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Bond Market Development in Bangladesh: Prospects, Challenges and Required Actions

Farzana Sultana*
Institute of Business Administration, University of Dhaka, Bangladesh
Email: farzanasultana1976@gmail.com

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Abstract

Purpose – The purpose of this study is to focus on the present scenario of the bond market in Bangladesh and to explore prospects, challenges, and required actions to expand the market to support the growing economy and make it compatible globally.

Design/methodology/approach – The qualitative research method is used for collecting and analyzing secondary data from different journals, news articles, working papers, conference papers, regulatory reports, etc. to focus on the existing bond market of Bangladesh and to find out challenges and scope for further development while recommending required actions through narrative inquiry.

Findings – The bond market in this country is in a very niche phase compared to the global bond market as well as the Asian bond market, though the economy is booming. The bond market of our country is dominated by government debt securities rather than corporate debt securities. As of 2021, Bangladesh's bond market size stands at $18 billion compared to the global bond market size of $124 trillion. And compared to some East Asian and South Asian countries, the bond market size of Bangladesh is very low through percentage analysis of GDP.

Study limitations – Only secondary data is evaluated and scrutinized for this study.

Practical implications – For Bangladesh, the creation of the debt market is essential to build an efficient and compatible capital market. Other than the equity market, various financing vehicles need to be created and different financing modes need to be opened by the government or any other public and private concern for the development of mega infrastructural projects. Nowadays, to minimize the budget shortfall to undertake such mega projects, borrowing from the banking sector becomes essential. On the other hand, this market would also create an opportunity for investors as an alternative investment vehicle.

Originality/value – This study focused on the current bond market scenario in Bangladesh and showed a comparative analysis of the bond market portfolio of our country with developed countries and other developing countries. The prospects and challenges of expanding the existing bond market and required future actions to build an effective bond market in Bangladesh are also recommended in this study.

*Corresponding Author: Farzana Sultana, Email: farzanasultana1976@gmail.com

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1. Introduction

A mature and stable capital market consists of a variety of financial instruments like stocks, bonds, debentures, mutual funds, and derivatives in the global perspective. But the capital market in Bangladesh is in an evolving phase and the activity of the bond market is very narrow and cornered. The bond market of Bangladesh is still dominated by the government securities such as short-term Treasury Bills and long-term Treasury Bonds with different maturity periods (Hossain, 2017).

Bangladesh's economy is recovering with the support of growing exports, robust remittance, and a huge vaccination program after fighting two deadly COVID-19 waves. Ahead with the vision, of graduating to a developed country by 2041, many infrastructural projects such as Padma Multipurpose Bridge and Bridge Rail Link, Rooppur Nuclear Power Plant, MRT Line-1, MRT Line-6, Matarbari Coal Fired Power Project, and so on are being undertaken by the government (Chowdhury, 2021).

According to the Capital Markets Fact Book July 2021, the market size of bonds globally has reached $124 trillion and the market size of equity has reached $106 trillion as of 2021. The bond markets of some East Asian countries such as Malaysia, Indonesia, and South Asian countries such as Pakistan stand at $345 billion, $233 billion, and $66 billion respectively. On the other hand, the bond market of Bangladesh currently stands at $18 billion. The bond market size of Bangladesh is very low compared to other developing economies.

The lack of a vibrant and compatible debt market in Bangladesh creates tremendous pressure on bank borrowing. To run operational activities and to provide long-term loans, banks have to depend on deposits which creates huge risks on their fund management that ultimately leads to serious asset-liability disparity (Chowdhury, 2021). The Non-Bank Financial Institutions (NBFIs) of our country are not self-dependent and they have to depend largely on deposits and bank borrowings for their capital adequacy, which creates huge financial as well as operational risks (The Financial Express, 2020).

The bond market is a niche market in this country, and it is dominated by G-securities and corporate bonds issued by Banks and NBFIs. To maintain stability and to become compatible with the global economy and to fulfill various infrastructural projects, it is vital to create a diversified source of funds.

Bonds are issued both in public and private offerings. For issuing through private offers, the Bangladesh Securities and Exchange Commission (BSEC), Private Placement of Debt Securities Rules, 2012 need to be followed; and for issuing through public offers, the BSEC Public Issue Rules, 2015 need to be complied with (Bangladesh Bank, Bangladesh Government Securities Report for FY 2019-20).

