash flows from an investment to equal zero. IRR is used in capital budgeting to measure the profitability of potential investments.

$$\text{Internal Rate of Return} \quad + \quad R1 \quad = \frac{NPV1 \times (R2 - R1)}{(NPV1 - NPV2)}$$

R1 = Lower discount rate
R2 = Higher discount rate
NPV1 = Higher Net Present Value (derived from R1)
NPV2 = Lower Net Present Value (derived from R2)

## How the Internal Rate of Return (IRR) helps in making business decisions?

A higher IRR means the project is more attractive. When we have to decide between two projects, we should select the one with the higher IRR. However, it is very important that the IRR exceeds the company's cost of capital. If not, the project will lose money for the company, even if the IRR is positive. The cost of capital is the cost of funds that the business uses. Debt and equity tend to have different costs associated with them. So, the weighted average cost of capital should be calculated.

For example, assume a manager runs the numbers on three projects and finds the following IRR values:

| Project Name | IRR Percentage (%) |
|---|---|
| Project—1 | IRR = 9% |
| Project—2 | IRR = 12% |
| Project—3 | IRR = 5% |

The company's cost of capital is 6.5%. The company should avoid Project 3 and should pursue Project 2. If the company has enough capital, it should pursue Project 1 also.

| IRR/NPV: Which is better to use while selecting the best project among a number of mutually exclusive projects |
|---|
| The NPV method uses a reinvestment rate close to its current cost of capital, the reinvestment assumptions of the NPV method are more realistic than those associated with the IRR method. NPV also has an advantage over IRR when a project has non-normal cash flows. Non-normal cash flows exist if there is a large cash outflow during or at the end of the project. The presence of non-normal cash flows will lead to multiple IRRs.<br>Hence, the IRR method cannot be employed in the evaluation process. Mathematically, this problem will not occur if the NPV method is employed. The NPV method will always lead to a singular correct accept-or-reject decision.<br>In conclusion, NPV is a better method for evaluating mutually exclusive projects than the IRR method. As the NPV method employs more realistic reinvestment rate assumptions, it is a better indicator of profitability and shareholder wealth and mathematically will return the correct accept-or-reject decision regardless of whether the project experiences non-normal cash flows or if differences in project size or timing of cash flows exist. |

**Time Value of Money (TVM)** is the idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This core principle of finance holds that provided money can earn interest — any amount of money is worth more the sooner it is received.

A Tk. 100 bill has the same value as a Tk. 100 bill one year from now, doesn't it? Actually, although the bill is the same, we can do much more with the money if we have it now because over time we can earn more interest on our money.

The most fundamental TVM formula takes into account the following variables:

FV = Future value of money
PV = Present value of money
i = interest rate
n = number of compounding periods per year
t = number of years

Based on these variables, the formula for TVM is:

FV = PVx(1+(i/n))^(nxt)

### How to calculate Future Value

Assume a sum of Tk. 10,000 is invested for one year at 10% interest. The future value of that money is:

FV = Tk. 10,000x(1+(10%/1))^(1x1) = Tk.11,000

### How to calculate Present Value

At an interest rate of 8%, we calculate that Tk. 10,000 five years from now will be:

FV= PV*$(1+r)^N$ =(Tk. 10,000)*$(1.08)^5$ = (Tk. 10,000)*(1.469328)

FV= Tk. 14,693.28

At an interest rate of 8%, we calculate today's value that will grow to Tk. 10,000 in 05 years:

PV= FV*(1/$(1+r)^N$)=(Tk. 10,000)*(1/$(1.08)^5$)=(Tk. 10,000)*(1/(1.469328))

PV = (Tk. 10,000)*(0.680583) = Tk. 6,805.83

**Leverage** is an investment strategy of using borrowed money (specifically the use of various financial instruments or borrowed capital) to increase the potential return of an investment. Leverage is any technique that amplifies investor profits or losses. It is most commonly used to describe the use of borrowed money to magnify profit potential (financial leverage), but it can also describe the use of fixed assets to achieve the same goal (operating leverage). When one refers to a company or property as "highly leveraged," then it means that item has more debt than equity.

**Financial Leverage** is the degree to which a company uses fixed-income securities (such as debt and preferred equity) to acquire additional assets. The more debt financing a company uses, the higher its financial leverage. A high degree of financial leverage means high interest payments — which negatively affects the company's bottom-line earnings per share.
An excessive amount of financial leverage increases the risk of failure as it becomes more difficult to repay debt. Financial leverage is favorable when the uses to which debt can be put generate returns greater than the interest expense associated with the debt. Many companies use financial leverage rather than acquiring more equity capital, which could reduce the earnings per share of existing shareholders.

**Degree of Financial Leverage (DFL)** is a ratio that measures the sensitivity of a company's earnings per share (EPS) to fluctuations in its operating income as a result of changes in its capital structure. Degree of Financial Leverage measures the percentage change in EPS for a unit change in earnings before interest and taxes (EBIT), and can be mathematically represented as follows:

$$\text{DFL} = \frac{\%\text{ Change in EPS}}{\%\text{ Change in EBIT}}$$

DFL can also be represented by the equation below:

$$\text{DFL} = \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}}$$

A shortcut to keep in mind with DFL is that if interest is 0, then the DLF will be equal to 1.

**Leverage Ratio** is any kind of financial ratio that indicates the level of debt incurred by a business entity against several other accounts in its balance sheet, income statement or cash flow statement. These ratios provide an indication of how the company's assets and business operations are financed (using debt or equity).
Below is an illustration of two common leverage ratios: debt/equity and debt/capital.

| | |
|---|---|
| Equity Taka 70 crore | 0.43 Debt/Equity |
| Debt Taka 30 crore | 0.30 Debt/Capital |

## Some Common Leverage Ratios

There are several different leverage ratios that may be considered by market analysts, investors or lenders.
Some accounts that are considered to have significant comparability to debt are total assets, total equity, operating expenses and incomes.
Here are five of the most commonly used leverage ratios:

- Debt-to-Assets Ratio = Total Debt / Total Assets
- Debt-to-Equity Ratio = Total Debt / Total Equity
- Debt-to-Capital Ratio = Today Debt / (Total Debt + Total Equity)
- Debt-to-EBITDA Ratio = Total Debt / Earnings Before Interest Taxes Depreciation and Amortisation
- Asset-to-Equity Ratio = Total Assets / Total Equity

## Importance and Usage of Leverage Ratio

Leverage ratios represent the extent to which a company is utilising borrowed money. It also evaluates company solvency and capital structure. Having high leverage in a company's capital structure can be risky, but it also provides benefits.
The use of leverage is beneficial during times when the company is earning profits as they become amplified. On the other hand, a highly levered company will have trouble if it experiences a decline in profitability and may be at a higher risk of default than an unlevered or less levered company in the same situation. Finally, analysing the existing level of debt is an important factor that creditors consider when a firm wishes to apply for further borrowing.

**FIFO** is the acronym for First-In, First-Out. FIFO is an asset-management and valuation method (cost flow assumption) often used to remove costs from the inventory account when an item in inventory had been purchased at varying costs. Under FIFO, the oldest cost of an item in inventory will be removed first when one of those items is sold. This oldest cost will then be reported on the income statement as part of the cost of goods sold. FIFO also means that the more recent costs of an item will remain in the inventory account and will be reported on the balance sheet.

**LIFO** is the acronym for Last-In, First-Out. It is a cost flow assumption that can be used by companies in moving the costs of products from inventory to the cost of goods sold. Under LIFO, the latest or more recent costs of products purchased (or produced) are the first costs expensed as the cost of goods sold. This means that the costs of the oldest products will be reported as inventory.

**Liquidity Ratio** is a financial indicator used to determine the ability of a company to pay off current debt obligations without raising external capital (whether a company's current assets will be sufficient to meet the company's obligations when they become due). Liquidity ratios help measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio and the quick ratio (the acid test). The current ratio and quick ratio are also referred to as solvency ratios. Working capital is an important indicator of liquidity or solvency — even though it is not technically a ratio.
**Examples of Liquidity Ratios**: The most basic liquidity ratio is the calculation of working capital. Working capital is the difference between current assets and current liabilities. If a business has a positive working capital, this indicates it has more current assets than current liabilities and in the event of an emergency, the business can pay all of its short-term debts. A negative working capital indicates that a company is illiquid.
The current ratio divides total current assets by total current liabilities. This ratio provides the most basic analysis regarding the coverage level of current debts by current assets. The quick ratio expands on the current ratio by only including cash, marketable securities and accounts receivable in the numerator. The quick ratio reflects the potential difficulty in selling inventory or prepaid assets in the result of an emergency.

**Current Asset** is cash and any other cash equivalent assets that will be turning to cash within one year from the date shown in the heading of the company's balance sheet. So, current assets is a balance sheet item that represents the value of all assets that can reasonably expect to be converted into cash within one year.
Current assets are generally listed first on a company's balance sheet and will be presented in the order of liquidity. That means they will appear in the following order — cash (which includes currency, current accounts and petty cash), temporary investments, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.

**Current Ratio** is a financial ratio that shows the proportion of current assets to current liabilities. The current ratio is used as an indicator of a company's liquidity. The current ratio measures a company's ability to pay short-term liabilities (debt and payables) with its short-term assets (cash, inventory and receivables). As a result, the current ratio is comprised of the following short-term assets and liabilities:—
Current assets are located on the balance sheet and represent the value of all assets that can reasonably expect to be converted into cash within one year. The current assets include cash and cash equivalents (marketable securities, accounts receivable, prepaid expenses and inventory).
Current liabilities are a company's debts or obligations that are due within one year appearing on the company's balance sheet. The current liabilities include short-term debt, accounts payables and accrued liabilities and other debts.
**Calculating the Current Ratio:** Since the current ratio shows the proportion of current assets to current liabilities, it's calculated by dividing current assets by current liabilities as shown in the formula below:—

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**A company with a current ratio of less than 1** (or fewer current assets than current liabilities) would be considered a financial risk by creditors since it would signal that the company might not be able to easily pay down their short-term obligations.
**A current ratio of more than 1** signifies that a company is liquid and as a result, it could liquidate their current assets more easily to pay down their short-term liabilities.

**Quick Ratio** (also known as the acid test ratio) is an indicator (financial ratio) used to determine a company's short-term liquidity and measure a the company's ability to meet its short-term obligations with its most liquid assets. As we are only concerned with the most liquid assets, the ratio excludes inventories from current assets. The quick ratio uses only the most liquid current assets that can be converted to cash within 90 days or less. Current assets used in the quick ratio are cash and cash equivalents, marketable securities and accounts receivable.
Current liabilities used in the quick ratio are the same as in the current ratio and those are Short-term debt, Accounts payables and Accrued liabilities and other debts.
**Calculating the Quick Ratio:** The quick ratio is calculated by adding cash and equivalents, marketable investments and accounts receivables, and dividing that sum by current liabilities as shown below:

$$\text{Quick Ratio} = \frac{\text{Cash \& Cash Equivalents} + \text{Current Receivables} + \text{Short-term Investments}}{\text{Current Liabilities}}$$

If a company's financials do not provide a breakdown of their quick assets, we can still calculate the quick ratio. We can subtract inventory and current prepaid assets from current assets and divide that difference by current liabilities.
**Similar to the current ratio if a company's quick ratio is more than 1,** creditors will consider the company liquid, and the opposite is true as well.

**The difference between the Current Ratio and the Quick Ratio**
The current ratio and quick ratio are both designed to estimate the ability of a business to pay for its current liabilities. The difference between the two measurements is that the quick ratio focuses on the more liquid assets, and so gives a better view of how well a business can pay off its obligations.

- **The quick ratio offers a more conservative view of a company's liquidity** or ability to meet its short-term liabilities with its short-term assets because it doesn't include inventory and other current assets that are more difficult to liquidate (turn into cash). By excluding inventory and other less liquid assets, the quick ratio focuses on the company's more liquid assets.
- **Since the current ratio includes inventory, it will be high for companies that are heavily involved in selling inventory**. For example, in the retail industry, a store might stock up on merchandise leading up to the holidays, boosting their current ratio. However, when the season is over, the current ratio would come down substantially. As a result, the current ratio would fluctuate throughout the year for companies like retailers.
- **How inventory is valued** from an accounting standpoint would also impact the current ratio.
- **Removing inventory might not reflect an accurate picture of liquidity** for some industries. For example, supermarkets move inventory very quickly and their stock would likely represent a large portion of their current assets. To remove inventory for supermarkets would make their current liabilities look inflated relative to their current assets under the quick ratio.
- **Both ratios include accounts receivables,** but some receivables might not be able to be liquidated very quickly. As a result, even the quick ratio may not give an accurate representation of liquidity if the receivables are not easily collected and converted to cash.

**Treasury bills, notes and bonds** are marketable securities the government sells in order to pay off maturing debt and to raise the cash needed to run the federal government. When a person buys one of these securities, s/he is lending his/her money to the government of the Bangladesh. Treasury bills, notes and bonds are securities that have a stated interest rate that is paid semi-annually until maturity.
What make notes and bonds different are the terms to maturity. Notes are issued in two-, three-, five- and 10-year terms. Conversely, bonds are long-term investments with terms of more than 10 years.

**Treasury Bill** is government promissory letters. The government receives short-term loan (short-term liabilities) through it. Treasury bill is the written document by which the government is pledged to pay the due loan back with interest after three months. The interest is the difference between the purchase price and the price paid either at maturity (face value) or the price of the bill if sold prior to maturity. Theoretically, the government of Bangladesh issued three types of T-bills through auctions, namely 91 days, 182days and 364 days.

**Auctions of treasury bills by Bangladesh Bank**: Currently, three treasury bills (T-bills) are being transacted through auctions to adjust the government's borrowing from the banking system.
The T-bills have 91-day, 182-day and 364-day maturity periods. Furthermore, five government bonds with duration of two, five, 10, 15 and 20 years respectively — are being traded in the market.

**Treasury Bond** refers to a certificate issued by the government acknowledging that money has been lent to it and will be paid back with interest. Bond is a debt investment in which an investor loans money to an entity (typically governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by sovereign governments to raise money and finance a variety of projects and activities.

**Zero Coupon Bond** is a debt security that does not pay any periodic interest payments to the bondholder during its life and is sold at a deep discount from face value — rendering profit at the time of maturity when the bond is redeemed for its full face value. The buyer of the bond receives a return by the gradual appreciation of the security — which is redeemed at face value on a specified maturity date. Zero Coupon Bonds tend to fluctuate in price much more than coupon bonds.

**Foreign Exchange** means any currency other than Bangladesh currency which includes all coins, currency notes, bank notes, postal notes, money orders, cheques, drafts, letters of credit, bills of exchange, promissory notes, all deposits, credits and balances payable in any foreign currency.
**Foreign Exchange** can also be defined as the exchange or conversion of one currency into another currency.
It also refers to the global market where currencies are traded.

**Why do we need foreign exchange?**

- To purchase goods from abroad like food, fuel, capital machinery, raw materials and medicines
- To purchase services from abroad
- For travelling abroad for various purposes
- Taking treatment abroad
- Taking study abroad
- Payment of loan from abroad

| Major Inflows of Foreign Exchange | Major Inflows of Foreign Exchange |
|---|---|
| • Export earnings (goods and services)<br>• Wage earners remittance<br>• Foreign investment<br>• Foreign loans and grants | • Imports of goods<br>• Imports of services<br>• Repayment of loan<br>• Repatriation of capital and profit of foreign investment |

**Objectives of Regulating Foreign Exchange Transactions**

- Protecting Balance of Payment
- Ensuring repatriation of export proceeds
- Ensuring the use of hard earned foreign exchange in accordance with priorities
- Preventing capital flight
- Stabilising exchange rate
- Planning economic development

**Foreign Exchange Market** is a global decentralised market for the trading of currencies in which participants are able to buy, sell, exchange and speculate on currencies at current or determined prices.
Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms and retail foreign exchange brokers and investors. In terms of volume of trading, the foreign exchange market is considered to be the largest financial market in the world.
As the currency markets are large and liquid, they are believed to be the most efficient financial markets.
It is important to realise that the foreign exchange market is not a single exchange, but is constructed of a global network of computers that connects participants from all parts of the world.
**Facilitating Trade**: The foreign exchange market exists to enable banks, industry and government to facilitate international transactions. The ability to purchase foreign exchange quickly, reliably and cheaply is a huge benefit for any economy.

**Exchange Rate** is the price of a nation's currency in terms of another currency. Exchange rate thus has two components, the domestic currency and a foreign currency and can be quoted either directly or indirectly.
In a direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency.
In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency.
Factors that influence exchange rate are interest rates, inflation rate, trade balance, political stability and quality of governance.

**Floating Exchange Rate**: When the exchange rate of a currency is determined by the demand and supply of that currency then it is called floating exchange rate. Floating Exchange Rate is a country's exchange rate regime where its currency is set by the foreign-exchange market through supply and demand for that particular currency relative to other currencies. Thus, floating exchange rates change freely and are determined by trading in the foreign exchange market.

**Fixed Exchange Rate** is the rate which is officially fixed by the monetary authority and not determined by market forces. Only a very small deviation from this fixed value is possible. Here foreign central banks stand ready to buy and sell their currencies at a fixed price. A typical kind of this system was used under Gold Standard System in which each country committed itself to convert freely its currency into gold at a fixed price.

**Floating Rate** is the system of exchange rate in which exchange rate is determined by forces of demand and supply of foreign exchange market. Value of currency is allowed to fluctuate or adjust freely as per change in demand and supply of foreign exchange. There is no official intervention in foreign exchange market.

**Forward Rate** is a rate applicable to a financial transaction that will take place in the future. Forward rates are based on spot rate, adjusted for the cost of carry and refer to the rate that will be used to deliver a currency at some future time. It may also refer to the rate fixed for a future financial obligation such as the interest rate on a loan payment. In foreign exchange, forward rate specified in an agreement is a contractual obligation that must be honoured by the parties involved.

**Spot Rate** is the price quoted for immediate settlement on a currency. Spot rate is based on the value of an asset at the moment of the quote. This value is in turn based on how much buyers are willing to pay and how much sellers are willing to accept which depends on factors such as current market value and expected future market value. So, spot rates change frequently and sometimes dramatically.
In currency transactions, spot rate is influenced by the demands of individuals and businesses wishing to transact in a foreign currency as well as by foreign exchange traders.

**Gold Standard** is a monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold. The exchange rate under the gold standard monetary system is determined by the economic difference for an ounce of gold between two currencies. The use of the gold standard would mark the first use of formalised exchange rates in history.
However, the system was flawed because countries needed to hold large gold reserves in order to keep up with the volatile nature of supply and demand for currency. After World War II, a modified version of the gold standard monetary system, the Bretton Woods monetary system created as its successor. This successor system was initially successful, but because it also depended heavily on gold reserves, it was abandoned in 1971 when US President Nixon closed the gold window.

**Open Position** is the difference between the totals of foreign currency assets and liabilities. It is the difference between total spot/forward purchases and spot/forward sales in a currency on which an exchange risk is run.

**Net Open Position** means the net sum of all foreign currency assets and liabilities of a bank inclusive of all of its spot and forward transactions and off-balance sheet items in that foreign currency.

**Authorised dealer in foreign exchange** means any type of financial institution that has received authorisation from an appropriate regulatory authority to act as a dealer involved with the trading of foreign currencies. Dealing with authorised foreign exchange dealers ensure that our transactions are being executed in a legal and just way. Authorised dealer is a currency exchange dealer that has received authorisation to conduct business from some regulatory body.

**Foreign Exchange Dealing** is a bilateral agreement to buy or sell one currency against another at an agreed price at a specific value date.

**Risks involved in foreign exchange**

- Market Risk
- Liquidity risk
- Sovereign risk
- Credit/Counter party risk
  (i) Pre-settlement risk
  (ii) Settlement risk

**What are the key factors that affect foreign exchange rates (appreciation or depreciation of a currency)?**

Foreign Exchange rate is one of the most important means through which a country's relative level of economic health is determined. A country's foreign exchange rate provides a window to its economic stability. If a person wants to send or receive money from overseas, he needs to keep a keen eye on the currency exchange rates.

The exchange rate is defined as the rate at which one country's currency may be converted into another. It may fluctuate daily with the changing market forces of supply and demand of currencies from one country to another. For these reasons; while sending/receiving money internationally, it is important to understand what determines exchange rates. The leading factors that influence the variations and fluctuations in exchange rates are:—

| | | |
|---|---|---|
| ❖ Inflation rates | ❖ Interest rates | ❖ Government debt |
| ❖ Terms of trade | ❖ Speculation | ❖ Government intervention |
| ❖ Country's Current Account/Balance of Payments | ❖ Political stability & economic performance | |
| ❖ Economic growth and recession | ❖ Change in competitiveness | |
| ❖ Relative strength of other currencies | ❖ Occurrence of sudden natural calamities | |

**Inflation Rates**: Changes in market inflation cause changes in currency exchange rates. A country with a lower inflation rate than another country will see an appreciation in the value of its currency.

The prices of goods and services increase at a slower rate where the inflation is low. A country with a consistently lower inflation rate exhibits a rising currency value while a country with higher inflation typically sees depreciation in its currency and is usually accompanied by higher interest rates.

**Interest Rates:** Changes in interest rate affect currency value and dollar exchange rate. Foreign exchange rates, interest rates and inflation are all connected. Increases in interest rates cause a country's currency to appreciate because higher interest rates provide higher rates to lenders, thereby attracting more foreign capital which causes a rise in exchange rates.

**Country's Current Account/Balance of Payments:** A country's current account reflects balance of trade and earnings on foreign investment. It consists of total number of transactions including its exports, imports and debt.

A deficit in current account due to spending more of its currency on importing products than its earnings through sale of exports causes depreciation. Balance of payments causes fluctuation to exchange rate of its domestic currency.

**Government Debt**: If markets fear a government may default on its debt, then investors will sell their bonds causing a fall in the value of the exchange rate. Government debt is public debt or national debt owned by the central government. A country with government debt is less likely to acquire foreign capital, leading to inflation. Foreign investors will sell their bonds in the open market if the market predicts government debt within a certain country.

As a result, a decrease in the value of its exchange rate will follow.

**Government Intervention**: Some governments attempt to influence the value of their currency.

For example, China has sought to keep its currency undervalued to make Chinese exports more competitive.

They can do this by buying US dollar assets which increases the value of the US dollar to Chinese Yuan.

**Terms of Trade**: Related to current accounts and balance of payments, the terms of trade is the ratio of export prices to import prices. A country's terms of trade improves if its exports prices raise at a greater rate than its imports prices. This results in higher revenue — which causes a higher demand for the country's currency and an increase in its currency's value. This results in an appreciation of exchange rate.

**Political stability and economic performance**: A country's political state and economic performance can affect its currency strength. A country with less risk for political turmoil is more attractive to foreign investors, as a result, drawing investment away from other countries with more political and economic stability.

Increase in foreign capital, in turn, leads to an appreciation in the value of its domestic currency.

A country with sound financial and trade policy does not give any room for uncertainty in value of its currency. But, a country prone to political confusions may see a depreciation in exchange rates.

**Recession**: When a country experiences a recession, its interest rates are likely to fall, decreasing its chances to acquire foreign capital. As a result, its currency weakens in comparison to that of other countries, therefore lowering the exchange rate.

**Speculation:** If speculators believe the sterling will rise in the future, they will demand more now to be able to make a profit. This increase in demand will cause the value to rise. So, movements in the exchange rate do not always reflect economic fundamentals, but are often driven by the sentiments of the financial markets.

Example: If markets see news which makes an interest rate increase more likely, the value of the Taka will probably rise in anticipation.

**Change in competitiveness:** If Bangladeshi goods become more attractive and competitive this will also cause the value of the exchange rate to rise. This is important for determining the long run value of the Taka.

This is similar factor to low inflation.

## Foreign exchange reserve and its components (Composition of foreign exchange reserves)

Foreign exchange rate reserves are the stocks/deposits of foreign currency denominated assets plus gold held by the central banks and monetary authorities. However, the term in popular usage generally includes foreign exchange and gold and IMF reserve positions.

A reserve currency is a currency that is held in significant quantities by numerous governments and central banks as part of their foreign exchange reserves. These currencies are used to transact global business and are the pricing currency for global trade — particularly in commodities such as gold and oil.

The primary reserve currency used worldwide is the US dollar, followed by the Euro, the British pound, the Japanese Yen and the Swiss Franc. Foreign exchange reserves data is released quarterly by the IMF in its Currency Composition of Official Foreign Exchange Reserves (COFER) statistics. COFER consist of a monetary authority's claims on non-resident liquidity in the form of foreign banknotes, bank deposits, treasury bills, short- and long-term government securities and other claims usable in the event of balance of payments needs.

The amount of foreign exchange reserves that a country can claim is used as an indicator of the ability to repay foreign debt and is used in sovereign credit ratings. Reserves are used for currency defence to halt downward or upward pressure on a currency against a benchmark currency.

## How do foreign reserves influence or manipulate exchange rates

When a consumer in the US buys a Bangladeshi product, Bangladeshi manufacturers are paid in US dollars. These US dollars are then deposited in a US bank account. At this point, the Bangladeshi exporters need to convert US dollars into Taka. Through their commercial banks they sell the US dollars to Bangladesh's central bank (Bangladesh Bank). Since the trade between the US and Bangladesh does not balance, there is a shortage of Taka and a surplus of US dollars in the Bangladeshi central bank (therefore the Taka must be 'created').

Under normal rules of international trade, the Bangladeshi central bank should sell its US dollars on international currency markets and buy Taka in exchange, resulting in a self-correcting system: the US dollars weakens and the Bangladeshi Taka strengthens, until equilibrium is restored and the trade gap closes. However, in order to avoid this situation (which would decrease Bangladeshi exports), the Bangladeshi central bank "bends the rules": they slow the appreciation of the Taka, or in some cases effectively peg Taka against the US dollars.

When the central bank buys US dollars and sterilises the excess dollar flows by buying dollar-denominated assets (such as US treasuries), there has been an effect of keeping the excess dollars out of the currency exchange markets — where they would cause a correction in the exchange rates. Thus, the Bangladeshi central bank manipulates the exchange rates by creating Taka and buying US debt.

This "printing" of Bangladeshi Taka by the central bank is not without consequence, however, since in excess (if Taka are created faster than domestic economic output) it would eventually lead to inflation, causing consumer prices to rise. By keeping its currency artificially weak Bangladesh generates a dollar surplus; this means that the Bangladesh government has to buy up the excess US dollars.

## How does Bangladesh Bank acquire currency reserves and how much it requires holding

In the Bangladesh, it is required that a certain percentage of the assets of the scheduled banks be deposited with Bangladesh Bank. The reserve requirements are established by Bangladesh Bank and by varying the requirements; BB often influences the money supply. Reserves also keep the banks secure by reducing the risk that they will default by ensuring that they maintain a minimum amount of physical funds in their reserves.

This increases the confidence of the investors and stabilises the economy. Bangladesh Bank decides on the reserve requirements as a part of its monetary policy. The amount that a bank is required to hold in reserves fluctuates depending on the state of the economy and what Bangladesh Bank determines as the optimal level.

A currency reserve is a currency that is held in large amounts by the governments and other institutions as a part of their foreign exchange reserves. Reserve currencies usually also become the international pricing currencies for products traded on the global market such as oil, gold and silver.

Currently, the US dollar is the primary reserve currency used by other countries. Manipulating reserve levels can enable a country's central bank to intervene against volatile fluctuations in currency by affecting the exchange rate and increasing the demand for and value of the country's currency. Reserves act as a shock absorber against factors that can negatively affect a country's exchange rates and hence the central bank uses reserves to help maintain a steady rate. The most popular currency held in reserves is the US dollar.

## Advantages of holding a large amount of foreign exchange reserves

- Countries that hold a large amount of international reserves are able to solve short-term external financial debt without affecting the exchange rate.
- The bigger the reserve held, the more a country can spend (investments and embark on new projects).
- Countries holding bigger reserves would be able to avoid current account deficits since future current account deficits would be better financed (running down of reserves can neutralise the effects of capital outflows).
- Reserves allow countries to adopt slower speeds of adjustment when tackling balance of payments crisis.
- They also contribute to the perceived creditworthiness of countries, lessening the occurrences of crises (in the future). For example, after the financial crisis, many countries increase their holding of international reserves to help them tide over the crisis, lessen its impact, and/or avoid such situations in the future.

## Disadvantages of holding a large amount of foreign exchange reserves

- Holding international reserves would cause a contemporary output loss (opportunity cost).
- Balance of payment surpluses could reflect undervalued currencies, low levels of domestic consumption and high levels of savings, the pursuit of tight monetary and fiscal policy, or commercial policy discouraging imports and encouraging exports.
- The more international reserves a country holds, the more exposed it is to fluctuations of foreign asset prices, increasing occurrences and susceptibly to financial crises.

## Foreign Exchange Reserves of Bangladesh and Categories

The foreign exchange reserves of Bangladesh are Bangladesh's holdings of cash, bank deposits, bonds and other financial assets denominated in currencies other than Bangladesh's national currency (Bangladeshi Taka).
The reserves are managed by Bangladesh Bank for the government of Bangladesh and the main component is foreign currency assets. Bangladesh Bank and Foreign Exchange Regulations (Amendment) Act—2015 set the legal provisions for governing the foreign exchange reserves. Bangladesh Bank accumulates foreign currency reserves by purchasing from authorised dealers in open market operations. Foreign exchange reserves of Bangladesh act as a cushion against the volatility of Taka once global interest rates start rising.
The foreign exchange reserves of Bangladesh consists of three categories:—

(i) Foreign Currency Assets
(ii) (ii) Gold and
(iii) (iii) Special Drawing Rights (SDRs)

## The Factors: How the foreign currency reserves of Bangladesh Bank regularly increase

❖ Export earnings from exports of readymade garments (RMG) items
❖ Foreign inward remittances sent by Bangladeshis living abroad
❖ Foreign aid
❖ Foreign loan taken by the government
❖ Foreign currency loans availed by private sector (Bangladeshi corporate organisations and companies)
❖ Inflows invested in our treasuries and bonds
❖ Financial inflows attracted by higher yield on Taka-denominated assets
❖ Portfolio investments in stocks and capital inflows (FDI) from foreign investment institutions (FIIs)

Remittance has been a major source of foreign currency for Bangladesh in the last 15 years. Bangladesh gets enormous amount of capital inflows (investments) that more than compensates for the export deficit. Loans taken abroad by Bangladeshi companies and the government are done in dollars and are brought to Bangladesh. When multinational companies sets up factories in Bangladesh, they bring a lot of dollars converting to Taka. Foreign portfolio investors (FII) are mutual funds and other financial companies that bring dollars to invest in Bangladeshi stocks and bonds.
This large stock of foreign exchange reserves of Bangladesh provides an important source of self-insurance against potential balance of payments crisis and strengthens sovereign credit outlook — which attracts higher foreign investment, lowers country-risk premium charged on foreign borrowing and expands potential investor base for any sovereign bond that the Government Bangladesh decides to issue in the future.
Besides, rising foreign exchange reserve creates challenges for Bangladesh Bank in terms of exchange rate management, containing inflation, maintaining profitability and productively allocating public resources.

## How do foreign currency reserves help the economy of Bangladesh?

Foreign exchange reserves act as the first line of defense for Bangladesh in case of economic slowdown, but acquisition of reserves has its own costs. Foreign exchange reserves facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in Bangladesh. Foreign exchange reserves of Bangladesh act as a cushion against the volatility of Taka once global interest rates start rising.

## How do foreign exchange reserves affect the economy of Bangladesh?

Foreign currency reserves measure the ability of an economy to deal with a major economic downturn or changing trade positions. From US$9 billion in 2011, foreign exchange reserves of Bangladesh Bank have risen exponentially and ended as on the 31st December, 2017 at US$33.22 billion.

With this level of reserves, Bangladesh can now meet the import bills of around 10 months — far higher than the minimum three-month requirement. This praiseworthy development was initially brought about by exports and remittance outpacing imports (Current Account creating balance of payments surplus).

Normally three months import and debt obligation is considered adequate foreign exchange reserves.

According to the IMF, reserves capable of meeting 3.1 (floating exchange rate) to 9.6 (fixed exchange rate) months of import bills are adequate for low-income countries.

So, currently Bangladesh maintains the requirements of 9.6 months at the current growth of foreign purchase.

In view of Bangladesh's current slow export growth and decline in remittance inflows, the current foreign exchange reserves of Bangladesh is good enough to meet the import bills for the next 9.6 months — going by an estimated monthly requirement of US$3.5 billion.

However, the excess foreign currency reserves of Bangladesh is created with foreign borrowings. This borrowing costs us heavily in terms of interest and creates pressure on the annual budget of Bangladesh.

## Is it compulsory to export to only USA in order to increase foreign exchange reserves?

It is not mandatory to export to only the USA in order to increase foreign exchange reserves. When countries other than the USA trade with each other they use USD to make and receive payments (it can also be EURO or Pound Sterling but usually it is USD) as it is the most acceptable currency in international market.

When Bangladesh imports crude oil from Saudi Arabia it pays in USD (How Bangladesh got this?

Well, Bangladesh might have exported something to the USA and had got USD or might have taken a loan in USD from international market) and when Bangladesh exports readymade garments items to the European countries it receives the payment also in USD. So, it is not mandatory to only export to the USA in order to increase USD foreign exchange reserves. But it is important that the value of a country's exports is more that of its imports in order to accumulate foreign exchange reserves.

## How can Bangladesh increase its foreign exchange reserves held in the form of US dollars?

The primary sources for earning US dollars foreign exchange reserves is through exports (to any country willing to trade with Bangladesh in US dollars; in the case of Bangladesh, China trades with Bangladesh in US dollars, not in Yuan) or through capital inflows (FDI) denominated in USD. When a foreign investor invests in an Bangladeshi business (or buys Bangladeshi stock), he has to do so in Taka and not US$. For this to happen, he will have to sell the US$ in the currency markets (and buy Taka in return). Such selling of US$ (and buying of Taka) causes depreciation in the value of the US$ (and a concomitant appreciation in the value of Taka).

