Money and Credit

Stance of Monetary and Credit Policies

4.1 FY08 was a challenging and eventful year for Bangladesh on several counts. Over the first half of the financial year, two successive floods, devastating cyclone (Sidr), domestic inflation, global market scenarios and the consequent impact of these on investment and business confidence put the economy under serious test. But the economy bounced back strongly in the second half of the financial year with pro-active measures by the Government along with Bangladesh Bank's timely measures in improving production environment through encouraging unhindered flow of credit to productive sectors like agriculture, SMEs, and other income generating rural activities being the prime targets.

The major thrust of the policy stance pursued by the BB was to follow growth supportive and prudent monetary policy to ease the uptrend in inflationary tendency. To adhere to its pro-growth monetary policy stance, BB prudently used monetary policy instruments at its disposal during FY08. As a part of this policy stance the reserve requirements had been kept unchanged at the previous year's level while emphasizing more on increased flow of credit to the agriculture, SMEs and housing sectors. The major policy rates (repo and reverse repo) remained unchanged at preceding year's level. The spread between short term and long term rates of government securities narrowed down reflecting BB's commitment to reduce inflationary expectation. Moreover, BB's continuous efforts to lower lending rate also succeeded in FY08.

Some relaxations were made in respect of single borrower exposure limit to encourage investment in power sector and import of foodgrains. Banks themselves had taken initiatives to reduce charges on various services provided to the customers. Banks were also liberal in respect of imposing margin particularly to open L/Cs for import of food grains and other essential items deemed necessary to reduce inflationary pressure. With a view to easing inflationary pressure, Bangladesh Bank conducted sale/purchase of US dollar in the interbank foreign exchange market to maintain stability in foreign exchange rate and thereby

Table-4.1 Money and credit situation

(billion Taka)

	End June 07	End June 08	
	Actual	Programme	Actual
1. Net foreign assets	328.9	340.2	378.5
	(+49.4)	(+3.4)	(+15.1)
2. Net domestic assets (a+b)	1785.5	2112.5	2108.4
	(+12.5)	(+18.3)	(+18.1)
a) Domestic credit (i+ii)	1997.4	2350.3	2433.5
	(+14.4)	(+17.7)	(+21.8)
i) Credit to public sector 1/	475.7	601.3	532.1
	(+12.4)	(+26.4)	(+11.9)
ii) Credit to private sector	1521.8	1749.0	1901.4
	(+15.0)	(+14.9)	(+24.9)
b) Other items (net)	-211.9	-237.8	-325.0
3. Narrow money (i+ii)	501.1	-	597.4
	(+17.6)		(+19.2)
i) Currency outside banks	266.4	-	326.9
	(+16.5)		(+22.7)
ii) Demand deposits 2/	234.6	-	270.5
	(+18.9)		(+15.3)
4.Time deposits	1613.4	-	1889.5
	(+16.9)		(+17.1)
5. Broad money (1+2) or (3+4)	2114.4	2452.7	2486.9
	(+17.0)	(+16.0)	(+17.6)

Figures in the parentheses indicate percentage changes.

1/ "Govt. lending fund" is treated as deposit in calculating claims on Govt. (net) and claims on other financial institutions (public) are excluded.

2/ Demand deposits of monetary authority are excluded.

Box 4.1

Liquidity Management by the Bangladesh Bank

The liquidity management by Bangladesh Bank (BB) can be defined as the framework where set of instruments and the rules are used to control the liquidity consistent with its ultimate objective focuses on supporting the highest sustainable output growth while maintaining the price stability by targeting M2 growth. The M2 target is attained by using indirect instruments under the framework of the reserve money. After formulating a reserve money programme to achieve the desired level of M2, the actual developments are monitored and required steps are taken accordingly.

Reserve money, the operating target of BB, gives an indication of liquidity in the monetary system. BB tries to regulate liquidity conditions consistent with overall monetary projection by adjusting the level of deposits of the banks' with the BB through its indirect instruments. The deposits can be split into required reserves and access reserves. These excess reserves are the policy variable for BB's monetary policy. Excess reserves are balances that banks can use either lending to the private sector or invest on Government securities and BB securities. By making investment on securities more attractive (less attractive) BB can refrain (or encourage) banks from (to) increasing (enhance) lending.