In FY 2019-2020, total government securities (G-sec) stood at Tk. 583,298.20 crore through both private and public offers, including National Savings Department (NSD) Certificates of Tk. 303,696.23 crore, T-Bills of Tk. 62,783.52 crore and T-Bonds of Tk. 216,818.45 crore. And total corporate debt securities stand at Tk.8,891.46 crore, including corporate bonds through private placement of Tk. 8,591.46 crore and corporate bonds through public offer of Tk. 707.00 crore (currently outstanding of Tk. 300.00 crore) (source: BB, BSEC, Debt Management Department, 2020).

2. Literature Review and Conceptual Framework

Investors in capital markets usually consider the factors related to default risk and loss (Lee, 2020) and bond spreads are also influenced by default risk, recovery value, and firm level risk. Bhattacharyay (2013) found that in the financial collapse and diversified financing at the corporate level, the bond market helped the economy of a country. Moreover, the bond market generates finance for the long term (Aman et al., 2019) and increases credit expansion and manages exchange rates (Mu et al., 2013). Besides that, the bond market can attract Foreign Direct Investment (FDI)

(Burger & Warnock, 2007), develop financial infrastructure for the country (Aman et al., 2020).

Strong and effective bond market development in a country is based on some factors such as effective fiscal and monetary policy, steady government, updated and efficient regulatory procedures for tax and duties, and a relaxed financial system (Hossain, 2012). Some pre-requisites for the development of an effective bond market are – well-functioning market, suitable opportunities for investors, diversified intermediaries, market infrastructure, monetary policies, risk management system, market participants, etc. (Hassan et al., 2020).

Financial Sector and Economic Growth

A strong financial sector is a reflection of a healthy economy and one of the most critical parts of many developed countries (Kenton, 2021). This sector is playing a crucial role in accelerating growth directly through access to finance and indirectly through mobilizing deposits and promoting proper distribution of resources (Zhuang et al., 2009).

Sustained growth is the outcome of a steady macroeconomic atmosphere. Financial institutions can reduce risks in a way of risk dissemination, which supports an economy to mitigate hazards in a better way and create a balanced macroeconomic environment, which ultimately leads to growth. On the other hand, speculation and bubbles are the outcomes of a more established economy, which can increase instability and financial disasters (Easterly, Islam, & Stiglitz, 2000).

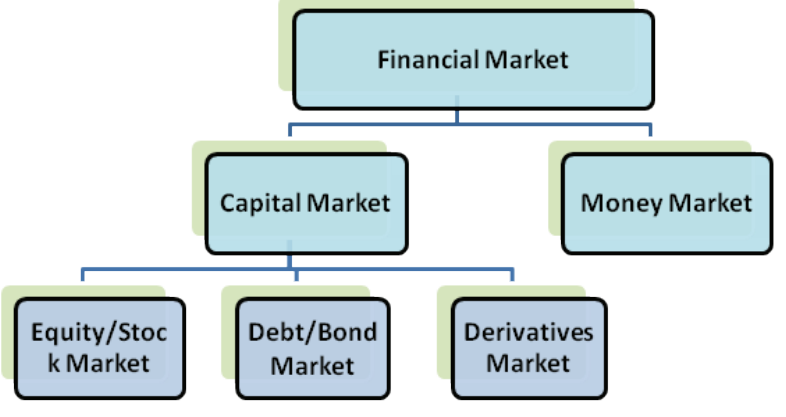
According to Bangladesh Bank, Financial System, 2018, depending on the regulatory framework, the financial segment of Bangladesh includes the formal sector (banks, NBFIs, insurance companies, investment banks, etc.), semi-formal sector (NGOs, Grameen Bank, HBFC etc.) and the informal sector (other private intermediaries).

Financial System and Financial Market

Institutions that deal with the exchange of funds and who exchange their funds both for investment and consumption, and rules and regulations that need to be followed and complied with by both institutions and investors, create the financial system (Alpert, 2019).

Financial markets broadly comprise money markets and capital markets. It includes the share/equity market, bond/debt market, forex market, commercial papers, certificates of deposit, derivatives market, etc. Failure of these markets lead to recession and unemployment (Hayes, 2022).