This Taka is in turn invested in Bangladeshi entities (to build factories, buy equipment, pay wages and rent office space). The consequence is increase in money supply within the economy — which increases liquidity (and this can be potentially inflationary). So, capital inflows are both value-appreciative (for Taka) and inflationary — both are headaches for Bangladesh Bank. Hence, Bangladesh Bank goes into the currency markets to buy these additional US$ from the currency traders (in return for Taka). Such buying of US$ (and selling of Taka) by Bangladesh Bank has the exact opposite effect as before:- the US$ appreciates in value while Taka depreciates in value — thereby canceling the effects of appreciation in its value caused earlier. These new US$ bought by Bangladesh Bank constitute an increase in the accumulated foreign exchange reserves of Bangladesh Bank.

## How does Bangladesh Bank create foreign exchange reserves when it has a trade deficit always?

Trade alone does not result in foreign exchange inflows. Bangladesh gets enormous amount of capital inflows (investments) that more than compensates for the export deficit. Foreign inward remittances sent by Bangladeshis living abroad are also an important source of foreign exchange inflows. Further foreign exchange inflows come through portfolio investments in stocks and capital inflows (FDI) from foreign investment institutions (FIIs). Investments inflows from FDI also constitute a volume of inflows. Moreover, corporate organisations are allowed to borrow in foreign currencies from abroad. These should also necessarily be brought into the country. Bangladesh Bank currently collects foreign exchange from the open market whenever such inflows distort the currency parity. There are also inflows invested in our treasuries and bonds. The reduction in value of oil imports and gold imports have also resulted in foreign exchange savings. Thus, Bangladesh Bank maintains a fine balance between foreign exchange reserves, Taka/US Dollar parity and Taka resources.

Building adequate foreign exchange reserves is very critical for any country — mostly for an emerging economy like Bangladesh where a currency is not fully convertible. How much foreign currency reserves are required is always a subject matter of debate as foreign exchange reserves are mostly maintained in USD and it cannot be kept idle in foreign banks. So, foreign exchange reserves are necessarily invested in US treasuries — which yield only 2% for 10 year treasuries. So, if Bangladesh maintains very high balances, it will get return of just 2% whereas Bangladesh pays around 5-8% on its debt. If the reserves are too low, it will send weak signals to the financial markets — especially currency markets. So, a country needs a very fine balance on deciding what is adequate. Bangladesh Bank is able to increase the nation’s foreign exchange reserves and also prevent the currency from appreciating in value in the same time. Bangladesh has current account deficit (trade deficit) as Bangladesh imports more than it exports. This is due to fact because Bangladesh is heavily depended on non-elastic items like oil which is imported from OPEC countries.

## Challenges associated with rising foreign exchange reserves of Bangladesh Bank

From US$9 billion in 2011, foreign exchange reserves of Bangladesh Bank have risen exponentially and ended 2017 at US$33.22 billion.

- **Earning Low, Paying High**: Since 2012, rapid reserve accumulation compelled Bangladesh Bank to relentlessly purchase excess dollars from the foreign exchange market to prevent Taka appreciation (to protect exports and remittance). However, purchasing foreign currency injected local currency into the economy which undermined money supply and inflation targets. To meet monetary programme objectives, Bangladesh Bank had to sterilise excess money supply incurring massive costs as the interest paid on sterilisation operations greatly exceeded that received on foreign exchange reserve holdings. Reserves are generally invested in safe and liquid (easily convertible to cash) foreign government securities which earn less than 1% while Bangladesh Bank pays more than 5% interest rate on its liabilities from sterilisation operations.
- **Increasing Risk to Central Bank Balance Sheet**: The rapid expansion of balance sheet of Bangladesh Bank due to foreign exchange intervention raises risks associated with unfavourable exchange rate movement. An appreciation of the local currency can result in sizeable valuation losses on foreign exchange reserve holdings. As seen in the 2012-13 Fiscal Year, Bangladesh Bank incurred foreign currency revaluation loss due to Taka appreciation — which reduced its profitability and equity base (Source: Annual Report of Bangladesh Bank). Further episodes of Taka appreciation could seriously weaken the financial health of Bangladesh Bank and further reduce its independence, ability to meet monetary targets and efficiency of foreign exchange reserve management.
- **Escalating Opportunity Costs**: It is also worth mentioning that foreign exchange intervention entails high opportunity costs since resources used could have been directed towards productive ventures. For instance, authorities could have used these resources to finance much needed infrastructure projects. As foreign exchange reserves continue to build, the overall opportunity cost of these low returns (compared to returns on alternative projects) will rise.

## What to do with the rising foreign exchange reserves of Bangladesh Bank?
## Recommendations: Foreign Exchange Reserve Management Options

In view of the growing challenges, existing foreign exchange management policy cannot be a sustainable medium-term solution — especially if the pace of foreign currency inflow rises (for instance, due to rebound in exports and remittance). Authorities need to implement a dynamic reserve management strategy which carefully balances liquidity requirements, safety of capital and return on investment while supporting economic development and growth. To implement the multiple objectives, authorities need to establish how much reserves (above three-month import cover) should be held as buffer against external shocks (precautionary reserves).
The remaining portion is excess reserves. Investment using precautionary reserves should be in highly liquid instruments while excess reserves can be deployed in longer-term and potentially less liquid projects.
A number of strategies, incorporating these considerations, are outlined below.

- Firstly authorities need to strengthen exposure in US fixed-income securities, given that the Federal Reserve Board is expected to steadily increase interest rates over the next two to three years. Using precautionary reserves, higher investment in US treasuries and highly liquid corporate bonds could be considered. Investment in exchange-traded funds (ETF) with stable historical returns can also be explored.
  ETF is an investment fund which generally tracks an index of financial assets and is traded in stock exchanges like most other equities. It is now increasingly utilised by the central banks around the world to diversify and improve returns from foreign exchange reserves.
- Secondly Bangladesh Bank should utilise excess reserves to expand its ongoing Selective Easing programme. In this regard, the fund-size of the following projects could be increased: Green initiatives, export promotion activities, environmentally responsible investments, promoting women entrepreneurship, skill-building ventures and supporting small and medium enterprises (SMEs). Excess reserves can also be used to create a low-cost foreign currency fund for private sector manufacturing firms to accelerate productive imports. This strategy will serve the dual-purpose of encouraging new investments and generating improved returns on foreign exchange reserves for Bangladesh Bank.
- Finally authorities could create an Energy Sector Fund to finance nationally-important power projects and a "Transport Sector Development Programme" — both using excess reserves.
  Depending on the initial fund size and future buildup of excess reserves, authorities may need to prioritise which of the following transport sector projects it can finance:- construction of major bridges, elevated or underground rail-based mass transit system, bus rapid transit, stronger port connectivity and rural road network.

Channeling reserves in new directions will not be easy. Strong governance, separation from politically-motivated decisions and rigorous monitoring and evaluation are prerequisites for Bangladesh to reap the benefits of rising foreign exchange reserves. If utilised effectively the abovementioned options are expected to increase financial feasibility of foreign exchange management, stimulate private sector investment, create jobs and help Bangladesh achieve higher growth in a more inclusive manner.

**Debit** is an accounting entry that results in either an increase in assets or decrease in liabilities on a company's balance sheet or in a person's bank account. A debit on accounting entry will have opposite effects on the balance depending on whether it is done to assets or liabilities, with a debit to assets indicating an increase and vice versa for liabilities.

**Credit** is an accounting entry that either decreases assets or increases liabilities and equity on the company's balance sheet. On the company's income statement, a debit will reduce net income while a credit will increase net income.

**Credit (as a loan)** is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future generally with interest. It also refers to the borrowing capacity of an individual or company.

**Bank Draft** is an instrument issued by one branch of a bank on another branch of the bank containing an order to pay a certain sum on demand to the person named on the draft. It is issued to transfer funds and to settle outstanding balances between banks or to provide a customer with funds payable at a bank in a different location. Bank drafts are valid for a certain period generally for six months as indicated over the face of draft.

**Demand Draft** is an instrument used for effecting transfer of money. It is a negotiable instrument. Cheque and Demand-Draft both are used for transfer of money. We can 100% trust a DD. It is a banker's check.
A check may be dishonoured for lack of funds, but a DD cannot be dishonoured. Cheque is written by an individual and demand draft is issued by a bank. People believe banks more than individuals.

**Key differences between Payment Order and Demand Draft**

| Factors | Payment Order | Demand Draft |
|---|---|---|
| Definition | Payment Order is a document which instructs a bank to pay a certain sum to a third party. Such orders are normally acknowledged by the bank which provides a guarantee that the payment will be made.<br>It is also called bankers cheque. | Demand draft is a signed, written order by which one party (the drawer) instructs another party (the drawee) to pay a specified sum to a third party (the payee) at sight or at a specific date. |
| Negotiable | It is not an negotiable instrument | It is an negotiable Instrument |
| Payable | It is payable on the issuing branch | It is payable to same bank with other branch |
| Payment | It is not a mode of payment | It is a mode of payment |
| Payment made | The payment is made locally | The payment is made in one place to another place |

**Stop Payment Order** is a request made to a financial institution to cancel a check or payment that has not been processed yet. A Stop Payment Order is issued by the account holder and can only be enacted if the check or payment has not already been processed by the recipient.

**Key differences between Cheque and Demand Draft**

| Cheque | Demand Draft (DD) |
|---|---|
| A **Cheque** is issued by the customer and bank is not under obligation to honour and would honour only if there is sufficient funds available in the account.<br>A Cheque is a promissory note instructing the bank to pay a particular person or the bearer of the cheque the amount mentioned.<br>If the top right part of the cheque is crossed, the funds cannot be paid out in cash but deposited into a bank account. | Demand Draft (DD) is a signed, written order by which one party (the drawer) instructs another party (the drawee) to pay a specified sum to a third party (the payee) at sight or at a specific date. |
| Cheque is issued by the customer. | DD is issued by the bank. |
| In the case of Cheque, payment is made after presenting the cheque to the bank. | DD is given after making payment to the bank. |
| A Cheque can bounce due to insufficient balance. | DD cannot be dishonored as the amount is paid beforehand. |
| Payment of Cheque can be stopped by the drawee. | Payment cannot be stopped in DD. |
| A Cheque can be paid to bearer or order. | DD is paid to a person on order. |
| In the case of Cheque, drawer and payee are different persons. | In the case of DD, both the drawer and the payee are banks. |
| A Cheque needs signature to transfer amount. | DD does not require signature to transfer funds. |

**Types of Credit Instruments**: There are 2 types of credit instruments: negotiable & non-negotiable instruments.

**Negotiable Instruments** are cheque, bill of exchange, promissory note, demand draft, bank note, Treasury note and government note.

**Non-negotiable Instruments** are postal order, money order, payment order and share certificate.

**Negotiable Instrument** is a document guaranteeing the payment of a specific amount of money (either on demand or at a set time) without conditions in addition to payment imposed on the payer. They payment is given to the person named on the instrument or to the bearer. A negotiable instrument is usually in the form of cheque, draft, bill of exchange, promissory note or acceptance. A check is considered a negotiable instrument.
This type of instrument is a transferable and signed document that promises to pay the bearer a sum of money at a future date or on demand.

## Negotiable Instruments Act—1881 and its important sections

Negotiable instruments recognised by Negotiable Instruments Act 1881 are:-

(i) Promissory notes
(ii) (ii) Bills of exchange
(iii) (iii) Cheques

A negotiable instrument is a piece of paper which entitles a person to a sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery.
There were total 142 Sections in the Negotiable Instruments Act—1881 when came into force. The act was amended and amendment Act inserts five new sections from 143 to 147 touching various limbs of the parent Act and Cheque truncation through digitally were also included and the amendment Act has been recently brought into force.

**Some important sections are listed below:**

**Section 4** of the Negotiable Instruments Act—1881 defines the promissory note, "A **Promissory Note** is an instrument in writing (note being a banknote or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the order of a certain person, or to the bearer of the instruments."

**Section 5** of the Act defines the bill of exchange, "A **Bill of Exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

**Section 6** of the Act defines the Cheque "A **Cheque** is a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand".
All Cheques are bill of exchange, but all bills are not Cheque.

- Section 6(A) defines 'a Cheque in the electronic form'
- Section 6(B) defines 'a truncated Cheque'

**Section 7** of the Act gives definition of 'drawer' and 'drawee'. The maker of the bill of exchange or Cheque is called "drawer" and the person thereby directed to pay is called the "drawee".

**Section 13** of the Act states that a negotiable instrument is a promissory note, bill of exchange or a Cheque payable either to order or to bearer.

**Section 18 (Where amount is stated differently in figures and words):** If the amount undertaken or ordered to be paid is stated differently in figures and in words, the amount stated in words shall be the amount undertaken or ordered to be paid.

**Section 19 (Instruments payable on demand):** A promissory note or bill of exchange, in which no time for payment is specified, and a Cheque, are payable on demand.

**Section 22 ("Maturity"):** The maturity of a promissory note or bill of exchange is the date at which it falls due. The section also defines days of grace**.**

**Section 25 (When day of maturity is a holiday):** When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the next preceding business day.
**Section 45:** Holder's right to duplicate of lost bill.

**Section 58:** A promissory note, bill of exchange or Cheque payable to bearer is negotiable by endorsement and delivery thereof**.**

**Section 78 (To whom payment should be made):** Payment of the amount due on a promissory note, bill of exchange or Cheque must, in order to discharge the maker or acceptor, be made to the holder of the instrument.

**Dishonour of a Negotiable Instrument**

When a negotiable instrument is dishonoured, the holder must give a notice of dishonour to all the previous parties in order to make them liable. A negotiable instrument can be dishonoured either by nonacceptance or by non-payment. A Cheque and a promissory note can only be dishonoured by non-payment but a bill of exchange can be dishohoured either by non-acceptance or by non-payment.

**Section 91:** Dishonour by non-acceptance

**Section 92:** Dishonour by non-payment

**Section 138:** Dishonour of Cheque for insufficiency, etc., of funds in the account

**Which banking law is related with (relevant to) 'Cheque'/Bill of Exchange/Promissory Note**
The Negotiable Instruments Act—1881 is related with (relevant to) 'Cheque' (its definition and characteristics).

**Cheque** is a negotiable instrument instructing a bank to pay a specific amount from a specific account held in the maker/depositor name with that bank. Cheque is a bill of exchange drawn on a specified banker ordering the banker to pay a certain sum of money to the drawer of cheque or another person.
Money is generally withdrawn by clients by cheques. Cheque is always payable on demand.

The duration of a valid Cheque is six months.

**Crossed Cheque**: A cheque is called crossed cheque when 02 parallel lines are drawn across the top left corner of the cheque and the words "A/C Payee" are written between the lines. A cheque is crossed for more security.

What is written across the corner of a Cheque to be cleared through only a bank account? Ans: **Account Payee**

**Stale Cheque** is a cheque presented at the paying bank after a certain period (typically 6 months) of its payment date. A stale check is not an invalid check, but it may be deemed an irregular bill of exchange.
A bank may refuse to honour it unless its drawer reconfirms it payment either by inserting a new payment date or by issuing a new check.

**Dishonour of Cheque** means non-payment of a cheque by the paying banker with a return memo giving reasons for the non-payment.

**Difference between Cheque and Money (Banknote)**
Cheque is not legal tender. It is not obligatory to all to receive it and it is handed over only for once. But money or banknote is the legal tender. It is legally obligatory to all to receive it. Banknotes are handed over many times.

**Post-Dated Cheque (Why banks take undated or post-dated cheque from client)**
The banks (lender or creditor) obtain post dated cheque from the borrower or debtor for regular repayment of instalments of term loans. Secured advances will have collateral or guarantee in addition to this.
In case of default (when the borrowers fail to return back the money within the stipulated timeline), the cheque will be used to obtain payment from the borrower's account. Bouncing of a cheque is a criminal offence and the issuer can be sued under legal framework.

**Parties of a Cheque**: A Cheque has three parties — Drawer, Drawee and Payee
**Drawer**: A drawer is a person who draws a Cheque.
**Drawee**: A drawee is a bank on whom a Cheque is drawn.
**Payee**: A payee is a person in whose favour a Cheque is drawn.

**Types of Cheque**
**Bearer Cheque**: The Bearer Cheque is a kind of Cheque which can be drawn by any individual who carries the Cheque to the bank.
**Order Cheque**: Order Cheque can be only drawn by the person whose name is specified in the Cheque.
For drawing money from Order Cheque, the beneficiary should carry some government identity to the bank.
**Crossed Cheque**: The Crossed Cheque can only be redeemed by following few set of instructions like it cannot be redeemed at the cash counter. It can be deposited directly into a bank account.
**Uncrossed Cheque**: Uncrossed Cheque is also called as open Cheque. This kind of Cheque can be redeemed at the cash counter.
**Stale Cheque**: Stale Cheque is a kind of Cheque which can be redeemed only after the date specified on it.
This Cheque can be drawn in cash or directly deposited into only after the date specified on the Cheque.

## Essential Characteristics of a Cheque

| | |
|---|---|
| | A cheque has the following essential elements or characteristics. |
| 1. | **It must be in writing**<br>A Cheque must be in writing. It can be written in ink pen, ball point pen, typed or even printed. An oral order to pay is not considered as Cheque. |
| 2. | **It should be drawn on banker (Cheque is drawn by a customer on his bank)**<br>A cheque is always drawn on a specific bank mentioned therein. A Cheque can be drawn on a bank where the drawer has an account, savings bank or current account. Cheque book facility is made available only to account holder who are supposed to maintain certain minimum balance in the account. |
| 3. | **Cheque contains an unconditional order to pay**<br>A Cheque cannot be drawn so as to be payable conditionally. The drawer's order to the drawee bank must be unconditional and should not make the Cheque payable dependent on a contingency. A conditional Cheque shall be invalid. |
| | **Cheque must mention exact amount to be paid**<br>Cheque must be for money only. The amount to be paid by the banker must be certain. It must be written in words and figures. |
| 4. | **The check must have an order to pay a certain sum**<br>The Cheque should contain an order to pay a certain sum of money only. If a Cheque is drawn to do something in addition to, or other than to pay money, it cannot be a Cheque. For example, if a Cheque contains 'Pay Tk. 5,000/- and a TV worth Tk. 5,000/- to A' it is not a Cheque. |
| 5. | **It should be signed by the drawer and should be duly dated by customer of bank**<br>A Cheque does not carry any validity unless signed by the original drawer. Unsigned Cheques or signed by persons other than customers are not regarded as Cheque. The Cheque must indicate clearly the date, month and the year. A Cheque is valid for a period of three months from the date of issue. |
| 6. | **Cheque must be payable on demand**<br>A Cheque when presented for payment must be paid on demand. If Cheque is made payable after the expiry of certain period of time then it will not be a Cheque. |
| 7. | **Validity**<br>A Cheque is normally valid for six months from the date it bears. Thereafter it is termed as Stale Cheque. A post-dated or antedated Cheque will not be invalid. In both cases, the validity of the Cheque is presumed to commence from the date mentioned on it. |
| 8. | I**t may be payable to the drawer himself**<br>Cheques may be payable to the drawer himself/herself. It may be drawn payable to bearer on demand unlike a bill or a pro-note. |
| 9. | **Banker is liable only to the drawer**<br>The banker on whom the Cheque is drawn shall be liable only to the drawer. A holder or bearer has no remedy against the banker if a Cheque is dishonored. |
| 10. | **It does not require acceptance and stamp**<br>Unlike a bill of exchange, a Cheque does not require acceptance on part of the drawee. But there is a custom among banks to mark Cheques as 'good' for the purpose of clearance. But this marking is not an acceptance. Similarly, no revenue stamp is required to be affixed on Cheques. |

A **Promissory Note** is a signed financial instrument that contains a written promise by one party (the issuer of the note) to pay a specified person or party (the payee of the note) a specified sum of money — either on demand or at a specified future date. A promissory note typically contains all the terms pertaining to the indebtedness — such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature. If the promissory note is unconditional and readily salable (able to be sold), then it is called a negotiable instrument.

**Bill of Exchange** is a non-interest-bearing written and unconditional order used primarily in international trade that binds one party (the drawer) to pay a fixed sum of money to another party (the drawee) at a predetermined future date for payment of goods and services received. Bills of exchange are similar to Cheques and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements.
The difference between a promissory note and a bill of exchange is that this product is transferable and can bind one party to pay a third party that was not involved in its creation. If these bills are issued by a bank, they can be referred to as bank drafts. If they are issued by individuals, they can be referred to as trade drafts.

**WACC (Weighted Average Cost of Capital)** is the average after-tax cost of a company's various capital sources (including common stock, preferred stock, bonds and any other long-term debt). A company has two primary sources of financing (debt and equity) and in simple terms, WACC is the average cost of raising that money. WACC is calculated by multiplying the cost of each capital source (debt and equity) by its relevant weight and then adding the products together to determine the WACC value.

**DCF (Discounted Cash Flow)** is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value — which is used to evaluate the potential for investment. If the value arrived at through DCF analysis is higher than the current cost of the investment, the opportunity may be a good one.

**Nominal Interest Rate** is the interest rate before taking inflation into account. The nominal interest rate is the rate quoted in loan and deposit agreements.
The equation that links nominal and real interest rates (1+Nominal rate) = (1+Real interest rate) (1+Inflation rate). It can be approximated as nominal rate = Real Interest Rate + Inflation Rate.

**Nominal Interest Rate vs Real Interest Rate:** The real interest rate is the nominal rate of interest minus inflation. In the case of a loan, it is this real interest that the lender receives as income.
If the lender is receiving 8% from a loan and inflation is 8%, then the real rate of interest is zero because nominal interest and inflation are equal. A lender would have no net benefit from such a loan because inflation fully diminishes the value of the loan's profit.
The relationship between real and nominal interest rates can be described in the equation: $(1+r)(1+i) = (1+R)$

**Preferred Creditor** is an individual or organisation that has priority in being paid the money it is owed if the debtor declares bankruptcy. Because bankrupt entities do not have enough money to fulfil all of their financial obligations, some investors that are owed money will get paid in part or not at all.
A preferred creditor has a first claim to any funds that are available from the debtor.

**Preferential Creditor** is a creditor receiving a preferential right to payment upon the debtor's bankruptcy under applicable insolvency laws. In most legal systems, some creditors are given priority over ordinary creditors either for the whole amount of their claims or up to a certain value.

**Bridge Financing** is financing extended to a person, company or other entity using existing assets as collateral in order to acquire new assets. Bridge financing is usually short-term. In investment banking terms, bridge financing is a method of financing used by companies before their IPO to obtain necessary cash for the maintenance of operations. Bridge financing is designed to cover expenses associated with the IPO and is typically short-term in nature. Once the IPO is complete, the cash raised from the offering will immediately payoff the loan liability.

**Mezzanine Financing** is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by banks and venture capital companies.

**Niche Market** is a small but profitable market segment on which a specific product is focused. It defines the product features aimed at satisfying specific market needs as well as the price range, production quality and the demographics that is intended to impact. Market niches do not exist by themselves, but are created by identifying needs or wants that are not being addressed by competitors and by offering products that satisfy them.

**Investment Bank**: Investment bankers are financial middlemen in security offering process. They purchase securities from companies and governments and resell them to the general public. Thus, investment banks bring together suppliers and users of long-term funds in a capital market and thereby play a key role in security offering process. They do not invest their own funds permanently nor accept and guard the savings of others as commercial banks do. So, investment banks are neither investors nor bankers. The traditional function of the investment banks has been to act as middlemen in channelling individual's savings and funds into the purchase of business securities. But now-a-days, they also provide advice and help in distribution of securities. When underwriting a security issue, an investment bank guarantees the issuer that it will receive a specific amount from the issue. Once the investment bank owns new securities, it must get them into the hands of ultimate investors. The investment bank through experience becomes an expert in the issuance and marketing of new securities.

**Merchant Bank** is a bank that deals mostly in international finance and long-term loans for companies and underwriting. Merchant banks do not provide regular banking services to the general public.
A merchant bank is a financial institution that specialises in services such as acceptance of bills of exchange, hire purchase or instalment buying, international trade financing, long-term loans and management of investment portfolios. Merchant banks also advise on (and invest own funds in) acquisitions mergers, and takeovers.

**Offshore Bank** is a bank located outside the country of residence of its depositors, with most of its account holders being non-residents of the jurisdiction. Offshore banking units (OBUs) make loans in the Eurocurrency market when they accept deposits from foreign banks and other offshore banking units, but they cannot accept deposits from (or make loans to) the residents of the country in which it is located.
Their activities are not restricted by local monetary authorities or governments, but they are prohibited from accepting domestic deposits. An account held in a foreign account (especially in a tax haven country) is often described as an offshore account. Typically, an individual or company will maintain an offshore account in a low-tax jurisdiction (or tax haven) that provides financial and legal advantages such as greater privacy (bank secrecy), little or no taxation (tax havens) and protection against local, political or financial instability.

**General Banking** is an operational function of the bank which consists of the management of deposit, cash, bills, account opening, security instruments handling, customer services, locker facilities and other essential services of the bank.

**Corporate Banking** refers to the aspect of banking that deals with corporate customers. Corporate banking is banking activities done by large companies and these activities include borrowing a loan or other large financial transaction. Corporate banking is a term for a group of services that banks provide to companies that open accounts with them. There are a variety of services that comprise this type of banking (including loan, advising and securitisation services). Much of corporate banking resembles individual banking, but there are also aspects that are specific to the needs of corporate customers. The practices of corporate bankers have evolved in response to the relaxation of regulations in Bangladesh on the investment activities of banks.
So, they can provide a wider range of options to their corporate clients.

**Online Banking** is an electronic payment system that enables customers of a financial institution to conduct financial transactions on a website operated by the institution — such as a retail bank, virtual bank, credit union or building society. Online banking is also referred as internet banking, e-banking and virtual banking.

### Relation between Online Banking and Green Banking

Green banking is a step to change client habits in the banking sector for the sustainable development in future. Online banking is the easiest way to green banking. It is paperless banking which will reduce the cost of banking activities.

**Green Banking** means promoting environmental-friendly practices and reducing carbon footprint from our banking activities. Green Banking is a device that considers social and ecological factors to protect environment and conserve natural resources like power and energy in order to ensure a safer world for the next generation. Green bankers are concerned about sustainable development.

### How Green Banking initiatives can be implemented in Bangladesh?

Here are some of the strategies which the Bangladeshi banks should follow to create green banking a success in Bangladesh:
**Giving Green Auto Loan at a low interest rate**:— The scheduled banks should start giving loan at reasonable to customers who want to buy a new car fueled by alternative sources of energy. Banks should educate the masses about the benefit of these cars along with the interest rate they offer.
**Building up new infrastructure based on green building standards and also giving loans**:— Banks should develop integrated water and energy saving technology into building practice. If not, they should at least offer loan at low interest rate to those who want to buy such houses.
**Setting up Solar-powered branches or Green branches**:— Banks should set up more and more solar-powered ATM for use by its customers. These branches help in reducing carbon emissions. Not only solar-powered ATM, banks should set up Green branches which will use minimum amount of renewable energy, paper and water resources. These branches will also create awareness among common man and will motivate them to save electricity and water.
**Introducing the concept of Green Finance and Green Marketing**:— Banks should adopt the concept of "Green Marketing" which is basically carrying out different range of activities to develop new products related to green technology and encouraging manufacturers to design Green projects. The banks should also adopt the concept of "Green Finance" which basically talks about financing eco-friendly projects and business models. Indian banks should finance projects which are environmental friendly like recycling waste material plant, clean water supply plant and waste water treatment plant.
**Social Responsibility Services**:— The banks can also indulge in various social responsibility services like maintaining parks, organising various tree plantation campaigns and organising various awareness programmes.

**Agent Banking** is a retail or postal outlet contracted by a financial institution or a mobile network operator to process the financial transactions of the clients.

**Mobile Banking** is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or tablet. It is a quite popular method of banking that fits in well with a busy, technologically oriented lifestyle.

**List of Some mobile banking service providers in Bangladesh**

| Serial | Name of mobile banking service | Name of service providing bank |
|---|---|---|
| 01. | bKash | Brac Bank Limited |
| 02. | Rocket | Dutch-Bangla Bank Limited (DBBL) |
| 03. | mCash | Islami Bank Bangladesh Limited (IBBL) |
| 04. | Mycash | Mercantile Bank Limited |
| 05. | UCash | United Commercial Bank Limited (UCBL) |
| 06. | SureCash | National Credit and Commerce Bank Limited (NCC Bank Ltd.) |
| 07. | EasyCash | Prime Bank Limited |

## Advantages of Mobile Banking

- It utilises the mobile connectivity of telecom operators and therefore does not require an internet connection.
- With mobile banking, users of mobile phones can perform several financial functions conveniently and securely from their mobile.
- A customer can check his/her account balance, review recent transaction, transfer funds, pay bills, locate ATMs, deposit cheques and manage investments.
- Mobile banking is available round the clock 24/7/365. It is easy and convenient and an ideal choice for accessing financial services for most mobile phone owners in the rural areas.
- Mobile banking is said to be even more secure than online/internet banking.

## Disadvantages of Mobile Banking

- Mobile banking users are at risk of receiving fake SMS messages and scams.
- The loss of a person's mobile device often means that criminals can gain access to a person's mobile banking PIN and other sensitive information.
- Regular users of mobile banking over time can accumulate significant charges from their banks.

**Differences between Branch Banking and Unit Banking**

| Factors | Branch Banking | Unit Banking |
|---|---|---|
| Meaning | A bank that is connected to one or more other banks in an area or outside of it. It provides all the usual financial services but is backed and ultimately controlled by a larger financial institution. | It is single (usually small) bank that provides financial services to its local community. It does not have other bank branches elsewhere. |
| Stability | Typically very resilient, able to withstand local recessions (for example: a bad harvest season in a farming community) thanks to the backing of other branches. | Extremely prone to failure when local economy struggles. |
| Operational freedom | Less | More |
| Loans and advances | Loans and advances are based on merit — irrespective of the status . | Loans and advances can be influenced by authority and power. |
| Financial resources | Larger financial resources in each branch. | Larger financial resources in one branch |
| Decision-making | Delay in decision-making as they have to depend on the Head Office. | Time is saved as decision-making is in the same branch. |
| Funds | Funds are transferred from one branch to another. Underutilisation of funds by a branch would lead to regional imbalances. | Funds are allocated in one branch and no support of other branches. During financial crisis, unit bank has to close down. So, it leads to regional imbalances or no balance growth. |
| Cost of supervision | High | Less |
| Concentration of power in the hand of few people | Yes | No |
| Specialisation | Division of labour is possible and hence specialisation is possible. | Specialisation not possible due to lack of trained staff and knowledge. |
| Competition | High competition with the branches. | Less competition within the bank. |
| Profits | Shared by the bank with its branches. | Used for the development of the bank. |
| Specialised knowledge of the local borrowers | Not possible and hence bad debts are high. | Possible and less risk of bad debts. |
| Distribution of capital | Proper distribution of capital and power. | No proper distribution of capital and power. |
| Rate of interest | Rate of interest is uniformed and specified by the Head Office or based on instructions from Bangladesh Bank. | Rate of interest is not uniformed as the bank has own policies and rates. |
| Deposits and assets | Deposits and assets are diversified, scattered and hence risk is spread at various places. | Deposits and assets are not diversified and are at one place, hence risk is not spread. |

**Consumer Card** is debt that someone incurs for the purpose of purchasing a good or service. This includes purchases made on credit cards, lines of credit and some loans.
Consumer credit is basically the amount of credit used by consumers to purchase non-investment goods or services that are consumed and whose value depreciates quickly.

**Debit Card** is a plastic card issued by banks to customers to withdraw money electronically from their accounts. When a bank client purchases things on the basis of Debit Card, the amount due is debited immediately to the account. Many banks issue Debit-Cum-ATM Cards. It is a type of plastic money which provides an alternative payment method for cash withdrawals through ATM and this is a prepaid ATM card.

**Credit Card** allows a bank customer to borrow money when he purchases. It does not directly debit from his bank account at the time of purchase instead he is sent a bill every month for the sum of total of his purchase.

**Key Differences between Debit Card and Credit Card**

| Factors | Credit Card | Debit Card |
|---|---|---|
| Meaning | Credit card is issued by a bank to allow the cardholder to purchase goods and services on credit. The payment is made by the bank on the customer's behalf. | Debit card is issued by a bank to allow its customers to purchase goods and services whose payment is made directly through the customer's account linked to the card. |
| Implies | Pay later | Pay instantly |
| Bank A/c | Bank account is not prerequisite for issuing a credit card. | Bank account is a must for issuing a debit card. |
| Limit | The credit limit set by the credit issuer. Limits increase or stay the same over time as a borrower's creditworthiness changes. | The maximum limit of withdrawing money will be less than the money lying in the saving bank account. |
| Bill | The holder of the card has to pay the credit card bill within 30 days of every month. | There is no such bill and the amount is directly deducted from the customer's account. |
| Interest Charged | Interest is charged when payment is not made to the bank within a specified time period. The interest rate is usually very high. | No interest is charged because no money is borrowed. |
| Fraud Liability | Low. Rarely held liable for fraudulent activity. | High. If someone steals the original cardholder's card and makes purchases, than money is removed from his bank account. Investigating this damage takes time. The longer he wait to report the fraud, the more likely he will be held liable for his own losses. |

**MasterCard Card** is a credit, charge, debit or prepaid card branded by MasterCard Incorporated (a major technology and global payments company). MasterCard cards are available to individual consumers and to small, mid-size and large businesses with a variety of needs and credit histories.
A wide variety of financial institutions (including Citibank and Barclays) issue MasterCards to consumer. MasterCard itself does not issue cards; it only processes the card transactions. Each issuer decides what terms and rewards to offer consumers for each card. What these cards all have in common, regardless of the issuing financial institution or card type, is that consumers can use them at any business that accepts MasterCard cards.

**Visa Card** is a type of debit card on Visa network. It has VISA logo and can be accepted to pay for the things and the money is drawn directly from a person's account. These are the debit cards which are subject to a daily limit and/or a maximum limit equal to the current/checking account balance from which it draws funds.

**Smart Card** is a security token or device with the dimensions of a credit card that uses a small microchip to store and process data. It is the advanced paid debit card by which the cash money is transferred from the client's account electronically. Smart Card is defined as a pocket sized card with embedded integrated circuit which can process information. This is a card with all personal information of any individual in financial and money market. For example: phone card is a smart card used in Bangladesh.