The instruments which affect the level of deposits of the banks are (1) open market operation through repo, reverse-repo and 30-day and 91-day BB bills; (2) variations in reserve ratios; (3) secondary trading; (4) discount rate and; (5) moral suasion. The repo facility and secondary trading enhance the liquidity position of the banking system, while reverse repo and BB bills mop-up it. Auctions of repo and reverse-repo are generally held on daily basis while that of BB bills are held on weekly basis. Variation in reserve ratios (i.e. CRR and SLR) is used infrequently. BB conducts secondary trading as and when necessary.

With the aim of liquidity management, an exercise of liquidity forecasting is being done (for the Auction Committee of government and BB securities) since November 2002 to decide on how much liquidity to provide to or withdraw from the market to smooth undesirable fluctuations that could distort the desired outcome. The liquidity forecasting exercise involves projected changes in main items of the central banks balance sheet. The demand for and supply of liquidity can be derived from the balance sheet of Bangladesh Bank. Simplifying a typical balance sheet by netting the external position of the government (net position of the Government), as well as summarizing all other assets and liabilities (other items net) results in the following.

Condensed Balance Sheet of Bangladesh Bank

Assets	Liabilities
Net foreign assets (NFA) Net claims on Government (NCG) Net claims on Banks (NCB) (net policy position) Other items net (OIN)	Reserve money Currency issued Bank's deposits Reserve requirements Excess reserves

The asset side of balance sheet shows the causes of changes of reserve money, while the liability side shows the changes in different components of reserve money.

From the condensed balance sheet of Bangladesh Bank, we can arrive at,

Reserve money = NFA+NCG+OIN+NCB (net policy position)

Or, Currency issued+Bank reserves = NFA+NCG+OIN+NCB (net policy position)

Therefore, Bank reserves = NFA+NCG+OIN-Currency+NCB (net policy position)...... (A)

The first four items of equation (A) contain all factors that are beyond the control of the central bank in the very short run or more generally not related to monetary policy actions. These items are, therefore, called the 'autonomous liquidity position'. In contrast, the central bank's 'policy position' which comprises central bank direct lending to banks and net lending through open market operations (OMSs) is under the immediate control of the central bank.

Autonomous liquidity position (+injection/-withdrawal) = NFA+NCG+OIN-Currency

And Bank reserves = Autonomous liquidity position + Net policy position

'Other items net' includes changes in the central bank's capital and reserves and the revaluation accounts. However, fluctuations in the revaluation accounts do not impact liquidity because they have their counter position in changes in capital. 'Other items net' also includes 'reserves float'. A reserves float arises if the payer's and payee's accounts with the central bank are not credited and debited on the same day. If the payer's account is debited before the payee's account is credited, the supply of the liquidity is reduced and vice versa.

rate movement on the price level of the country. Moreover, in view of continuous uptrend of the prices of daily essential commodities, Bangladesh Bank temporarily fixed the maximum rate of interest at 12 percent for financing of import of food items in August 2007. As a result, although there was a visible uptrend in inflation rate in the early months of FY08, the rate tamed in the last quarter. Regardless of the growth stimulating policy stance, broad money (M2) did not exceed the target level significantly. Nevertheless, private sector was given ample room to grow at desired level especially in the aftermath of the losses due to floods and cyclone. External balance was cushioned by higher external aid flow, healthy growth in workers' remittances and resurgence of export growth. In the second half of FY08, high demand for credit amid revival of economic and business activities created some liquidity pressure in the banking system. In order to fine tune the liquidity situation, BB provided adequate support through repo as well as secondary trading window and thus maintained call money rate reasonably stable (Box 4.1).