Figure-1: Financial Market



Source: Hayes, 2022

Equity Market Capitalization

To find out the equity market cap for any economy, one needs to calculate the total value of the shares currently traded in the stock market. It is an aggregate figure of the individual market caps of all stocks (Hayes, 2021). Capital market of Bangladesh is dominated by equity and total equity market capitalization is of $89.77 billion which is 27.79% of GDP as on 2020 (The World Bank, 2020).

Overview of Bond Market in Bangladesh

The bond market of our country is smaller compared to some other East Asian and South Asian countries. This market is yet to flourish due to fewer investors, a small market, and limited products (Jahur & Quadir, 2010).

The Asian Development Bank (ADB) and the Government of Bangladesh (GOB) have taken the initiative to keep and maintain a stable and sustainable market to grow the economy, which is the outcome of a sound capital market. And this initiative was started under the umbrella of a program - the "Third Capital Market Development Program of the Asian Development Bank" - to build effective laws and regulations. The objective of this program is to accomplish twenty-six policies through creating market stability, market facilitation, and supply and demand measures. For this program, ADB has been allocated US$250 million (ADB, 2015) (Hassan et al., 2020)

The "Comprehensive Framework on the Development of the Bond Market in Bangladesh," formed by the Debt Management Department (DMD), Bangladesh Bank (BB), to outline the framework to build and expand an effective bond market in our country. The committee suggested different types of activities for different policymakers and regulators of the government. Based on this, Bangladesh Bank (BB), Ministry of Finance (MoF), Insurance Development and Regulatory Authority (IDRA), National Board of Revenue (NBR), and Bangladesh Securities and Exchange Commission (BSEC), have started to work and implement the advice to comply with the framework. BB has taken several schemes in FY 2019-20 to expand the pool of investors for debt securities. BB started promotional activities regarding Govt. Securities in national daily newspapers to create awareness among investors. In addition to that, DMD directed banks and NBFIs to open separate trading windows for G-Sec to provide optimum client services to fulfill the demand of additional investors. On the other hand, BB proposed that the banks and NBFIs to sell their G-Sec holdings (in excess of statutory liquidity reserve) to BB, to combat the effects of COVID-19 pandemic, in March 2020. Similarly, in May 2020, BB offered 360-day term repo facilities to the banks and NBFIs, for those institutions willing to trade on borrowed funds against their holdings rather than an outright sale. In December 2019, BB and BSEC took initiatives to facilitate the trading of treasury bills and bonds on the Dhaka Stock Exchange (DSE) platform alongside the existing platform Market Infrastructure (MI) Module of BB. To make this transition smooth and efficient, the related departments of BB and DSE are currently working together (Bangladesh Bank, Bangladesh Government Securities Report for FY 2019-20).

3. Objective

Broad Objective

To evaluate the prospects of the developing bond market in Bangladesh and to summarize the existing bond market scenario of our country.

Specific Objectives

i. To identify the challenges for developing the bond market in Bangladesh

ii. To find out prospects in developing the bond market in Bangladesh

iii. To recommend some actions required for the smooth operation of the expanded investor-base for the bond market in the country

4. Methodology

Research Method

The qualitative research method is used for collecting and summarizing data to explore prospects, challenges, and required actions for developing the bond market in Bangladesh (Creswell & Poth, 2018).

Research Approach

A narrative inquiry (Creswell & Poth, 2018) has been performed.

Data Collection Procedure

Secondary data collection: Different journals, news articles, working papers, conference papers, regulatory reports etc., (Creswell & Poth, 2018) are studied to find out the scenario of existing bond market of Bangladesh and challenges and scope for further development with recommending required actions.

Data Analysis

Comparative analysis has been performed through graphical representation focusing bond market size in Bangladesh with some East Asian and South Asian countries.

5. Features of bonds

Public and private corporations and GoB need to borrow money whenever they require and issue or sell debt securities. These securities are mainly bonds with different maturities. The bondholders will get the interest periodically, but they will receive principal after the expiry of the loan (Ross et al., 2013). The G-Securities in this country include securities offered both through public and private offers.

Tradable Securities

(i) Treasury Bills: T-Bills are tradable in the secondary market. It is a zero-coupon and short-term bond that fulfill the urgent funding requirements of the government. The face value of T-Bills is redeemed at maturity with ninety-one-day, one hundred eighty two-day, and three hundred sixty four-day and it is a scripless instrument (BB, G-Sec Report, 2020).