**ATM** is a machine that serves as a computer terminal and allows a customer to access account balance and information on a bank (thru use of a magnetically encoded plastic card) and conduct financial transactions.
ATMs are available 24 hours. Convenience is a major benefit of using ATM. People do not need to get out of the car to use a drive-up ATM. They avoid long teller lines in banks and can use the ATM to withdraw cash, make deposits and check account balances. Use of the ATM to get cash instead of swiping the debit card can help with budgeting by controlling spending and providing a statement of transactions instead of a bunch of receipts.

**Remittance** is the amount of currency which is sent by the immigrants to their own country by legal means.

**Cost Benefit Analysis** is the analysis of measurement of cost and benefit of an economic activity.

**Payment in due course** is payment made at or after the maturity of a promissory note or bill of exchange to its holder in good faith and without notice that his or her title to the bill is defective (if such is the case).

**FDR** (Fixed Deposit Receipt) is a type of account that offers the customers the opportunity to invest a fixed amount of money for fixed period at a fixed rate of interest.

**Current Account** is the account in which money can be deposited and drawn out at more times of daily bank hours. Current Accounts are made for the business class persons and account holders can made many transaction in a day. The current account attracts no interest rate. Sometimes, banks can charge some charges from this account. The deposits in current account are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day.

**Fixed Account** is the account which can be run on the basis of agreement for a certain period of time usually for three to eight months.

**Savings Account** is the account which can be started with a small amount of money to motivate the people in savings. Such accounts are made for the household saving purpose and interest rate is decided by the banks. The savings accounts are also known as individual account through which the account holders get cheque.
There is lot of flexibility for deposits and withdrawal of funds from these types of account.

**STD Account**: The term Short Term Deposit (STD) refers to an account in which an amount of money is placed in a bank or financial institution for a term no longer than 01 year. An STD will usually earn a fixed rate of interest.

**Certificate of Deposit (CD)** is a savings certificate entitling the bearer to receive interest. A banking certificate bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by the commercial banks. The term of a CD ranges from one month to 05 years.

**Power of Attorney** is a written instrument which authorises one person to act as another person’s agent or attorney. The agent can have broad legal authority or limited authority to make legal decisions about the principal's property and finance. The power of attorney is frequently used in the event of a principal's illness or disability, or when the principal cannot be present to sign necessary legal documents for financial transactions.

**SDR** (Special Drawing Rights) is a form of international money created by the IMF. It is designed to augment international liquidity by supplementing the standard reserve currencies. IMF provides loans to its members in case of exchange rate instability in SDRs.
SDR is a potential claim on the freely usable currencies of IMF members and it operates as a supplement to the existing reserves of member countries. The IMF created SDR in 1969 in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts.
1 SDR = ৳116.08 Taka (Present Conversion Rate as on 11th November, 2018)

**Asset** is the item of property and goods owned by any individual, business enterprise or bank. In accounting terms, it is any item (real or fictitious) that can be given a monetary value.
Assets are mainly two types — fixed and current. Fixed assets include land, building, plant, machinery etc. Current assets are stock of raw materials, finished goods, goods lying in process of manufacturing spares, debtors etc. In banks, current assets are cash in hand and deposits held in other banks, investment to the customers and investment securities etc.

**Liability** is a legal obligation expressed in terms of money. Liability is recognised claim or debt which is owned by an enterprise to one or more people. The liability side of a balance sheet shows the amount of money which has been made available to the enterprise. Liabilities are of two types — current liability and term liability.
In banks, liabilities are deposits of individuals and institutions, owners equity, loan from bank and other liabilities like provision for classified or unclassified investments, taxes, VAT, provision for bonus, gratuity etc.

**Fictitious Assets** are not assets at all, but they are shown as assets in the financial statements only for the time being. Fictitious Assets are a kind of asset created by an accounting entry (and included under assets in the balance sheet) that has no tangible existence or realisable value but represents actual cash expenditure.
The purpose of creating a fictitious asset is to account for expenses (such as those incurred in starting a business) that cannot be placed under any normal account heading. Fictitious assets are written off against the firm's earnings in more than one accounting period. They are recorded as assets in financial statements only to be written off in a future period. Fictitious assets are shown in the balance sheet on the asset side under the head "Miscellaneous Expenses".
**Examples of Fictitious Assets**:
- Promotional expenses of a business
- Preliminary expenses
- Discount allowed on issue of shares
- Loss incurred on issue of debentures

**Goodwill** is a long-term intangible asset that arises when a company acquires another entire business for a premium value. Goodwill is considered an intangible asset because it is not a physical asset like buildings or equipment. The value of a company's brand name, domain name, reputation, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent goodwill. The goodwill account can be found in the assets portion of a company's balance sheet.
The amount of goodwill is the cost to purchase the business minus the fair market value of the tangible assets, the intangible assets that can be identified, and the liabilities obtained in the purchase.

**What are the contingent liabilities of a bank?**
Contingent Liability is a liability or a potential loss that may occur in the future depending on the outcome of a specific event. Potential lawsuits and product warranties are some examples of contingent liability.
Contingent liabilities related to banks include both explicit guarantees (such as deposit insurance programmes) and implicit guarantees (such as guarantees on bank debt that may be provided during a banking crisis).

**Provision** means to keep aside a particular sum of money to cover up a known liabilities or anticipated losses which is probable to arise after a certain time from the past events. Provision is a type of recognition of an expected obligation which will result in the outflow of cash from the business. The amount of the liability should be easily estimated by the entity to provide for it. The recognition is to be made to provide for a known liability or decrease in the value of assets over time or a disputed claim whose probability of occurrence is maximum. If a provision is made in excess of the amount what is required, then after paying off the liability, it needs to be written back to the profit and loss account.
**Examples:**
- Provision for Bad Debts
- Provision for Depreciation
- Provision for Tax

**Reserve** is a fraction or appropriation of retained earnings which is kept aside a specific purpose in future. It is regarded as a part of shareholder's fund. The sum appropriated in the name of reserves can be used for any of the given purposes:
- For purchasing an asset in future
- To pay the dividends to shareholder consistently year by year
- For meeting out unexpected contingencies

**Types of Reserve**: The reserves are mainly divided into following categories:
1. Capital Reserve
2. Revenue Reserve
   - General Reserve
   - Specific Reserve

The most common reserve is a capital reserve where funds are set aside to purchase fixed assets. By setting aside a reserve, the Board of Directors is segregating funds from the general operating usage of a company.

| Key differences between Provision and Reserve | | |
|---|---|---|
| **Factors** | **Provision** | **Reserve** |
| Meaning | The Provision means to provide for a future expected liability. | Reserves means to keep a part of profit for future use. |
| What is it? | Charge against profit | Appropriation of profit |
| Provides for | Known liabilities and anticipated losses | Increase in capital employed |
| Presence of profit | Not necessary | Profit must be present for the creation of reserves, except for some special reserves. |
| Appearance in Balance Sheet | In case of assets, it is shown as a deduction from the concerned asset while if it is a provision for liability, it is shown in the liabilities side. | Shown on the liabilities side. |
| Compulsion | Yes; As per Generally Accepted Accounting Principles (GAAP). | Optional except for some reserves whose creation is obligatory. |
| Payment of Dividend | Dividend can never be paid out of provisions. | Dividend can be paid out of reserves. |
| Specific use | Provisions can only be used for which they are created. | Reserves can be used otherwise. |

## Difference between Book-Keeping and Accounting

**Book-keeping** is correct recording in the books of account all these business transactions that result in the transfer of money or money's worth.

**Accounting** is the systematic recording, classifying and summarising of business transaction, preparation of financial reports, the analysis and interpretation of these reports.

**Balance Sheet** is a financial statement that summarises a company's assets, liabilities and equity of the shareholders at a specific point in time — showing the financial condition of a company.

These three segments give the investors an idea as to what the company owns and owes as well as the amount invested by the shareholders. It is prepared on the last day of the accounting period. Accounts that are transferred to the balance sheet are not closed. Formula: Assets = Liabilities + Equity of the Shareholders

## What are the major assets and liabilities of the commercial banks?

## Some items of the balance sheet of a bank account in capital & liabilities side and assets side

| Capital & Liabilities Side | | Assets Side | |
|---|---|---|---|
| 1 | Share Capital | 1 (i) | Cash in Hand |
| 2 | Reserve Funds | 1 (ii) | Cash with the Central Bank (Bangladesh Bank) |
| 3 (i) | Fixed Deposits | 1 (iii) | Balance with the other banks |
| 3 (ii) | Saving Deposits | 2 | Bills and securities discounted |
| 3 (iii) | Current Deposits | 3 | Investment of bank |
| 3 (iv) | Other Deposits | 4 | Loans and Advances given |
| 4 | Borrowings (from banks and people) | 5 | Other Assets |
| 5 | Other liabilities | 6 | Furniture and premises |
| 6 | Bills payable | | |

## The Importance of Balance Sheet (What is the Use of the Balance Sheet?)

- The balance sheets are critical documents because they keep business owners informed about their company's financial standing.
- A balance sheet helps business managers or owners get a handle on the financial strength and capabilities of the business.
- Many business owners fail to recognise their companies are in trouble until it is too late. This is because some business owners are not examining their balance sheets. If the ratio of a company's assets to liabilities is less than 1 to 1, the company is in danger of going bankrupt, and the company owner will have to make some strategic moves to improve its financial health.
- The balance sheet is very important for any business along with the income statement as it offers a snapshot of a company's health. Actually both reports go hand in hand because most business transactions will affect at least two accounts in the accounting journal ledger in which one account affects the income statement while the other account affects the balance sheet.
- Balance sheets are also important because these documents let banks know if a business organisation qualifies for additional loans or credit.
- Balance sheets help current and potential investors better understand where their funding will go and what they can expect to receive in the future. Investors appreciate businesses with high cash assets as this indicates that a company will grow and prosper.

## What is another name for the balance sheet?
## What is the statement of financial position?

A balance sheet is also called a 'Statement of Financial Position' because it provides a snapshot of a company's assets and liabilities and therefore net worth at a single point in time. The statement of financial position is one of the main financial statements and it reports an entity's assets, liabilities and the difference in their totals. The amounts reported on the statement of financial position are the amounts as of the final moment of an accounting period.

The structure of the statement of financial position is similar to the basic accounting equation. For instance, a corporation will report amounts in the following format: Assets = Liabilities + Stockholders' Equity.

The statement of financial position must reflect the basic accounting principles and guidelines such as the cost, matching and full disclosure principle.

## Balance Sheet of a Commercial Bank: Liabilities and Assets

A balance sheet is a financial report that shows the value of a company's assets, liabilities and owner's equity on a specific date — usually at the end of an accounting period (such as a year). An asset is anything that can be sold for value. A liability is an obligation that must eventually be paid and thus it is a claim on assets.

The owner's equity in a bank is often referred to as bank capital — which is what is left when all assets have been sold and all liabilities have been paid. The relationship of the assets, liabilities and owner's equity of a bank is shown by the following equation:

Bank Assets = Bank Liabilities + Bank Capital (owner's equity)

A bank uses liabilities to buy assets — which earns its income. By using liabilities (such as deposits or borrowings) to finance assets (such as loans to individuals or businesses) or to buy interest earning securities, the owners of the bank can leverage their bank capital to earn much more than would otherwise be possible using only the bank's capital.

Assets and liabilities are further distinguished as being either current or long-term. Current assets are assets expected to be sold or otherwise converted to cash within 1 year. Otherwise, the assets are long-term.

Current liabilities are expected to be paid within 1 year. Otherwise, the liabilities are long-term.

Working Capital is the excess of current assets over current liabilities (a measure of its liquidity) — meaning its ability to meet short-term liabilities:

Working Capital = Current Assets – Current Liabilities

Working capital should be sufficient to meet current liabilities. However, it should not be excessive since capital in the form of long-term assets usually has a higher return. The excess of the bank's long-term assets over its long-term liabilities is an indication of its solvency.

Assets earn revenue for the bank & include cash, securities, loans, property and equipment that allow it to operate. The balance sheet of a commercial bank has two main sides — the liabilities and the assets.

From the balance sheet of a bank, a system can be known easily which a bank has followed for raising funds and allocation of these funds in different asset categories. Bank can have others money with it.

It can be in terms of shareholders share capital or depositors deposits. This money is the bank's liabilities.

On the other hand, own sources of income of the bank leads to generation of assets for bank.

| Format and example of Balance Sheet of Bank | | |
|---|---|---|
| The Balance Sheet of ABC Bank Limited | | |
| **Particulars** | **Schedule** | **Amount (Taka in millions)** |
| **Assets** | | |
| Cash balances | 8 | 300 |
| Residential mortgage | | 250 |
| Federal funds sold and securities purchased | | 110 |
| Commercial | | 230 |
| Investments | 7 | 430 |
| Credit Card | | 35 |
| Advances | 6 | 125 |
| Commercial Loans | | 20 |
| Leases | | 45 |
| Accumulated Depreciation | 5 | 5 |
| Allowance for loan and leases losses | 4 | 70 |
| **Total Assets** | | **1,620** |
| **Liabilities** | | |
| Savings | | 450 |
| Time Deposits | | 340 |
| Money market deposits | | 260 |
| Federal funds sold & purchased under agreement to repurchase | | 55 |
| Interest bearing long term debt | 3 | 130 |
| Non-interest bearing liabilities | 2 | 35 |
| **Shareholders' Equity** | 1 | **350** |
| **Total Liabilities and Shareholders' Equity** | | **1,620** |

| Balance Sheet of a foreign company as on 30/06/2018 [Money denomination in USD] | | | |
|---|---|---|---|
| **Current Assets** | | **Current Liabilities** | |
| Cash and Cash Equivalents | 85,55,000 | Accounts Payable | 97,97,000 |
| Short-Term Investments | 1,36,46,000 | Short-Term Debt | 1,60,25,000 |
| Net Receivables | 38,56,000 | Other Current Liabilities | 7,10,000 |
| Inventory | 26,75,000 | Total Current Liabilities | 2,65,32,000 |
| Other Current Assets | 52,78,000 | Long-Term Debt | 2,96,84,000 |
| Total Current Assets | 3,40,10,000 | Other Liabilities | 40,81,000 |
| **Long-Term Assets** | | Deferred Liability Charges | 37,53,000 |
| Long-Term Investments | 1,72,49,000 | Miscellaneous Stocks | |
| Fixed Assets | 1,06,35,000 | Minority Interest | 1,58,000 |
| Goodwill | 1,06,29,000 | Total Liabilities | 6,42,08,000 |
| Intangible Assets | 1,04,99,000 | **Stockholders' Equity** | |
| Other Assets | 42,48,000 | Common Stocks | 17,60,000 |
| Deferred Asset Charges | | Capital Surplus | 1,49,93,000 |
| **Total Assets** | **8,72,70,000** | Retained Earnings | 6,55,02,000 |
| | | Treasury Stock | (4,79,88,000) |
| | | Other Equity | (1,12,05,000) |
| | | Total Equity | 2,30,62,000 |
| | | **Total Liabilities and Equity** | **8,72,70,000** |

| Difference between the Balance Sheet of a bank and the Balance Sheet of a company | | |
|---|---|---|
| **Factors** | **Balance Sheet of a bank** | **Balance Sheet of a regular company** |
| **Definition** | Bank's balance sheet is prepared as per the mandate by the regulatory authorities. | Company's balance sheet is prepared as per the regulation of International Accounting Standards Board (IASB). |
| **Objective** | The main objective is to showcase an accurate trade-off between bank's profit and risk. | The main objective is to reflect the accurate financial picture of an organisation to the stakeholders. |
| **Scope** | The scope of bank's balance sheet is limited since it is applicable only for banks. | The scope of company balance sheet is much broader since it is applicable for all sorts of companies (manufacturing). |
| **Equation** | Assets = Liabilities + Shareholders' Equity (Bank's assets and liabilities are much different than any regular company) | Assets = Liabilities + Shareholders' Equity |
| **Complexity** | Preparation of balance sheet for a bank is quite complex as bank needs to calculate the "net loans". | Preparation of company balance sheet is much simpler. |
| **Time consumption** | Bank's balance sheet needs a lot of time to prepare. | Company's balance sheet does not take a lot of time to prepare. |
| **Key concepts** | Loans, short-term investments, allowance for losses on loans. | Assets, Liabilities and Shareholders' Equity. |
| **Mentionable document** | Bank balance sheet mentions reference through "schedules". | Company balance sheet mentions its reference via "notes". |
| **Type of balance** | In bank balance sheet, the type of balance is average balance. | In the company balance sheet, the type of balance is ending balance. |

**What are a bank's largest asset and liability?**

Reserves are the largest asset and deposits are the largest liability of a typical bank. Cash in its vault is the largest asset and bonds are the largest liability of a typical bank.

**Are deposits assets or liabilities of the banks?**

When the bank customers deposit their money with the banks in current account or savings account, the bank views these deposits as liabilities. The deposit itself is a liability owed by the bank to the depositor. Bank deposits refer to this liability rather than to the actual funds that have been deposited. When someone opens a bank account and makes cash deposit, he surrenders legal title to the cash and it becomes an asset of the bank. In turn, the account is a liability to the bank. There are several different types of deposit accounts including current accounts, savings accounts and certificates of deposit (CDs).

**Off-balance sheet (OBS)** refers to contingent assets or liabilities that do not appear on the balance sheet of a company.

**Off-Balance Sheet (OBS) items**: Off-balance sheet items is a term for assets or liabilities (in contrast to loans, debt and equity) that do not appear on a company's balance sheet. Off-balance sheet items are typically those not owned by or are a direct obligation of the company. Although these items are not recorded on the balance sheet, they are still assets and liabilities of the company.

**Example: Off-Balance Sheet (OBS) items**

Some of the most common off-balance sheet assets are operating leases, leaseback agreements and accounts receivable. In general, off-balance sheet items include the following:— direct credit substitutes in which a bank substitutes its own credit for a third party (including standby letters of credit—L/Cs); irrevocable letters of credit that guarantee repayment of commercial paper or tax-exempt securities; risk participations in bankers' acceptances, sale and repurchase agreements and interest rate swaps.

**Operating Lease**: An OBS operating lease is one in which the lessor retains the leased asset on its balance sheet. The company leasing the asset only accounts for the monthly rental payments and other fees associated with the rental rather than listing the asset and corresponding liability on its own balance sheet. At the end of the lease term, the lessee generally has the opportunity to purchase the asset at a drastically reduced price.

**Leaseback Agreements**: Under a leaseback agreement, a company can sell an asset (such as a piece of property) to another entity. They may then lease that same property back from the new owner. Like an operating lease, the company only lists the rental expenses on its balance sheet, while the asset itself is listed on the balance sheet of the owning business.

**Accounts Receivable**: Accounts receivable represents a considerable liability for many companies. This asset category is reserved for funds that have not yet been received from customers. So, the possibility of default is high.

**How the Off-balance sheet items are shown?**

Off-Balance sheet items are generally shown in the notes to accounts along with the financial statements.

**What are the parts of the capital of the banks?**

Banks have following parts of capital:-

**Tier-1 Capital**: Paid-up Capital + Shareholders' Equity + Retained Earnings

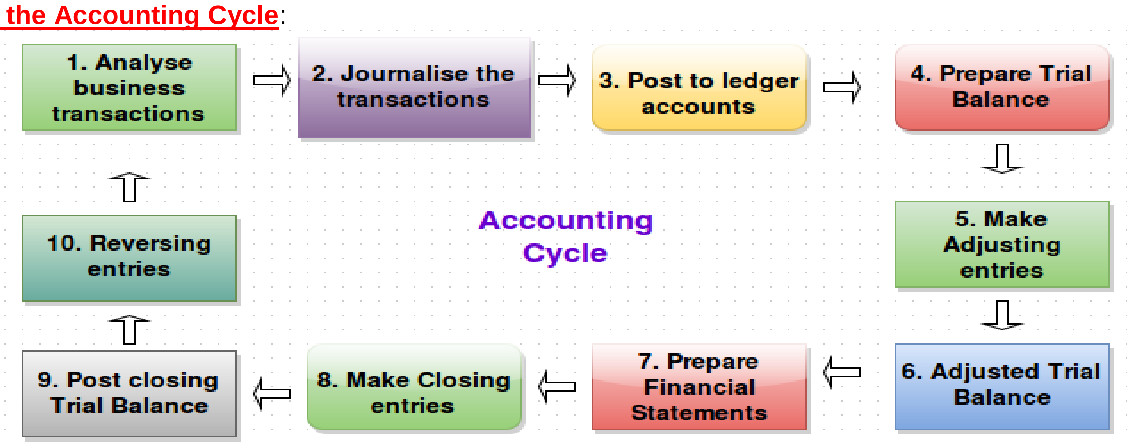
**Tier-2 Capital**: Revaluation Reserves + Secondary Capital (borrowed funds) + General Loss Reserves + Subordinated Term Debts + Undisclosed Reserves

**Tier-3 Capital**: Same as Tier-2 Capital but with a higher amount in order to face the market risks of the bank, commodities risk and foreign currency risk

Under the Basel Accord, a bank's capital consists of Tier-1 Capital and Tier-2 Capital. These two types of capital are different. Tier-1 Capital is a bank's core capital whereas Tier-2 Capital is a bank's supplementary capital.
A bank's total capital is calculated by adding its Tier-1 Capital and Tier-2 Capital together.
Regulators use the capital ratio to determine and rank a bank's capital adequacy.

**Accounting Cycle** is the collective process of identifying, analysing, recording and processing all financial transactions of a company — from when the transaction occurs, to its representation on the financial statements, to closing the accounts. One of the main duties of a bookkeeper is to keep track of the full accounting cycle from start to finish. The cycle repeats itself every fiscal year as long as a company remains in business. The accounting cycle incorporates all the accounts, journal entries, debits, credits and adjusting entries over a full cycle.

**Steps in the Accounting Cycle**:



## Three Golden Rules of Accounting

One of the most famous and commonly used terms in the field of accounting and finance is “Three golden rules of accounting”. These rules are used to prepare an accurate journal entry which forms the very basis of accounting and act as a foundation stone for all bookkeeping.

They are also known as the traditional rules of accounting or the rules of debit and credit.


**Easy Interpretation of 3 golden rules of accounting**

**Real Account**

If the item (real account) is **coming into** the business then — Debit

If the item (real account) is **going out** of the business then — Credit

**Personal Account**

If the person (or) legal body (or) group **is receiving** something — Debit

If the person (or) legal body (or) group **is giving** something — Credit

**Nominal Account**

If it is an **expense or loss** for the business — Debit

If it is an **income or gain** for the business — Credit

While making a journal entry there are essentially three types of accounts (Real, Personal and Nominal). Each account has a specific rule that needs to be applied and it is utmost important to identify the account correctly for proper application of the three golden rules of accounting.

**Examples – Three Golden Rules of Accounting**

| Purchased furniture for Taka 10,000 in cash | | |
|---|---|---|
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Furniture A/C | 10,000 | Real A/C — Dr. what comes in |
| To Cash A/C | 10,000 | Real A/C — Cr. what goes out |
| **Paid Taka 15,000 cash to Unreal Pvt Ltd.** | | |
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Unreal Pvt Ltd. A/C | 15,000 | Personal A/C — Dr. the receiver |
| To Cash A/C | 15,000 | Real A/C — Cr. What goes out |
| **Paid Taka 18,000 from the bank for rent** | | |
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Rent A/C | 18,000 | Nominal A/C — Dr. all expenses |
| To Bank A/C | 18,000 | Personal A/C — Cr the giver |
| **Depreciation charged for Taka 1,00,000 on the machine** | | |
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Depreciation A/C | 1,00,000 | Nominal A/C — Dr. all expenses |
| To Machine A/C | 1,00,000 | Real A/C — Cr. What goes out |
| **Goods sold for Taka 5,000 on credit to Mr Unreal** | | |
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Mr Unreal A/C | 5,000 | Personal A/C — Dr. the receiver |
| To Sales | 5,000 | Nominal A/C — Cr. all incomes |

**Rules of Debit and Credit According to Modern Approach**

If we are posting an entry in the journal, we may use the Modern Accounting Approach instead of three golden rules of accounting. We should try to use the American or modern rules of accounting to compare and find out which one suits our learning style and is easy to apply. It is true that some people find the modern approach easier than the traditionally used three golden rules of accounting.

| Type of Account | Debit | Credit |
|---|---|---|
| Asset A/C | Increase | Decrease |
| Liability A/C | Decrease | Increase |
| Capital A/C | Decrease | Increase |
| Revenue A/C | Decrease | Increase |
| Expenses A/C | Increase | Decrease |
| Drawings A/C | Increase | Decrease |

**Examples – Modern Rules of Accounting**

| Received cash 3000 as rent from Unreal Pvt Ltd. | | |
|---|---|---|
| **Accounts Involved** | **Debit/Credit** | **Rule Applied** |
| Cash A/C | 3000 | Asset A/C — Dr. increase |
| To Rent A/C | 3000 | Revenue A/C — Cr. increase |

**Why both sides of balance sheet are equal?**

- The balance sheet should always balance because all entries made to the general ledger must comply with the accounting equation (Assets = Liabilities + Stockholders' Equity). All entries made to the general ledger consist of at least two postings. Those postings always affect both sides of the balance sheet equally (or possibly add and subtract the same amount from one side of the balance sheet concurrently such as buying a machine for cash). For example: If a person purchases a land for Taka 5,00,000 with a mortgage, the land account on the left side of the balance sheet will increase by Taka 5,00,000 and the mortgage liability on the right side of the balance sheet will also increase by Taka 5,00,000. As he/she pays off the mortgage with cash, the cash account on the left side decreases by the same amount the mortgage on the right side decreases. This is a simple example of how and why the balance sheet balances.
- Two corresponding balance of a balance sheet must always balance. It is the very fundamental of the Double Entry System which was first depicted by Sir William Pickles. It states that there are two parties in every transaction — one receives benefits thus debited and the other hand provides the benefit this credited with.
- The name "Balance Sheet" is based on the fact that assets will equal to the sum of liabilities and shareholder's equity every time. The assets on the balance sheet consist of what a company owns or will receive in the future and which are measurable. Liabilities are what a company owes — such as taxes, payables, salaries and debt. The shareholders' equity section displays the company's retained earnings and the capital that has been contributed by shareholders. For the balance sheet to balance, total assets should equal to the total of liabilities and shareholders' equity.

**Who approves the balance sheet and annual financial statements and by what date?**

The Accounting Act states that the head/chief of an entity shall ensure that the annual accounts are prepared no later than within three months of the balance sheet date. In most cases, that is for entities in which the reporting year coincides with the calendar year — the deadline is 31th March. According to Article 53 of the Accounting Act, the approval body is authorised to approve financial statements. In practice, it is the supreme organ in the structure of an organisation. In the case of enterprises that conduct economic activities, it will be the owner; in joint stock companies and limited liability companies it will be the general meeting of shareholders; in partnerships, joint ventures and joint-stock limited companies — it will be the general meeting of members.
The statutory time period for approval of financial statements is six months after the balance sheet date. In accordance with the requirements of the Accounting Act, companies and entities that are obliged to have their annual financial statements audited by an auditor are required to obtain such an audit opinion before approving the report. However, the financial statements of companies which have been declared bankrupt are not subject to approval.

**Method of approval**

In order to approve the annual financial report, an approval body is convened. The approval of the annual financial statements takes place after their examination and takes the form of a resolution or decision of the approval body or a statement of will in the case of entities conducting economic activity. A resolution or decision of the approval body should include:

- information on the period to which the annual accounts refer;
- the documents that make up the financial statements (the balance sheet, profit and loss account, additional information, information on changes in equity, cash flow statement)

Individuals conducting business activity have the right **to approve financial statements through a statement of will**. In practice it is sufficient for each item of the report to be accompanied by a clause stating "Approved" — together with the date and signature. In the case of a limited liability company, the approval is performed by adopting a resolution of shareholders. In a joint stock company, the approval of financial statements is made by way of a shareholders resolution in the form of a notary deed.

**International Financial Reporting Standards (IFRS)** is a set of accounting standards developed by an independent and not-for-profit organisation called the International Accounting Standards Board (IASB).

**The International Accounting Standards (IAS)** were an older set of standards stating how particular types of transactions and other events should be reflected in financial statements. IAS standards were published between 1973 and 2001. In the past, international accounting standards were issued by the Board of the International Accounting Standards Committee (IASC). Since 2001, the new set of standards has been known as the international financial reporting standards (IFRS) and has been issued by the International Accounting Standards Board (IASB).

**What is the difference between IAS and IFRS?**

Technically they are the same. IFRS is the current set of standards that is reflective of the changes in the accounting and business practices over the last two decades. IAS is what used to be prior to the introduction of IFRS. The IASB no longer issues IAS. Any future standards will now be called IFRS and if they are contradictory to existing IAS, the IFRS will be followed.

**The goal and purpose of IFRS**

The goal and purpose of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

IFRS accounting provides three advantages to the end user of the financial statements.

**IFRS Accounting**: International Financial Reporting Standards (IFRS) refers to a single set of accounting standards used in multiple countries. The International Accounting Standards Board (IASB) works to develop these standards — creating a consistent approach to financial reporting globally. The IASB works with investors, auditors and regulators in different countries to determine the needs of each user and incorporate those needs in the standards. The advantages of implementing these standards include consistent financial statement formats, understandability and global comparability.

**Financial Statement Format**: Companies which follow the practices of IFRS use a similar format for their financial statements. Investors who compare financial statements from companies operating in different countries can place the statements next to each other. The gross margin, operating income and net income fall in the same locations on the statements. The balance sheet, the statement of cash flows and the retained earnings statement also follow similar formats. The end user enjoys the advantage of evaluating financial statements which follow a similar format.

**Understandability**: End users also enjoy the advantage of understanding the financial data communicated whether it comes from one country or a different one. IFRS accounting guidelines require that all companies follow the same guidelines. When the end user understands these guidelines for a company in one country, he can assume that all companies in compliance with IFRS follow the same guidelines.

**Global Comparability**: End users reap the benefits of comparing the financial statements from a company in one country to a company in another country. He accesses the financial statements either as a hard copy or electronically via the internet. The end user compares the net income and calculates financial ratios for different companies.

**Financial Statements** are written records that convey the financial activities and position & conditions of a business or entity and consist of four major components. These are written reports that quantify the financial strength, performance and liquidity of a company. Relevant financial information is presented in a structured manner and in a form easy to understand

**Components/Elements of a Financial Statement**

Irrespective of the time period, financial statements basically consist of four basic reports/parts which are as follows:-

**(1). Income Statement (Profit and Loss account)**: Income Statement is an important final account of a company which shows the summarised view of revenues, expenses and profits/losses generated during a particular accounting period. It is prepared for an entire accounting period. This is usually considered the most important of the financial statements because it presents the operating results of an entity. Accounts that are transferred to the income statement are closed. Income statement shows how profits/gains are earned and expenses/losses are incurred.

Income Statement is composed of the following two elements:

- Income: What the business has earned over a period (e.g. sales revenue, dividend income, etc)
- Expense: The cost incurred by the business over a period (e.g. salaries and wages, depreciation, rental charges, etc)

Net profit or loss is arrived by deducting expenses from income.

**(2). Balance Sheet (Financial Position)**: It presents the assets, liabilities and equity of the entity as of the reporting date. Thus the information presented is as of a specific point in time. The report format is structured so that the total of all assets equals the total of all liabilities and equity (known as the accounting equation). This is typically considered the second most important financial statement because it provides information about the liquidity and capitalisation of an organisation.

Balance sheet is comprised of the following three elements:

- **Assets**: Something a business owns or controls (e.g. cash, inventory, plant and machinery, etc.)
- **Liabilities**: Something a business owes to someone (e.g. creditors, bank loans, etc)
- **Equity**: What the business owes to its owners. This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between the assets and liabilities.

**(3). Statement of Cash Flows**: It presents the cash inflows and outflows that occurred during the reporting period. This can provide a useful comparison to the income statement, especially when the amount of profit or loss reported does not reflect the cash flows experienced by the business. This statement may be presented when issuing financial statements to outside parties.

The movement in cash flows is classified into the following segments:

- **Operating Activities**: Represents the cash flow from primary activities of a business.
- **Investing Activities**: Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant)
- **Financing Activities**: Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

**(4). Statement of Retained Earnings (Changes in Equity)**: It presents changes in equity during the reporting period. The report format varies, but can include the sale or repurchase of stock, dividend payments and changes caused by reported profits or losses. This is the least used of the financial statements. It is commonly only included in the audited financial statement package.

The movement in owners' equity is derived from the following components:

- Net Profit or loss during the period as reported in the income statement
- Share capital issued or repaid during the period
- Dividend payments
- Gains or losses recognised directly in equity (e.g. revaluation surpluses)
- Effects of a change in accounting policy or correction of accounting error

## Financial Statements for Banks

The general structure of financial statements for banks is not that much different from a regular company. Banks use much more leverage than other businesses and earn a spread between the interest income they generate on their assets (loans) and their cost of funds (customer deposits).

**Typical Balance Sheet**

A typical balance sheet consists of the core accounting equation (Assets = Liabilities + Equity).

Under these accounts, some companies may have other large classes — such as intangible assets, current assets, accounts receivables and accounts payables.

However, a bank has unique classes of balance sheet line items that other companies do not have.

The typical structure of a balance sheet for a bank is:

- **Assets**:
  - Property
  - Trading assets
  - Loans to customers
  - Deposits to the central bank
- **Liabilities**:
  - Loans from the central bank
  - Deposits from customers
  - Trading liabilities
  - Miscellaneous debt
- **Equity:**
  - Common and preferred shares

A bank's balance sheet has certain unique items.

**Loans and Deposits to Customers**: The main operations and source of revenue for banks are their loan and deposit operations. Customers deposit money at the bank for which they receive small interest. The bank then lends funds out at a much higher rate — profiting from the difference in interest rates. For example: Loans to customers are classified as assets because the bank expects to receive interest and principal repayments for loans in the future and thus generate economic benefit from the loans. On the other hand, deposits are expected to be withdrawn by customers or also pay out interest payments — generating an economic outflow in the future. Deposits to customers are thus classified as liabilities.

**Loans and Deposits to Central Bank**

Every country has a central bank where most of the national banks will store their money and profits. Deposits from a bank in a central bank are considered assets because the bank can withdraw these deposits rather easily. It is also expected to receive a small interest payment using the central bank's prime rate. Loans from the central bank are considered liabilities.