4.2 The policy stance for H1 of FY08 was designed around a projected real GDP growth of 7.0 percent and an annual average CPI inflation within a range of 6.5 to 7.0 percent. The developments during H1, however, led BB to revise GDP growth rate downward between 6.0 and 6.2 percent and average CPI inflation upward between 8.0 and 8.2 percent for H2 of FY08. Accordingly broad money (M2) growth was targeted at 16.0 percent. The monetary programme vis-à-vis actual outcome is presented in Table 4.1. It is revealed from the table that broad money (M2) growth during FY08 was 17.6 percent, which was higher than 16.0 percent growth targeted under the programme and 17.0 percent actual growth in FY07. The accelerated growth in broad money (M2) than programmed was mainly due to higher growth in net foreign assets (NFA) although offset slightly by the lower growth in net domestic assets (NDA). The growth in NFA stood at 15.1 percent, higher than the projection of 3.4 percent in FY08 though notably lower than 49.4 percent growth in FY07. The sale of

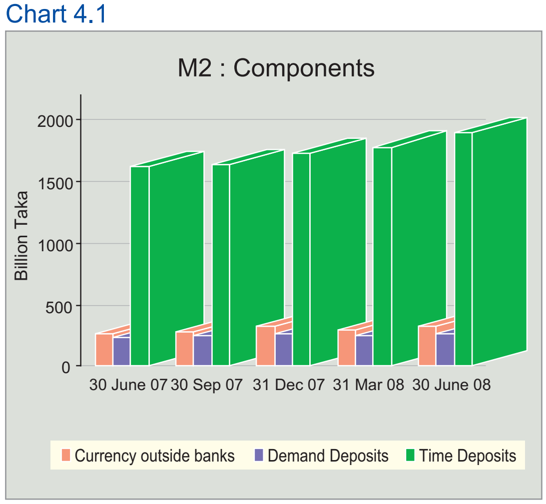
Table 4.2 Reserve Money Position

(billion Taka)

	End June 07	End June 08	
	Actual	Projection	Actual
1. Net International Reserve 1/@/	245.7	254.0	280.8
	(+56.8)	(+3.4)	(+14.3)
Net International Reserve 2/@/	239.9	250.0	253.2
		(+4.2)	(+5.5)
2. Net domestic assets 1/	148.5	196.0	194.7
	(-18.8)	(+32.0)	(+31.1)
Net domestic assets 2/	154.3	200.0	222.4
		(+29.6)	(+44.1)
a) Domestic credit	299.4	343.0	312.7
	(+1.1)	(+14.6)	(+4.5)
i) Credit to the public sector 3/	242.0	273.0	245.9
	(+2.3)	(+12.8)	(+1.6)
ii) Credit to deposit money banks 4/	57.4	70.0	66.80
	(-3.6)	(+22.0)	(+16.5)
b) Other items (net)	-150.8	-147.0	-118.0
3. Reserve money (i+ii) or (1+2)	394.2	451.0	475.6
	(+16.1)	(+14.3)	(+20.6)
A) Currency issued	287.9	332.0	356.5
	(+15.6)	(+15.3)	(+23.8)
B) Deposits of banks with the Bangladesh Bank 5/@/	106.3	119.0	119.1
	(+17.4)	(+11.9)	(+12.0)
4. Money Multiplier (M2/RM)	5.36	5.44	5.23

Figures in the parentheses indicate percentage changes.
@ Excluding foreign currency clearing A/C balance.
1/ Calculated from monetary survey data.
2/ Calculated using program exchange rate (end March, 07 rates)
3/ "Govt. lending fund" is treated as deposit in calculating claims on Govt. (net) and claims on other financial institutions (public) are excluded.
4/ Considers only "loans and advances" to DMBs.
5/ Excluding deposits of the other public sector.

Chart 4.1



US Dollar by BB in the interbank market to ease the pressure on foreign exchange in the face of increased import led to reduced growth of NFA in FY08 than the growth recorded in the preceding year. The growth in NDA stood at 18.1 percent as against projection of 18.3 percent during FY08 driven by a drop of growth in public sector credit. However, credit to private sector grew at 24.9 percent notably higher than projected growth of 14.9 percent and the actual growth of 15.0 percent during FY07 reflecting increased economic activities in the real sector. Credit to the public sector, on the other hand, increased by 11.9 percent as against the projected growth of 26.4 percent mainly due to downsizing of ADP, better revenue collection and increased flow of foreign fund. Overall, domestic credit growth was 21.8 percent, higher than the projection of 17.7 percent and the actual growth of 14.4 percent during FY07.