(ii) Treasury Bonds: T-Bonds are plain-vanilla bonds. It has the coupon payments attributed on a half-yearly or quarterly basis. And face value is redeemed at maturity with two years, five years, ten years, fifteen years, and twenty years. These are also tradable in the secondary market and issued in scripless form (BB, G-Sec Report, 2020).

Non-tradable Securities

(i) Sanchayapatra: There are different types of Sanchayapatras i.e., savings certificates such as quarterly interest-bearing Sanchayapatra, Bangladesh Sanchayapatra with five-year tenure, Poribar Sanchayapatra, and Pensioner Sanchayapatra.

Table-1: Snapshot of Bond Market in Bangladesh

Bond Market	Tradable Securities (Public Offer)	Non-tradable Securities (Private Offer)	Total Bond Market Size	Holders
Government Debt Securities (G-Sec) **Tk. 583,298.20 crore**	➢ T-Bills. ➢ T-Bonds. **Tk. 279,601.97 crore**	➢ Sanchayapatra. ➢ Sanchayabonds. ➢ Special Purpose Treasury Bonds (SPTB). ➢ Prizebond. **Tk. 303,696.23 crore**	**Tk.592,189.66 crore as of 2020**	Banks-73.79% Insurance- 2.39% BB-12.40% (NBFIs, Corporates, Individual, Investment companies, foreign & other investors) -1.42%

Source: BSEC, 2020

Bond Market	Tradable Securities (Public Offer)	Non-tradable Securities (Private Offer)	Total Bond Market Size	Holders
Corporate Debt Securities (Bond)	➢ Islami Bank Bangladesh Ltd. (IBBL) Mudaraba Perpetual Bond (Tk.300.00 crore continuing). ➢ Advanced Chemical Industries (ACI) Ltd. 20% Convertible Zero-Coupon Bonds (Tk.107.00 crore converted). ➢ BRAC Bank 25% Subordinated Convertible Bonds (Tk.300.00 crore converted).	➢ Corporate Bond. ➢ Corporate Debentures (currently non-existent).		Private corporate bondholders are 17 companies- Banks, NBFIs, investment bank, corporates etc. -96.63% Public corporate bondholders were 3 but currently 1: -3.37% IBBL (continuing) ACI (converted)
Tk. 8,891.46 crore	**Tk. 300.00 crore**	**Tk. 8,591.46 crore**		BRAC Bank (converted)

(ii) Sanchayabonds: For the nonresident investors of Bangladesh, there are different types of bonds such as the USD Investment Bond, the USD Premium Bond, and the Wage Earners Development Bond.

(iii) Special Purpose Treasury Bonds (SPTB): For special purposes and on special occasions, the GoB is used to issue SPTB. These are not tradable in the secondary market.

(iv) Prize Bond: The GoB issues prize bonds as lottery bonds. These securities are non-interest bearing. The investors can purchase and sell priz ebonds to any bank and post office.

Table-2: Interest Composition of G-Securities

Tradable G -Sec	**Amount (Tk. in Crore)**	**Interest Rate (%)**
T-Bills		
91 -day		6.50
182 -day		6.77
364 -day		7.25
Total T -Bills	**62,783.52**	
T-Bonds		
02 -year		7.80
05 - year		8.05
10 -year		8.66
15 -year		8.70
20 -year		8.94
Total T -Bonds	**216,818.45**	
Total Tradable G -Sec	**279,601.97**	

Source: DMD, BB, 2020

Tradable G -Sec	Amount (Tk. in Crore)	Interest Rate (%)
Non -tradable G -Sec		
National Savings Certificate		
Sanchayapatra -quarterly interest bearing		11.04
Bangladesh Sanchayapatra -five yearly		11.28
Poribar Sanchayapatra		11.52
Pensioner Sanchayapatra		11.76
Sanchayabond		
US Dollar Premium Bond		2.50 -5.50
US Dollar Investment Bond		2.00 -5.00
Wage Earners Development Bond		12.00
Bangladesh Prize Bond		Non -interest
Special Purpose Treasury Bond (SPTB)		7.00
Total Non -tradable G -Sec	**303,696.23**	
Total G-Securities	**583,298. 20**	

Corporate bonds and debentures are also issued through both public and private offers. Presently, there are no corporate debentures outstanding in the market. The IBBL Mudaraba Perpetual Bond, with a face value of Tk.300.00 crore, is the only outstanding publicly issued corporate bond. ACI 20% Convertible Zero-Coupon Bonds, face value of Tk.107.00 crore, and BRAC Bank 25% Subordinated Convertible Bonds, face value of Tk.300.00 crore, are already converted to equity.