**Trading Assets and Liabilities**: Banks may hold marketable securities or certain currencies for the purposes of trading. These will naturally be considered trading assets. They may have trading liabilities if the securities they purchase decline in value.

**Typical Income Statement for Banks**: The overall structure of an income statement for a bank does not differ too far from a regular income statement. The top of the income statement is revenue and the bottom is net income. However, revenue is derived differently from that of regular companies. The income statement will generally look as follows:

| |
|---|
| Non-interest Revenue |
| Interest Revenue |
| **Total Revenue** |
| |
| Credit loss provisions |
| Net gain on trading assets/liabilities |
| **Earnings before interest and taxes (EBIT)** |
| Interest Expense |
| **Income Before Tax (EBT)** |
| Taxes |
| **Net Income** |

**Comprehensive Income** for a corporation is the combination of the following amounts which occurred during a specified period of time such as a year.

- Net income or net loss (which is reported on the income statement), plus
- Other comprehensive income (if this is present, a statement of comprehensive income must be prepared)

Examples of other comprehensive income include:

- Unrealised gains/losses on hedge/derivative financial instruments
- Foreign currency translation adjustments
- Unrealised gains/losses on postretirement benefit plans

Basically, comprehensive income consists of all of the revenues, gains, expenses, and losses that caused stockholders' equity to change during the accounting period. (The corporation's sale or purchase of its capital stock and its declaration of dividends are not a component of comprehensive income. The stock transactions and dividends are reported as separate items in the statement of stockholders' equity.)
The amount of other comprehensive income for the period will be added to the accumulated other comprehensive income — which is a separate line within stockholders' equity on the end-of-the-period balance sheet. (The net income/net loss reported on the income statement will be added to retained earnings as usual.)

**Comprehensive Income Statement** is one of five financial statements required in a complete set of external financial statements. The statement of comprehensive income covers the same period of time as the income statement and consists of two major sections:—

- Net income (or net earnings) from the company's income statement
- Other comprehensive income which consists of unrealised holding gains or losses on investments that are classified as available for sale and positive and/or negative amounts for foreign currency translation

The totals from each of the above sections are summed and are presented as comprehensive income.
The statement of comprehensive income is required only if a company has one or more items that meet the criteria of other comprehensive income.
For a company with an item that qualifies as other comprehensive income, the statement of comprehensive income is usually a separate financial statement that is presented immediately following the income statement.

**Trial Balance** is a statement of debit and credit balances taken out from all ledger accounts including cash book. The golden rules that "Accounting equation remains balanced all the time" and "For every business transaction there is an equal debit and credit" shall always prevail in the whole accounting theory. Therefore, the total of all debits balances must be equal to the total of all credit balances.
To verify this, a schedule known as **Trial Balance** is prepared. Balances of debits and credits are to be extracted from all ledger accounts (including cash book and shown in this schedule). This schedule is prepared to assure the management about arithmetical accuracy of books of accounts. Basically, this schedule facilitates preparation of final accounts. Generally, it is prepared at the end of each accounting year. However, it can be prepared at the end of each month, quarter or at the end of any chosen period.

**Objectives of Preparing the Trial Balance:**

- **To check the arithmetical accuracy of ledger:** Trial balance helps to check accuracy in the ledger posting. It ensures that both aspects of every transaction have been posted into ledger (For example: debit aspect of transaction on debit side and credit aspect of transaction on credit).
- **To facilitate detection of accounting errors**: Trial balance helps in locating errors committed during ledger posting. Hence, due importance should be given to even a small difference in a trial balance as it may be possible that there may be a large number of errors which have offset the affect of one another — resulting in small difference in agreement of Trial Balance.
- **To provide the summary of transactions**: A business organisation performs number of financial transaction during a certain period of time. These transaction themselves cannot show any picture of financial of the business organisations. To fulfill the purpose, the trial balance is prepared which summarised the financial transactions of business in a certain date.
- **To facilitate preparation of financial statements**: Financial statements are prepared from Trial Balance. Trial Balance contains all ledger accounts and it provides a basis for further processing of accounting data (For example: preparation of financial statements).
- **To facilitate auditors**: Total of all debit balances must be equal to total of all credit balances. Agreement of trial balances assures Auditors that all transactions have been recorded in books of accounts.

**Importance (and Functions) of Trial Balance**: The following are the main advantage/importance of trial balance.

- It summarises the financial transaction of the business.
- It helps to check arithmetical accuracy of the recording of financial transaction of the business.
- If help in locating accounting errors.
- It serves as basic for preparation of final accounts of business.

**Bank Reconciliation** is a report used to check and explain the differences between the cash balance in a company's account ledger and the bank statement balance. The goal is to ascertain the differences between the two and to book changes to the accounting records as appropriate. Bank reconciliation is one of the main ways to prevent fraud and embezzlement of company funds.

## What does POS mean on a bank statement?

**POS** is an abbreviation for Point Of Sale. On a bank statement, it is one of several labels referring to the type of bank transaction. A POS transaction is one completed with a debit card. The transaction type noted on the statement (such as POS) is helpful in reconciling a client's bank statement with his/her transaction ledger.
It also allows him/her to watch for any unauthorised use of his/her debit card. If s/he sees a POS transaction at a shop that s/he never made or authorised, s/he can check with his/her bank. Banks may offer reimbursement for unauthorised card use. A new card also is issued when the bank thinks transactions are fraudulent.

## Debt Financing versus Equity Financing

Capital is the basic requirement of every business organisation to fulfill the long-term and short-term financial needs. To raise capital, an enterprise either uses owned sources or borrowed ones. Owned capital can be in the form of **equity** — whereas borrowed capital refers to the company's owed funds which is usually called **debt**.

**Debt**: Money raised by the company in the form of borrowed capital is known as debt. It represents that the company owes money towards another person or entity. Debt is the cheapest source of finance as its cost of capital is lower than the cost of equity and preference shares. Funds raised through debt financing are to be repaid after the expiry of the specific term. Debt can be in the form of term loans, debentures or bonds. Term loans are obtained from financial institutions or banks while debentures and bonds are issued to the general public. Credit Rating is mandatory for issuing debentures publicly. They carry fixed interest — which requires timely payments. The interest is tax deductible in nature. So, the benefit of tax is also available. However, the presence of debt in the capital structure of the company can lead to financial leverage. Debt can be secured or unsecured. Secured debt requires pledging of an asset as security so that if the money is not paid back within a reasonable time, the lender can forfeit the asset and recover the money. In the case of unsecured debt, there is no obligation to pledge an asset for getting the funds.

**Equity** is the source of permanent capital (net worth) of the company. It is the owner's funds which are divided into some shares. By investing in equity, an investor gets an equal portion of ownership in the company in which he has invested his money. The investment in equity costs higher than investing in debt. Equity comprises of ordinary shares (equity shares) and preference shares. The dividend is to be paid to the equity-holders as a return on their investment. The dividend on ordinary shares is neither fixed nor periodic whereas preference shares enjoy fixed returns on their investment, but they are also irregular in nature. The dividend is not tax deductible in nature. Investment in equity shares is the risky one as in the event of dissolution/liquidation of the company; they will be paid at the end after the debt of all the other stakeholders is discharged. There are no committed payments in equity shareholders (the payment of dividend is voluntary).

| Basic differences between Debt and Equity | | |
|---|---|---|
| **Factors** | **Debt** | **Equity** |
| Definition | Debt is the company's liability which needs to be paid off after a specific period. | Equity is the money raised by the company by issuing shares to the general public which can be kept for a long period. |
| Meaning | Debt reflects money owed by the company towards another entity. | Equity reflects the capital/funds raised by the company by issuing shares. |
| Nature of fund | Debt is the borrowed fund. | Equity is owned fund. |
| Holders | Debt holders are the creditors. | Equity holders are the owners of the company. |
| What is it? | Loan Funds | Own Funds |
| Reflects | Obligation | Ownership |
| Term | Comparatively short-term | Long-term |
| Status of holders | Lenders | Proprietors |
| Risk | Debt carries low risk | Equity carries low risk |
| Secured/Unsecured | Debt can be secured or unsecured | Equity is always unsecured |
| Types | Term loan, Debentures and Bonds | Shares and Stocks |
| Return system | Return on debt is known as interest which is a charge against profit. | The return on equity is called as dividend which is an appropriation of profit. |
| Nature of return | Fixed and regular | Variable and irregular |
| Collateral | Essential to secure loans, but funds can be raised otherwise also. | Not required |

| Advantages and Disadvantages of Debt Financing and Equity Financing | | | |
|---|---|---|---|
| | **Debt Financing** | | **Equity Financing** |
| | **Advantages** | | **Advantages** |
| 01. | Keep full ownership | 01. | Less risk than debt |
| 02. | No obligations after paying tax | 02. | No paying back funds |
| 03. | Interest is deductible | 03. | Gain credibility through investor networks |
| 04. | Short-term and long-term options | 04. | Investors do not expect immediate ROI |
| 05. | More cash on hand | 05. | Fixed payments for better budgeting |
| | **Disadvantages** | | **Disadvantages** |
| 01. | Must pay back | 01. | Investor returns could be more than debt payments |
| 02. | Could cause cash flow issues | 02. | Investor gets some ownership |
| 03. | Usually need collateral | 03. | Must consult investor for decisions |

## Financial System of Bangladesh

The financial system of Bangladesh is comprised of three broad fragmented sectors — (a) Formal Sector, (b) Semi-Formal Sector and (c) Informal Sector. The sectors have been categorised in accordance with their degree of regulation.

The **Formal Sector** includes all regulated institutions like Banks, Non-Bank Financial Institutions (NBFIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs).

The **Semi-Formal Sector** includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Bangladesh Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialised Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non-Governmental Organisations (NGOs and discrete government programmes.

The **Informal Sector** includes private intermediaries which are completely unregulated.

| 1. Formal Sector | 2. Semi-Formal Sector | 3. Informal Sector |
|---|---|---|
| **Financial Market**<br>**Regulators and Institutions** | **Specialized Financial Institutions**:<br>1. House Building Financial Corporation(HBFC)<br>2. Palli Karma Sahayak Foundation(PKSF)<br>3. Samabay Bank<br>4. Grameen Bank | |

| Formal Sector | |
|---|---|
| **Financial Market** | **Regulators & Institutions** |
| Central Bank: Bangladesh Bank<br>Banks: 59 scheduled and 5 non-scheduled banks<br>NBFIs: 34 NBFIs | Money Market: Banks, NBFIs and Primary Dealers |
| Insurance Authority:<br>Insurance Development & Regulatory Authority (IDRA)<br>Insurance Companies:<br>18 Life and 44 Non-Life Insurance Companies | Capital Market: Investment Banks, Stock Exchanges, Credit Rating Companies |
| Regulatory of capital market intermediaries<br>Bangladesh Securities and Exchange Commission (BSEC)<br>Stock Exchanges, Stock Dealers & Brokers, Merchants Banks & Credit Rating Agencies | Foreign Exchange Market: Authorised Dealers |
| MFI Authority: Microcredit Regulatory Authority (MRA)<br>Micro Finance Institutions: 599 MFIs | |

**Financial Market** is a means of bringing together buyers and sellers to make transactions. Bonds, stocks and assets are traded in financial market. Financial markets are traditionally segmented into money market and capital market.

### The financial market in Bangladesh is mainly of following 3 types

**Money Market** is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. It meets the short term requirements of borrowers and provides liquidity or cash to the lenders. In money market, short term obligations (such as treasury bills, negotiable certificates of deposit, commercial papers and banker's acceptance) are bought and sold.

The money market is used by participants as a means for borrowing and lending in the short term from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), banker's acceptances, Treasury-bills, commercial paper and repurchase agreements (repos).

The primary money market is comprised of banks, financial institutions and primary dealers as intermediaries and savings and lending instruments, treasury bills as instruments. There are currently 15 primary dealers (12 banks and 3 non-bank financial institutions) in Bangladesh. The only active secondary market is overnight call money market which is participated by the scheduled banks and non-nank financial institutions (NBFIs).

The money market in Bangladesh is regulated by Bangladesh Bank.

**Capital Market** is a market for buying and selling equity and debt instruments. It is the market for securities where companies and government can raise long term fund. The capital market includes the stock market and the bond market. Capital market is a market for medium to long-term financial instruments (such as shares and bonds issued by the government, corporate borrowers and financial institutions).

Capital markets channel savings and investment between suppliers of capital (such as retail investors and institutional investors) and users of capital (like businesses, government and individuals). Capital markets are vital to the functioning of an economy since capital is a critical component for generating economic output. The primary segment of capital market is operated through private and public offering of equity and bond instruments.

In Bangladesh, the secondary segment of capital market is institutionalised by 2 stock exchanges — Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE).

The instruments in these exchanges are equity securities, debentures, corporate bonds and treasury bonds.

The capital market is governed by Bangladesh Securities and Exchange Commission (BSEC).

**Foreign Exchange Market (Concept/Definition)** is the market in which participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds and retail foreign exchange brokers and investors. Foreign exchange market is considered to be the largest financial market in the world, processing trillions of dollars worth of transactions each day. Foreign exchange markets are not dominated by a single market exchange but involve a global network of computers and brokers from around the world.
Foreign exchange market does not determine the relative values of different currencies, but sets the current market price of the value of one currency as demanded against another.

## Foreign Exchange Market in Bangladesh

Foreign Exchange Market allows currencies to be exchanged to facilitate international trade and financial transactions. Evolution of the market in Bangladesh is closely linked with the exchange rate regime of the country. It had virtually no foreign exchange market up to 1993. Bangladesh Bank (as agent of the government) was the sole purveyor of foreign currency among users. It tried to equilibrate the demand for and supply of foreign exchange at an officially determined exchange rate, which, however, ceased to exist with introduction of current account convertibility. Immediately after liberation, the Bangladesh currency taka was pegged with pound sterling but was brought at par with the Indian rupee. Within a short time, the value of taka experienced a rapid decline against foreign currencies and in May 1975, it was substantially devalued. In 1976, Bangladesh adopted a regime of managed float, which continued up to August 1979, when a currency-weighted basket method of exchange rate was introduced. The exchange rate management policy was again replaced in 1983 by the trade-weighted basket method and US the dollar was chosen as intervention currency. By this time a secondary exchange market (SEM) was allowed to grow parallel to the official exchange rate.
Bangladesh adopted Floating Exchange Rate regime since 31 May 2003. Under the regime, Bangladesh Bank does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimising extreme swings in exchange rate to avoid adverse repercussion on the domestic economy.
The exchange rate is being determined in the market on the basis of market demand and supply forces of the respective currencies. In the foreign exchange market, banks are free to buy and sale foreign currency in the spot and also in the forward markets. However, to avoid any unusual volatility in the exchange rate, Bangladesh Bank (the regulator of foreign exchange market) remains vigilant over the developments in the foreign exchange market and intervenes by buying and selling foreign currencies whenever it deems necessary to maintain stability in the foreign exchange market.

## Relationship between Money Market and Capital Market

There exists inverse relationship between money market and capital market. If capital market falls, people will buy more treasury bills and vice versa.

- Capital market is a market for financial assets which have a long or indefinite maturity and money market is the mechanism whereby funds are obtained for short periods of time (from one day to one year).
- Two markets are inter-related. They will buy treasury bills at relative.
- In money market, short-term funds are used whereas the capital market deals in long term fund required.
- Capital market is not as sensitive to change in demand and supply as are the money market components.
- Change of interest rate in both market affect each other.
- Money markets facilitate the sale of short-term securities, while capital markets facilitate the sale/buy of long term securities.

| Key Differences between Money Market and Capital Market | | |
|---|---|---|
| **Factors** | **Money Market** | **Capital Market** |
| Meaning | A segment of the financial market where lending and borrowing of short term securities are done. | A section of financial market where long term securities are issued and traded. |
| Nature of market | Informal | Formal |
| Financial instruments | Treasury bills, commercial papers, certificate of deposit, trade credit etc. | Shares, debentures, bonds, retained earnings, asset securitisation, euro issues etc. |
| Risk factor | Low | Comparatively high |
| Time horizon | Within a year | More than a year |
| Merit | Increases liquidity of funds in the economy. | Mobilisation of savings in the economy. |
| Return on investment | Less | Comparatively high |

**The instruments of Money Market**
(a) Treasury bill, (b) commercial paper, (c) banker's acceptance, (d) certificate of deposit, (e) repurchase agreement, (f) short-term treasury notes and bonds, (g) international emergency deposit

**The instruments of Capital Market**
(a) common stock, (b) preferred stock, (c) mortgage bond, (d) treasury notes and bonds, (e) corporate notes and bonds, (f) government notes and bonds

| Major players of the Capital Market | Major players of Money Market |
|---|---|
| ❖ Investors<br>❖ Issuers<br>❖ Financial intermediaries (middlemen or brokers)<br>❖ Dealers<br>❖ Mutual Funds<br>❖ Market Makers<br>❖ Investment Banks<br>❖ Depositors<br>❖ Clearing House<br>❖ Infrastructure Providers<br>❖ Stock Exchanges<br>❖ Information Providers<br>❖ Regulators<br>❖ Bangladesh Securities & Exchange Commission (BSEC)<br>❖ Rating Agencies. | ❖ Bangladesh Bank<br>❖ Government<br>❖ Commercial Banks<br>❖ Mutual Funds<br>❖ Primary Dealers<br>❖ Financial Institutions<br>❖ Corporate Firms |

**Financial Asset** is a non-physical asset (tangible liquid asset) whose value comes from a contractual claim of what it represents. Stocks, bonds, other marketable securities, cash and bank deposits are all examples of financial assets. Financial assets are usually more liquid than other tangible assets — such as commodities or real estate. These assets are frequently traded on financial markets.
**Stock**:— This is an investors claim upon the ownership of a company.
**Bonds** :— This is a claim upon interest payments and a principal payment in the future from a company. It is a liability to the company.

**Equity** is the ownership of the company in the form of shares of common stock.

**Share** is a unit of ownership that represents an equal proportion of a company's capital. It entitles its shareholder to an equal claim on the company's profits and an equal obligation for the company's debts and losses.
Shares are units of ownership interest in a corporation or financial asset. While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations.
The two main types of shares are common shares and preferred shares.

**Bonus shares** means new shares given free of cost to all the existing shareholders of the company in proportion to their holdings. For example, a company announcing bonus issue of 1:5 is issuing one (new) bonus share for every five shares held by the shareholders of the company. Bonus issues are shares issued free of charge to shareholders. When a company accumulates a large fund from profits (much beyond its needs), the company directors may decide to distribute a part of it among the shareholders in the form of bonus.

**Rights Issues** are a proportionate number of shares available to all the existing shareholders of the company which can be bought at a given price (usually at a discount to current market price) for a fixed period of time.
For example, a company announcing rights issue of 2:3 at Tk 100 per share is issuing two (new) rights shares for every three shares held by the shareholders of the company at Tk 100 per share. The rights shares can also be sold in the open market. If not subscribed to, the rights shares lapse on closure of the offer.

**Redeemable Preference Shares** are shares are preference shares which have a maturity date on which date the company will repay the capital amount to the preference shareholders and discontinue the dividend payment thereon. So, redeemable preference shares have a fixed maturity date and are redeemable by the issuer for cash on maturity. The redeemable preference is a similar concept to a bond maturity date. All the details for each redeemable preference share are found in the investment statement for the Initial Public Offering (IPO).

**When can preference shares be redeemed?**
There are certain provisions that need to be fulfilled for preference shares to be redeemed.
1. The redeemable preference shares must be fully paid-up.
2. The redeemable preference shares can be redeemed only if the terms laid down at the time of issuing are met.

| Key Differences between Share and Stock | | |
|---|---|---|
| **Factors** | **Share** | **Stock** |
| Definition | A share is defined as the smallest division of the share capital of the company which represents the proportion of ownership of the shareholders in the company. The shares are the bridge between the shareholders and the company. The shares are offered in the stock market to raise capital for the company. | The stock is a mere collection of the shares of a member of a company in a lump sum. When the shares of a member are converted into one fund is known as stock. A public company limited by shares can convert its fully paid-up shares into stock. However, the original issue of stock is not possible. |
| Meaning | The capital of a company, is divided into small units, which are commonly known as shares. | The conversion of the fully paid up shares of a member into a single fund is known as stock. |
| Is it possible for a company to make original issue? | Yes. It is possible for a company to make original issue. | No. It is not possible. |
| Paid up value | Shares can be partly or fully paid up. | Stock can only be fully paid up. |
| Definite number | A share has a definite number known as distinctive number. | A stock does not have such number. |
| Fractional transfer | Fractional transfer of share is not possible. | Fractional transfer of stock is possible. |
| Nominal value | Share has nominal value. | Stock does not have nominal value. |
| Denomination | Denomination of share is equal amounts. | Denomination of stock is unequal amounts. |

**Common Stock and Preferred Stock**: Common stock and preferred stock are the two main types of stocks that are sold by companies and traded among investors in the open market. Each type gives stockholders a partial ownership in the company represented by the stock.

**Common Stock** is the most common type of stock that is issued by companies. It entitles shareholders to share in the company's profits through dividends and/or capital appreciation. Common stockholders are usually given voting rights with the number of votes directly related to the number of shares owned. Of course, the company's board of directors can decide whether or not to pay dividends as well as how much is paid. Owners of common stock have "pre-emptive rights" to maintain the same proportion of ownership in the company over time. If the company circulates another offering of stock, shareholders can purchase as much stock as it takes to keep their ownership comparable. Common stock has the potential for profits through capital gains. The return and principal value of stocks fluctuate with changes in market conditions. Shares (when sold) may be worth more or less than their original cost. Shareholders are not assured of receiving dividend payments. Investors should consider their tolerance for investment risk before investing in common stock.

**Preferred Stock** is generally considered less volatile than common stock but typically has less potential for profit. Preferred stockholders generally do not have voting rights as common stockholders do, but they have a greater claim to the company's assets. Preferred stock may also be "callable" which means that the company can purchase shares back from the shareholders at any time for any reason although usually at a favourable price. Preferred stock shareholders receive their dividends before common stockholders receive their dividends and these payments tend to be higher. Shareholders of preferred stock receive fixed, regular dividend payments for a specified period of time, unlike the variable dividend payments sometimes offered to common stockholders. Of course, it is important to remember that fixed dividends depend on the company's ability to pay as promised. In the event that a company declares bankruptcy, preferred stockholders are paid before common stockholders. Unlike preferred stock, common stock has the potential to return higher yields over time through capital growth.

**Which one is comparatively better between Common Stock and Preferred Shares?**

Often the decision between investing in common shares and preferred shares comes down to a risk and reward relationship. Common stock is riskier and the investor may lose it all, but often provides a better chance to participate in the growth of a successful company. Preferred stock come with less risk (assuming they have preference rights over common shares) but come with set dividend and repayment terms. Ultimately the choice comes down to weighing the risks and what the investor's opinion is on the future of the company being considered.

**Why is preferred stock a hybrid security?**
**Why is preferred stock referred to as a hybrid security?**

Preferred stock is a hybrid security because it combines features of common stocks and bonds. At the same time, it has several unique features that set it apart from both.

Preferred stock is sometimes referred to as a hybrid security because of its bond-like characteristics. Like bonds, preferred stocks have a par value which is affected by interest rates. When interest rates rise, the value of the preferred stock declines. However, the value of common stock shares is regulated by demand and supply of the market participants. In general, preferred stocks are less volatile than common stocks. However, like all assets in an open market, there have been times when preferred stocks have been volatile and lost value.

Unlike common shares, preferred stocks also have a callability feature which gives the issuer the right to redeem the shares from the market after a predetermined time. Investors buying preferred shares have a real opportunity for these shares to be called back at a redemption rate representing a significant premium over their purchase price. Markets for preferred shares often anticipate call backs and prices may increase accordingly.

**Unique Features of Preferred Stock**: Preferred stockholders do not have voting rights. Common stocks are perpetual securities — whereas most preferred stocks have call dates. Preferred stocks can be cumulative (entitling its holder to any dividends and arrears) — whereas if dividends on common stocks are suspended or omitted, common stockholders have no recourse.

**Face Value (Nominal Value)** is the value of a financial instrument as stated on the instrument. Interest is calculated on face/nominal value.

**Future Value** is the amount to which a current deposit will grow over a period of time when it is placed in an account paying compound interest.

**Stock Market** is a share market. However besides shares of companies, other instruments like bonds, mutual funds and derivative contracts too are traded in the stock market. Stock Market is the market in which shares of publicly held companies are issued and traded either through exchanges or over-the-counter markets. The stock market is one of the most vital components of a free-market economy, as it provides companies with access to capital in exchange for giving investors a slice of ownership in the company.

The stock market makes it possible to grow small initial sums of money into large ones and to become wealthy without taking the risk of starting a business or making the sacrifices that often accompany a high-paying career.

**Share Market/Equity Market** is a market that deals with buying or selling of shares of pubic listed companies.

It is a highly organised market facilitating the purchase and sale of securities and operated by professional stockbrokers and market makers as per fixed rules. The share market is a source for companies to raise funds and for investors to buy part-ownership in growing businesses and grow their wealth.

**Primary Market** is a place where companies bring a new issue of shares for being subscribed by the general public for raising funds to fulfill their long-term capital requirement like expanding the existing business or purchasing new entity. It plays an important role in the mobilisation of savings in the economy. Various types of an issue made by the corporation are Public Issue, Right Issue and Bonus Issue. The company which brings the IPO is known as the issuer, and the process is regarded as a public issue. The process includes many merchant bankers (investment banks) and underwriters through which the shares, debentures, and bonds can directly be sold to the investors. These investment banks and underwriters need to be registered with the Bangladesh Securities and Exchange Commission (BSEC).

**Secondary Market** is a type of capital market where existing shares, debentures, bonds, options, commercial papers and treasury bills of the corporate companies are traded amongst investors. The secondary market can either be an auction market where trading of securities is done through the stock exchange or a dealer market — popularly known as Over The Counter where trading is done without using the platform of the stock exchange.

The securities are firstly offered in the primary market to the general public for a subscription where the company receives the money from the investors and the investors get the securities; thereafter they are listed on the stock exchange for the purpose of trading. These stock exchanges are the secondary market where maximum trading of the company is done. The two stock exchanges of Bangladesh are Dhaka Stock Exchange and Chittagong Stock Exchange.

An investor can trade in securities through the stock exchange with the help of brokers who provide assistance to their client for purchasing and selling. The brokers are the registered members of the recognised stock exchange in which the investor is trading his/her securities. The brokers are allowed to trade on the advanced trading system. The BSEC issues a certificate of registration to the member brokers through which an investor can identify whether a broker is registered or not.

| Difference Between Primary Market and Secondary Market | | |
|---|---|---|
| **Basis for Comparison** | **Primary Market** | **Secondary Market** |
| Meaning | The marketplace for new shares is called Primary Market. | The place where formerly issued securities are traded is known as Secondary Market. |
| Type of purchasing | Direct | Indirect |
| Financing | It supplies funds to budding enterprises and also to existing companies for expansion and diversification | It does not provide funding to companies |
| How many times a security can be sold? | Only once | Multiple times |
| Buying and selling between | Company and investors | Investors |
| Beneficiary | Company | Investors |
| Intermediaries/Agents | Underwriters | Brokers |
| Price | Fixed price | The price fluctuates depending on the demand and supply force |
| Market Organisation | Not rooted to any specific spot or geographical location | It has physical existence (DSE, CSE). |

**Capital** is a term for financial assets or their financial value (such as funds held in deposit accounts) as well as the tangible factors of production including equipment used in environments such as factories and other manufacturing facilities. Capital is a vital source of financing across all types of businesses because companies need these resources in order to operate. Businesses raise capital by issuing stocks and bonds to investors who purchase these financial instruments with cash or other assets.
While money is used to purchase goods and services for consumption, capital is more durable and is used to generate wealth through investment. Examples of capital include automobiles, patents, software and brand names. All of these items are inputs that can be used to create wealth. Besides being used in production, capital can be rented out for a monthly or annual fee to create wealth, or it can be sold when it is no longer required.

**Types of Capital**

**Debt Capital**: A business can acquire capital through the assumption of debt. Debt capital can be obtained through private sources — such as financial institutions and insurance companies.
**Equity Capital**: Equity capital is based on investments that do not need to be repaid. This can include private investment by the business owners as well as contributions derived from the sale of stock.
**Working Capital**: Defined as the difference between a company's current assets and current liabilities, Working Capital is a measure of a company's short-term liquidity — more specifically, its ability to cover its debts, accounts payable and other obligations that are due within a year. In a sense, it is a snapshot of a firm's financial health.

**Share Capital (Equity Capital) and how share capital is managed (Collection method of Share Capital?**

Share capital consists of all funds raised by a company in exchange for shares of either common or preferred shares of stock. The amount of share capital (equity financing) a company has can change over time.
A company that wishes to raise more equity can obtain authorisation to issue and sell additional shares — thereby increasing its share capital. Share capital is only generated by the initial sale of shares by the company to investors and does not include shares being sold in a secondary market after they have been issued.

**Debt Capital and how debt capital is managed (Collection method of Debt Capital?**

Debt Capital is the part of a company's total capital which generally comprises of loan-capital and short-term bank loans. It is a loan made to a company that is normally repaid at some future date.
Debt capital differs from equity capital or share capital because subscribers to debt capital do not become part owners of the business, but they are merely creditors. The suppliers of debt capital usually receive a contractually fixed annual percentage return on their loan — which is known as the coupon rate.

**What are the benefits if a company takes loan (borrows money) from the share market instead of bank? Why do companies issue bonds instead of borrowing from the bank?**

Companies mostly issue bonds to finance operations. Most of the companies can borrow from banks; but they view direct borrowing from a bank as more restrictive and expensive than selling debt on the open market through a bond issue. The costs involved in borrowing money directly from a bank are prohibitive to a number of companies.
Most of the corporate company chiefs view banks as lenders of last resort because of the restrictive debt covenants that banks place on direct corporate loans. Covenants are rules placed on debt that are designed to stabilise corporate performance and reduce the risk to which a bank is exposed when it gives a large loan to a company.
Here are a few examples of the restrictive agreements faced by companies:

- They can't issue any more debt until the bank loan is completely paid off
- They can't participate in any share offerings until the bank loan is paid off
- They can't acquire any companies until the bank loan is paid off

**Banks are what type of financial market**: Bank is a type of money market. Money markets are used to facilitate the transfer of short-term funds from individual/corporations or governments with excess funds to those with deficit funds.

**Insurance** is a means of protection from financial loss. Insurance is an arrangement by which a company undertakes to provide a guarantee of compensation for specified loss, damage, illness or death in return for payment of a specified premium.

**Insurable Interest**: Insurable interest is a part an entity's value for which an insurance policy is purchased to cover the risk of loss. Insurable interest is a requirement for the issuance of an insurance policy — making it legal, valid and protecting against intentionally harmful acts. Entities not subject to financial loss from an event do not have an insurable interest and cannot purchase an insurance policy to cover that event.

**What does it mean to have an insurable interest in something?**
A person has an insurable interest in something when loss or damage to it would cause that person to suffer a financial loss or certain other kinds of losses. In order to exercise an insurable interest, he/she must take out an insurance policy protecting the item.
**Example**: If the house owned by a person is damaged by fire, the value of his house has been reduced by the damages sustained in the fire. Whether he pays to have the house rebuilt or he ends up selling it at a reduced price, he has suffered a financial loss resulting from the fire. By contrast, if his neighbor's house (which he does not own) is damaged by fire, he may feel sympathy for his neighbor and he may even be emotionally upset, but he has not suffered a financial loss from the fire. He has an insurable interest in his own house, but in this example he does not have an insurable interest in his neighbor's house.
**Requirements for Protecting an Insurable Interest**: A basic requirement for all types of insurance is that the person who buys an insurance policy must have an insurable interest in the subject of the insurance. He has an insurable interest in any property he owns or any property that is in his possession. For purposes of life insurance, everyone is considered to have an insurable interest in their own lives as well as the lives of their spouses and dependents. For property and casualty insurance, the insurable interest must exist both at the time the insurance policy is purchased and at the time a loss occurs. For life insurance, the insurable interest only needs to exist at the time the policy is purchased.

**Annuity** is a life insurance product which pays income over the course of a set period. Deferred annuities allow assets to grow before the income is received and immediate annuities (usually taken from a year after purchase) allow payments to start from about a year after purchase.

**IDRA** (Insurance Development and Regulatory Authority) was established on January 26, 2011 as the regulator of insurance industry being empowered by Insurance Development and Regulatory Act, 2010 by replacing its predecessor (Chief Controller of Insurance). This institution is operated under Ministry of Finance and a four-member executive body headed by Chairman is responsible for its general supervision and direction of business.
IDRA has been established to make the insurance industry as the premier financial service provider in the country by structuring on an efficient corporate environment by securing embryonic aspiration of society and by penetrating deep into all segments for high economic growth.
The mission of IDRA is to protect the interest of the policy holders and other stakeholders under insurance policy, supervise and regulate the insurance industry effectively, ensure orderly and systematic growth of the insurance industry.

**NGO-MFIs and Regulator of MIFs:** To bring Non-government Microfinance Institutions (NGO-MFIs) under a regulatory framework, the Government of Bangladesh enacted "Microcredit Regulatory Authority Act-2006. It came into effect from August 27, 2006. Under this Act, the government established Microcredit Regulatory Authority (MRA) with a view to ensuring transparency and accountability of microcredit activities of the NGO-MFIs in the country. The authority is empowered and responsible to implement the said act and to bring the microcredit sector of the country under a full-fledged regulatory framework.

**MRA (Microcredit Regulatory Authority)** has been established by the Government of the People's Republic of Bangladesh under the "Microcredit Regulatory Authority Act 2006" to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs.
License from the authority is mandatory to operate microfinance operations in Bangladesh as an NGO.
**Vision**: MRA will create a conducive and healthy environment in the microfinance sector which will ultimately contribute to eradicate poverty as well as foster sustainable development of the country.
**Mission**: To uphold the vision and in pursuant with the "Microcredit Regulatory Authority Act 2006", the mission of the MRA is to ensure transparency and accountability of microfinance operations of NGO-MFIs as well as foster sustainable growth of this sector.
**Responsibility of MRA**: According to the Act, the MRA will be responsible for the three primary functions that will need to be carried out, namely:

1. Licensing of MFIs with explicit legal powers;
2. Supervision of MFIs to ensure that they continue to comply with the licensing requirements; and
3. Enforcement of sanctions in the event of any MFI failing to meet the licensing and ongoing supervisory requirements.