4.3 Inflationary pressure in the economy originated both from internal and external shocks. Inflation (annual average CPI inflation, base FY96=100) exceeded the level assumed in the monetary projection and, amidst fluctuation went up from 7.20 percent as of end June 2007 to 9.94 percent as of end June 2008. The rise in domestic inflation was fed by food inflation that went up to 12.28 percent in June 2008 from 8.11 percent in June 2007, while non-food inflation rose to 6.32 percent from 5.90 percent over the same period. Movements of M2 and its components over FY08 may be seen at Chart 4.1.

Reserve Money Developments

4.4 During FY08, the reserve money (RM) has been used as an operating target to modulate liquidity consistent with overall monetary projection. The weekly auctions of Bangladesh Bank Bills were used in influencing the level of RM, while repo and reverse repo auctions were used for smoothing the money market.

Chart 4.2

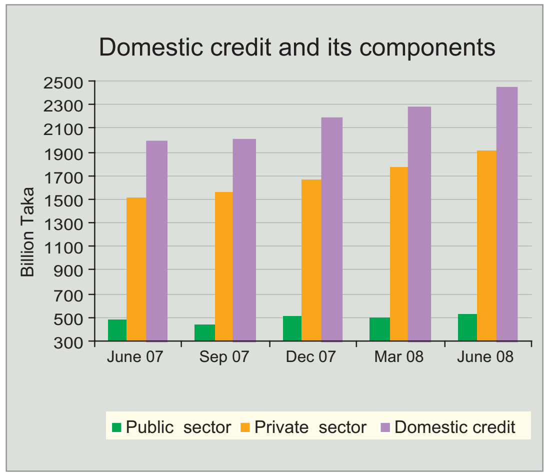


Chart 4.3

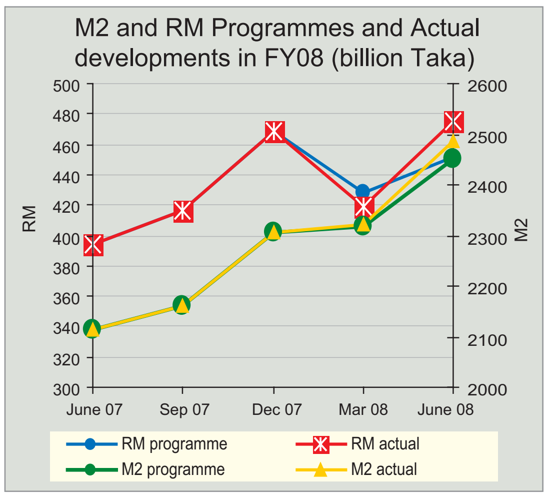
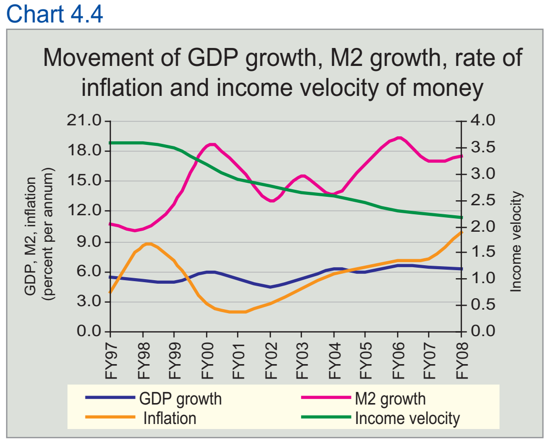


Chart 4.4



4.5 In line with the projected broad money growth, the monetary programme set a 14.3 percent growth of RM for FY08 against which it grew by 20.6 percent. The larger than projected growth of RM during the year was contributed by the substantially higher growth in net domestic assets (NDA)[1/]. The advances to DMBs from BB which increased significantly by 16.5 percent compared with a negative growth of 3.6 percent in FY07. This happened due to BB's response to natural disasters through ensuring the flow of adequate credit to productive sector including agriculture and SMEs and to women entrepreneurs and foreign currency loans to SCBs on account of BPC. Apart from these BB also provided liquidity support to the banks (mainly to PDs) through repo operation and secondary trading.