(i) Perpetual Bond: A perpetual bond is a bond with no maturity date. Issuers pay coupon on perpetual bonds in perpetuity, but theoretically, forever, but the bond's principal amount does not come with a fixed date for redemption (Ross et al., 2013).

Table-3: Interest Composition of Corporate Bonds (Source: DMD, BB, 2020)

Public Offer	Amount (Tk. in Crore)	Interest Rate (%)
IBBL Mudaraba Perpetual Bond (continuing)	300.00 (continuing)	10.34
ACI 20% Convertible Zero-Coupon Bonds (converted to equity)	107.00 (converted to equity)	10.50
BRAC Bank 25% Subordinated Convertible Bonds (converted to equity)	300.00 (converted to equity)	12.50
Total Public Offer	**300.00**	
Private Offer		
Corporate Bond	**8,591.46**	Depend on maturity
Corporate Debentures (currently non-existent)	**-**	-
Total Private Offer	**8,591.46**	
Total Corporate Bonds	**8,891.46**	

(ii) Convertible Zero-Coupon Bonds: This is noninterest bearing bond. It is issued with convertible features and at a discount to face value. At a certain conversion price, the bondholders have the choice to convert it to common stock of the issuer (Ross et al., 2013).

(iii) Subordinated Convertible Bonds: This is a short-term debt security that an investor can exchange for common stock at the bondholder's discretion. It is considered a junior debt that is subordinated and is not paid until senior debtholders are fully paid (Chen, 2022).

6. Overview of Asian bond markets

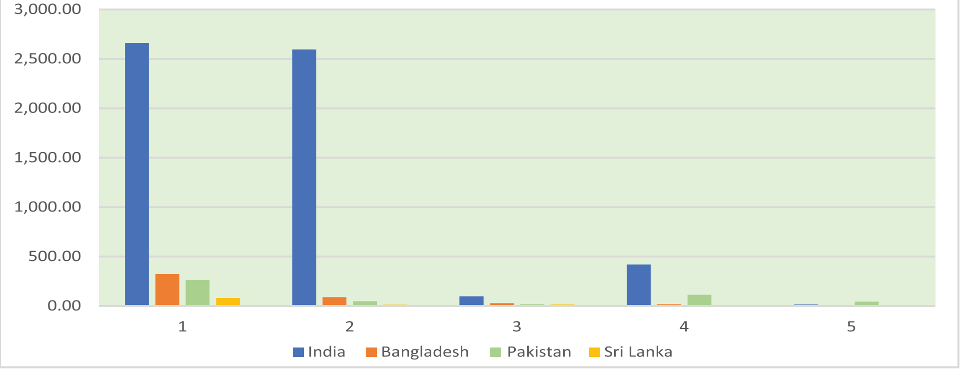
The capital market in Bangladesh has been gradually growing throughout the years. The index value, turnover, volume, market capitalization, etc., which are the major market indicators, have increased for the last few years at the Dhaka Stock Exchange (DSE) (source: BB, DMD, 2020).

There is comparative analysis with some East Asian and South Asian countries with Bangladesh in aspect of equity market capitalization and bond market size with percentage of nominal Gross Domestic Product (GDP) in Table 4 (Source: The World Bank base year, 2020).

Table-4: Comparative Analysis of Bond Market Size of Bangladesh with Other Countries

