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Non-performing Loans (NPLs) of the banks have gone up and are on the rise. Banks' NPL rise 15 per cent in the first quarter (Q1) of 2016, belying the Bangladesh Bank surveillance. The total outstanding loans stood at Tk. 5986.48 billion and the volume of NPLs rose to Tk. 594.11 billion as on March 31, 2016 from Tk. 546.58 billion in the first quarter of the last year. Consequently, the share of NPLs in the total outstanding loans of the banks comes to 9.92 per cent and even taking into account of the amount of written off loans of Tk. 412.37 billion so far, the NPL ratio is more than 15.5 per cent of the loans. These rising NPLs and capital market exposures of banks entail more credit risk and make the banking system vulnerable to the risk of failure unless it is systematically addressed by Bangladesh Bank and banks' management through extending risk-based supervision and bank risk management respectively. Capital market exposure of the banks have recently been addressed by not including the capital contribution made by the bank to the subsidiary, either being merchant bank or securities house, as a part of the exposure, and by allowing the swap of debt for equity in the subsidiary and eventually defer the problems for long. Moreover, Tk 150 billion worth default large loan has been restructured by BB in line with political decision. Despite restructuring and rescheduling of some of them with laxity, required provisions have to be maintained causing profitability of the banks in 2016 in terms of EPS to fall much more than that of last year. For State owned banks, government had to recapitalize Taka 50 billion already and have to recapitalize further Taka 101 billion to bail out them for meeting shortfall of capital adequacy. Questions have been raised regarding the justification and worthiness of using tax payer's public money to keep SOBs survivable. The continuation of recapitalization by the Govt. to the SOBs can't be accepted on any merit ground.

The first article of this issue focuses on the derivation of the components of money supply (M2), reserve money (RM) and balance of payments accounts (BOP)?targets of Monetary Programming in Bangladesh ensuring desired inflation and economic growth. Considering the Bangladesh GDP growth model and quantity theory of money, ultimately participatory and judgmental approach are pursued in quantifying M2, RM and BOP growth numbers. Monetary, external, fiscal and real sector have been analyzed in order to predict the related monetary variables and to understand the relationship between money supply and inflation. Claims on DMBs in RM depend on liquidity need and refinancing to export and small and medium enterprise (SME) sector for employment generation. Export, foreign remittance and FDI can boost the NFA with Taka sterilization policy by the BB to contain inflation. In M2, RM and BOP proper debt structure of the government will optimize the domestic and foreign financing providing desired room for private sector credit to enhance GDP growth. Accuracy in M2, RM and BOP programme numbers will minimize actual and potential gap of inflation and output. Macro prudential policy along with micro prudential policy of BB using direct and indirect instrument (OMO) with flexibility will play role to maintain stability in the actual and projected paths deviation of M2, RM and BOP for achieving monetary policy objectives.

The second article investigates empirically the determinants of international reserves of Bangladesh and whether the current holding of reserves is adequate in relation to the fundamentals of the economy. Imports and exchange rate volatility play a important role in determining reserve demand in the long run while disequilibrium in the domestic money market has a significant role in the short run reserve demand. The article finds that current account vulnerability leads the central bank to stock pile foreign exchange reserve. Thus the reserve accumulation of Bangladesh is a precautionary measure against its current account vulnerability. Although Bangladesh has resorted to a floating exchange rate regime on currency convertibility in current account, it frequently intervenes in the foreign exchange market to reduce excessive fluctuations of exchange rates. Hence, Bangladesh bank (BB) as the central bank has the incentives to gather foreign exchange reserve to avoid excessive fluctuations and keep exchange rate volatility in a narrow band. The article suggests that BB can still concentrate on reserve accumulation so that no sudden financial crisis hampers Bangladesh's international transaction or disrupt macroeconomic stability.

The last and final paper deals with addressing the current scenario of the domestic debt market in Bangladesh and identifying persisted issues that impede the growth of the debt market. During 2000-2014, Bangladesh has made significant progress, which includes, among others, a wide range of TBills and TBonds with varying yields and maturities, introduced a primary dealer (PD) system and implemented online platforms through Market Infrastructure (MI) and Trader Work Stations (TWS) in Bangladesh Bank. Yet critical problems like mismatch between government borrowing and market liquidity, large amounts of devolvement and an underdeveloped secondary market continued to impede the development of the system and overburden to market participants particularly in banking system. Among the measures to overcome these shortcomings, the PD system should be more efficient; and developing a vibrant bond market to strengthen the secondary market of government debt should be ensured, while the investor base is required to be widened.

**Mahmood Osman Imam** 30 April, 2016
*Editor*