An analysis of the behaviour of the liability side of the central bank balance sheet shows that a significant increase in currency issued largely resulted in an increase in the reserve money.

4.6 Because of higher growth in reserve money compared to broad money, money multiplier decreased to 5.23 in FY08 as compared to the actual number of 5.36 in FY07. This resulted mainly from the rise in currency-deposit ratio. Reserve-deposit ratio, on the other hand, decreased slightly. Movement of domestic credit and its components in FY08 may be seen at Charts 4.2. Actual development of M2 and RM against their respective programme path is shown in Chart 4.3.

Income Velocity of Money

4.7 The income velocity of money decreased from 2.23 of FY07 to 2.18 in FY08 (Table 4.3). The rate of decreased in FY08 was 2.24 percent, as against a 3.04 percent, 6.12 percent and 4.67 percent decline in FY07, FY06 and FY05 respectively. Income velocity of money was on a declining trend over the past several years indicating increased monetization and financial deepening in the economy. Movements of GDP and M2 growth, inflation and income velocity of money during FY97-FY08 are shown in Chart 4.4.

[1/] Calculated from monetary survey data.

Table 4.3 Income velocity of money

Year	GDP at current market prices (billion Taka)	Broad money (M2) (billion Taka, end June position)	Income velocity of money (GDP/M_2)
FY05	3707.1	1514.1	2.45 (-4.67)
FY06	4157.3	1806.2	2.30 (-6.12)
FY07	4724.8	2114.4	2.23 (-3.04)
FY08	5419.2[P]	2486.9	2.18 (-2.24)

Figures in parentheses indicate percentage changes.
P=Provisional

Table 4.4 Bank Credit*-FY08 quarterly positions

(billion Taka)

Outstanding as of	Advances	Bills	Total
30 June 07	1486.54 (90.0)	164.65 (10.0)	1651.19
30 Sep 07	1525.66 (93.0)	114.88 (7.0)	1640.54
31 Dec 07	1630.64 (92.5)	131.61 (7.5)	1762.25
31 Mar 08	1723.01 (92.2)	146.60 (7.8)	1869.61
30 June 08	1831.14 (93.1)	135.26 (6.9)	1966.40

Figure in parentheses indicate percentage shares
* Excluding foreign bills and inter bank credit.

Table 4.5 Bank deposits*- FY08 quarterly positions

(billion Taka)

Balances as of	Demand deposits	Time deposits	Govt. deposits	Total deposits
30 June 07	234.63	1613.36	121.58	1969.57
30 Sep 07	248.68	1629.51	125.21	2003.40
31 Dec 07	261.36	1721.69	139.20	2122.25
31 Mar 08	251.59	1776.82	140.51	2168.92
31 June 08	270.53	1889.45	156.81	2316.79

*Excluding interbank and restricted deposits.

Bank Credit

4.8 Outstanding bank credit (excluding foreign bills and interbank items) during FY08 rose by Taka 315.21 billion or 19.1 percent to Taka 1966.40 billion as against an increase of 14.7 percent in FY07. The rise in the bank credit during FY08 was driven by the increase in advances. Advances increased by Taka 344.60 billion or 23.2 percent, as against an increase of 14.7 percent during FY07. Bills purchased and discounted declined by Taka 29.39 billion or 17.8 percent in FY08. This higher growth in bank advances may be attributed to restored business confidence and higher economic activities owing to decline in real interest rate. The quarterly position of bank credit and its components may be seen at Table 4.4.