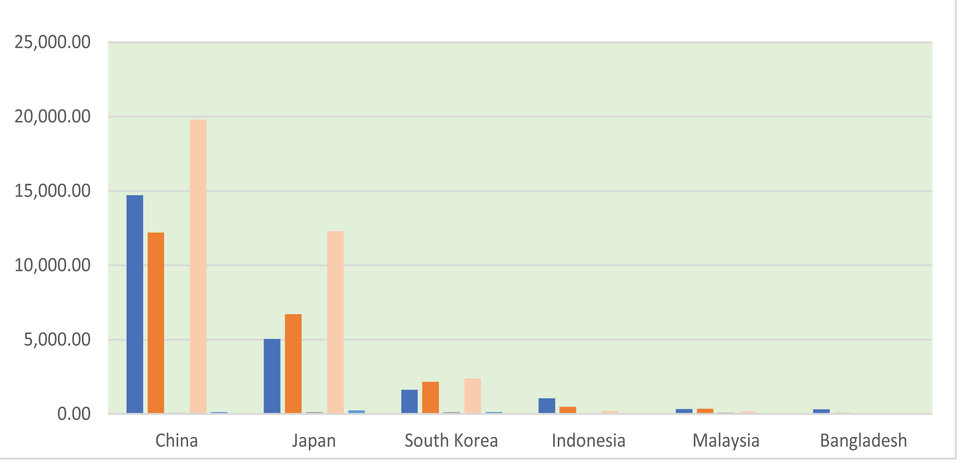
Country	Nominal GDP (USD in billion)	Equity Market Capitalization (USD in billion)	% of GDP	Bond Market Size (USD in billion)	% of GDP
East Asia					
China	14,720.00	12,210.00	82.95	19,800.00	134.51
Japan	5,060.00	6,720.00	132.81	12,300.00	243.08
South Korea	1,631.00	2,167.59	132.90	2,400.00	147.15
Indonesia	1,058.00	496.20	46.90	211.60	20.00
Malaysia	336.70	369.06	109.61	168.35	50.00
South Asia					
India	2,660.00	2,595.47	97.57	418.68	15.74
Bangladesh	323.06	89.77	27.79	18.00	5.57
Pakistan	262.61	47.49	18.08	113.70	43.30
Sri Lanka	80.68	12.98	16.09	1.38	1.71

Figure 2: Comparative Analysis of Equity Market Capitalization and Bond Market of Bangladesh with Other South Asian Countries



Source: The World Bank, 2020

Figure 3: Comparative Analysis of Equity Market Capitalization and Bond Market of Bangladesh with Other East Asian Countries



Source: The World Bank, 2020

With this comparative analysis, it has been found that comparing to some of the East and South Asian countries, bond market size of Bangladesh is very low.

7. Prospects of Bond Market in Bangladesh

The Bangladesh Government Islamic Investment (Sukuk), the country's first Shariah-compliant bond, has received applications from potential investors more than eight times in the final auction. The GoB has initiated and is going to implement a "safe water supply project". The funds from this bond were accumulated for the implementation of this project. From this oversubscription, we can infer the attention and interest of the potential investors regarding this innovative debt security (Chowdhury, 2021).

In 2021, Bangladesh has launched a Green Bond to finance different renewable energy projects, especially those that are environment friendly. Sajida Foundation got the approval from BSEC to issue Green Bonds and to accumulate funds for the implementation of projects.

The procedure for issuing a Blue Bond has also been started, especially for the private sector, to introduce some innative solutions to create incentives and to promote financing for inclusive development (Chowdhury, 2021). But before exploring the blue bonds, it is necessary to describe the term "blue economy". In economics, "blue economy" refers to the preservation and exploration of the marine environment (The Daily Star, 2022). As per the World Bank, the blue economy is the ecological use of ocean resources for economic growth, job creation, improvement of livelihoods, and the preservation of the ocean's ecosystem.

The blue economy may incorporate all economic activities related to the oceans, seas, and coasts. The concept of blue economy is an emerging one. Presently, the value of the blue economy is US$2.50 trillion per annum globally. Ocean-linked sectors and industries, fisheries, and aquaculture solely generate direct or indirect employment for 10%-12% of the global workforce, with more than 90% of the employment created in developing countries (The Daily Star, 2022).

Bangladesh's 710 km of coastline, from Saint Martin's Island to the west coast of Satkhira, and 121,110 square km of sea area, have exceptional ecosystems having major ecological and fiscal significance.

Innovative financial solutions like blue finance, i.e., blue bonds, have huge potential to improve ocean and coastal strength. Blue bonds are an innovative ocean financing instrument to raise funds exclusively for projects that are ocean-friendly (The Daily Star, 2022).

Besides that, in 2021, the BSEC introduced a debt securities rule and, to be compliant with this rule, banks are now bound to hold subordinated and perpetual bonds. And 10 banks have already applied for these two bonds. On the other hand, other 11 banks got approval to issue Additional Tier -1 (AT-1) bonds to meet BASEL-III compliance (Chowdhury, 2021).