**Microcredit** is the extension of very small loans to the unemployed to poor endeavour and to others living in poverty who are not considered bankable. These individuals lack collateral steady employment and variable credit history and therefore cannot meet even the most minimal qualification to gain excess to traditional credit. Microcredit is the financial innovation which originated in Bangladesh where it has successfully enabled to extremely impoverish people to engage itself employment project.
The founder of this microcredit is Prof Dr. Mohammad Yunus in mid 1970s. He is also the founder of Grameen Bank with which Mr. Yunus received the Noble Peace Price in 2006 and.

Prof Dr. Mohammad Yunus gave the basic idea of micro-credit programme in Bangladesh for poverty alleviation.

**BSEC** (Regulator of capital market intermediaries): Bangladesh Securities and Exchange Commission (BSEC) performs the functions to regulate the capital market intermediaries and issuance of capital and financial instruments by public limited companies. It was established on June 8, 1993 under the Securities and Exchange Commission Act, 1993. A five-member commission headed by a Chairman has the overall responsibility to administer securities legislation and the Commission is attached to the Ministry of Finance.
The mission of BSEC is to protect the interests of securities investors, to develop and maintain fair, transparent and efficient securities markets and to ensure proper issuance of securities and compliance with securities laws.

**Public Limited Company** is the legal designation of a limited liability company that trades on the stock exchange and has limited liability and offers equity shares to general public (investors).

**IPO (Initial Public Offering)** is the first time that the stock of a private company is offered to the public. IPOs are often issued by smaller and younger companies seeking capital to expand, but they can also be done by large privately owned companies looking to become publicly traded.
In an IPO, the issuer obtains the assistance of an underwriting firm which helps determine what type of security to issue, the best offering price, the amount of shares to be issued and the time to bring it to market.

**Stock Exchange** is an entity which provides trading facilities for stock brokers and traders to trade stocks and other securities. A stock exchange is the place where selling and buying of shares of a company takes place.

**Brokers** are the member of the stock exchange. The selling and buying of the shares of the shareholders of different listed companies in exchange for commission is the main function of the brokers.

**Stock Broker** is a person or an organisation that buys and sells stocks and shares for other people.

**Blue Chips** are the high-valued shares whose value increase in time. Blue chips are unsurpassed in quality and have a long and stable record of earnings and dividends. They are issued by large and well-established firms that have impeccable financial credentials.

**Manipulation in the share market** is the artificial fluctuation of the value of shares. A broker himself or with the help of others can do it. It is an illegal act.

**How are corporate profits distributed?**
Total corporate profits are distributed in three ways. One portion is used to pay corporate profits taxes. A second is undistributed corporate profits (retained earnings) retained by corporations to finance capital investment. And a third is then paid out as dividends to shareholders (corporate owners).

**Dividend** is the distribution of a portion of a company's earnings (decided by the board of directors) to a class of its shareholders. A dividend is a payment made to the shareholders that is proportional to the number of shares owned. Dividends are usually issued by companies that will not reap significant growth by reinvesting the profits and so instead choose to return funds to shareholders in the form of dividend.

**Bond** refers to a certificate issued by the government or a company acknowledging that money has been lent to it and will be paid back with interest. Bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies and sovereign governments to raise money and finance a variety of projects.

**Debenture** is a certificate of agreement of loans which is given under the company's stamp and carries an undertaking that debenture-holder will get a fixed return and the principal amount whenever the debenture matures. In corporate finance, a debenture is a medium-term to long-term debt instrument used by large companies to borrow money at a fixed rate of interest. Debenture is a type of debt instrument that is not secured by physical assets or collateral. Both corporations and governments frequently issue this type of bond in order to secure capital.

| Key Differences between Bonds and Debentures | | |
|---|---|---|
| **Factors** | **Bonds** | **Debentures** |
| Meaning | A bond is a financial instrument showing the indebtedness of the issuing body towards its holders. | A debt instrument used to raise long term finance is known as Debentures. |
| Collateral | Bonds are generally secured by collateral. | Debentures may be secured or unsecured. |
| Interest rate | Low | High |
| Issued by | Government agencies, financial institutions and corporations. | Companies |
| Payment | Accrued | Periodical |
| Owners | Bondholders | Debenture-holders |
| Risk factor | Low | High |
| Priority in repayment at the time of liquidation | First | Second |

**Retained Earnings** refers to the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity on the balance sheet. The formula calculates retained earnings by adding net income to (or subtracting any net losses from) beginning retained earnings and subtracting any dividends paid to shareholders:
Retained Earnings (RE) = Beginning Retained Earnings + Net Income — Dividends

**Owner's Equity/Stockholders' Equity** is one of the three main components of a sole proprietorship's balance sheet and accounting equation. Owner's equity represents the owner's investment in the business minus the owner's draws or withdrawals from the business plus the net income (or minus the net loss) since the business began. Mathematically, the amount of owner's equity is the amount of assets minus the amount of liabilities.
Owner's Equity = Assets – Liabilities
"Owner's Equity" are the words used on the balance sheet when the company is a sole proprietorship. If the company is a corporation, the words Stockholders' Equity are used instead of Owner's Equity. Examples of stockholders' equity accounts include:
- Common Stock
- Preferred Stock
- Paid-in Capital in Excess of Par Value
- Paid-in Capital from Treasury Stock
- Retained Earnings
- Accumulated Other Comprehensive Income

Both Owner's Equity and Stockholders' Equity accounts will normally have credit balances.

**Bull Market** is a financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market, but can be applied to anything that is traded (such as bonds, currencies and commodities).

**Bear Market** is a period of several months during which securities prices consistently fall. The term is typically used in reference to the stock market. It is the opposite of a bull market, in which asset prices consistently rise.

**Circuit Breaker** is a measure approved by the BSEC to control panic-selling on stock exchanges and excessive volatility (large price swings in either direction) in individual securities. Circuit breakers temporarily halt trading on an exchange or in individual securities when prices hit pre-defined tripwires.

**Mutual Fund** is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities (such as stocks, bonds, money market instruments and similar assets). Mutual funds are operated by money managers who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. One of the main advantages of mutual funds is they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities. Each shareholder participates proportionally in the gain or loss of the fund.

**Buffer Stock** is a stock of a commodity held for the purpose of stabilising its price.

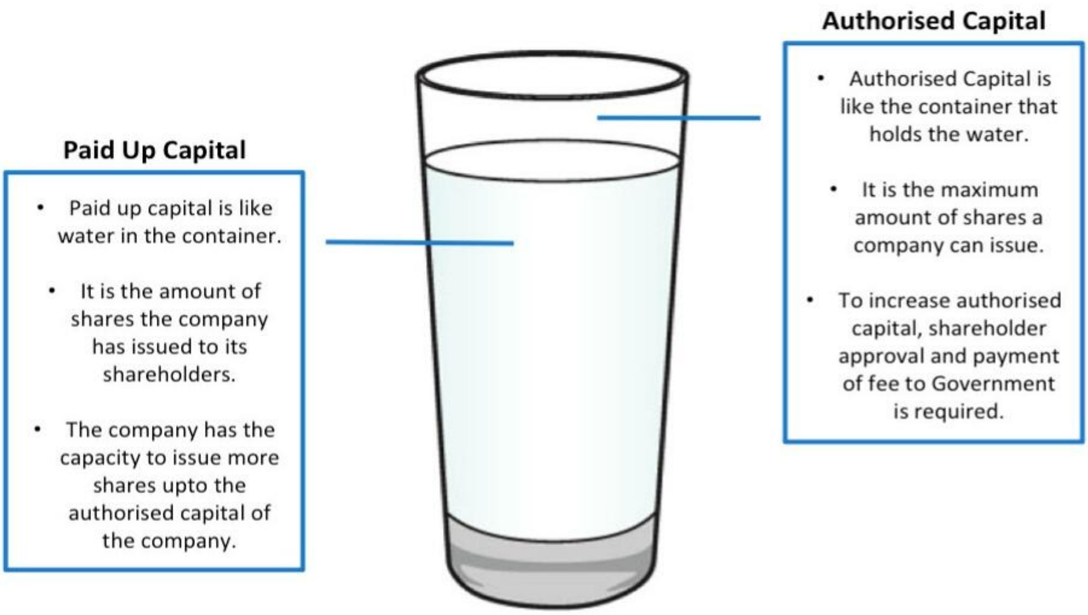
**Shareholder** is an owner of shares in a limited company. A shareholder is a member of a company.

**Limited Company:** The passive investors in a partnership, who supply most of the capital and have liability limited to the amount of their capital contributions.

| Difference between Paid-up Capital and Equity |
|---|
| **Paid-up Capital** is the amount of a company's capital that has been funded by shareholders. It can reflect how a company depends on equity financing. It is the money that a company has received from the sales of its shares. Paid-up capital can be less than a company's total capital because a company may not issue all of the shares that it has been authorised to sell. Paid-up capital can also reflect how a company depends on equity financing. |
| **Equity** is the value of an asset less the amount of all liabilities on that asset. The definition of equity can be represented with the accounting equation: Equity = Assets – Liabilities.<br>As an example, a company with total assets valued at Tk. 1,000, may have debt (liabilities) valued at Tk. 900, in which case the owner's value in the assets is Tk. 100, representing the company's equity. |

**Authorised Capital** of a company is the maximum amount of share capital that the company is authorised by its constitutional documents to issue (allocate) to shareholders. In other words, authorised capital is the number of stock units that a publicly traded company can issue as stated in its articles of incorporation or as agreed upon by shareholder vote. Authorised share capital is often not fully used by management in order to leave room for future issuance of additional stock in case the company needs to raise capital quickly. Another reason to keep shares in the company treasury is to retain a controlling interest in the company.

| Differences between Authorised Capital and Paid-up Capital | |
|---|---|
| **Authorised Capital** | **Paid-up Capital** |
| Authorised Capital is the maximum value and amount of total shares that a company is authorised by its constitutional documents to issue (allocate) legally to shareholders.<br>It is the maximum amount that a company can raise as capital in form of both equity shares and preference shares during its lifetime.<br>This amount is decided during the formation of a business and it is mentioned inside its constitutional documents such as Memorandum of Association or Article of Incorporation as per the country of establishment.<br>Value per share is required to be decided by the promoters at the time of fixing the authorised capital.<br>The part of the authorised capital which has been issued to shareholders is referred to as the issued share capital of the company.<br>Authorised capital can be changed with the approval of majority shareholders and often it requires an authorisation from the local regulatory authorities. | Paid-up Capital is the amount of money that a company has received from shareholders in exchange for shares of stock.<br>Paid-up capital is created when a company sells its shares on the primary market directly to investors.<br>When shares are bought and sold among investors on the secondary market, no additional paid-up capital is created as proceeds in those transactions go to the selling shareholders, not the issuing company.<br>Paid-up capital can never be more than authorised capital. It reflects how much company needs share funding to grow in the market. It raises the financing of the company and can be issued in form of Initial Public Offering (IPO). |




**Working Capital** is the net liquid assets computed by deducting current liabilities from current assets.
Working Capital is a measure of both a company's operational efficiency and its short-term financial health.
The working capital ratio (current assets/current liabilities) indicates whether a company has enough short-term assets to cover its short-term debt. The amount of available working capital is a measure of a firm's ability to meet its short-term obligations. Sources of working capital are net income, long-term loans, sales of capital assets and injection of funds by stockholders. Ample working capital allows management to take advantage of unexpected opportunities and to qualify for bank loans and favourable trade credit terms.

**Cost of Capital** is a term used in the field of financial investment to refer to the cost of a company's funds both debt and equity.

**CSR (Corporate Social Responsibility)** is a company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. CSR refers to a code of conduct and action beyond what is required by laws, regulations and trade rules. CSR can be anything from a corporation taking steps to operate in a clean, ecologically friendly way to social and ethical educational programmes for its employees, to various charitable endeavours and community involvement.

**An example of CSR**: Dutch-Bangla Bank Limited (DBBL) provides more than Taka 102 crore each year in the CSR activities. Every year the bank awards scholorships to about 30,000 poor, meritorious and challenged students of different colleges as part of its CSR.

**Social Business** is a cause driven business. It is a non-dividend company designed to address a social objective within the highly regulated marketplace today. Here the investors or owners can gradually recoup the money invested but cannot take any dividend beyond that point. Purpose of investment is purely to achieve one or more social objectives through the operation of the company or no personal gain is desired by the investors. The company must cover all costs and make profit, at the same time achieve the social objectives (such as healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, providing safe drinking water, introducing renewable energy in a business way).
The term was first defined by the definition given by Nobel Peace Prize laureate Prof Muhammad Yunus. He gave the concept of Social Business in his book 'Creating a World without Poverty: Social Business and the Future of Capitalism and Building Social Business' — The new kind of capitalism that serves humanity's most pressing needs.

**TNC (Transnational Companies)** are those firms which are formed by the merger of two firms of approximately the same size that are from different countries.

**MNC (Multinational Corporation)** is an enterprise which is headquartered in one country but has operations in one or more countries.

**Advantages and Disadvantages of MNC**

MNCs carryout their business activities with the ultimate objective of profit making mentality like any other domestic company. They are an invaluable dynamic force and instrument for wider distribution of capital, technology and employment. MNCs directly and indirectly help both the home country and the host country.

**Advantages of MNC**:

- The investment level, employment level and income level of the host country increases because of the operation of MNCs.
- The industries of host country get latest technology from foreign countries through MNCs.
- The host country's business also gets management expertise from MNCs.
- The domestic traders and market intermediaries of the host country gets increased business from the operation of MNCs.
- MNCs curb local monopolies, create competition among domestic companies and thus enhance their competitiveness.
- The host country can reduce imports and increase exports due to goods produced by MNCs in the host country. This helps to improve balance of payment.
- Level of industrial and economic development increases because of the growth of MNCs in the host country.

**Disadvantages of MNC**

- MNCs may transfer technology which has become outdated in the home country.
- As MNCs do not operate within the national autonomy, they may pose a threat to the economic and political sovereignty of host countries.
- MNCs may destroy the domestic industry by monopolising the host country's market.
- In order to make profit, MNCs may use natural resources of the home country indiscriminately and cause depletion of the resources.
- A large amount of money flows to foreign countries in terms of payments towards profits, dividends & royalty.

**World Bank Group** consists of five international organisations dedicated to providing financial assistance and advice to countries struggling with poverty and economic development. The World Bank generally focuses on developing third-world countries, helping them in areas such as health, education and agriculture.
This bank provides loans and grants at discounted rates to these countries.
The World Bank Group was created on December 27, 1945 as part of the Bretton Woods agreement.
Its five agencies are: International Bank for Reconstruction & Development (**IBRD**), International Centre for Settlement of Investment Disputes (**ICSID**), International Development Association (**IDA**), International Finance Corporation (**IFC**) and Multilateral Investment Guarantee Agency (**MIGA**).
The term "World Bank" refers to IBRD and IDA, whereas World Bank Group refers to the institutions as a whole.

The World Bank & IMF were both created at an international conference (Bretton Woods Monetary Conference) convened in Bretton Woods, New Hampshire, USA in July 1944. The goal of the conference was to establish a framework for economic cooperation and development that would lead to a more stable and prosperous global economy.

**Key Differences between the World Bank and International Monetary Fund (IMF)**

| Factors | IMF | World Bank |
|---|---|---|
| Meaning | IMF is an international organisation maintaining the global monetary system. | The World Bank is a global organisation established to finance and advice the developing nations in order to make them economically developed. |
| Activities | IMF extends assistance for facilitating balance of payment power of a member country through enhanced special dawning rights (SDR). | World Bank extends loan and assistance for reconstruction. |
| Role | IMF oversees the international monetary system | World Bank seeks to promote the economic development of the world's poorer countries. |
| Objective | To deal with all the issues related to the financial sector and macroeconomics. | To lessen poverty and promote the long-term development of the economy. |
| Focus on | Economic stability | Economic growth |
| Size | 2300 staff members | 7000 staff members |
| Organisational structure | It is a single organisation with four credit lines. | It has two major institutions namely International Bank for Reconstruction and Development (IBRD) & the International Development Association (IDA). |
| Membership | 188 countries | IBRD has 188 member countries.<br>IDA has 172 member countries. |
| Operations | IMF provides assistance | World Bank facilitates lending |

**The role of the World Bank in the economic development of Bangladesh**

The World Bank is an international financial institution that provides financial and technical assistance to developing countries like Bangladesh for development programs with the stated goal of poverty reduction.

- The World Bank is deeply involved in building and improving roads and infrastructure in Bangladesh
- The World Bank is Bangladesh's largest external funder of education and has assisted Bangladesh in achieving gender parity in education
- The World Bank leads the donor consortium for health programmes in Bangladesh that have contributed significantly to improving the health of Bangladeshis
- The World Bank is the largest external funder of microcredit in Bangladesh
- The World Bank works in partnership with the government for socioeconomic development
- The World Bank helps Bangladesh modernise its agricultural sector
- The World Bank helps Bangladesh create a better investment climate
- The World Bank coordinates among different donor and development agencies (ADB, IMF, IDB, JICA, USAID, UNDP and UNICEF) for financing in the development projects of Bangladesh

**International Monetary Fund (IMF)** is an organisation of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. IMF was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29 member countries. The activities of the IMF are —

- **Surveillance**: The IMF oversees the international monetary system and monitors the financial and economic policies of its members. It keeps track of economic developments on a national, regional and global basis, consulting regularly with member countries & providing them with macroeconomic & financial policy advice.
- **Technical Assistance**: To assist mainly low- and middle-income countries in effectively managing their economies, the IMF provides practical guidance and training on how to upgrade institutions and design appropriate macroeconomic, financial and structural policies.
- **Lending**: The IMF provides loans to countries that have trouble meeting their international payments and cannot otherwise find sufficient financing on affordable terms. This financial assistance is designed to help countries restore macroeconomic stability by rebuilding their international reserves, stabilising their currencies and paying for imports—all necessary conditions for relaunching growth. The IMF also provides concessional loans to low-income countries to help them develop their economies and reduce poverty.

**IBRD (International Bank for Reconstruction and Development)** is the largest development bank in the world. IBRD is an international financial institution which aims to reduce poverty in middle-income countries and creditworthy poorer countries by promoting sustainable development through providing loans, guarantees, risk management products and analytical and advisory services. Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 189 member countries.

| Key Differences between the IBRD and IDA | |
|---|---|
| **IBRD** | **IDA** |
| IBRD is the largest development bank in the world. It is an international financial institution which aims to reduce poverty in middle-income countries and creditworthy poorer countries by promoting sustainable development through providing loans, guarantees, risk management products and analytical and advisory services. | The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing loans (called "credits") and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions. |
| Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 189 member countries. | IDA complements the World Bank's original lending arm—the IBRD. IBRD was established to function as a self-sustaining business and it provides loans and advice to middle-income and credit-worthy poor countries. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards. |
| IBRD has two main goals — to end extreme poverty by 2030 and to promote shared prosperity in a sustainable manner. It seeks to achieve these goals primarily by providing loans, guarantees, risk management products, and expertise on development-related disciplines, as well as by coordinating responses to regional and global challenges. | IDA is one of the largest sources of assistance for the world's 75 poorest countries, 39 of which are in Africa, and is the single largest source of donor funds for basic social services in these countries. |
| IBRD was created in 1944 to help Europe rebuild after World War II. Later it has been jointly working with the IDA to extend fund for the poorest countries. They work closely with all institutions of the World Bank Group and the public and private sectors in developing countries to reduce poverty and build shared prosperity. | IDA lends money on concessional terms. This means that IDA credits have a zero or very low interest charge and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period. |

**International Finance Corporation (IFC)** is an international financial institution that offers investment, advisory and asset management services to encourage private sector development in developing countries. It is a member of the World Bank Group and also the largest global development institution focused exclusively on the private sector in developing countries. Its headquarters is situated in Washington DC in the USA. It was established in 1956 as the private sector arm of the World Bank Group to advance economic development by investing in strictly for-profit and commercial projects that aims to reduce poverty and promote development.
The IFC utilises and leverages its products and services (as well as products and services of other institutions in the World Bank Group) to provide development solutions customised to meet the needs of the clients. It applies its financial resources, technical expertise, global experience and innovative thinking to help its partners overcome financial, operational and political challenges.

**Functions of the IFC**: The main function of the IFC is to mobilise capital in the international financial market. It also offers advise on asset management and investment to developing countries.

**Objectives of the IFC**: The main objectives of the IFC is to accelerate the pace of economic development of the member countries in the under developed areas of the world in these ways:—

- By investing in private productive enterprises in association with private investors and without any government guarantee of repayment.
- By bringing together investment opportunities, private capital, both foreign and domestic and experienced management.
- By stimulating productive investment of private capital, both foreign and domestic, in the developing countries for productive purposes.

**World Trade Organisation (WTO)** is the only global international organisation dealing with the rules of trade between nations. It is also an intergovernmental organisation that regulates international trade. It is the largest international economic organisation in the world.
The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements — which are signed by representatives of member governments and ratified by their parliaments.
The WTO officially commenced on January 1, 1995 under the Marrakesh Agreement signed by 124 nations on April 15, 1994 — replacing the General Agreement on Tariffs and Trade (GATT) which commenced in 1948.

**WTO Director General:** Former Brazilian diplomat Roberto Azevêdo is the sixth Director General of the WTO. His appointment took effect on September 1, 2013 for a four-year term. In February 2017, WTO members agreed to appoint Azevêdo for a second four-year term starting on September 1, 2017.

Bangladesh has been a member of the WTO since January 1, 1995 and a member of GATT since December 16, 1972.

**The important objectives of WTO**:

- To improve the standard of living of people in the member countries.
- To ensure full employment and broad increase in effective demand.
- To enlarge production and trade of goods.
- To increase the trade of services.
- To ensure optimum utilisation of world resources.
- To protect the environment.
- To accept the concept of sustainable development.

**The main functions of WTO**:

- To implement rules and provisions related to trade policy review mechanism.
- To provide a platform to member countries to decide future strategies related to trade and tariff.
- To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.
- To administer the rules and processes related to dispute settlement.
- To ensure the optimum use of world resources.
- To assist international organisations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

**ACU (Asian Clearing Union)** is a payment arrangement whereby the participants settle payments for intra-regional transactions among the participating central banks on a net multilateral basis.
The main objectives of the clearing union are to facilitate payments among member countries for eligible transactions, thereby economising on the use of foreign exchange reserves and transfer costs, as well as promoting trade and banking relations among the participating countries.
ACU was established in 1974 at the initiative of United Nations 'Economic & Social Commission for Asia & the Pacific (ESCAP). Its headquarters is situated at Tehran, Iran. It started its function in November 1975.
The name of the ACU currency is Asian Monetary Unit (AMU). The value of one AMU is equivalent to one US dollar. There are 8 member countries setting their respective import and export payments through ACU currencies (India, Iran, Myanmar, Sri Lanka, Nepal, Pakistan, Bangladesh and Bhutan).

**Objectives and functions of ACU**:

- To settle the import & export payment claim of member countries easily.
- Not to use the currency of other countries except the currency of member countries.
- To expand the use of currency among the member countries of ACU.
- To establish financial cooperation among the regional countries.
- To provide short-term credit facilities by the system to the debtor participants for a period of two months.

**BRDB (Bangladesh Rural Development Board)** is the prime public sector organisation directly working for rural development and poverty alleviation activities under Rural Development and Cooperative Division of the Ministry of Local Government Rural Development and Cooperative of the Government of the People's Republic of Bangladesh.

**Window Dressing** is a financial adjustment made solely for the purpose of accounting presentation — normally at the time of auditing of company accounts. Window dressing is a technique used by companies and managers of the financial institutions to manipulate financial statements and reports to show more favorable results for a period.
Although window dressing is illegal or fraudulent, it is slightly dishonest and is usually done to mislead investors. Companies typically window dress their financial statements by selling off assets and either purchasing new assets or using this money to funds other operations. This way the cash balance on the balance sheet appears to be at a normal amount. Unfortunately, this strategy can only fool novice investors. Experienced investors can analyze the statement of cash flows and long-term assets to see that the company is funding current operations by selling off assets.

**Techniques of Window Dressing:**

- **Sale and leaseback**: Company is selling their assets before the year end and lease them back to increase cash but do not involve in a commitment to pay rentals. Their entity may sell the assets before the year end and lease it back.
- **Short-term borrowings**: This is another technique of window dressing where companies borrow loans for a short term before the yearend to show an enough ability to repay debts although it does increase liabilities of the company.
- **Receipts of receivables**: This is the technique where the company is directly asking to the customers to pay their debts early so the cash is received before the balance sheet date. Discounts are offered to the customers so they will agree to pay earlier this. This makes the cash position better and it does improve liquidity but it reduces the profits.
- **Bringing sales forward**: Here, the firm is asking to customers to take sales early so they can be recognised before the year end. This increases income and profits but it is not increase cash. Unfortunately it brings problems for the next financial year as the sales cannot be recognised again, so effectively the company is taking next year's sales into the current year.
- **Changing depreciation policies**: If an entity decides to increase the useful life of non-current assets this will reduce the income statement depreciation charge and improve the asset position and profit will be increased.

**Is Window Dressing good or bad?**
Window dressing is a technique to manipulate reports and financial statement of the company to show more favorable results and performance of firm for a period and it is used by companies and financial managers. Although window dressing is illegal or unethical, it is slightly dishonest and is usually done to mislead investors. Window dressing means it describes the act of making a company's performance (particularly its financial statements and reports) look attractive.

**KYC (Know Your Customers)** is a term commonly used for customer identification process or these are the guidelines issued by Bangladesh Bank for financial institutions. The intention behind the KYC is to check the money laundering. Bangladesh Bank has advised banks to follow 'KYC Guidelines' wherein certain personal information of the account-opening prospect or the customer is obtained. The objective of doing so is to enable the banks to have positive identification of its customers. This is also in the interest of customers to safeguard their hard earned money. The KYC guidelines of Bangladesh Bank mandate banks to collect three proofs from their customers. They are- (1) Photograph, (2) Proof of identity and (3) Proof of address.

**Difference between Profitability and Liquidity**

| Factors | Profitability | Liquidity |
|---|---|---|
| Definition | Profitability is the ability of a company to generate profits. | Liquidity is the ability of a company to convert assets into cash. |
| Time | Profitability is more important in long-term. | Liquidity is less important in short-term. |
| Ratios | The liquidity is normally measured with the help of the key financial ratios namely gross profit margin, operating profit margin, net profit margin and return on capital employed (ROCE). | The liquidity is normally measured with the help of the current ratio and quick ratio. |

**Summary: Profitability versus Liquidity**
The difference between profitability and liquidity is simply the availability of profits versus availability of cash. Profit is the principle measure to assess the stability of a company and is the priority interest of the shareholders. While profit is the most important, this does not necessarily mean that the business operation is sustainable. Besides, a profitable company may not have enough liquidity because most of the funds in the company are invested into projects and that a company which has a lot of cash or liquidity may not be profitable because it has not utilised excess funds effectively. Thus, the success depends on the better management of both profit and cash.

**Liquidity Management** takes one of two forms based on the definition of liquidity. One type of liquidity refers to the ability to trade an asset (such as a stock or bond) at its current price. The other definition of liquidity applies to large organisations such as financial institutions. Banks are often evaluated on their liquidity or their ability to meet cash and collateral obligations without incurring substantial losses. Liquidity management describes the effort of investors or managers to reduce liquidity risk exposure. Investors, lenders and managers all look to a company's financial statements using liquidity measurement ratios to evaluate liquidity risk. This is usually done by comparing liquid assets and short-term liabilities. Companies that are over-leveraged must take steps to reduce the gap between their cash on hand and their debt obligations.

**Capital Adequacy** is a ratio that can indicate a bank's ability to maintain equity capital sufficient to pay depositors whenever they demand their money and still have enough funds to increase the bank's assets through additional lending. Banks prepare list of their capital adequacy ratios in their financial reports.
Capital adequacy is percentage ratio of a financial institution's primary capital to its assets (loans and investments), used as a measure of its financial strength and stability.
According to the Capital Adequacy Standard set by Bank for International Settlements (BIS), banks must have a primary capital base equal at least to eight percent of their assets. A bank that lends 12 dollars for every dollar of its capital is within the prescribed limits. The capital adequacy ratio (CAR) is a measure of a bank's capital.
It is expressed as a percentage of a bank's risk weighted credit exposures.

**Excess Liquidity** is the cash held by a bank above the usual requirement (fixed by the regulatory authorities) for that bank. Excess liquidity weakens the monetary policy transmission mechanism.

**Loan Write-off** is a reduction in the value of an asset or earnings by the amount of an expense or loss. Companies are able to write off certain expenses that are required to run the business or have been incurred in the operation of the business and subtract from retained revenues. Banks prefer to never have to write off bad debt since their loan portfolios are their primary assets and source of future revenue.
But toxic loans (loans that are unreasonably difficult to collect) reflect very poorly on a bank's financial statements and can divert resources from more productive activity. Banks use write-offs to remove loans from their balance sheets and reduce their overall tax liability.

**Set-Off** is a legal clause that gives a lender the authority to seize a debtor's deposits when they default on a loan. It refers to a settlement of mutual debt between a creditor and a debtor through offsetting transaction claims. This allows creditors to collect a greater amount than they usually could under bankruptcy proceedings.

**Right of Set-Off:** When a banker combines two accounts in the name of the same customer and adjusts the debit balance in one account with the credit balance in other account then it is called right of set-off.
For example: debit balance of Tk. 50,000/- in overdraft account can be set off against credit balance of Tk.75,000/- in the savings bank account of the same customer, leaving a balance of Tk.25,000/- credit in the savings account.

**Securitisation** is the process through which an issuer creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors. The process can encompass any type of financial asset and promotes liquidity in the marketplace. Securitisation is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages or credit card debt obligations and selling their related cash flows to third party investors as securities — which may be described as bonds, pass-through securities or collateralised debt obligations.
Mortgage-backed securities are a perfect example of securitisation. By combining mortgages into one large pool, the issuer can divide the large pool into smaller pieces based on each individual mortgage's inherent risk of default and then sell those smaller pieces to investors.

**Risk Weighted Assets (RWA)** is a bank's assets or off-balance-sheet exposures weighted according to risk. Risk-weighted assets are used to determine the minimum amount of capital that must be held by banks and other institutions to reduce the risk of insolvency. The capital requirement is based on a risk assessment for each type of bank asset. For example, a loan that is secured by a letter of credit (L/C) is considered to be riskier and requires more capital than a mortgage loan that is secured with collateral.
Off-balance-sheet exposures can be easily included in capital adequacy calculations. Banks are not deterred from carrying low risk liquid assets in their books

**Single Borrower Exposure**

The single borrower exposure limit is a global practice to enable banks to effectively manage their credit risks.

**Bangladesh Bank asks scheduled banks to limit single borrower exposure**

Bangladesh Bank in May 2017 asked all scheduled banks to gradually bring down their overexposure to a single borrower limit which is 25% of the bank's capital. The central bank issued a circular in this regard in the wake of misinterpretation of the rule of single borrower exposure limit by banks providing loan facilities beyond the ceiling.

According to the circular, the banks that have provided funded loans to their single clients, exceeding the ceiling, would have to bring down the overexposure by the end of 2017. In 2014, Bangladesh Bank amended its policy on single borrower exposure limit in order to comply with the newly incorporated Section-26 (Kha) of the Banking Companies Act—1991 and further improve bank's credit risk management.

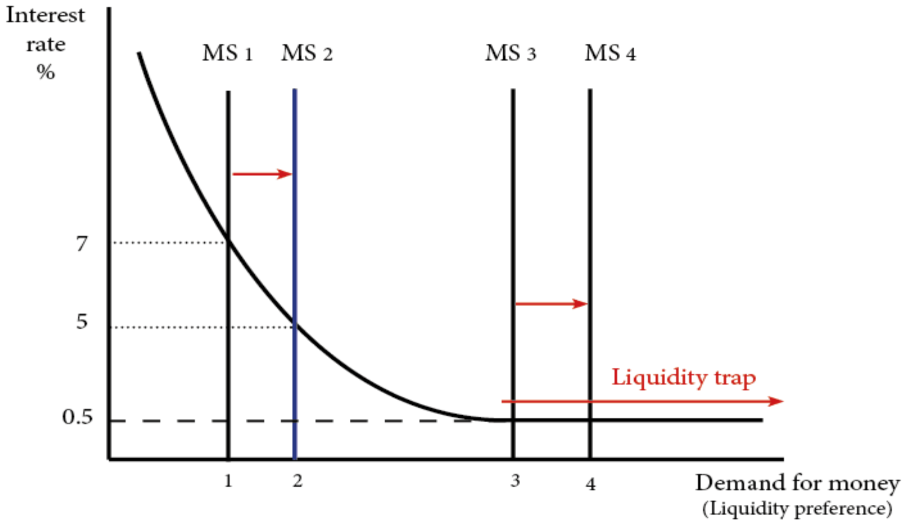
According to the Bank Company Act, the loan borrowed by any individual, organisation or group will not exceed a certain limit of the capital set by the central bank, but a condition is applicable that the ceiling will not exceed 25% of the bank's capital by any means.

Bangladesh Bank set the single borrower exposure limit at 15% of the capital in line with the act. But the ceiling is exempted for some cases including public limited companies, government borrowing and power supplier companies. The central bank has awarded the exemption of 15% ceiling, but the ceiling of 25% set in Bank Company Act will remain applicable. But banks are providing loan for different power projects beyond 25% of their capital, misinterpreting that the companies are excluded from the single borrower exposure limit.

Currently, a large portion of financing from banks goes to the power sector and no limit is maintained in case of providing loans against power projects, said a senior executive of Bangladesh Bank. The single borrower exposure limit set by the central bank is not applicable for a public limited company, which has 50% or more public shareholdings, and shall not be considered as an enterprise/organisation of any group, according to the single borrower exposure guideline. In case of credit facilities provided to the government or against the government guarantees, the 15% ceiling shall not be applicable.