Bank Deposits

4.9 Bank deposits (excluding inter-bank items) increased by Taka 347.22 billion or 17.6 percent to Taka 2316.79 billion during FY08 against 16.5 percent increase in FY07. The rise in total bank deposits was shared by increase in both demand deposits and time deposits. Time deposits increased by Taka 276.09 billion or 17.1 percent and stood at Taka 1889.45 billion in FY08 against growth of 16.9 percent during FY07. Demand deposits increased by Taka 35.90 billion or 15.3 percent in FY08 to Taka 270.53 billion against 18.9 percent increase in FY07. Government deposits increased by Taka 35.23 billion or 28.98 percent to Taka 156.81 billion in FY08, against 8.3 percent increase of FY07. Quarterly position of bank deposits in FY08 may be seen at Table 4.5.

Credit/Deposit Ratio

4.10 The credit/deposit ratio of the scheduled banks, excluding the specialized banks remained same at 0.85 at end of June 2007 and June 2008.

Scheduled banks' borrowing from the BB

4.11 Scheduled banks' borrowings from the Bangladesh Bank increased by Taka 9.49 billion or 16.5 percent to Taka 66.84 billion at the end of June 2008, against 18.6 percent declined during FY 07.

Balances of Scheduled Banks with the BB and their Cash in Tills

4.12 Balances of scheduled banks with the BB increased by Taka 14.45 billion or 9.5 percent to Taka 167.12 billion at the end June 2008, against the increase of Taka 15.02 billion to Taka 152.67 billion at the end of June 2007. Cash in tills of scheduled banks also increased to Taka 29.59 billion as of June 2008 against Taka 21.44 billion as of end-June 2007.

Cash Reserve Requirement (CRR)

4.13 The Cash Reserve Requirement (CRR) for the scheduled banks with the Bangladesh Bank remained same at 5.0 percent of their total demand and time liabilities since 1 October 2005. It may be noted that banks are required to maintain CRR daily at the rate of 5.0 percent on average on bi-weekly basis provided that the CRR would not be less than 4.0 percent in any day with effect from 1 October 2005.

Statutory Liquidity Ratio (SLR)

4.14 The Statutory Liquidity Ratio (SLR) for the scheduled banks, except banks operating under the Islamic Shariah and the specialized banks remained same at 18.0 percent of their demand and time liabilities, excluding inter bank items since 1 October 2005. The SLR for the Islamic banks remained unchanged at 10.0 percent. The specialized banks continued to remain exempt from maintaining the SLR.

Bank rate

4.15 The bank rate remained unchanged at 5.0 percent in FY07. This rate has been in effect since 6 November 2003.

Interest Rates on Deposits and Advances

4.16 Table 4.6 contains weighted average interest rates of scheduled banks on deposits and advances along with the spread during

Box 4.2

On Central Bank Autonomy

The issue of central bank autonomy or independence has rapidly become the worldwide norm for the organizations of monetary authorities aiming at to decrease inflation by increasing the credibility of commitments to price stability. Evidence from cross-country studies show that countries with more independent central banks manage to achieve low inflation at no extra cost in terms of output variability. Independent central banks, it is argued, offset unwanted output variability originated from political uncertainty and may also lead to an elimination of the inflation bias either through an optimal contract or inflation targeting mechanism, or through a reputation-building effect. However, an inflation targeting arrangement that gives instrument independence and goal independence to the central bank reduces the inflationary bias of monetary policy making. The reason for this is that if the inflation target is publicly announced, the arrangement is transparent, solves the private information problem and makes reputation more effective. It is also argued that central bank independence is the institutional solution to check the macro-economic populism i.e., opportunistic political business cycles (elected politicians have incentives to expand the money supply prior to elections to stimulate the economy and thereby engineer their re-election). However, the relationship between central bank independence and effectiveness of monetary policy can be viewed from three distinct paradigms, a) under central bank independence, it is expected that the dynamic inconsistency problem of optimal monetary policy will be solved, b) in case of conflicting objectives of economic policy, inflationary bias of the economy will be minimized, and c) an independent central bank will be emerged as a credible institutional alternative to a constitutionally stipulated monetary rule.