The International Finance (IFC) will make a subscription of up to US$ 50.00 million-equivalent BDT dominated, 5-year senior bond as the first ever housing bond issued by BRAC Bank Ltd. to finance and expand the Bangladeshi lender's affordable housing finance program. It is also the first time that a foreign investor is going to invest in an onshore local currency bond to be issued by a local private institution to finance housing. It will provide a window of opportunity for new foreign and local investors to invest in bonds in the domestic corporate bond market (The Daily Star, 2022).

8. Challenges to Develop Bond Market

The G-Securities are the dominant debt instruments of our capital market. Furthermore, approx. 70% is bank deposits compared to approx. 30% of shares and debt securities. In this circumstance, deposits in banks are the main source of domestic savings. Almost all banks offer 5%-6% interest on their FDRs. On the other hand, depending on the maturity, bonds are used to offer the same ceiling interest rate. Sanchayapatras with a 5-years maturity scheme offer 11.28% interest. There is a huge spread, i.e., 5%-6%, for NSC and other financial instruments. This interest rate disparity creates challenges for the development of the bond market (Hossain, 2017).

The lack of appropriate financial instruments and proper laws and regulatory framework are the major challenges to creating a debt market. Availability, ease, and dependency on bank borrowings also create obstacles for the development of a compatible debt market in our country, which is very small compared to other neighboring East and South Asian countries. Other challenges to issuing corporate bonds are limited market knowledge, high rates of interest, few competent companies, and a changing business atmosphere. On the other hand, G-securities are facing challenges related to the rate of interest, rate of inflation, and detrimental yield (Hassan et al., 2020).

In our country, large amounts of money are being drained to cover up bad loans, which creates vulnerability in the financial system. And these non-performing loans, as well as bad loans, could create an acute liquidity crisis. For this reason, to establish a stable fixed-income market, it may require many years.

Some drawbacks related to prescribed principles and policies have an adverse impact on the development of the bond market. The law makes arbitration a clumsy and slow process for domestic as well as foreign investors. The lack of a privatization law is the main obstruction to providing authority and transparency related to the privatization process.

State-owned banks, i.e., National Commercial Banks, create severe problems for the corporate debt market. They deliver loans to state-owned enterprises with a low rate of interest, and these enterprises are the major part of the corporate sector. This is another reason for the weak corporate debt securities because other financial institutions are not getting competitive advantages over these loans with low interest rate.

On the other hand, the NBFIs are yet to develop sufficiently to play an active role in the debt market. They are not vibrant and competitive enough to play a leadership role actively in contributing to the debt market.

The G-securities market in this country is very small. It generates a poor yield curve, which could not support a corporate bond market as well as experienced and profit-based intermediaries. At present, the GoB issues long-term National Savings Certificates (NSC) with high rates of interest, and it only has market competitive rates for Treasury Bills (Source: Bangladesh Survey, Chapter-14).

The money market in our country is also very small, which creates a strong basis for the debt market. Commercial banks are borrowing and lending to fulfill their fund deficits and surpluses through the interbank market. A forward market is also sustained for USD against BDT with short tenure, but there is a lack of a commercial paper market here (Source: Bangladesh Survey, Chapter-14).

Political instability of our country is also a challenge to creating a smooth bond market. Government's target is to improve financial stability, which has been weakened by strikes, demonstrations, and huge party meetings by different political leaders. In addition to that, some commercial and financial regulations have become outdated. Due to the lack of governance, accountability, and inefficiency in the state-owned banking sector, the building of a perfect and compatible capital market is very challenging. Policies, rules, and regulations cannot be enforced here in full swing due to whimsical political conditions. To develop efficient governance and to build solid institutional capacity are very slow in process though the GoB is aware regarding deep rooted causes.

Another obstacle to the development of the bond market is the absence of a defined level of authority between BB and BSEC and a clear delegation of authority for the debt securities. Generally, BB is the regulator of banks and NBFIs, while BSEC is the regulator of investment banks, stock exchanges, and capital markets (Source: Bangladesh Survey, Chapter-14).