**Creditworthiness** is the capacity of a borrower to repay the loan in time along with interest as per agreed terms.

**Liquidity Trap** is the situation (described in Keynesian economics) in which the current interest rates are low and savings rates are high — causing monetary policy ineffective. In a liquidity trap, consumers choose to avoid bonds and keep their funds in savings because of the prevailing belief that interest rates will soon rise. Because bonds have an inverse relationship to interest rates, many consumers do not want to hold an asset with a price that is expected to decline.




**Liquidity Risk** in foreign exchange is the risk of losses due to the inability to make timely payment of any financial obligation to the customers or counter parties in any currency. Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.

**Bank Stress Test** is an analysis conducted under unfavourable economic scenarios which is designed to determine whether a bank has enough capital to withstand the impact of adverse developments.

Stress test is an analysis or simulation designed to determine the ability of a given financial institution to deal with an economic crisis. Instead of doing financial projection on a best estimate basis, a company or its regulators may do stress testing where they look at how robust a financial instrument. Stress test can either be carried out internally by banks as part of their own risk management or by supervisory authorities as part of their regulatory oversight of the banking sector. These tests are meant to detect weak spots in the banking system at an early stage so that preventive action can be taken by the banks and regulators. Stress tests focus on a few key risks (credit risk, market risk and liquidity risk) to the financial health of the banks in crisis situations.

## What are the various risks that banks often face?

There are mainly eight (08) types of risks faced by the banks:-

| | | |
|---|---|---|
| 1. Credit Risk: Loan or non-perform assets (NPA) | 4. Moral Hazard | 7. Reputational Risk |
| 2. Market Risk: Money invested in the market | 5. Liquidity Risk | 8. Systemic Risk |
| 3. Operational Risk: Day-to-Day working risks | 6. Business Risk | |

**Some other risks faced by the banks include:-**

| | | |
|---|---|---|
| Changes in the central bank's lending policy | Interest rate risk | Collateral risks |
| Borrowers defaulting on loans | Foreign exchange risk | Inflation |
| Unfavourable government policies | Regulatory risk and fines | Market crash |
| Key staff being poached by rival bank | Taxation risk | Taxation risk |
| Counterparty risk/settlement | Staff turnover | Bank account hacking |

**Credit Risk** is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Credit risk is probability of loss from a debtor's default.
Credit risk is a major factor in determination of interest rate on a loan. Credit risks may occur if

- The principal or interest not paid
- When fund is not back as per L/C guarantee
- When fund not transferred due to political instability
- Death of the borrower
- Fake securities submitted by the borrower
- Lack of efficient and corporate management.

**Operational Risk** is a form of risk that summarises the risks a company or firm undertakes when it attempts to operate within a given field or industry. Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk and includes risks resulting from breakdowns in internal procedures, people and systems.
Operational risk can be summarised as human risk; it is the risk of business operations failing due to human error. Operational risk will change from industry to industry and it is an important consideration to make when looking at potential investment decisions. Industries with lower human interaction are likely to have lower operational risk.

**Reputational Risk** is the risk of damage to a bank's image and public standing that occurs due to some dubious actions taken by the bank. Sometimes, reputational risk can be due to perception or negative publicity against the bank and without any solid evidence of wrongdoing. Reputational risk leads to the public's loss of confidence in a bank. Most brand values stem from the reputation enjoyed by a bank.
All banks take utmost care to maintain and enhance their reputation. The bank's failure to honour commitments to the government, regulators and the public at large lowers a bank's reputation. It can arise from any type of situation relating to mismanagement of the bank's affairs or non-observance of the codes of conduct under corporate governance.
Risks emerging from suppression of facts and manipulation of records and accounts are also instances of reputational risk. Bad customer service, inappropriate staff behaviour and delay in decisions create a bad bank image among the public and hamper business development.

**Loan Syndication** is the process of involving several different lenders in providing various portions of a loan. Loan syndication most often occurs in situations where a borrower requires a large sum of capital that may either be too much for a single lender to provide or may be outside the scope of a lender's risk exposure levels.
Thus, multiple lenders will work together to provide the borrower with the capital needed at an appropriate rate agreed upon by all the lenders. Mainly used in extremely large loan situations, syndication allows any one lender to provide a large loan while maintaining a more prudent and manageable credit exposure, because the lender is not the only creditor. Loan syndication is common in mergers and acquisitions — where borrowers often need very large sums of capital to complete a transaction, often more than a single lender is able or willing to provide.

**Classified Loan** is past-due loan that is questionable in terms of the full recovery of principal balance and accrued interest. Classified loan is the term used for any loan that a bank examiner has deemed to be in danger of defaulting. Banks usually categorise such loans as adversely classified assets in their books.
Classified loans have unpaid interest and principal outstanding and it is unclear whether the bank will be able to recoup the loan proceeds from the borrower. Classified loans have failed to meet acceptable credit standards according to bank examiners. The credit quality has essentially declined since initial approval was granted.
Such loan has a high rate of borrower default and raises the cost of borrowing money for the other customers.

## What are the Non-Performing Assets (NPA) of a company?

An NPA is an obligation payable to the bank which has not been made or the interest and principal amount has not been paid on the due time. NPA is the loan or credit provided by the bank to its customers which could not be recovered in due time. Thus NPA is somehow not yielding any income to the lender either in the form of principal or interest payments.

NPA is also known as "bad debts". NPA is shown at the assets side of the balance sheet whereas deposits are shown at the liabilities side. Recently the country's new generation bank The Farmers' Bank Limited was marred in loss due to its rising NPA.

**Non-Performing Loan (NPL)** is an obligation payable to the bank which has not been made or the interest and principal amount has not been paid on the due time. NPA is the loan or credit provided by the bank to its customers which could not be recovered in due time.

Thus, NPA is somehow not yielding any income to the lender either in the form of principal or interest payments. NPA is also known as "bad debts". NPA is shown at the assets side of the balance sheet whereas deposits are shown at the liabilities side.

These loans do not perform duly or require extra cost and efforts. Institutions holding non-performing loans in their portfolios may choose to sell them to other investors in order to get rid of risky assets and clean up their balance sheets. If a bank has too many bad loans on its balance sheet, its profitability will suffer because it will no longer earn enough money from its credit business.

## Impacts of Non-Performing Loans (NPLs)

**Reduced Income**: Interest income is the first account that gets hit whenever an asset is declared non-performing. Lending companies such as banks are primarily in the business of earning income from interest paid by borrowers. A loan that has fallen into the non-performing asset category has not yielded interest for at least 90 days. Any decrease in interest payments will translate into a decrease in net income. A bank's income level falls as the amount of non-performing loans climbs.

**Unrecoverable Principal**: It is imperative for the bank to recover the money given as loan, because it is not the bank's money in the first place. When a borrower defaults on loan payments, the bank is unable to recover the principal. Unrecoverable principal must be replaced by the bank to keep its depositors' funds intact.

**Reduced Cash Flow**: Unrecoverable income and a decrease in interest collections translate into less cash flow. With an increase in non-performing loans and with less cash floating around, lending companies tend to resort to tighter credit policies. This outcome can slow down economic growth because some businesses would not be able to obtain a loan.

**Negative Indicator**: Non-performing loans can be used as indicators of a lender's ability to manage its loan portfolio efficiently. The efficiency of lending companies in recovering their principal and earning interest can be measured by comparing their NPL ratio against those of peer companies. Dividing the amount of NPLs by the total gross loans will yield this ratio. A lending company's efficiency rating deteriorates as the ratio increases.

## Some other impacts of non-performing loans

- Cost of deposit cannot be set-off by the yield of loans.
- Loan ability of banks decreases.
- Banks have to keep more provision against non-performing loans from their income.
- Capital build-up does not patch with the expected rate and sometimes it causes capital erosion.
- It causes extra management/operational/opportunity cost.
- It imposes huge legal cost and hazards.
- Increase in non-performing loans decreases taking of refinance facility.
- Banks may face liquidity crisis and compel to borrow fund at high interest rate.
- It hampers the international business due to decrease in CAMEL rating, credit rating and reputation.
- Payment of tax and dividend on the unrealized income causes a huge cost and cannot be return back.
- Extra regulatory pressure comes down.
- Dispose of collateral brings up extra cost and hazards.
- It develops a bad social impact of default culture.
- It causes a lot of sufferings for the concerned officials and degrades his efficiency.

**Bankruptcy** is a legal status of a person or business organisation that cannot repay the debts it owes to creditors. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor. The bankruptcy process begins with a petition filed by the debtor (most common) or on behalf of creditors (less common).

**Both Bail-out and Bail-in**

Bail-in and Bail-out are two alternative ways of giving another chance to a financial institution (such as bank) which is suffering from poor financial health and survival challenge — maybe due to mounting liabilities.

Both Bail-out and Bail-in are used for treatment of ailing financial institutions (here ailing means that the financial performance of the institution is poor). For example bad loans or Non-Performing Loans (NPLs) which affect the bank's ability to lend money.

While both bail-ins and bail-outs are designed to keep the borrowing institution afloat, the two different methods of accomplishing the goal vary greatly. Bail-outs are designed to keep creditors happy and interest rates low — while bail-ins are ideal in situations where bail-outs are politically difficult or impossible, and creditors are not keen on the idea of a liquidation event.

**Bail-out**: In case of a bail-out, the government usually provides the much needed financial support to the poor financial health of an institution (such as state-owned BASIC Bank Limited) in form of money from the government treasury (the government fund or taxpayer's money). The government simply gives money (in the form of loans, bonds and even in cash) to the ailing bank for its survival — that means taxpayer's money goes into saving these failing institutions. Principally this is required when the failing institution is of economic, strategic or national importance.

**Bail-in**: In case of a bail-in, the depositor's money (money in bank account) is used to treat the poor financial health of banks. A bail-in does not involve taxpayer's money and instead involves restructuring of liabilities of the distressed financial institution. It essentially means that lenders to the financial institution have to bear some portion of the loss and their balances are written off to some extent or the terms of their loans are changed to make the situation less depressing for the troubled institution.

For example — a person has Tk. 10 crore in his account maintained with a bank which is suffering from huge bad loans. One day he goes to the bank branch to withdraw some money but he finds that his account has been temporarily freezed or may be the bank says he cannot withdraw money beyond a limit. Or sometimes, the bank officials will ask him to accept equity or shares from the bank instead of withdrawing money. Thus the banks are exempted from liabilities (that they have to return depositor's money) they owe to depositers.

**Credit Rating** is an assessment of the likelihood of an individual or business being able to meet its financial obligations. Credit ratings are provided by credit agencies or rating agencies to verify the financial strength of the issuer for investors.

**There are 8 credit rating agencies in Bangladesh**

- Credit Rating Agency of Bangladesh Ltd. (CRAB)
- Credit Rating Information and Services Limited (CRISL)
- Bangladesh Rating Agency Ltd (BDRAL)
- ARGUS Credit Rating Services Ltd. (ACRSL)
- Emerging Credit Rating Limited (ECRL)
- National Credit Ratings Limited (NCR)
- Alpha Credit Rating Ltd.
- WASO Credit Rating Company (BD) Ltd. (WCRCL)

**Names of some research companies and consulting firms conducting research in Bangladesh**

- AB Better Business World Wide (Sweden)
- Acumen Fieldwork (UK)
- Agility Research & Strategy (Hong Kong)
- Advanced Market Research (US)
- Asia Insight Co. Ltd. (China)
- Asia Research Partners (India)
- Acorn Marketing & Research Consultants (International) Ltd (Hong Kong)

**Pledge** is a contract between the lender (pledgee) and borrower (pledgor) where the borrower offers an asset (pledges an asset) as a security to the lender. The pledgee takes actual possession of assets such as securities or goods. The pledgee will hold the possession until the entire amount is repaid.

In case of default by the borrower, the pledgee has a right to sell the goods in his possession and recover the money towards the due amount. If there is surplus remaining after the asset is sold, the amount is returned back to the pledger (borrower). Examples of pledge are jewellery loans advance against goods or stock, advances against national saving certificates.

**Hypothecation** is a contract between the lender and borrower where the borrower agrees to take possession of an asset in case of default. The possession of an asset remains with the borrower itself.

In case of default by the borrower, the lender will have the right to first take possession of an asset and then sell the same to recover his amount. Example for hypothecation is car loans. In car or vehicle loans, it remains with the borrower but the same is hypothecated to the bank or financer.

**Deposit Insurance Scheme** is protection provided usually by a government agency to depositors against risk of loss arising from failure of a bank or other depository institution. Typically, the scheme is intended to support the confidence in the financial system of small-scale depositors and thus reduce the risk of systemic crises being caused by panic withdrawals of deposits. The scheme can be privately or government operated and funded.

**Black Monday** refers to October 19, 1987 when stock markets around the world crashed — shedding a huge value in a very short time. The crash began in Hong Kong and spread west to Europe — hitting the United States after other markets had already declined by a significant margin. The Dow Jones Industrial Average (DJIA) lost almost 22% in a single day. That event marked the beginning of a global stock market decline, making Black Monday one of the most notorious days in financial history. By the end of the month, most of the major exchanges had dropped more than 20%.

**Annual General Meeting (AGM)** is the meeting which is arranged once in a year with the shareholders for discussing the overall situation of the company. The facilities for the shareholders are discussed in the meeting.

**Demonetisation** is defined as an economic policy or the process through which the government of a nation cancels the legal tender status of its local currency in circulation. After demonetisation, that currency unit cannot be used as money any more.
It occurs whenever there is an essential change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The process of demonetisation involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

**Objectives of Demonetisation**: Demonetisation is undertaken by the governments for a number of reasons:—

- To combat inflation
- To combat corruption and crime (counterfeiting, tax evasion)
- To discourage a cash-dependent economy
- To facilitate trade

**Demonetisation in India**

On November 8, 2016, upon the recommendations of the Central Board of its central bank the Reserve Bank of India (RBI), the Indian government demonetised the Rs. 500 and 1000 denomination notes (the two biggest denomination notes) except for a few specified purposes (such as paying utility bills) and introduced fresh banknotes of denomination Rs. 2,000. This led to almost 86% of the country's cash supply (money in circulation) invalid. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money earned through money laundering and terrorist financing activities and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money earned from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed.

**Objectives of demonetisation in India**: Following are the main objectives of demonetisation policy adopted the Indian government in 2016.

- To control circulation of fake banknotes
- To restrict and reduce the supply of money used for anti-social activities
- To run cashless economy in the country
- To reduce or elimination of tax evasion
- To eliminate black money and black marketing
- To curb corruption

**Impact of of demonetisation in India**:

1. Money/Interest rates:
    - Decline in cash transactions
    - Bank deposits decreased
    - Decrease in financial savings
2. Private wealth: Some high demonetised notes were not returned to the depositors leading to fall in the prices of real estate.
3. Public sector wealth: There had been no effect on the public sector wealth.
4. Digitisation: Digital transactions amongst new users increased.
5. Real estate: Prices of real estate declined.
6. Tax collection: There had been rise in income tax collection because of increased disclosure.

**RCBC (The Rizal Commercial Banking Corporation)** was established in 1960 as a development bank and is licensed by the Bangko Sentral ng Pilipinas (the central bank of the Philippines) for both commercial and investment banking. It is one of the largest universal banks in the Philippines with total consolidated resources of Php 516.6 billion as of 2015. The RCBC of the Philippines allowed the withdrawal of the bulk of the funds suspected to have been stolen by computer hackers from the account of foreign currency reserves of Bangladesh Bank despite having received an order from its counterpart banks abroad (Federal Reserve Bank of New York and Bangladesh Bank) to stop the payment.

**The Federal Reserve Bank of New York** is one of the 12 federal reserve banks of the USA. It is located at 33 Liberty Street of New York. It implements monetary policy, supervises and regulates financial institutions and helps maintain the nation's payment systems. It is by far the largest (by assets), most active (by volume) and most influential of the 12 regional Federal Reserve Banks. Its current president is William C. Dudley. Nearly 98% of the gold at Federal Reserve Bank of New York is owned by the central banks of 36 foreign nations (including Bangladesh Bank). The rest is owned by the United States and international organisations (such as the IMF).

**The stealing of US$100 million from Bangladesh Bank's Account at the New York Federal Reserve Bank**
Computer hackers using official codes stole US$100 million from Bangladesh Bank's account with the Federal Reserve Bank of New York on February 5, 2016. Authorities of four countries (Bangladesh, Sri-Lanka, the USA and the Philippines) are still piecing together what happened. The breach funnelled $81 million from Bangladesh Bank's account at the New York Federal Reserve to personal bank accounts in the Philippines.
Another $20 million was directed to a Sri Lankan bank. The unknown criminals sent 35 transfer requests through SWIFT interbank messaging system. Whoever made the requests had the necessary codes to authorise SWIFT transfers and put in the payment requests on a weekend. The incident has raised questions about the quality of security in Bangladesh Bank.

**How the banking sector can improve its cyber-security (How to prevent online banking attacks)?**
Cyber attacks are considered to be bigger threat to the country's banking system than bad debts. The threat of a hack is among the biggest fears of the country's banking sector. These threats are becoming more frequent and more sophisticated. The top cyber-security researchers have been warning the local banks that their retail payment systems have security flaws that could allow fraudsters to steal payment card PIN codes, create fake cards or siphon funds from customer or merchant accounts.
It is not sufficient to rely on the banks authentication procedures to secure online transactions. The need for increased security protocols exists not only with the bank or the business; it lies at the consumer level as well. Here are some recommendations:—

- Automation of processes is a vital part of a future-proof security infrastructure as it helps guard against human error and offers the capability to manage large amounts of data.
- Multi-layer security (including firewalls, secure sign-on, dual authentication with triangulation of access and real-time business event monitoring) helps protect against data failings from external attack.
- Improved real-time tracking will alert banks to any security breach. The ability to monitor every transaction across global operations will be the key to protecting against internal and external threats.
- It is essential to keep up with patches and maintain the latest updates for the antivirus software.
- It is needed to install an inclusive firewall programme that can pinpoint unauthorised programmes attempting to transmit data over the Internet.
- One should check his/her business balance on a daily basis.
- One should change his/her online banking passwords several times throughout the year and should avoid password 1234. S/he should make sure that login is a long mix of numbers and letters, capitals & lower case.

**Corporate Governance** is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company which include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management from action plans and internal controls to performance measurement and corporate disclosure.

**Corporate Governance principles for banks:** Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. While there is no single approach to good corporate governance, the Basel Committee's revised principles provide a framework within which banks and supervisors should operate to achieve robust and transparent risk management and decision-making and, in doing so, promote public confidence and uphold the safety and soundness of the banking system.
The revised guidance emphasises the critical importance of effective corporate governance for the safe and sound functioning of banks. It stresses the importance of risk governance as part of a bank's overall corporate governance framework and promotes the value of strong boards and board committees together with effective control functions.

**E-Governance** is the public sector's use of information and communication technologies with the aim of improving information & service delivery, encouraging citizen participation in the decision-making process & making the government more accountable, transparent & effective. The ultimate goal of the e-governance is to be able to offer an increased portfolio of public services to citizens in an efficient and cost effective manner. It allows for government transparency as it allows the public to be informed about what the government is working on as well as the policies they are trying to implement. The main advantage while implementing e-governance will be to improve the efficiency of the current system (paper-based system). The introduction would facilitate better communications between governments and businesses. For example: e-procurement facilitates G2G and B2B communication; this will permit smaller business to compete for government contracts as well as larger business.

**E-commerce** is he buying and selling of products and services by businesses and consumers through an electronic medium over the internet without using any paper documents. But any transaction that is completed solely through electronic measures can be considered e-commerce.

**Monopoly** is a situation or exists when a specific person or enterprise is the only supplier of a particular commodity. Monopolies are thus characterised by the lack of economic competition to produce the good or service and lack of viable substitute goods.

**Dumping** (in international trade) is a kind of predatory pricing especially in the context of international trade.
It occurs when manufacturers export a product to another country at a price either below the price charged in its home market or below its cost of production.
The purpose of this act is sometimes to increase market share in a foreign market or to drive out competition.

**Poverty Trap** is a mechanism which makes it very difficult for people to escape poverty. A poverty trap is created when an economic system requires a significant amount of various forms of capital in order to earn enough to escape poverty. When individuals lack this capital, they may also find it difficult to acquire it, creating a self-reinforcing cycle of poverty.

**Poverty Gap** is the average shortfall of the total population from the poverty line. This measurement is used to reflect the intensity of poverty. The poverty line that is used for measuring this gap is the amount typical to the poorest countries in the world combined with the latest information on the cost of living in developing countries. The poverty line is indicated by the widely accepted international standard for extreme poverty.

**Classical Economics** is a school of economic thought (exemplified by Adam Smith's writings in the 18th century) that states that a change in supply will eventually be matched by a change in demand — so that the economy is always moving towards equilibrium.

**Mention the names of some classical economists**
Classical economics asserts that markets function best without government interference. It was developed in the late 18th and early 19th century by Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Malthus and John Stuart Mill. These economists produced a theory of market economies as largely self-regulating systems — governed by natural laws of production and exchange.

**What is the name of the world famous book written by Adam Smith?**
The name of the book is “An Inquiry into the Nature and Causes of the Wealth of the Nation” (1776).

**What is the significance (and fundamental message) of Adam Smith's book “The Wealth of Nations”?**
As the American Revolution began, Scottish economist, philosopher and author Adam Smith started his own economic revolution. In 1776, he published “The Wealth of Nations” — which is probably the most influential book on market economics ever written. The book is usually considered to mark the beginning of classical economics.
The fundamental message in the book was that the wealth of any nation was determined not by the gold reserves, but by its national income. This income was in turn based on the labour of its inhabitants, organised efficiently by the division of labour and the use of accumulated capital — which became one of classical economics' central concepts.

**Who said “Supply creates its own demand”?**
An important element of classical economics is Say's Law of Markets. French classical economist Jean-Baptiste Say (1767-1832) first stated the law in a systematic form. Briefly stated, this law means that “Supply always creates its own demand”.
This has been named after Jean-Baptiste Say. His famous book “A Treatise of Political Economy” was published in 1803. In this book, he presented the ‘Law of Market’ which became famous as Say’s Law of Market or simply Say’s Law. The law is the dictum ‘Supply creates its own Demand’ states that aggregate production necessarily creates an equal quantity of aggregate demand.
Say further argued that there can never be a problem of general overproduction or glut in the market. If there is a surplus for one good there must be unmet demand for another. If certain goods remain unsold it is because other goods are not produced. According to this law, the owners of factors of production receive income in various forms (rent, wages, interest and profit or loss in the production process). The sum total of this output produced by these factors of production generates sufficient income in the society to purchase the produced output assuming that there are no leakages in the income stream.

**Assumptions of Say’s Law**: The say’s law takes the following assumptions:

- All markets are perfectly competitive so that agents decide how much to buy and sell on the basis of a given set of prices which are perfectly flexible. The required amount of labour and capital can be raised from the market on prevailing prices.
- Firms are free to enter or exist without affecting the equilibrium output and prices in the market.
- The market is capable of expansion. It expands with the increase in the volume offered for sale in the market.
- All savings are automatically invested and this equality is brought about by the changes in the rate of interest.
- Full employment is guaranteed because of free play of market forces. The government does not interfere in the automatic functioning of the economy as any interference with the free play of market forces will fail to bring about full employment.

"**Inflation is a disease that can wreck a society**" — a quotation of late US economist Milton Friedman who received the Nobel Prize in Economics in 1976.

Indian economist **Amartya Sen** won the Nobel Prize in Economics for his book "Poverty and Famine: An Essay on Entitlement and Deprivation". He was awarded the Noble Prize for his contribution to Welfare Economics.

The name of the first Nobel laureate in Economics is **Ragnar Frisch** (Norway) in 1969.

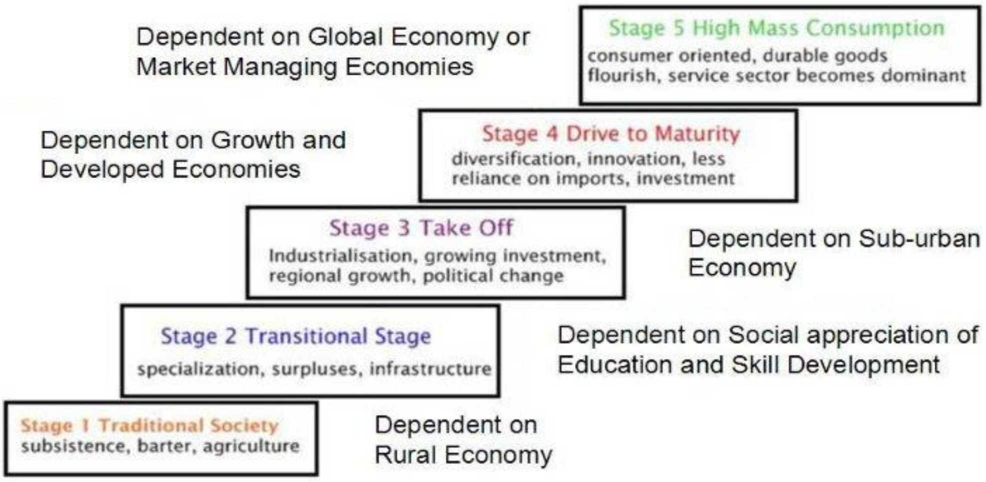
**Postcapitalism** is a book written by Paul Mason. Postcapitalism is a guide to our era of seismic economic change and how we can build a more equal society.

**Mention some economic development models**

- Rostow's Stages of Economic Growth
- Harrod-Domar Growth Model
- Lewis Structural Change (dual-sector) Model

Rostow's Stages of Economic Growth model is one of the major historical models of economic growth. It was published by American economist Walt Whitman Rostow in 1960. The model postulates that economic growth occurs in five basic stages of varying length:

1. Traditional society
2. Preconditions for take-off
3. Take-off
4. Drive to maturity
5. Age of high mass consumption




**Relation of Rastow Theory with economic growth of Bangladesh**

American Economic Historian WW Rostow suggested in 1960 that countries passed through five stages of economic development. According to him, development requires substantial investment in capital. For the economies of LDCs to grow the right conditions for such investment would have to be created. If aid is given or foreign direct investment (FDI) occurs at stage 3, the economy needs to have reached stage 2. If the stage 2 has been reached then injections of investment may lead to rapid growth.

**Sustainable Development Goals (SDGs)** are a collection of 17 global goals set by the United Nations to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The SDGs cover a broad range of social and economic development issues. The goals are build on the successes of the Millennium Development Goals (MDGs). The goals are interconnected and each has its own targets to achieve – often the key to success on one will involve tackling issues more commonly associated with another.

**The 17 sustainable development goals (SDGs) to transform our world:**

GOAL 1: No Poverty
GOAL 2: Zero Hunger
GOAL 3: Good Health and Well-being
GOAL 4: Quality Education
GOAL 5: Gender Equality
GOAL 6: Clean Water and Sanitation
GOAL 7: Affordable and Clean Energy
GOAL 8: Decent Work and Economic Growth
GOAL 9: Industry, Innovation and Infrastructure
GOAL 10: Reduced Inequality
GOAL 11: Sustainable Cities and Communities
GOAL 12: Responsible Consumption and Production
GOAL 13: Climate Action
GOAL 14: Life Below Water
GOAL 15: Life on Land
GOAL 16: Peace and Justice Strong Institutions
GOAL 17: Partnerships to achieve the Goal

## What is the difference between MOU and MOA?

At the time of entering into a legal transaction, there are two options available to the parties — agreement or memorandum of understanding. An **agreement** refers to concordance between the legally competent parties — which is generally negotiated. **Memorandum of Understanding (MoU)** is a type of agreement between legally competent parties — which is non-binding in nature. MoU contains the description of understanding between the two parties including the requirements and responsibilities of the two. These two are legal documents which are often confused for one another, but the fact is they are different.

| Factors | Memorandum of Agreement (MoA) | Memorandum of Understanding (MoU) |
|---|---|---|
| Meaning | An agreement is a document in which two parties agreed upon to work together for a common objective. | A Memorandum of Understanding or MoU is a legal document which describes the terms of an arrangement between the two or more parties forming a bilateral or multilateral agreement. |
| Elements | Offer, Acceptance. | Offer, Acceptance, Intention and Consideration. |
| Enforceability | An agreement can be enforceable in the court of law. | A Memorandum of Understanding cannot be enforceable in the court of law. |
| Binding nature | It is always binding on the parties to the agreement. | It is binding upon the parties, if the memorandum is signed in exchange for monetary consideration. |
| Collateral Rights | Yes | No |
| Form | Oral or Written | Written |

**Who is the Father of Marketing? Has he ever visited Bangladesh?**
American marketing author Philip Kotler is called "Father of Modern Marketing". He is the world's leading strategic marketing expert. He is the most important business thinker of all time.
Philip Kotler visited Bangladesh twice (firstly on 07-09 June, 2011 and secondly on 03 March, 2012).

**The Marketing Mix**: Marketing Mix is a tool used by businesses and Marketers to help determine a product or brands offering. The 7 Ps have been associated with the Marketing Mix since their creation by E. Jerome McCarthy in 1960.

**The 7 Ps of Marketing:** The 7 Ps are a set of recognised marketing tactics — which we can use in any combination to satisfy customers in our target market. The 7 Ps are controllable, but subject to our internal and external marketing environments. Combining these different marketing tactics to meet the needs and wants of our customers is known as using a **'Tactical Marketing Mix'**.

- **Product**: The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.
- **Place**: The product should be available from where our target consumer finds it easiest to shop. This may be courier service or the more current option via e-commerce or an online shop.
- **Price**: The Product should always be seen as representing good value for money. This does not necessarily mean it should be the cheapest available. One of the main tenets of the marketing concept is that customers are usually happy to pay a little more for something that works really well for them.
- **Promotion**: Advertising, public relation, sales promotion, personal selling and social media are all key communication tools for an organisation. These tools should be used to put across the organisation's message to the correct audiences in the manner they would most like to hear — whether it be informative or appealing to their emotions.
- **People**: All companies are reliant on the people who run them from front line sales staff to the Managing Director. Having the right people is essential because they are as much a part of our business offering as the products/services we are offering.
- **Processes**: The delivery of our service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for. Having good process in place ensures that we:
  - repeatedly deliver the same standard of service to your customers
  - save time and money by increasing efficiency.
- **Physical Evidence**: Physical evidence refers to everything our customers see when interacting with our business. This includes:
  - the physical environment where we provide the product or service
  - the layout or interior design
  - our packaging
  - our branding.

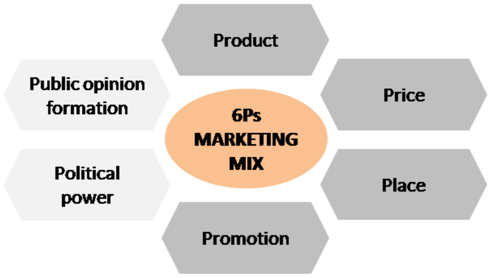
  Physical evidence can also refer to your staff and how they dress and act.

**The 8th P of the Marketing Mix**: **(Productivity and Quality)**: This P asks "is what we are offering our customer a good deal?" This is less about us as a business improving our own productivity for cost management and more about how our company passes this onto its customers.

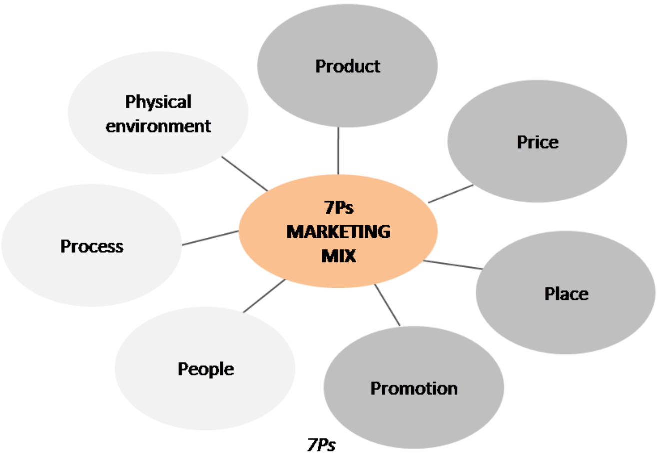

**7 "P"s of Marketing Mix**


*4Ps*
*McCarthy, 1960*

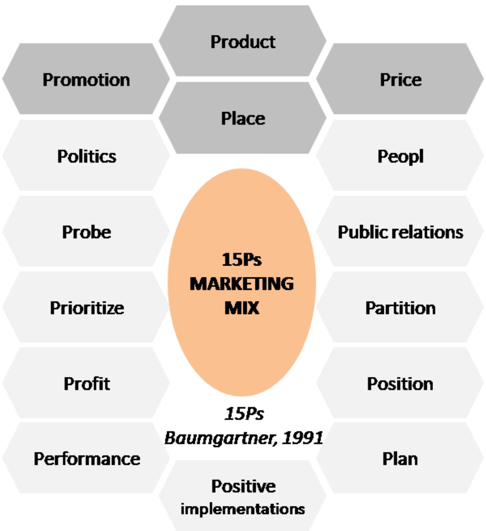

*5Ps*
*Judd, 1987*




*6Ps*
*Kotler, 1984*




*7Ps*
*Booms & Bitner, 1981*




*15Ps*
*Baumgartner, 1991*

# Latest important general knowledge and statistical data on the banking sector and the economy of Bangladesh

## Current foreign currency reserve of Bangladesh Bank

The foreign exchange reserves of Bangladesh crossed the US$33 billion-mark for the first time on June 22, 2017 riding on higher export earnings and good upward trend of remittances sent by the non-residential Bangladeshis working abroad and the rise to the decline in oil and food prices in the international market.
The reserves are enough to meet the country's import bills for 10 months.

| Foreign Exchange Reserves of Bangladesh Bank (Monthly) | | |
|---|---|---|
| | In million US$ | In billion US$ |
| Period | Reserves (Gross) | Reserves (Gross) |
| 31st September, 2018 | 31,957.7 | 31.96 |
| 30th June, 2018 | 32,943.5 | 32.94 |
| 31st December, 2017 | 33,226.9 | 33.23 |
| 30th June, 2017 | 33,493.0 | 33.49 |
| Source: Accounts & Budgeting Department, Bangladesh Bank | | |

## Bangladesh ranks 103rd out of 140 nations in Global Competitiveness Index (GCI)—2018

Bangladesh has been ranked 103rd out of 140 countries in terms of doing business in the world, according to the Global Competitiveness Index (GCI)—2018 released by the World Economic Forum (WEF) on 17th October, 2018. In the report of the Geneva-based organisation, the USA was placed first while Singapore and Germany secured the second and the third positions respectively.
The report measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity. The Global Competitiveness Index 4.0 is a composite indicator that assesses the set of factors that determine an economy's level of productivity — widely considered as the most important determinant of long-term growth.