Measures of Central Bank Independence

Bade and Parkin (1982) using the data of 12 OECD countries constructed measures of policy and financial independence of central banks. Policy independence was linked to the central banks ability to appoint members of its board, the extent of government representation in the board, and the formal responsibility of the central bank in the formulation and implementation of the monetary policy. Financial independence depended on whether the government had the ability to set the salaries for the members of the governing boards and employees, including the allocation of profits. Grilli, Masciandaro, and Tabellini (1991) compare the monetary regimes of 18 OECD countries by building two simple additive legal measures of central bank autonomy; the first one focuses on political features (autonomy in setting objectives), the second focuses on economic and financial features (autonomy with respect to instruments). By defining political autonomy as the ability of the central bank to select the final objectives of monetary policy, the authors assign to the central banks one point for each of the following eight criteria if satisfied: (i) the governor is appointed without government involvement; (ii) the governor is appointed for more than five years; (iii) the board of directors is appointed without government involvement; and (iv) it is appointed for more than five years; (v) there is no mandatory participation of government representatives in the board; (vi) no government approval is required in formulating monetary policy; (vii) there are requirements in the charter forcing the central bank to pursue monetary stability amongst its primary objectives; and (viii) there are legal protections that strengthen the central bank's position in the event of a conflict with the government. The economic autonomy index is an indicator of autonomy in the selection of instruments, and the central bank under examination gets one point for each of the following criteria if satisfied: (i) there is no automatic procedure for the government to obtain direct credit facilities from the central bank; (ii) direct credit facilities to the government are extended at market interest rates; (iii) the credit is extended on a temporary basis; (iv) and for a limited amount; (v) the central bank does not participate in the primary market for public debt; (vi) the central bank is responsible for setting the discount rate; and (vii) the central bank has no responsibility for overseeing the banking sector (two points) or shares this responsibility with other institutional entities (one point).

Cukierman's (1992) political and economic autonomy index is a very comprehensive index of central bank autonomy. It is made up of 16 variables which are grouped under four main headings: First heading (CEO, chief executive officer): it contains proxies for (i) the length of the term of office of the governor; (ii) the entity delegated to appoint him/her; (iii) the provisions for his/her dismissal; (iv) and his/her ability to hold another office. Second heading (PF, policy formulation): it contains proxies for (v) the entity responsible for formulating monetary policy; (vi) the rules concerning the resolution of conflicts between the central bank and the government; and (vii) the degree of the bank's participation in formulating the government budget. Third heading (OBJ, objectives of the central bank): it contains proxies for (viii) the provisions of charters regarding primary monetary objectives-and the relative role of monetary stability. Fourth heading (LL, limitations on central bank lending to the government): it contains proxies for (ix) advances and (x) securitized lending; (xi) the authority that has control over the terms (maturity, interest rate and amount) of lending; (xii) the size of the circle of potential borrowers from the central bank; (xiii) the types of limitations on loans, where limits exist; (xiv) the maturity of possible loans; (xv) the limitations on interest rates applicable to these loans; (xvi) and prohibitions on central bank participation in the primary market for government securities.

FY04 to FY08. It is evident from the Table that weighted average interest rates on deposits and advances were declining during FY04-FY05. Deposit and lending rates thereafter, moved upward and reached at 6.9 percent and 12.8 percent respectively in FY07, reflecting the cautiously restrained monetary policy stance of BB. The spread between advance and deposit rates were similar during FY04-05 then it increased upto 5.9 in FY07 and declined again in FY08. Deposit rate increased slightly while rate of advance declined moderately thereby push the spread to reach at 5.3 percent in FY08.

Table 4.6 Weighted average interest rates of scheduled banks

Items	As of end June (in %)				
	FY 04	FY 05	FY 06	FY 07	FY 08
Deposit rate	5.7	5.6	6.7	6.9	7.0
Advance rate	11.0	10.9	12.1	12.8	12.3
Spread	5.3	5.3	5.4	5.9	5.3

Operation of the Export Development Fund (EDF)

4.17 Lending in foreign currency from the Export Development Fund (EDF) for financing import of raw materials, accessories, spare parts and packing materials used in export production increased in FY08. Total disbursement from EDF during FY08 stood at USD 215.97 million as against USD 175.22 million in FY07. The outstanding balances as on 30 June 2008 stood at USD 75.58 million. The major share of this credit was used for export of ready-made garments.