The BSEC is not solely authorized to issue rules and regulations for the bond. For this reason, the BSEC alone could not propose or introduce any principles, policies, or laws to issue debentures or bonds. The Ministry of Finance (MoF) is the approval authority for the issuance of bonds or debentures and, subsequently, the Ministry of Law will approve the same. Potential issuers need to cross various laws and regulations and pass through very lengthy and clumsy procedures.

9. Way Forward

The Debt Management Department (DMD) of BB formed a committee including the members from different departments of BB, representatives of the BSEC and commercial banks and they circulated a framework with every detail in 2019 under the title "Comprehensive Framework on the Development of the Bond Market in Bangladesh". The recommendations of the framework are (source: DMD, BB, 2020):

For Govt. Securities (G-Securities)

I. With the responsibility of securities management of the government, the Cash and Debt Management Committee (CDMC) should focus on the development of the financial market.

II. A central IT-based cash management cell should be built by the Ministry of Finance (MoF) where expenditures and revenues of all the participants could be maintained periodically.

III. CDMC can explore alternative investment vehicles through adopting a policy related to excess cash management and investment in the market.

IV. The GoB should allocate the non-tradable securities only to the specific target group, such as senior citizens, low-income people, etc.

V. Need to increase the level of issuance of G-Sec every year to safeguard a minimum level of securities issuance.

VI. We should have a clear and concrete depository guideline to transfer securities and to trade G-Sec in the secondary market in an uninterrupted way.

VII. Need to create separate pension funds for civil servants and to invest the funds in tradable G-Sec.

VIII. Need to establish a distinct regulator to make laws, rules and regulations for public and private entities' pension funds.

IX. It is required to direct the government/autonomous/semi-government bodies as well as the private companies/organizations to invest a specific portion of provident and gratuity funds in government bonds in place of National Savings Scheme (NSS) certificates.

X. Need to introduce foreign currency-denominated G-sec to attract more foreign investors, to increase remittance, to diminish the burden on the local money market, to borrow money at lower rates of interest, and to establish creditworthiness in the world market to expand the debt market.

XI. Need to implement a standardized tax ceiling for all the G-Sec and other saving schemes for individual investors.

For Corporate Bond

I. Need to reduce the time for getting approval for issuing corporate bonds.

II. Government/local government authorities/ autonomous bodies/utility companies such as Power Development Board (PDB), Bangladesh Petroleum Corporation (BPC), Bangladesh House Building Finance Corporation (BHBFC), Investment Corporation of Bangladesh (ICB), Power Generation Companies, and Bangladesh Railway should concentrate on issuing bonds to gather funds for their long-term ventures.

III. Need to promote increased issuance of corporate debt instruments and government securities.

IV. BSEC may introduce a viable interest rate for the bonds aligned with bank financing.

V. BB may revise the policies related to loan restructuring and rescheduling to make those more meticulous and stricter.

VI. BB may introduce and fix the specific debt ceiling. Besides that ceiling, excess funds need to be raised through issuing debt instruments.

VII. The GoB needs to introduce an equal tax on government as well as corporate debt instruments for a specified time duration.

VIII. Instead of deducting at source, the tax on the interest of corporate bonds should be paid at the time of submitting the income tax return.

IX. BB and BSEC jointly or individually may arrange training programs for both the institutional and individual investors and for the prospective issuers on a regular basis to encourage consciousness related to the debt securities.

X. The procedures for investing in corporate bonds should be streamlined for foreign and non-resident investors, and associated hedging instruments need to be established to attract those investors.

XI. Separate principles and laws need to be initiated by BSEC for tax, duty, and cost structure which are applicable to equity issuance and trading similar to the debt-securities.

10. Conclusions

For Bangladesh, the improvement of the fixed-income market is essential. To build an efficient and compatible capital market, different financial instruments need to be introduced for the government or for any public or private entity for the development of projects in the long term. Mega infrastructural project developments are crucial as our economy is a growing. Bank borrowings become essential for linking the deficit portion of the budget to undertake such mega infrastructural projects. On the other hand, this market would also create an opportunity for present and potential investors to secure a steady source of income. An established and differentiated financial system comprised of a balanced debt and equity market creates better risk dissemination between deficit and surplus segments to keep the economy stable. Local and foreign investors would feel confident investing with low risk in liquidity in a developed financial market. Persistent cooperation among different regulatory bodies would enable the development of the fixed-income securities market in Bangladesh.

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