## Bangladesh ranks 106th out of 157 nations in the Human Capital Index (HCI)—2018

Bangladesh has been ranked 106th out of 157 countries in the first Human Capital Index (HCI) prepared by the World Bank. In the new World Bank ranking, India was placed at 115 while Pakistan at 134. The index was launched at the World Bank-IMF Annual Meetings held in Bali of Indonesia on 11th October, 2018.
The HCI reflects the productivity as a future worker of a child born today, compared with what it could be if he or she had full healthcare access and complete, high-quality education, on a scale from zero to one, with one as the best possible score.

## Bangladesh ranked 136th in HDI Report—2017

Bangladesh has moved three notches up to the 136th place among 189 countries in the Global Human Development Index (HDI)—2017 because of the remarkable progress it has made in many socio-economic areas (including life expectancy and per capita income), according to the Human Development Report (HDR) of the United Nations Development Programme (UNDP) released on 14th September, 2018.

## China–USA Trade War (Largest trade war in economic history)

On 6th July 2018, the USA's imposition of tariffs worth USD 34 billion on the goods imported from China took effect — escalating a war of words between the world's two largest economies into a full-blown trade conflict.
China and the USA are locked in an ongoing trade war as each country has introduced tariffs on goods traded with the other. USA President Donald Trump had promised in his campaign to fix China's "longtime abuse of the broken international system and unfair practices". Starting in January 2018, the USA imposed a tariff on solar panel imports — most of which are manufactured in China. On 6th July 2018, the USA specifically targeted China by imposing 25% tariffs (worth USD $34 billion) on imported Chinese goods as part of Trump's tariffs policy — which then led China to respond with similarly sized tariffs on US products.
A tariff on an additional USD $16 billion of Chinese imports was added in mid August — with China responding proportionately. A further tariff on USD $200 billion of Chinese goods is to go into effect on 24th September — to which China plans to respond to with tariffs on USD $60 billion of US goods. The US administration said that the tariffs were necessary to protect intellectual property of US businesses and to help reduce the US trade deficit with China.

## UN recognises Bangladesh as a 'Developing Country' [Attaining LDC graduation criteria)

The Committee for Development Policy (CDP) — an organisation of the United Nations — at its meeting at the UN headquarters in New York on 17th March 2018 officially announced that Bangladesh fulfilled the eligibility requirements to graduate from 'Least Developed Country' to 'Developing Country' as the country met all the three criteria for the first time for getting out of the LDC bloc. The three criteria are Gross National Income (GNI) per capita, Human Assets Index (HAI) and Economic Vulnerability Index (EVI).
According to the UN's graduation threshold, the GNI per capita of a country has to be US$1,230 or above. Currently the GNI per capita of Bangladesh is US$1,272.
Bangladesh was included in the least developed country (LDC) list in 1975.
In terms of the HAI, a country must have a score of 66 or above. Bangladesh's score is now 72.8 — well above the threshold. The HAI is an indicator of nutrition, health, adult literacy and secondary school enrolment rate.
In the economic vulnerability index (EVI), a country's score has to be 32 or below. Bangladesh's score is 25 in the EVI, an indicator of natural and trade-related shocks. The CDP will review Bangladesh's progress in 2021, and the country's official graduation from the LDC category will take place after a three-year transition period.
If the country maintains its position in all the three categories for the next six years, it will eventually graduate from the LDC bloc.

Bangladesh was promoted as a lower middle income country from a low income country (LIC) classification by the World Bank in December 2015.

## Bangladesh Bank gives BB Award to Azizur Rahman and Mahbub Hossain

Bangladesh Bank on February 18, 2018 handed over Bangladesh Bank Award—2017 to the country's two renowned economists — Dr Azizur Rahman Khan and the late Mahbub Hossain — for their outstanding contributions to the field of economy. Dr Azizur Rahman Khan is a Professor Emeritus of University of California (USA) while Mahbub Hossain was former Executive Director of BRAC.

## Bangladesh Bank issues notice banning Bitcoin in Bangladesh

Bangladesh Bank on December 27, 2017 banned the use of Bitcoin (the most well-known virtual cryptocurrency) in Bangladesh by issuing a circular on its website. Bangladesh Bank in a cautionary notification said that there is no legal framework on cryptocurrencies like Bitcoin, Ethereum, Ripple and Litecoin in any country including Bangladesh. So, all concerned should avoid transactions through the online-based currencies. Besides, transaction through the online-based currencies (cryptocurrency) like Bitcoin is a punishable offence under the prevailing Foreign Currency Regulations Act-1947, Anti-Terrorism Act-2009 and the Money Laundering Prevention Act-2012.

## Customer's Complaint Hotline (16236) of Bangladesh Bank

Bangladesh Bank has recently open a customer's complaint hotline (16236) for the bank clients to call for lodging complaints or having any sorts of banking services from anywhere in the country.
A client of any bank aggrieved from non-cooperation now can call on 16236 which is accessible from any land phone or mobile phone anytime from any location of the country.

## Inauguration IBFT

Bangladesh Bank on November 2, 2017 launched the Internet Banking Fund Transfer (IBFT) for settling interbank transactions to provide more easy, swift and low-cost banking service to the clients.
With the launching of the system, banks will settle the transactions of their clients (one account to another account, account to credit card or debit card and debit card or credit card to account) through internet banking using the National Payment Switch of Bangladesh (NPSB) — an automated common platform of Bangladesh Bank for all banks to settle all inter-bank transactions.

## Bangladesh Post Office launches 'Nagad' digital financial services to the grass-root level

Bangladesh Post Office on 11th October, 2018 launched a new digital financial service platform titled "Nagad" — with a view to enhancing financial inclusion to the most rural corners of the country. Nagad — first of its kind service in the country — promises increased financial freedom with additional security and control.
Nagad is a dynamic and secured digital financial service that will facilitate customers daily financial transaction needs like cash-in, cash-out, send money and mobile recharge. This platform is expected to take-over the disbursement of the government's allowances and funds and it also targets to engage about 2,50,000 entrepreneurs.
This platform will leverage the vast network of post offices across the country — in partnership with software developer Third Wave Technologies under a public-private partnership model. This service will be operated under the "Bangladesh Postal Act Amendment 2010".

## Sonali Bank gets permission from Bangladesh Bank to start PayPal services in Bangladesh

Bangladesh Bank on March 20, 2017 permitted state-owned Sonali Bank Limited to sign a deal with US-based global online payments giant PayPal to make the global online payment system services available in the country.
Access to PayPal will allow people and businesses to conveniently transfer money online, including remittances, and use it as an alternative to traditional paper methods like cheques and money orders, by making payments through the internet.
PayPal is an e-commerce firm which provides electronic alternatives to traditional paper methods like cheques and money orders. The service is very popular among online shoppers and outsourcing experts.

## Bangladesh Sovereign Wealth Fund

The government on the February 5, 2017 decided to form "Bangladesh Sovereign Wealth Fund" with an authorised capital of US$ 10 billion with a view to making the fund useful during periods of emergency.
The government on 25th April, 2017 renamed the Bank and Financial Institutions Division of the Ministry of Finance as **'Financial Institutions Division'** aiming to ensure equal representation of all entities under the division.

## Shanghai, Shenzhen bourses (SZSE-SSE) acquire 25% stake in DSE to become its strategic investor

The board of directors of the Dhaka Stock Exchange (DSE) on 14th May, 2018 unanimously decided to sell 25% of its shares to a consortium of the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) as part of its demutualization scheme — considering the consortium a strategic investor.
The Bangladesh Securities and Exchange Commission (BSEC) on 03rd May, 2018 officially approved the Consortium's proposal to purchase 25% stake in DSE.
Based on the principle of equality, mutual benefit and win-win cooperation in compliance with Chinese and Bangladeshi laws and regulations, the consortium will advance cooperation in key areas such as trading technology, market cultivation, and product development in an orderly manner to achieve higher-quality growth.
The SSE is the world's fourth-largest market globally in terms of market capitalisation. The bourse has about 1,400 listed companies with a combined market value of US$5 trillion — which is the second largest in Asia after the Tokyo Stock Exchange. Shenzhen ranks No 8 worldwide with 2,100 listed companies and a market capitalisation of US$3.69 trillion (according to the World Federation of Exchange).
The Dhaka Stock Exchange has a total market capitalisation of US$40 billion.

## European Union & Japan sign free trade agreement

The European Union and Japan on July 17, 2018 signed a free trade agreement (the EU-Japan Economic Partnership Agreement) that creates the world's largest free-trade zone with 600 million people and a third of global GDP. The agreement aims at the elimination of tariffs on nearly all major goods traded between the two sides. According to the European Commission, the agreement is the largest bilateral free trade agreement ever negotiated by the EU.

## Personal Income Tax Rate in Bangladesh

The Personal Income Tax Rate in Bangladesh in the budget of the 2017-2018 fiscal year stands at 30%.
In Bangladesh, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends.
The benchmark we use refers to the Top Marginal Tax Rate for individuals. Revenues from the Personal Income Tax Rate are an important source of income for the government of Bangladesh.

## Government decides to revise GDP base year to incorporate more areas

The existing GDP base year is 2005-2006. The government has decided to rebase and revise the GDP base year to 2015-16 from the existing 2005-2006, incorporating many more emerging areas of economic activity into the GDP calculation. Once measured according to the new base, the country's GDP size and per capita income will increase. The changes in size of the real GDP will occur because of the inclusion of some new sectors in the calculation and price changes between the two periods.
In Bangladesh, the usual practice was to revise GDP base year in every 10 years. In 2013, the base year was changed from 1995-96 to 2005-06.

## International currencies used for ACU transaction settlements

The Asian Clearing Union (ACU) accepts US dollar, Euro and Japanese Yen for net settlements of current account transactions (intra-regional trade) among ACU members that included Bangladesh.
The ACU is a payment arrangement under which transactions between 09 member countries are settled.
The member nations are Bangladesh, Bhutan, India, Iran, the Maldives, Myanmar, Nepal, Pakistan, Sri Lanka.

The highest inflation of the world in 2017 was recorded in Venezuela and the rate was 2,616%.

## Venezuela launches government-issued new cryptocurrency 'Petro'

The Venezuelan government in December, 2018 launched a new form of digital currency, backed by the country's mineral reserves (most notably its substantial oil reserves), in order to address the collapse of the country's economy. Venezuelan President Nicolás Maduro announced the creation of the new virtual currency called the **'Petro'** in a bid to ease the country's economic crisis. Nicolas Maduro ordered the release of 100 million units of Petro. The economy of Venezuela is in trouble due to the falling value of the Bolivar and sanctions enforced by the US government.

## UNESCO recognises Bangabandhu's historic 7th March speech

The UNESCO on October 30, 2017 recognised the historic 7th March speech of Father of the Nation Bangabandhu Sheikh Mujibur Rahman (which effectively declared Bangladesh's independence) as an important documentary heritage. The speech has been included in the Memory of the World International Register (a list of world's important documentary heritage) maintained by the associate organisation of the United Nations (UN).

**Private banks decide to bring interest rates down to single digits**
Owners of private commercial banks (Bangladesh Association of Banks or BAB) on 21st June 2018 announced to bring down the interest rate on lending to 9% and that on deposits to 6% from the existing levels after Prime Minister Sheikh Hasina urged them to bring the rates down to single digits as her government aims to boost domestic investment.

**China inaugurates world's longest sea bridge connecting Hong Kong to Macau, Zhuhai**
Chinese President Xi Jinping on 23rd October, 2018 inaugurated the world's longest sea-crossing bridge connecting/linking the cities of Hong Kong, Macau and Zhuhai with mainland China. Built at a cost of USD $ 20 billion, the 55-kilometre (34-mile) crossing (which includes a snaking road bridge and underwater tunnel) links Hong Kong's Lantau Island to Zhuhai (which is in southern China's Guangdong Province) and the gambling enclave of Macau. The sea bridge is situated in the Lingdingyang waters of the Pearl River estuary. The bridge is six lanes wide and was built using more steel than as many as 60 Eiffel Towers. The travel time between Hong Kong and Zhuhai will now be slashed from three hours to 30 minutes. It will also help in boosting trade activities between Hong Kong and mainland China. The US$ 20 billion mega project has been inaugurated at a time when the China government is tightening its grip on its semi-autonomous territories.

**William Nordhaus: The father of climate change economics**
Economist William Nordhaus (a professor at Yale University) is often considered the father of climate-change economics. He won the Nobel Prize in Economic Sciences in 2018 "for integrating climate change into long-run macroeconomic analysis." He has won many other awards for developing the first model capable of integrating economic and environmental data to identify the most efficient policies against global warming.

**2018 Nobel Prize in Economics**: **American economists William Nordhaus** and **Paul Romer** jointly won the won the 2018 Nobel Memorial Prize in Economic Sciences for their work on the relationship of climate change and technological innovation to economics — which has had a lasting effect on policy around the world. The research of the two US economists focuses on how climate change and technology have affected the economy. Their work has been helping to answer basic questions over how to promote long-term sustainable growth
They are the pioneers in adapting the western economic growth model to focus on environmental issues and sharing the benefits of technology.
Nordhaus is a longtime professor of economics at Yale University. Romer is a former senior vice president of the World Bank and now an economics professor at New York University. Romer is best known for his work on endogenous growth — a theory rooted in investing in knowledge and human capital.

**2018 Nobel Prize in Peace**: The Norwegian Nobel Committee on October 5, 2018 awarded **Denis Mukwege** and **Nadia Murad** the Nobel Peace Prize for 2018 for their efforts to end the use of sexual violence as a weapon of war and armed conflict.
Denis Mukwege is a Congolese gynecologist treating victims of gang rape. He has treated thousands of rape victims at his hospital in the Democratic Republic of Congo.
Nadia Murad is an Iraqi Yazidi who has spoken about her own suffering at the hands of the Islamic State (IS). She has become an outspoken activist about sexual slavery and human trafficking.
Both Denis Mukwege and Nadia Murad are witnesses to the way in which the abuse of women can be connected together with violent conflict. What they have in common is that they both have lived in parts of the world where it is particularly dangerous to be a woman.

**Harvard University Professor Gita Gopinath appointed as the chief economist of IMF**
Indian-origin Harvard University Professor Gita Gopinath has been appointed the chief economist of the International Monetary Fund (IMF). She replaces outgoing chief economist Maury Obstfeld who is to retire at the end of 2018.
Gopinath is the second Indian to be appointed as the chief economist of IMF. Former Governor of the Reserve Bank of India (RBI) Raghuram Rajan had served as Chief Economist of the IMF.
Currently, Gopinath is the John Zwaanstra Professor of International Studies and Economics at Harvard University. Her research focuses on international finance and macroeconomics.
Announcing the appointment on 2nd October, 2018, IMF Managing Director Christine Lagarde called Gita Gopinath "one of the world's outstanding economists with impeccable academic credentials, a proven track record of intellectual leadership and extensive international experience".
Gopinath was born and grew up in India. She is a US citizen and an Overseas Citizen of India. She received her PhD in Economics from Princeton University in 2001 after earning a BA from University of Delhi and MA degrees from both the Delhi School of Economics and University of Washington.
Gopinath joined the University of Chicago in 2001 as an Assistant Professor before moving to Harvard in 2005. She became a tenured Professor there in 2010. She is the third woman in the history of Harvard to be a tenured professor at its esteemed economics department and the first Indian since the Nobel laureate Amartya Sen to hold that position.

**Lubna Olayan becomes first Saudi woman to run a Saudi bank for first time in country's history**

Prominent Saudi businesswoman Lubna Al Olayan has been appointed as the Chairwoman of the Board of Directors of a Saudi Arabian bank for the first time in the country's history. She will chair a new bank being formed out of a merger between the Saudi British Bank (SABB) and Alawwal Bank.

Lubna has significantly contributed to shattering stereotypes of Saudi women. She is the Chief Executive Officer (CEO) of the Olayan Financing Company (OFC), the holding entity for the Olayan Group's operations in Saudi Arabia and the Middle East. She also sits on the board of the group founded in 1947 by her father. OFC is one of the largest investors in the Saudi and regional stock markets and it operates or actively participates in more than 40 companies — often in partnership with leading multinationals.

Lubna Olayan is the CEO of Olayan Group, and she also worked for Morgan Guaranty New York from 1979 to 1981 when she returned to Saudi Arabia to work with Olayan again. She topped the list of Forbes Middle East's Most Influential women of 2018.

Lubna Olayan received a Bachelor of Agriculture degree from Cornell University in the USA and an MBA from the University of Indiana in business management.

**The Vision-2021** (envisioned by Prime Minister Sheikh Hasina) is a goal for transforming Bangladesh into a middle income and digital country by the end of 2021 by cutting poverty and hunger down to a significant level. The government's digitisation programme has factually become the driving force to push Bangladesh towards a middle income nation through realising the Vision-2021 as envisioned by Prime Minister Sheikh Hasina. The government has been relentlessly working to materialise the Vision-2021.

**The Vision-2041** (envisioned by Prime Minister Sheikh Hasina) is a goal for transforming Bangladesh into a developed country by the end of 2041.

**Dr. Urjit R. Patel** is the incumbent Governor of the Indian central bank — Reserve Bank of India (RBI).
He assumed charge as the 24th Governor of the RBI effective September 4, 2016 after serving as Deputy Governor since January 2013. Born in 1963, Urjit R. Patel is an Indian economist, consultant and banker.
He succeeds Raghuram Rajan.

**Mark Carney** is the incumbent Governor of the Bank of England and also Chairman of the Monetary Policy Committee and Financial Policy Committee. Carney was previously the Governor of the Bank of Canada.

**Yi Gang** (US-educated economist) is the incumbent Governor of the People's Bank of China (the central bank of the China). Previously he was the Deputy Governor of the bank since 2008.

**Haruhiko Kuroda** is the incumbent Governor of the Bank of Japan. He was formerly the President of the Asian Development Bank (ADB) from 1 February 2005 to 18 March 2013.

**Janet Yellen** is the incumbent Governor of the Federal Reserve System (the central banking system of the USA). She is the first woman to take over the top spot in the 100-year history of the US central bank.

**Amando Maglalang Tetangco** is the incumbent Governor of the Bangko Sentral ng Pilipinas (the central bank of the Philippines). He is the first governor of the nation's central bank to serve two terms — having been first appointed to the office by Philippine President Gloria Macapagal Arroyo in July 2005 and reappointed in 2011 by President Benigno Aquino III to serve another six-year term.

**Ashraf Mahmood Wathra** is the incumbent Governor of State Bank of Pakistan (Pakistan's central bank).

**Junaid Kamal Ahmad** (a Bangladeshi economist) is the World Bank's Country Director for India. He joined the bank's New Delhi office on September 1, 2016. He was Chief of Staff to the World Bank Group President Jim Yong Kim before being elevated to the current position. He joined the World Bank as a Young Professional in 1991, working as an Economist in Africa and Eastern Europe before joining the Africa Infrastructure Unit.

Former governor of Bangladesh Bank **Dr Mohammed Farashuddin** has been elected as the member of the International Civil Service Commission (ISCS) for a four-year term starting from the 1st January, 2017.

The name of the minister of the Ministry of Finance is **Abul Maal Abdul Muhith**.
The name of the State Minister of the Ministry of Finance is **Muhammad Abdul Mannan** (MA Mannan)
The name of the State Minister of the Ministry of Planning is **Muhammad Abdul Mannan** (MA Mannan)
Present **Secretary of the Ministry of Finance** is **Abdur Rouf Talukder**
Present Comptroller and Auditor General of Bangladesh is **Mohammad Muslim Chowdhury**
Present Chairman of the National Board of Revenue (NBR) is **Md. Mosharraf Hossain Bhuiyan**
Present Chairman of the Bangladesh Securities and Exchange Commission (BSEC) is **Dr M Khairul Hossain**
The name of the Managing Director of the IMF is **Christine Lagarde**
The name of the President of the World Bank **Jim Yong Kim (12th President)**
The name of the Director General of the Anti-Corruption Commission (ACC) is Muhammad Munir Chowdhury

Some renowned economists of Bangladesh: Professor Dr. Atiur Rahman, Professor Dr. Abul Barkat, Dr. Muhammad Yunus, Dr. Salehuddin Ahmed and Dr. Debapriya Bhattacharya

## Important information about Bangladesh Bank

- Bangladesh Bank was established on 16th December, 1971 (As per Bangladesh Bank Order—1972).
- Former name of Bangladesh Bank is State Bank of Pakistan.
- The duration of the Governor of Bangladesh Bank is 4 years.
- The first governor of Bangladesh Bank was A.N.M. Hamidullah.
- Full name of A.N.M. Hamidullah and his home district: Abu Nayem Muhammad Hamidullah (Habiganj).
- The architect of the Bangladesh Bank Building is Shafiul Kader
- The first woman director of Bangladesh Bank is Professor Hanna Begum.
- There are 10 members of the board of directors of Bangladesh Bank: 1 Chairman, 1 Member Secretary and 8 Directors.
- The number of branches of Bangladesh Bank (except Head Office) is 10 (including 1 Local Office).
- The forensics division of cyber security consultancy firm Mandiant conducted investigation into the infamous USD $81 million cyber raid on Bangladesh Bank.
- Bangladesh Bank has recently achieved 'Global Inclusion Award 2017' under the category of Global Money Week Award for its sustainable & innovative financial inclusion and financial education initiatives.
- Bangladesh Bank has recently set the highest interest rate of different types of credit cards offered to the bank clients by the scheduled banks at 16%.
- The customers of Bangladesh Bank are scheduled banks, NBFIs and the government of Bangladesh.
- Income sources of Bangladesh Bank are bank rate, loans provided to other commercial banks and investment in foreign banks and countries.
- Main sources of foreign reserve are remittances, export earnings, foreign loans and foreign aid.
- The first and foremost duty of Bangladesh Bank is to issue currency and banknotes.
- Bangladesh Bank maintains reserves of foreign currencies against banknotes.
- The four microeconomic variables that Bangladesh Bank controls are inflation, interest rate, money supply and exchange rates.
- Scheduled banks send their reports to Bangladesh Bank about their programmes once a week (mostly on Thursday).
- Bangladesh Bank increases the reserved capital to prevent inflation.
- Bangladesh Bank declares the monetary policy by issuing Monetary Policy Statement (MPS) twice (January and July) in a year.
- Bangladesh Bank Credit Rating is SRO No. 283 [Statutory Rules Order].
- The monetary policy undertaken by Bangladesh Bank is Balanced Contractionary Monetary Policy.
- A commercial bank has to mandatorily deposit 18.5% of its total capital with Bangladesh Bank (accumulation of the CRR+SLR).

| | | | |
|---|---|---|---|
| Reserve Ratios (Set by Bangladesh Bank) | Traditional Banking | SLR | 13% |
| | | CRR | 5.5% |
| | Islamic Banking | SLR | 5.5% |
| | | CRR | 5.5% |

| | | |
|---|---|---|
| Policy Rates (Set by Bangladesh Bank) | Repo Rate | 6% |
| | Special Repo Rate | 9.75% |
| | Reverse Repo Rate | 4.75% |
| | Bank Rate | 5% |

## Names of the present Chairmen and Managing Directors of the state-owned banks in Bangladesh

| | Name of the nationalised banks | Present Managing Director | Present Chairman |
|---|---|---|---|
| 01. | Sonali Bank Ltd. | Md. Obayed Ullah Al Masud | Md. Ashraful Moqbul |
| 02. | Agrani Bank Ltd. | Mohammad Shams-Ul Islam | Dr. Zaid Bakht |
| 03. | Janata Bank Ltd. | Md. Abdus Salam Azad (F.F.) | Luna Shamsuddoha |
| 04. | Rupali Bank Ltd. | Md. Ataur Rahman Prodhan | Monzur Hossain |
| 05. | BASIC Bank Ltd. | Muhammad Awal Khan | Alauddin A. Majid |
| 06. | BDBL | Manjur Ahmed | Yeasin Ali |
| 07. | Bangladesh Krishi Bank Limited | Md. Ali Hossain Prodhania | Mohammad Ismail |
| 08. | Rajshahi Krishi Unnayan Bank Ltd. | Kazi Alamgir | Muhammad Nazrul Islam |
| 09. | Probashi Kallyan Bank | Mahtab Jabin | Begum Shamsun Nahar |
| 10. | Karmasanghastan Bank | Md. Abul Hossain | Parikshit Datta Choudhury |
| 11. | Ansar-VDP Unnayan Bank | Mohammad Jalaluddin | Major General Kazi Sharif Kaikobad |
| 12. | Palli Sanchay Bank Limited | Akbar Hossain | Dr. Mihir Kanti Majumder |

| Current money supply in Bangladesh (Taka in million) | | | | | |
|---|---|---|---|---|---|
| **Components** | **August 2018** | **July 2018** | **August 2017** | **Percentage (%) Changes** | |
| | | | | **Aug-2018 over July-2018** | **Aug-2018 over Aug-2017** |
| 1. Currency Outside banks | 1533946 | 1377023 | 1478235 | 11.4 | 3.77 |
| 2. Deposits of Financial Institutions with Bangladesh Bank (except DMBs) | 7436 | 8315 | 6729 | -10.57 | 10.51 |
| 3. Demand Deposits with DMBs* | 1030184 | 1068703 | 949069 | -3.6 | 8.55 |
| 4. Time Deposits with DMBs* | 8667977 | 8607566 | 7877484 | 0.7 | 10.03 |
| 5. Money Supply (M1) (1+2+3) | 2571566 | 2454041 | 2434033 | 4.79 | 5.65 |
| 6. Money Supply(M2) (4+5) | 11239543 | 11061607 | 10311517 | 1.61 | 9.0 |
| Source: Statistics Department, Bangladesh Bank | | | | | |
| Note: * Excludes Inter-bank Deposits and Government Deposits | | | | | |

**Exchange Rates of Taka**

Exchange rates of Taka for inter-bank and customer transactions are set by the dealer banks, based on demand-supply interaction. Bangladesh Bank is not in the market on a day-to-day basis and undertakes US$ purchase or sale transactions with dealer banks at prevailing inter-bank exchange rates only as needed to maintain orderly market conditions. Inter-bank exchange rates are also used by Bangladesh Bank for purchase and sale transactions with the Government and different International Organisations. The US$/BDT buying and selling rates below are highest and lowest inter-bank exchange rates at Dhaka. The cross rates of BDT with other foreign currencies are based on New York and Dhaka closing exchange rates.

**A. Inter-bank Exchange Rates as on 11th November, 2018**

| Currency | Day's lowest | Day's highest |
|---|---|---|
| USD | 83.8500 | 83.8500 |

**B. Cross Rates as on 11th November, 2018**

| Currency | Buying | Selling |
|---|---|---|
| EURO | 95.0356 | 95.0691 |
| British Pound (GBP) | 108.7870 | 108.8289 |
| Australian dollar (AUD) | 60.5732 | 60.5900 |
| Japanese yen (JPY) | 0.7366 | 0.7367 |
| Canadian dollar (CAD) | 63.4602 | 63.4794 |
| Swedish krona (SEK) | 9.2331 | 9.2361 |
| Singapore dollar (SGD) | 60.7873 | 60.8093 |
| Renminbi outside of China (CNH) | 12.0630 | 12.0713 |
| Indian Rupee (INR) | 1.1568 | 1.1570 |

| Regulators of money market, capital market, insurance & microfinance institutions in Bangladesh | |
|---|---|
| Bangladesh Bank | Bangladesh Bank is the regulatory body and guardian of the banking system and money market in Bangladesh |
| BSEC | Bangladesh Securities and Exchange Commission (BSEC) is the regulator of capital market intermediaries in Bangladesh. |
| IDRA | Insurance Development and Regulatory Authority (IDRA) is the regulator of insurance industry in Bangladesh. |
| MRA | Microcredit Regulatory Authority (MRA) is the regulatory body of the non-government microfinance institutions (NGO-MFIs) in Bangladesh. |

## Sovereign ratings of Bangladesh

Bangladesh's credit rating according to Standard & Poor's Ratings = **BB- (**for the 9th consecutive years)
Bangladesh's credit rating according to Fitch's Ratings = **BB- (**for the 5th consecutive years)
Bangladesh's sovereign debt according to Moody's Ratings = **Ba3 (**for the 9th consecutive years)
Moody's Investors Service has affirmed Bangladesh's ratings at **Ba3** with a stable outlook.

## National Budget for the 2018-2019 Fiscal Year

The national budget for the 2018-2019 fiscal year is the 48th national budget of Bangladesh.
The size of the national budget for the 2018-2019 fiscal year is **Taka 4,64,573 crore**.
The size of the national budget in terms of the country's GDP is **18.40%.**
The target for overall revenue collection is **Taka 3,39,280 crore**.
The target for revenue collection through the help of the NBR is **Taka 2,96,201 crore**.
Tax free income threshold for individuals is Taka 2,50,000.
As an individual sector, the education sector got the highest allocation which is Taka 53,504 crore. (The allocation is 11.52% of the total budget)

The size of the overall budget deficit is **Taka 1,25,293 crore**. Of the amount, Taka 54,067 crore will be financed from external sources while an amount of Taka 71,226 crore will be financed from domestic sources. Of the domestic sources, Taka 42,029 crore will be borrowed from the banking system while Taka 29,197 crore from National Savings Schemes and other non-bank sources.

The overall budget deficit is **Taka 1,25,293 crore which is 4.9%** of in terms of the country's GDP.
The allocation for the Annual Development Programme (ADP) is **Taka 1,73,000 crore**.
The targeted GDP growth rate is **7.8%.**
The targeted inflation rate is **5.6%.**

## The First National Budget of Bangladesh

The first fiscal year of Bangladesh was from April-1972 to March-1973.
The first Finance Minister of Bangladesh is Captain Monsur Ali.
The first budget of Bangladesh was placed by Tajuddin Ahmed
The size of the first budget (April-1972 to March-1973) of Bangladesh was Taka 786 crore.

## Main Contributors of Bangladesh's Economy and Major Sources of the Foreign Currency Reserves

Main 03 contributors of Bangladesh's economy are readymade garments, agriculture & foreign remittance inflow.

Major sources of the foreign currency reserves of Bangladesh are exports of readymade garments items and inward remittances sent by the expatriate Bangladeshis.

## GDP of Bangladesh and Sector-wise Contribution

GDP growth rate of Bangladesh in the 2017-2018 is 7.86% (highest in the history of the country's economy).

GDP has three sectors — (a) agriculture sector, (b) industry sector and (c) service sector.

<u>The contribution of the three sectors to the GDP of Bangladesh in the 2017-2018 fiscal year</u>
Industries (33.66%), Agriculture (14.23%) and Service (52.11%) (As per the National Economic Survey—2018)

The Service sector contributes the most of the GDP in Bangladesh.
Currently service sectors has a total of 21 sub-sectors.
Banks and financial institutions fall under the service sector.
The contribution of Hilsa fish to the GDP of Bangladesh is 1%.
Government fiscal policy is related to — tax.

## Per Capita Income and Per Capita GDP

Per Capita Income is the yardstick of measuring the economic development of a nation.
The current per capita income of Bangladesh is US$1,751 (as per the National Economic Survey of 2018).
The current per capita GDP of Bangladesh is USD$1,675 (as per the National Economic Survey of 2018).

## Inflation

The average general inflation (on point to point basis) in the concluding 2017-2018 fiscal year was 5.78.
The government set the targeted inflation rate in the 2017-2018 fiscal year at 5.5%.
The average general inflation (on point to point basis) in the 2016-2017 financial year was 5.44.
Targeted inflation rate in the 2016-2017 fiscal year was 5.5%.

## Poverty Rate

Extreme Poverty rate in Bangladesh as per the MDG progress report is 5.3%.
Countrywide highest poverty rate has been recorded in Kurigram district (63.7%).
Countrywide lowest poverty rate has been recorded in Kushtia district (3.6%).

## Remittance Inflow

Remittance inflow of Bangladesh in the 2017-2018 fiscal year = US$14.98 billion
Remittance inflow of Bangladesh in the 2016-2017 fiscal year = US$12.77 billion

Inward remittance sent by the expatriate Bangladeshis accounts for 12% of the GDP of Bangladesh.
[Data source: The World Bank]

Bangladesh is the 9th remittance recipients among the top 10 largest remittance receiving countries of the world.

Kazakhstan is the world's most remittance dependent country.
Remittance comprises (contribution of remittance) almost 35% of the GDP of Kazakhstan (Tajikistan 31%).

India retained its position as the highest recipient of global remittance flow among remittances receiving nations across the world in 2017, according to the World Bank figures on migration and remittances. India topped the list with US$68 billion of remittance inflows, followed closely by China (US$63.93 billion).

## Export Earnings

The overall export earnings of Bangladesh stood at USD $36.66 billion or USD $3,666.81 crore against the target of USD $ 37.50 billion in the outgoing 2017-2018 fiscal year — which is 5.81 higher than the overall export earnings of the previous 2016-2017 fiscal year (USD $34.66 billion or USD $3,465.59 crore).
[According to data of Export Promotion Bureau (EPB) released on 18th July, 2018]

Bangladesh's export earnings from the readymade garments (RMG) sector stood at USD $30.61 billion or USD $3,061.47 crore in the outgoing 2017-2018 fiscal year.

The contribution of readymade garments (RMG) sector to the overall export earnings of Bangladesh is almost 83.49% in the outgoing 2017-2018 fiscal year.

Bangladesh is the world's second-largest readymade garments exporter of western brands (China is the first).

Bangladesh earned US$28.15 crore from the exports of readymade garments (RMG) items in 2016-2017 FY.
Bangladesh enjoys duty-free export facility in 49 countries.

Bangladesh is the third largest contributor of army personnel (6,772 troops) in UN peacekeeping missions while India ranks first with 7,471 troops followed by Pakistan (7,161 troops) in Asia.

## Import Volume

Bangladesh imported goods and machineries worth US $54.5 billion in the concluding 2017-2018 fiscal year.

## FDI Inflow into Bagladesh

Bangladesh received highest Foreign Direct Investment (FDI) from the United Kingdom (UK) in 2017 [as per the statistics released by Bangladesh Bank in May 2018 and World Investment Report-2018].