Changes in Monetary and Credit Regulations

The major policy measures taken in monetary and credit fronts in FY08 were as follows:

- Due to devastating cyclone and tidal upsurge in the country, massive damage in the agricultural sector took place. In this backdrop, to reduce the sufferings of the affected farmers, following decisions were taken regarding agricultural credit operations.

a) Agricultural credit disbursement activities should be strengthened in the cyclone affected areas.

b) Affected farmers should be provided new loan as early as possible after rescheduling old loan by relaxing conditions for down payment of overdue loan.

c) High official of concern banks will ensure proper disbursement of credit by visiting the field.

d) The bank will arrange proper monitoring so that any affected farmer does not face any delay in getting the loan and/or is not harassed. In this view, nationalized commercial banks and agricultural banks will set up "Complaint and Loan Monitoring Cell" and will monitor the issue regularly.

e) Bangladesh Bank should be informed regarding agricultural credit disbursement activities on a fortnightly basis.

- Relaxation of credit norms for Agricultural/Rural Credit Programme has been made due to uptrend in the price of agricultural inputs. In general, banks will follow the credit norms in determining the amount of loan, disbursement of loan, and loan repayment schedule, but may increase/decrease the amount of loan fixed for different crops for a maximum of 20 percent instead of 10 percent considering actual credit demand of the farmers.

- Banks/Financial Institutions have been advised to give more endeavour and advised to invest their excess liquidity in different emerging productive SME sectors including women entrepreneurs. In this regard, banks and financial institutions are advised to finance at least 40 percent of total amount to loan ascertained for the SME sector to small entrepreneurs and the rest to medium entrepreneurs. Moreover, banks/financial institutions have been advised to take assistance of NGOs in selection of borrowers, disbursements and recovery of credit in order to reduce supervision cost in credit disbursement and recovery. In addition, Bangladesh Bank has taken a decision in principle to accord permission for opening SME Service Centres. As a latest step, for the necessity of strengthening, encouraging and expanding SME sector, fund for "Refinance Scheme for Small Enterprise Sector" has been raised from Taka 300.00 crore to Taka 500.00 crore with effect from 12 June 2008.

- With a view to meeting the growing demand by the lower and middle income people in the urban areas for housing, the Bangladesh Bank has undertaken a scheme named "Refinance Scheme for Housing" in order to provide refinance facility to banks and financial institutions against loans provided to buy/build new apartment for only own residential purpose.

- New Capital Accord (Basel II) will be implemented from early 2009. In this regard, on the basis of quantitative impact study (QIS) conducted by the Bangladesh Bank to assess the readiness of banks for implementing Basel II, an action plan/roadmap has been finalized and approved by the competent authority and has been sent to banks for gearing up the efforts of implementing Basel II.

- Fund allocation for woman entrepreneurs under the Refinance Scheme for Women Entrepreneurs of Small and Medium Entrepreneurs (SME) of Bangladesh Bank has been raised from 10 percent to 15 percent with a view to extending participation of women entrepreneurs in industrial development of the country and to ensure availability of credit by more women entrepreneurs for establishing industry and to operate business activities. Out of this 15 percent fund, 40 percent will be allocated for small women entrepreneurs.

- With a view to encouraging transaction of government securities after issuance and to establish a more effective secondary market some amendments has been made in the guidelines regarding revaluation of Treasury bills and bonds on the basis of Marking to Market.

- With a view to making secondary transaction process of government securities effective and competitive, some amendments have been made in the guidelines regarding provision of liquidity facility.

    1. Liquidity facility will be provided against government treasury bills and bonds devolved towards primary dealers for maximum 1 (one) month continuously from the date of issue. This facility could be availed once or more any time within the month.

    2. Performance of the primary dealers will be reviewed quarterly and on the basis of combined evaluation of success ratio achieved in every quarterly auction and secondary market turnover aforesaid facility will be provided to the 3 (three) best primary dealers for maximum 2 (two) months.