

## Box-1

### Interest Rate Spreads in Bangladesh<sup>1/</sup>

The weighted average lending rates in Bangladesh are usually high, though they have fallen from 13.98 percent at the beginning of 2000 to 11.01 percent at the end of June 2004 for all banks. For NCBs this rate was 13.69 percent at the beginning of 2000 which came down to 9.76 percent at the end of June 2004. The same for the PCBs was 14.91 percent at the beginning of 2000 which came down to 12.51 percent at the end of June 2004. For FCBs it was 13.15 percent at the beginning of 2000 which declined to 11.64 percent at the end of June 2004.

The weighted average deposit rate for all banks at the beginning of 2000 was 7.26 percent which came down to 5.65 percent at the end of June 2004. This rate for NCBs was 7.69 percent at the beginning of 2000, which came down to 4.88 percent at the end of June 2004. The same for PCBs was 6.49 percent at the beginning of 2000 which marginally increased to 6.66 percent at the end of June 2004. For the FCBs this was 5.58 and 4.42 percent respectively during the same period.

Likewise lending rates, the interest rate spreads in Bangladesh are also relatively high. Because of various pragmatic measures taken by the authorities, however, they are showing declining trends in recent times. The spread for all banks came down to 5.36 percent in June 2004 from 6.60 percent in December 2002. Similar declining trends in spreads were also observed for each category of banks i.e., NCBs, PCBs, FCBs and DFIs during FY 03-FY 04.

Our neighboring countries, such as Sri Lanka, Pakistan and India are pretty successful in lowering the spreads. The interest rate spreads in Sri Lanka, Pakistan and India were 3.68 percent, 6.63 percent and 4.50 percent respectively in 2003 as compared to 4.70 percent, 9.52 percent and 4.75 percent respectively in 2002.

#### Probable causes of high lending rate:

- Weak competition in banking sector;
- Large amount of non performing loans (NPLs);
- Inefficient bank management;
- Tendency of banks to earn high profit;
- High operating cost, etc.

#### Possible policy recommendations:

- Efficient credit management should be pursued in banking sector;
- Effective measures should be taken to recover NPLs;
- Bank may reduce their operational cost by adopting modern banking and efficient management system;
- Restructuring of NCBs, etc.

### Summserised information on spreads of different methods

Methods	Period	NCBs	PCBs	FCBs	DFIs	All Banks
WAIR	Dec'2002	6.15	7.05	7.40	5.92	6.60
	Dec'2003	5.77	6.55	7.32	4.71	6.11
	June'2004	4.88	5.85	7.22	3.64	5.36
IRS	Dec'2003	3.93	5.47	7.84	4.37	5.06
	June'2004	2.80	5.21	6.22	9.43	4.60
BS	Dec'2003	0.66	2.72	5.25	0.37	1.87
	June'2004	0.28	3.00	4.74	0.96	1.90

Source: Statistics Department, Bangladesh Bank, Head Office.

#### Notes:

- a) Weighted Average Interest Rates Method (WAIRS): Spread=weighted average lending rates-weighted average deposit rates.
- b) Income and Expenses Method: Interest Rates Spread (IRS)= % yield on interest earning assets - % cost on interest bearing liabilities.
- c) Business Spread (BS) = % of income on total assets - % of expenses on total liabilities.

<sup>1/</sup> This box is prepared based on a recent study by Md. Abdul Maleque Mian, General Manager, Statistics Department of Bangladesh Bank.

## Box-2

### Bangladesh Bank Accounts and International Financial Reporting Standards.

Bangladesh Bank is committed to prepare its financial statements in full compliance with International Financial Reporting Standards (IFRS). In order to make its financial statements internationally compatible and to adopt disclosures and accounting policies in line with the best international practices, the Bank has adopted International Accounting Standards (IAS) with effect from 2003. As a result, the international audit firm KPMG Ford Rhodes Thornton & Co. and their local affiliated firm Rahman Rahman Huq had certified that the BB's financial statements/disclosures of FY 04 have been fully complied with IFRS without any qualification. During the year 2004 a series of comprehensive and concerted steps were taken for resolving the issues and qualifications raised by the auditors in FY 03. These measures are as follows:

- The bank has obtained a guarantee from the Government in respect of the performing, non-performing loans and accrued interest owing by the Bangladesh K rishi Bank and Rajshahi K rishi Unnayan Bank.
- The bank has discounted its rescheduled loans in accordance with IFRS resulting in a charge of Taka 4,909 million. In future, if the loans are repaid and interest rates remain unchanged this discount will be brought to income account.
- In accordance with the IFRS guideline, provisions were made against problem loans and bad assets, which had been in the books of the bank for many years. Some problem loans and bad assets were written off.
- The bank, has now adopted a policy of using one set of exchange rate for revaluation of foreign assets and liabilities based on the previous day's New York closing rate.
- Employees' provident funds were separated from the bank's account.
- An actuarial valuation of the bank's pension and gratuity liabilities was performed and for the first time provision has been made for identified liabilities in equal installment over five years.
- The non-interest bearing Treasury Bills and interest free discount amount of Treasury Bills have been reclassified as interest earning.
- Preparation of a cash flow statement as per IFRS guideline.
- The accounts of the subsidiary have been consolidated with Bangladesh Bank as per requirement of IFRS.
- Reconciliation between control ledger and subsidiary ledger has been introduced.
- Reconciliation between inter branch accounts is now up-dated.
- The bank has revalued its fixed assets (property, plant & equipment) as per IFRS requirement.
- For the first time bank has exhibited its disclosures as per requirement of IAS 32.

Bangladesh Bank is currently implementing a program to strengthen the Accounts and Budgeting Department by recruiting a Chartered Accountant and training of the staff.

### Accounts and financial result of Bangladesh Bank

(In billion Taka)

	FY 02 <sup>1</sup>	FY 03 <sup>1</sup>	FY 04 <sup>2</sup>
<b>Financial statement</b>			
Total asset	336.65	366.09	410.88
Liabilities	315.89	339.38	374.61
Equity	20.76	26.71	36.27
<b>Income statement</b>			
Foreign source	2.70	2.99	3.30
Domestic source	9.37	8.95	6.10
Revaluation gain	1.15	5.31	11.60
Total income	13.22	17.25	21.00
<b>Expenditure</b>			
Financial cost	1.79	1.40	1.41
Administrative cost	1.83	2.15	3.80
Provision	0.10	0.10	6.40
Total expenditure	3.72	3.65	11.61
Net profit	9.50	13.60	9.39
Transferred to reserve fund	1.77	5.95	1.53
Transferred to Govt. exchequer	7.73	7.65	7.86

1. These accounts were qualified and not fully in compliance with IAS. 2. Fully complied with IFRS.