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Box-1

Chronology of Major Policy Announcements: January-March 2005	
Policy Announcements	
	1. Money Market Development
January 2005	With a view to dealing with complains of different irregularities, all banks are advised to form a "complaint cell" at each bank. Quarterly statement regarding different steps taken under the cell should be sent regularly to the Department of Banking Inspection-1 as per format of the Bangladesh Bank.
February 2005	In order to help banks to look into the accounts with potential problems in a focused manner and to capture early warning signals for accounts showing first signs of weakness, it has been decided that with effect from March 31, 2005 a Continuous credit, Demand loan or a Term loan which will remain overdue for a period of 90 days or more, will be put into the "Special Mention Account". Instead of crediting the same to Income Account, interest accrued on such loan will be credited to Interest Suspense Account. Loans in the "Special Mention Account" will not be treated as defaulted loan and the status of loan (Special Mention Account) need not be reported to Credit Information Bureau (CIB) of Bangladesh Bank.
February 2005	The cash reserve requirement (CRR) for the scheduled banks with the Bangladesh Bank has been increased to 4.5 percent of their total demand and time liabilities from 4.0 percent effective from March 1, 2005. Banks are required to maintain CRR daily at the rate of 4.5 percent on average on bi-weekly basis provided that the CRR would not be less than 3.5 percent on any day.
	2. Financial Sector Development
March 2005	In pursuant to reduce excessive dependency on call money market and to avoid long-term asset-liability mismatch, financial institutions are advised to utilize the other alternative long-term sources, such as credit line, mortgage based securitization, asset securitization, etc. Accordingly, it has been decided that the licensed financial institutions can borrow to a maximum of 15 percent of their total net asset with effect from July 1, 2005. The financial institutions that have already borrowed more than 15 percent of their total net asset from the call money market, however, shall not be allowed to extend their existing amount of borrowing under any circumstances and the amount of existing borrowed money must be dropped gradually to the required level by June 30, 2005.
	3. External Sector Development
January 2005	Instead of covering all forward sales by an equivalent amount of purchase, authorized dealer banks are now be allowed to cover a minimum of 50 percent of sales by forward purchase and the rest by inter-bank forward purchase and spot purchase of export bills. Considering the normal linkage between forward purchase and sale, restriction on covering forward sale with forward purchase under swap transactions has been withdrawn.
February 2005	Swap deals among the authorized dealers are no longer required to be within the same level of their net open position of foreign exchange. From now on, all swap deals among the authorized dealers will follow counter-party limit based on the existing core-risk management guidelines.
March 2005	Authorized dealer banks are advised not to allow opening any fresh letter of credit for the importers whose bill of entries/customs certified invoices against previous imports were not submitted within the specified time limit. In case of new importers, fresh letter of credit can be opened only if they don't have any overdue bill of entries/ customs certified invoices with the concerned authorized dealer banks against previous imports.

Box-2

M3 - A New Measure of Money Supply in Bangladesh*

Among the various measures of money supply, broad money (M2) is compiled on the basis of the data of the Bangladesh Bank, scheduled banks and Bangladesh Samabaya Bank. With a view to expanding the coverage of current money stock (M2), it has been decided to include monetary data of other deposit taking institutions as per international standard recommended by the IMF's multi-sector statistical mission. In order to compile more meaningful money stock (M3), therefore, the Bangladesh Bank included the monetary data of the non-bank depository corporations (NBDC) and national savings scheme along with the data of deposit money banks (DMBs) and Bangladesh Bank. The trends in M3 indicating about 22 to 27 percent higher money stock over M2 during the last six years reflecting a predictable relationship between them. Comparative figures of M2 as well as M3 during June 1999-March 2005 are given in the following Table.

Year-wise Absolute & Percentage Change of Money Supply M2 & M3

(In billion Tk.)