Net inflow of FDI from the UK stood at USD312.98 million in 2017 — followed by $202.73 million from Singapore.

## Trade Balance of Bangladesh

Bangladesh is the 50th largest export economy in the world. Bangladesh exported USD $36.66 billion and imported USD $54.5 billion in the 2017-2018 fiscal year — resulting in a negative trade balance.

Bangladesh has the highest trade deficit of about US$7500 million with China.

## Current account balance of Bangladesh

The current account balance of Bangladesh registered a deficit of $10.46 billion in the 2017-2018 fiscal year — crossing the $10 billion mark for the first time in history as the country's capacity to export continues to lag behind its appetite for imports.
Between the months of July and June of the 2017-2018 fiscal year, the current account deficit stood at $9.37 billion in contrast to $2.21 billion in the negative in the 2016-2017 fiscal year, according to the balance of payments data of Bangladesh Bank.
A deficit of $10 billion means the country has already borrowed the same amount from foreign sources. If the trend continues, Bangladesh will become an indebted country within the next five years. The country has now capability of settling import payments of maximum five months in contrast to eight months a year ago.
The current account balance of Bangladesh earlier registered its all-time high surplus at USD $4.26 billion in the 2015-2016 fiscal year.
The current account balance is the gap between export receipts and net earnings (including remittances) and import payments and profit repatriation by multinational companies and local people.

## Can you name a country with which we don't have any 'business' relations?

Bangladesh is the only nation to have a complete ban on trade (indirect and direct) with Israel even though both are members of the WTO.

## Development Partners of Bangladesh

IDA (as an organisation) has given the highest development assistant to Bangladesh after its independence.

Bangladesh gets the highest amount of loans from the World Bank among its multilateral and bilateral development partners. Bangladesh received more than US$1 billion in loans annually from World Bank in the last several years.

## VAT, Tax Day and 5-Year Plan

Taxes are collected internally while tariffs are collected on imports.

Currently Value Added Tax (VAT) is the single largest source of domestic revenue of Bangladesh.

VAT constitutes the major part of total revenue collected by the National Board of Revenue (NBR) since 1991.

Bangladesh implemented the single and uniform VAT rate from the 1st July, 2017.

Open market economy was introduced in Bangladesh on the 1st July 1991.

The government has declared November 30 as the Tax Day (The last date for the submission of income tax). NBR observes the National Income Tax Day on the 30th November every year.

Duration of the 7th Five-Year Plan is 2016—2020.

## Stock Exchange

Bourse means Stock Exchange.
The Wall Street of New York is famous for stock market.
Real owner of the company is called the shareholder.
Turn-over is a term to indicate the profit and loss calculation of any organisation annually.
Blue Chips means industrial shares considered to be a safe investment.
A Blue Chip is a nationally recognised, well-established and financially sound company.
Equity Shares of a company means the paid up capital and the retained earnings.
Circuit Breaker in Stock Exchange works as an obstacle to excessive change in share price.
Intermediaries who are agents of the investors and match buyers with sellers of securities are called Broker.
Dhaka Stock Exchange was established on April 28, 1954.
Over the counter (OTC) system was launched in DSE on 6th September 2009.
Chittagong Stock Exchange was established on February 12, 1995.

## Inception of Banking

Banking business was organised in Italy.
The first bank of the world is Bank of Shancy.
The first government bank of the world is Bank of Venice (1157).
The first note issuing bank of the world is the National Bank of Sweden (1656).
The first modern banking was introduced in Stockholm (in 1668).
The oldest bank of the world which is still in operation is Monte dei Paschi di Siena.
The first banknote was introduced in India in 1857 during the tenure of Lord Canning.
The first modern bank of the Indian sub-continent is the Hindustan Bank (1700).

## History of Central Bank

Banker's bank means the lender of the last resort (the central bank of a nation).

Federal Reserve System (the central bank of the USA) was established in 1914.

In the Federal Reserve System (the central banking system of the USA), there are a total of 12 regional Federal Reserve Banks — one for each of the 12 Federal Reserve Districts (major cities throughout the country) that were created by the Federal Reserve Act-1913. The banks are jointly responsible for implementing the monetary policy set forth by the Federal Open Market Committee.

The first central bank of the world is Sverigs Bank (It is the central bank of Sweden).
The first organised central bank of the world is the Bank of England.
Bank of England applied the bank rate policy for the first time as an effective tool to control the bank loans.
The Mother of central bank is the Bank of Japan.
The first central bank of Asia is the Bank of Japan.
The first central bank of the Indian sub-continent is the Reserve Bank of India (1935).
The first currency policy in the Indian subcontinent was enacted in 1835 (Coinage Act—1835).

## Name of the central banks of some countries

| | |
|---|---|
| USA = Federal Reserve System | China = The People's Bank of China |
| UK = Bank of England | Japan = Bank of Japan |
| Russia = The Central Bank of the Russian Federation | India = Reserve Bank of India |
| France = The Bank of France (Banque de France) | Pakistan = State Bank of Pakistan |
| Germany = The Deutsche Bundesbank | Nepal = Nepal Rastra Bank |
| Italy = The Bank of Italy | Bhutan = Royal Monetary Authority of Bhutan |
| Switzerland = Swiss National Bank. | Sri Lanka = Central Bank of Sri Lanka |
| Sweden = Sverigs Bank | Malaysia = Bank Negara Malaysia |
| Canada = The Bank of Canada | Indonesia = Bank Indonesia |
| Brazil = The Central Bank of Brazil | Philippines = Bangko Sentral ng Pilipinas |
| Argentina = The Central Bank of the Argentine Republic | Thailand = The Bank of Thailand |
| | Saudi Arabia = Saudi Arabian Monetary Agency |
| | Australia = Reserve Bank of Australia |
| | Singapore = Monetary Authority of Singapore (MAS) |

## Which central bank doesn't issue money?

BIS (Bank for International Settlement). BIS is the central bank of whole central banks. It is called the banker of whole central bank of the world and the headquarters of BIS is located in Switzerland.

## Mention the names of central banks of some countries in which there is no mention of the word "Bank"

1. Federal Reserve System (the USA)
2. Saudi Arabian Monetary Authority (Saudi Arabia)
3. Monetary Authority of Singapore (Singapore)
4. Hong Kong Monetary Authority (Hong Kong)
5. Maldives Monetary Authority (Maldives)
6. Royal Monetary Authority of Bhutan (Bhutan)
7. Bermuda Monetary Authority (Bermuda)

## EURO

EURO Bank was introduced by Greece.
The UK and Denmark are the EU members but they have not introduced the EURO currency.
Lithuania (as 19th member) adopted the Euro currency in January 2015.
The Euro is the most tangible proof of European integration – the common currency in 19 out of 28 EU countries.
Father of Euro currency is Robert Mundell.
Ecuador is the world's first nation to create its own digital currency.

## Clearing Houses

The first clearing house of the world was established by the Bank of England in 1773.
The first clearing house in the banking system was established by the London Clearing House in 1775.
Asian Clearing Union (ACU) has nine (9) members.
The headquarters of the Asian Clearing House (ACU) is located in Tehran, Iran.

## Banking Operations in Bangladesh

Total number of banks in Bangladesh is 65.
The number of scheduled banks in Bangladesh is 59.
The number of local private commercial banks operating in Bangladesh is 41.
Total number of conventional private commercial banks is 33.
Total number of Islami Shariah based private commercial banks is 08.
The number of foreign banks operating in Bangladesh is 09.
The name of the last scheduled bank is Community Bank Bangladesh.

The total number of scheduled banks in the public sector (state-owned scheduled banks) in Bangladesh is 09 which are namely Sonali Bank Limited, Agrani Bank Limited, Janata Bank Limited, Rupali Bank Limited, BASIC Bank Limited, Bangladesh Development Bank Limited (BDBL), Probashi Kallyan Bank (PKB), Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB).

The total number of scheduled and state-owned commercial banks in Bangladesh is 06 which are namely Sonali Bank Limited, Agrani Bank Limited, Janata Bank Limited, Rupali Bank Limited, BASIC Bank Limited and Bangladesh Development Bank Limited (BDBL).

The total number of leader banks in Bangladesh is 05 which are namely Sonali Bank Limited, Agrani Bank Limited, Janata Bank Limited, Rupali Bank Limited and Bangladesh Krishi Bank.

The total number of state-owned specialised banks in Bangladesh is 02 which are namely Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank.

The total number of state-owned specialised non-scheduled banks in Bangladesh is 03 which are namely Karmashangosthan Bank, Ansar VDP Unnayan Bank and Palli Sanchay Bank.

Total number of non-scheduled banks in Bangladesh is 05 which are namely —

- Ansar VDP Unnayan Bank
- Karmashangosthan Bank
- Palli Sanchay Bank
- Grameen Bank
- Jubilee Bank

The pioneer of the micro-credit movement in Bangladesh is Grameen Bank — which was was established in Bangladesh on October 1, 1983.

Some specialised financial institutions operating in Bangladesh are namely (1) Investment Corporation of Bangladesh (ICB), (2) House Building Finance Corporation (HBFC), (3) Palli Karma-Sahayak Foundation (PKSF), (4) Samabay Bank and (5) Grameen Bank

The largest state-owned/nationalised commercial bank in Bangladesh Bank is the Sonali Bank Limited.
Former name of the Sonali Bank Limited is the National Bank of Pakistan.

| Capital Structure of Sonali Bank Limited | |
|---|---|
| Authorised Capital | Tk. 6000.00 Crore |
| Paid-up Capital | Tk. 3830.00 Crore |

The commercial banks in Bangladesh are allowed to make investment in the share/stock market up to 25% of their total capital.
The banks operating in Bangladesh have been determining the bank interest rates by themselves since 1998 under the financial sector modification programme.

| Introducing different modern banking services |
|---|
| The first bank to introduce Agent Banking in Bangladesh is Agrani Bank Limited.<br>The first private bank of Bangladesh is the Arab-Bangladesh (AB) Bank Limited (1982).<br>The first bank to introduce offshore banking system in Bangladesh is Standard Chartered Bank Limited.<br>The first bank to introduce ATM Card and Credit Card in Bangladesh is Standard Chartered Bank Limited.<br>The first bank to introduce auto loan & business financial services in Bangladesh is Standard Chartered Bank Ltd<br>The first bank to introduce MasterCard in Bangladesh is National Bank Limited.<br>The first bank in Bangladesh which has introduced the American Express Credit Card is the City Bank Limited.<br>The first bank to introduce Ready Cash in Bangladesh is Janata Bank Limited. |
| **Name of the foreign commercial banks operating in Bangladesh** |
| A total of nine (09) foreign commercial banks are currently operating in Bangladesh as the branches of the banks which are incorporated in abroad.<br>1. Bank Al-Falah Limited<br>2. Citibank N.A<br>3. Commercial Bank of Ceylon PLC<br>4. Habib Bank Limited<br>5. HSBC<br>6. National Bank of Pakistan<br>7. Standard Chartered Bank<br>8. State Bank of India and<br>9. Woori Bank<br>The largest foreign bank operating in Bangladesh is Standard Chartered Bank.<br>Among the foreign commercial banks operating in Bangladesh, the Standard Chartered Bank has the most number of branches in Bangladesh. |
| **Operations of Insurance Companies in Bangladesh** |
| Total number of insurance companies in Bangladesh is 73 (of which 71 are private companies).<br>The number of state-owned insurance companies is 2 (Jibon Bima Corporation and Sadaran Bima Corporation).<br>The only foreign insurance company operating in Bangladesh is ALICO.<br>The largest international life insurance company of the world is American Life Insurance Company (ALICO). |
| **NBFIs in Bangladesh** |
| Bangladesh Bank approves new NBFI as per the Section 4(1) of the Financial Institutions Act—1993.<br>Total number of authorised non-bank financial institutions (NBFIs) is 34.<br>The name of the last NBFI is Alliance Leasing and Finance Company Limited. |
| **Important information on the commercial banks** |
| The commercial banks lend short-term loans while the development and specialised banks lend long-term loans.<br>The commercial banks solve the liquidity problems by re-discounting the first class bills.<br>The commercial banks create the medium of exchange by bill of exchanges, Cheque, bank draft, payment order or demand draft etc.<br>The approved highest limit of exposure to the capital market for the local commercial banks is up to 25% of their equity (their paid-up capital, reserve, retained earnings & share premium) [as per the Bank Company Act—1991).<br>Banking products are savings account, current account, FDR, SME loan, Debit card and Credit card. |
| **Total amount of classified loan in Bangladesh** |
| The total amount of classified loan in the banking system of Bangladesh as on June 30, 2018 was Tk. 89,340 crore as most of the state-owned commercial banks failed to recover outstanding loans, according to the latest data of Bangladesh Bank. |

| Biggest and richest banks in the world in terms of total assets and market capitalisation |
|---|
| The biggest and richest bank in the world in terms of total assets (mostly retained earnings and common stock) is the **Industrial and Commercial Bank of China**. It has US$ 3.62 trillion assets according to the latest data and its market capitalisation totals US$ 2.38 trillion. It was founded in 1984 and now has more than 4,60,000 employees. Its headquarters is located in Peking. More than 70% of the corporation is the government property.<br>The largest bank in the world in terms of market capitalisation is JPMorgan Chase (US-based financial institution) with a market value of approximately US$ 3.90 trillion. |
| **World Bank, AIIB and BRICS** |
| The name of the World Bank's watchdog agency is Integrity Vice Presidency (established in 2001).<br>The World Bank has 5 sub-organisations which are IBRD, ICSID, IFC, IDA and MIGA.<br>Asian Infrastructure Investment Bank (AIIB) has approved first set of loans totalling US$509 million to finance projects in Bangladesh, Pakistan, Indonesia, and Tajikistan.<br>BRICS is the New Development Bank (headquarters located in Songhai) which has been established as a competent of the World Bank and the IMF. |

| The USA Economy |
|---|
| The USA is called the Economic Superpower.<br>Millennium Challenge Account is an account in the USA to reduce poverty.<br>The USA holds the largest stockpile of gold reserves in the world followed by Germany (2nd).<br>The USA has the highest GDP in the world (US$ 16244 billion).<br>The USA economy is the largest in the world in terms of nominal GDP (measured at current prices in US dollars). |
| **Chinese Economy** |
| China is the world's largest economy on PPP basis.<br>China has recorded the fastest GDP growth rates during the last 10 years.<br>China holds the highest foreign currency reserve (US$ 3821 billion). |
| **Japan** |
| Japan is the largest loan providing nation in the world.<br>Japan has the highest contribution among the donor countries of Bangladesh. |
| **International Trade (largest trade surplus and deficit nations)** |
| The USA is the world's largest trade deficit nation.<br>Germany recorded the highest trade surplus in the world (in 2016) worth $310 billion making it the biggest capital exporter globally. |
| **Highest per capita income and highest per capita GDP in the world** |
| Qatar has the highest per capita income in the world (US$ 98,814).<br>Luxemburg has the highest per capita GDP in the world (US$ 106,407). |

| Tools of Fiscal Policy and Monetary Policy |
|---|
| The tools of fiscal policy are government expenditure, revenue collection, tax rate, interest rate & income tax rate. Budget deficit is financed by domestic borrowing and foreign borrowing.<br>The tools and instruments for implementation of monetary policy in Bangladesh are bank rate, open market operations, repurchase agreements (Repo) & Reverse Repo, statutory reserve requirements (SLR & CRR).<br>The most important task of the monetary policy is to control inflation.<br>The ultimate goal of fiscal & monetary policies is to establish & ensure a stable economic condition in the country.<br>The total reserve requirement for the banking sector in Bangladesh is 18.5% where Statutory Liquidity Ratio (SLR) is 13% and the Cash Reserve Ratio (CRR) is 5.5%<br>Credit control tools are variation of bank rate, open market operations, reserve requirements (CRR & SLR).<br>Liquidity capability of a bank means the ability to fulfill the financial need of the depositors on demand. |
| **Market Capitalisation, Market Economy and Blue Economy** |
| **Market Capitalisation** is the amount calculated by multiplying the market price of that company's share with the total value of outstanding shares. It is the major tool used by the investment community to rank companies as it estimates their current market value accurately.<br>**Market Economy** is the most recent idea in the sector of economics.<br>**Blue Economy** is the exploration and proper utilisation of maritime resources (offshore oil, gas & hydrocarbon).<br>The opportunity cost of holding money is the forgone interest rate of money. |
| **Miscellaneous** |
| The insolvency law (Provincial Insolvency Act—1920) was formulated for the first time in the world in 1920.<br>The insolvency law was enacted for the first time in Bangladesh in 1997 (Bankruptcy Act—1997) which was later amended or modified in 1999.<br>Basel II is the methodology to determine capital adequacy for commercial banks. It is a risk management tool for the banks. Basel II was made effective in Bangladesh from the January 1, 2010.<br>The 'biggest economy' of the African continent is South Africa.<br>Negative interest rate on bank savings exists in Switzerland, Sweden and Japan.<br>100% Financial Inclusion has been ensured in Denmark and Finland.<br>American business magnate, investor and philanthropist Warren Buffett is called the Investment Tycoon or Investment Guru.<br>E-commerce giant Alibaba is top-ranked retail brand in the world. It is the world's most valuable brand (worth a staggering $247 billion).<br>The founder of the Wall-Mart is Sam Walton (USA).<br>The use of Cheque was made compulsory for the first time in Bangladesh from 1987.<br>Trade Union is labour organisation.<br>Factors of Production — 4 Factors: Land, Labour, Capital and Organisation.<br>Fixed Deposit Receipt (FDR) maximum = 12.5%. |

## Important Abbreviations and Acronyms

**Philips Curve** shows the relation between inflation and unemployment such that a lower level of unployment is associated with a higher level of inflation.
**Lorenze Curve** shows the proportion of national income earned by any given percentage of the population.
**Some credit cards** are VISA Card, MASTER Card, Gold card and American Express Card
**Global Recession** is a period of global economic slowdown or meltdown.
**Foreign Policy of Bangladesh**: Friendship towards all but malice with none.
**Gresham's Law**: "Bad money drives good money out of circulation (out of the market)".
**Standard & Poor's** is known for financial service
**NASDAQ** is the stock market of the USA
**FTSE Index** is the stock market of the UK
**EPS** stands for Earnings Per Share
**BO Account** stands for — Beneficiary Owner's
**Call Money** is short-term borrowing often used by the commercial banks to meet up their liquidity crisis.
**Bureaucracy** is a system of government which is run by the government officials.
**Corrigendum** is a major correction or amendment
**Erratum** is minor correction or amendment
**TIN** stands for Tax Identification Number which is needed to pay tax to the government.
**PIN** stands for Personal Identification Number
**FIFO vs LIFO** [**FIFO** stands for First In, First Out while **LIFO** stands for Last In, Last Out]
**POS** stands for Point of Sale
**CHIPS** stands for Clearing House Inter-bank Payments System
**SDR** stands for Special Drawing Rights
**SAPTA** stands for South Asian Preferential Trade Agreement
**BIMSTEC** stands for Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
**UNCTAD** stands for United Nations Conference on Trade and Development
**GATT** stands for General Agreement on Tariffs and Trade
**I.O.U.** stands for I Owe To You (It is a kind of non-negotiable credit instrument)
**APEC** stands for Asia Pacific Economic Cooperation
**BEPZA** stands for Bangladesh Export Processing Zones Authority
**BIDA** stands for Bangladesh Investment Development Authority. The Chairman of the BIDA is the Prime Minister
**BIDA** started functioning from the 1$^{st}$ September 2016
**RCEP** stands for Regional Comprehensive Economic Partnership
**PTA** stands for Preferential Trade Agreement
**ECNEC** stands for Executive Committee of the National Economic Council
**WEF** stands for World Economic Forum
**ERM** stands for Environment Risk Management
**GCI** stands for Global Competitiveness Index
**BIMSTEC** stands for Bay of Bengal Initiative for Multisectoral Technical & Economic Cooperation
**MRP** stands for Manufacture's Recommended Price Father of ATM — Scot John Shepherd Barron
**BIS** stands for Bank for International Settlement (the bank of the central banks of all the countries of the world)
**BIS** headquarters is situated at Basic Basel city of Switzerland
**CETA** stands for Comprehensive Economic and Trade Agreement
**GSP** stands for Generalised System of Preference
**RCEP** stands for Regional Comprehensive Economic Partnership
**BACPS** stands for — Bangladesh Automated Cheque Processing System
**FATF** stands for Financial Action Taskforce [its headquarters is situated in Paris]
**EFTN** stands for Electronic Funds Transfer Network
**NPSB** stands for National Payment Switch of Bangladesh
**FATCA** stands for Foreign Account Tax Compliance
**AFIS** stands for Automated Fingerprint Identification System
**IBFT** stands for Internet Banking Fund Transfer
**BEFTN** stands for Bangladesh Electronic Fund Transfer Network
**RTGS** stands for Real Time Gross Settlement
**IMO** stands for International Money Order
**T.T** stands for Telegraphic Transfer (an electronic means of transferring funds)
**TIFA** stands for Trade and Investment Framework Agreement
**CPTPP** stands for Comprehensive and Progress Agreement for Trans-Pacific Partnership
**LIBOR** stands for London Inter-Bank Offered Rate
**NSDS** stands for National Sustainable Development Strategy
**BIIC** stands for Bangladesh International Investment Corporation which has been established to raise the investment of the foreigners.
**BCRM** stands for Business Risk Control Management
**AIIB** stands for Asian Infrastructure Investment Bank
**BSEC** stands for Bangladesh Securities and Exchange Commission which is the capital market regulatory authority in Bangladesh.
**BTC** stands for Bangladesh Tariff Commission
**PRSP** stands for Poverty Reduction Strategy Paper

| The name of the Finance Ministers and Finance Advisors of Bangladesh | | | | |
|---|---|---|---|---|
| **Sl.** | **Finance Minister/ Finance Advisor** | **Time Period** | **Prime Minister/ Chief Adviser** | **Political Party** |
| 01. | Captain M Mansur Ali | 11/04/1971—12/01/1972 | Tajuddin Ahmad | Awami League |
| 02. | Tajuddin Ahmad | 13/01/1972—16/03/1973 | Sheikh Mujibur Rahman | Awami League |
| 03. | Sheikh Mujibur Rahman | 16/03/1973—26/10/1974 | Sheikh Mujibur Rahman | Awami League |
| 04. | Dr. Azizur Rahman Mallick | 26/10/1974—26/11/1975 | Muhammad Mansur Ali | Awami League |
| 05. | Professor Dr. Mirza Nurul Huda | 26/11/1975—24/04/1980 | —Post Abolished— | BNP |
| 06. | Mohammad Saifur Rahman | 25/04/1980—11/04/1982 | Shah Azizur Rahman | BNP |
| 07. | Dr Fasihuddin Mahtab | 12/04/1982—06/03/1982 | Shah Azizur Rahman | BNP |
| 08. | Abul Maal Abdul Muhith | 31/06/1982—09/01/1984 | —Post Abolished— | Jatiya Party |
| 09. | Mohammad Syeduzzaman | 09/01/1984—26/12/1987 | Ataur Rahman Khan | Jatiya Party |
| 10. | Air Vice Marshal A.K. Khandker | 27/12/1987—22/03/1990 | Moudud Ahmed | Jatiya Party |
| 11. | Maj Gen (Retd) M. Abdul Munim | 22/03/1990—06/12/1990 | Kazi Zafar Ahmed | Jatiya Party |
| 12. | Kafil Uddin Mahmud | 10/12/1990—27/12/1990 | —Post Abolished— | Jatiya Party |
| 13. | Professor Rehman Sobhan | 27/12/1990—20/03/1991 | —Post Abolished— | Caretaker Govt. |
| 14. | **Mohammad Saifur Rahman** | 20/03/1991—30/03/1996 | Khaleda Zia | BNP |
| 15. | Dr. Wahiduddin Mahmud | 30/03/1996—23/06/1996 | Justice Habibur Rahman | Caretaker Govt. |
| 16. | **Shah A.M.S.Kibria** | 23/06/1996—16/07/2001 | Sheikh Hasina | BNP |
| 17. | M. Hafiz Uddin Khan | 16/07/2001—10/10/2001 | Justice Latifur Rahman | Caretaker Govt. |
| 18. | **Mohammad Saifur Rahman** | 10/10/2001—28/10/2006 | Khaleda Zia | BNP |
| 19. | Dr. Akbar Ali Khan | 31/10/2006—12/12/2006 | Iajuddin Ahmed | Caretaker Govt. |
| 20. | Dr Shoeb Ahmed | 13/12/2006—11/01/2007 | Fazlul Haque | Caretaker Govt. |
| 21. | Dr. A.B. Mirza Azizul Islam | 14/01/2007—06/01/2009 | Fakhruddin Ahmed | Caretaker Govt. |
| 22. | **Abul Maal Abdul Muhith** | 06/01/2009—Incumbent | Sheikh Hasina | Awami League |

## Introducers of different theories and concepts related to economics

**Gresham’s Law: “Bad money drives good money out of circulation (out of the market)”.**
The introducer of the “**Theory of Surplus Value**” of labour — Karl Heinrich Marx.
The introducer of the theory “**Vicious Circle of Poverty**” — Prof. Nurkse
According to Prof. Nurkse, “**The main reason of vicious circle of poverty is the lack of capital formation**.”
The introducer of the “**Laissez-faire**” theory — Adam Smith (the author of the Wealth of Nations)
The introducer of the “**Theory of Rent**” — David Ricardo
The introducer of the “**Theory of Comparative Cost Advantage**” — David Ricardo
The introducer of the concept of “**Consumer Surplus**” — Prof. Dr. Alfred Marshall
The introducer of the “**Theory of Consumer's Behaviour Utility Analysis**” — Prof. Dr. Alfred Marshall
The introducer of the “**Quantity Theory of Money**” — Irving Fisher

| বিশ্বের বিভিন্ন দেশের মুদ্রার নাম | | | |
|---|---|---|---|
| পেসো: মেক্সিকো, কিউবা, আর্জেন্টিনা, উরুগুয়ে, কলম্বিয়া ও ফিলিপাইন | | | |
| ইউরো: আয়ারল্যান্ড, ইতালি, অ্যান্ডোরা, বেলজিয়াম, ভ্যাটিকান, নেদারল্যান্ড, ফিনল্যান্ড, ফ্রান্স, গ্রীস, পর্তুগাল, জার্মানি, মাল্টা, স্পেন, লুক্সেমবার্গ, স্লোভাকিয়া, সাইপ্রাস, কসোভো ও অস্ট্রিয়া | | | |
| রিয়াল: সৌদি আরব, ইরান, ইয়েমেন ও কম্বোডিয়া | | | |
| রুপি: শ্রীলংকা, ভারত, পাকিস্তান ও নেপাল | | | |
| ভিয়েতনাম-ডং<br>লাওস-কিপ<br>কিরগিজস্তান-সোম<br>তুর্কমেনিস্তান-মানাত<br>থাইল্যান্ড-বাথ<br>ইন্দোনেশিয়া-রুপিয়া<br>ভূটান-গুলট্রাম<br>মঙ্গোলিয়া-তুগরিক<br>মিয়ানমার-কিয়াট<br>মালয়েশিয়া-রিঙ্গিত<br>ইরাক-দিনার<br>উত্তর কোরিয়া-ওন<br>চীন-ইউয়ান<br>জাপান-ইয়েন | ইউক্রেন-লিভনিয়া<br>চেক-করুনা<br>পোল্যান্ড-জলোটি<br>রাশিয়া-রুবল<br>সুইডেন-ক্রোনা<br>সুইজারল্যান্ড-ফ্রাঙ্ক<br>রুমানিয়া-লিউ<br>বুলগেরিয়া-লেভ<br>তুরস্ক-লিরা<br>হাঙ্গেরী-ফোরিন্ট<br>ইসরাইল-শেকেল | দক্ষিণ আফ্রিকা-র‌্যান্ড<br>ঘানা-সেডি<br>সেনেগাল-ফ্রাঙ্ক<br>ইথিওপিয়া-বীর<br>নাইজেরিয়া-নাইরা | নিকারাগুয়া-করডোবা<br>গুয়েতেমালা-কুয়েটজাল<br>প্যারাগুয়ে-গুয়ারানি<br>ব্রাজিল-রিয়াল<br>ভেনেজুয়েলা-বলিভার<br>হাইতি-গুর্দে |

**বাংলাদেশে নিবাসীরা ভ্রমণ খাতে কী পরিমাণ বৈদেশিক মুদ্রা কিনতে পারেন?**

মিয়ানমার এবং সার্কভূক্ত দেশগুলোয় ভ্রমণের জন্য প্রতি পঞ্জিকাবর্ষে অনধিক ৫,০০০ মার্কিন ডলার কেনা যায়। বিশ্বের অন্যান্য দেশ ভ্রমণের জন্য পঞ্জিকাবর্ষ প্রতি মাথাপিছু অনধিক ৭,০০০ মার্কিন ডলার কেনা যায়।

**বিদেশ থেকে বাংলাদেশে অর্থ প্রেরণের বৈধ পন্থা কী?**

প্রাপকের অনুকূলে রেমিট্যান্স/চেক/ড্রাফট/টিটি/এমটি ইত্যাদি শুধুমাত্র বাংলাদেশে ব্যবসায়রত কোন ব্যাংকের মাধ্যমে সংগ্রহই বৈধ। বাংলাদেশে ব্যাংকিং চ্যানেলে বৈদেশিক মুদ্রা সংগৃহীত হবে না এমন কোন পন্থায়  যেমন অবৈধ হুন্ডি কার্যক্রম) অবলম্বন করলে তা Foreign Exchange Regulation Act-1947-এর আওতায় দন্ডযোগ্য এবং মানি লন্ডারিং প্রতিরোধ আইনের আওতায় দন্ডনীয় হতে পারে।

**এডি বা Authorised Dealer কারা? বাংলাদেশে বৈদেশিক মুদ্রা ক্রয়-বিক্রয়ের বৈধ পক্ষ কারা?**

বৈদেশিক মুদ্রায় লেনদেনের জন্য বাংলাদেশ ব্যাংকের লাইসেন্স প্রাপ্ত তফসিলী ব্যাংক শাখাগুলো অনুমোদিত ডিলার বা এডি (Authorised Dealer) নামে পরিচিত। এসব অনুমোদিত ডিলার বিভিন্ন খাতে বৈদেশিক মুদ্রা ক্রয় ও বিক্রয়ের বৈধ পক্ষ। ভ্রমণ খাতে বৈদেশিক মুদ্রা লেনদেনের জন্য বাংলাদেশ ব্যাংকের সীমিত লাইসেন্সধারী মানিচেঞ্জাররাও বিদেশ থেকে আগত/বিদেশগামী যাত্রীদের সঙ্গে ভ্রমণ খাতে বৈদেশিক মুদ্রা ক্রয়-বিক্রয়ের বৈধ পক্ষ। বাংলাদেশে অনুমোদিত ডিলার ব্যাংক ও লাইসেন্সধারী মানিচেঞ্জার ছাড়া অন্য কোন পক্ষের সঙ্গে বৈদেশিক মুদ্রা ক্রয়-বিক্রয় Foreign Exchange Regulation Act-1947-এর আওতায় দন্ডযোগ্য অপরাধ।

| সংবিধানের বিভিন্ন গুরুত্বপূর্ণ অনুচ্ছেদসমূহ |
|---|
| অনুচ্ছেদ ১: প্রজাতন্ত্র |
| অনুচ্ছেদ ২: রাষ্ট্রধর্ম |
| অনুচ্ছেদ ৩: রাষ্ট্রভাষা |
| অনুচ্ছেদ ৬: নাগরিকত্ব |
| অনুচ্ছেদ ৪: জাতীয় সংগীত/পতাকা/প্রতীক/জাতির পিতার প্রতীক সংরক্ষণ (৪ক) |
| অনুচ্ছেদ ১১: গণতন্ত্র ও মানবাধিকার |
| অনুচ্ছেদ ৩৪: চিন্তা, বিবেক ও বাক স্বাধীনতা |
| অনুচ্ছেদ ৪০: পেশার অধিকার |
| অনুচ্ছেদ ৮১: জাতীয় সংসদে বাজেট পেশ (অর্থবিল) সংবিধানের এই অনুচ্ছেদ অনুসারে উত্থাপন করা হয় |
| অনুচ্ছেদ ৮৩: সংসদের আইন ব্যতীত করারোপে বাঁধা |
| অনুচ্ছেদ ৮৪: সংযুক্ত তহবিল ও প্রজাতন্ত্রের সরকারী হিসাব |
| অনুচ্ছেদ ৮৫: সরকারী অর্থের নিয়ন্ত্রণ |
| অনুচ্ছেদ ৮৭: বার্ষিক আর্থিক বিবৃতি |
| অনুচ্ছেদ ১৫৩: প্রবর্তন, উল্লেখ ও নির্ভরযোগ্য পাঠ |
| ৫ম তহবিল: ৭ই মার্চের ঐতিহাসিক ভাষণ |

**Who had conferred the title of "Bangabandhu" on Sheikh Mujibur Rahman?**

The then DUCSU Vice-President and Sarbadaliya Chhatra Sangram Parishad President Tofail Ahmed announced and conferred the honorary title of "Bangabandhu" (Friend of Bengal) on Sheikh Mujibur Rahman on behalf of the people at a grand public rally at Ramna Racecourse Maidan (now Suhrawardy Udyan) on February 23, 1969 after the father of the nation was freed from jail in the Agartala conspiracy case. Bangabandhu was released from the jail on February 22, 1969 and he returned to the then East Pakistan (now Bangladesh) as a public hero. On the next day, almost a million-strong crowd gathered in Ramna Racecourse and roared its approval when Tofail Ahmed proposed honouring Sheikh Mujib as "Bangabandhu". Since then, the greatest Bangali of all time has been known by the title (Bangabandhu) which means the friend of the people. Bangabandhu had spent most of his youthful days in the jail of Pakistan for the liberation of people. No other leader made such sacrifices for the people.

**How many days did Bangabandhu spend in prison?**

Father of the Nation Bangabandhu Sheikh Mujibur Rahman spent 3,053 days in prison.

**Please mention some books written by Bangabandhu**

'অসমাপ্ত আত্মজীবনী', 'নয়া চীন ভ্রমণ', 'স্মৃতিকথা', 'আগরতলা ষড়যন্ত্র মামলা' ইত্যাদি।