Particulars	M2	M3	Absolute Changes	% Changes
1	2	3	4 = (3-2)	5
June 1999	630.27	771.32	141.05	22.38
June 2000	747.62	921.74	174.12	23.29
June 2001	871.74	1,086.60	214.86	24.65
June 2002	986.16	1,251.26	265.10	26.88
June 2003	1,139.95	1,449.83	309.88	27.18
June 2004	1,297.74	1,650.98	353.24	27.22
March 2005	1,411.89	1,790.10	378.21	26.79
A. Net Foreign Assets	194.78	192.45	-2.33	
B. Net Domestic Assets (1 + 2)	1,217.11	1,597.65	380.54	
1. Domestic Credit (a + b)	1,371.94	1,776.25	404.31	
a. Claims on Public Sector (i + ii)	306.35	664.85	358.50	
i. Claims on Govt. (Net)	215.77	575.05	359.28	
ii. Claims on Other Public Sector	90.58	89.80	-0.78	
b. Claims on Private Sector	1,065.59	1,111.40	45.81	
2. Net Other Assets	-154.83	-178.60	-23.77	
Broad Money (A+B)	1,411.89	1,790.10	378.21	26.79
A. Currency Outside Banks	176.00	175.99	-0.01	
B. Total Deposits (1+2+3)	1,235.89	1,254.88	18.99	
1. Other Deposits with BB	1.46	1.13	-0.33	
2. Demand & Time Deposits of DMB	1,234.43	1,220.18	-14.25	
3. Term Deposits of NBDC	---	33.57	33.57	
C. National Savings Scheme	---	359.23	359.23	
Broad Money (A+B+C)	1,411.89	1,790.10	378.21	26.79

*This box has been prepared by Md. Abdul Maleque Mian, General Manager and Muhammad Ali, Joint Director, Statistics Department of Bangladesh Bank.

Box-3

Factoring - A New Product for the Financial Sector of Bangladesh*

Factoring is a mode of financing receivables arising out of supply of goods or delivery of services on credit. In brief, factoring is offered through a contract between 'the supplier' and 'the factor' where (i) the supplier/seller assigns receivables to the factor, (ii) the seller gives notice of assignment of receivables in writing to the debtors and (iii) the factor performs at least two of the following services: (a) financing by way of prepayments against invoices, (b) sales ledger maintenance, (c) collections of receivables and (d) credit protection against bad debts. Factoring assists SMEs through ensuring consistent cash flow, lower administration costs, reduced credit risks and more time for core activities. It allows high-risk suppliers to transfer their credit risk to their high quality buyers.

International factoring is an alternative mechanism of letters of credit and being introduced into more and more countries where both exporters and importers are getting more advantages from international factoring than letter of credit and moving away from the use of latter. International factoring assists exporters to improve their competitiveness. By offering open account trading terms while at the same time being protected by a factoring contract for the risks associated with selling to distant and perhaps little known importers, exporters have the best of two worlds: importer friendly trading terms and a well managed and protected cash flow position. The factoring industry is gaining popularity around the world. World domestic factoring stands at a volume of some 713 billion, while international factoring volume figure is estimated at 48 billion. Asia is not also far behind in introducing this financial product. A stronger growth has been seen in some of Asia's buoyant economies like China, Taiwan and India. Factoring turnover of selected Asian countries are given below:

Factoring Turnover of Selected Asian Countries (1999-2003)

(In Million Euros)

	1999		2000		2001		2002		2003		Compound Annual Growth Rate (CAGR)	
Country	Domestic	International	Domestic	International	Domestic	International	Domestic	International	Domestic	International	Domestic	International
China	14	17	180	32	1147	91	1900	370	2400	240	180	70
Hong Kong	1300	500	1600	800	1800	900	2000	1050	2000	1250	9	20
India	250	7	450	20	650	40	1200	90	1,500	115	43	75
Japan	54,627	720	57,358	1115	60752	814	49,775	605	60,000	550	2	-5
Malaysia	800	5	570	15	819	23	594	16	690	28	-3	41
Singapore	1500	470	1800	300	2100	380	2200	400	2060	375	7	-4
Sri Lanka	60	2	95	4	110	5	100	10	94	8	9	32
Taiwan	1150	940	2100	1550	3180	1980	6060	2500	11,700	4300	59	36
Thailand	1000	10	1260	8	1215		25	25	2400	25	7	20

Source: World Factoring Yearbook

Two financial institutions namely Industrial Development Leasing Company (IDLC) of Bangladesh Ltd. and International Leasing & Financial Services Limited (ILFSL) started domestic factoring in Bangladesh. IDLC started factoring in 1998 and ILFSL in 2005. The outstanding portfolio of IDLC was TK. 64 million at the end of 2004 whereas that of ILFS was TK 3.5 million at the same time. Recently South Asia Enterprise Development Facility (SEDF) has initiated a project named Domestic Factoring Project with the active guidance of Bangladesh Bank. Bangladesh Bank has formed a consultative committee and a working committee and both committees have started work in this regard.

* This box has been prepared by Dr. Prashanta K. Banarjee, Associate Professor, BIBM.