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Box-1

Chronology of Major Policy Announcements: July 2004 - January 2005	
Policy Announcements	
<u>1. Money Market Development</u>	
July 2004	Government of the People's Republic of Bangladesh introduced 11 percent interest bearing 5-year Pensioner Savings Certificate. The retired person of the government, semi-government, autonomous and semi-autonomous bodies who have completed at least 20 years of service or whose age is minimum 55 years is eligible to purchase this certificate in a single name.
July 2004	Banks are required to keep with Bangladesh Bank cash reserve requirement daily at the rate of 4 percent of their average deposit liabilities on two-week basis provided that the amount of cash reserve would not be less than 3 percent in any day effective from August 1, 2004. The interest rates on savings certificate of different maturities have been refixed from July 17, 2004. The interest rates on 5 -year Bangladesh Savings Certificate, 3-year Savings Certificate, 3-year Post Office Savings Bank Account and Post Office Savings Bank Account (general account) have been refixed at 10.50 percent, 10.00 percent 9.50 percent and 7.50 percent respectively.
August 2004	All the unpaid and the recoverable claims (including the defaulted agricultural credit) extended by the nationalized commercial and agricultural banks to the affected areas before the occurrence of flood of 2004 would be rescheduled for one year. In implementing the decision, the terms for down payment would be relaxed for the loan defaulters.
September 2004	The Government of the People's Republic of Bangladesh has introduced a new Bond namely the Bangladesh Government Islamic Investment Bond (Islamic Bond) in accordance with the rules of Islamic Shariah on September 2, 2004 (sale started from October 14, 2004). As per the rules, Bangladeshi institutions and individuals who will agree to share profit or loss in accordance with Islamic Shariah, may buy this Bond. Any non-resident Bangladeshi will also be eligible to buy the Bond.
October 2004	Banks are directed to prepare financial statement on accrual basis keeping proper provision against accrued interest on their deposits.
November 2004	Two focus groups have been formed for preparation of prudential regulations/guidelines for small enterprise financing and consumer financing.
December 2004	The maximum limits of investment on 5-Year Bangladesh Savings Certificate, 3-Year Savings Certificate and Post Office Savings Bank Account (fixed and general account) have been refixed at Tk. 25,00,000 and Tk. 50,00,000 respectively both for single and joint names. But in case of Pensioner Savings Certificate this limit has been refixed at Tk. 25,00,000 for single name only.
<u>2. Financial Sector Development</u>	
November 2004	The financial institutions could maintain Cash Reserve Requirement (CRR) on an average of 2.50 percent (daily) on two-week basis, but it should not be less than 2.00 percent in any day.
December 2004	Bad loan can be written-off on case-to-case basis before filing of case in the court subject to prior approval of Bangladesh Bank effective from December 29, 2004.
<u>3. External Sector Development</u>	
July 2004	Cash incentives for export of fresh vegetable, agro-processing products and fruits would be 30 percent instead of 25 percent effective from July 1, 2004.
August 2004	Non-packer exporters would get cash incentives at 10 percent in case of export of frozen shrimp and other fish for retail packing.

Box-2

Credit Information Bureau (CIB): Functions and Usefulness

Background

In the backdrop of huge non-performing loan of the banking sector of the country during the decade of 1980s a full-fledged Credit Information Bureau (CIB) was setup in August 18, 1992 in Bangladesh Bank under Financial Sector Reform Programme (FSRP) of the World Bank. To improve credit risk the database of the CIB consists of detailed credit information supplied by lending institutions. In respect of individual borrowers, owners and guarantors the main objective of the CIB is to identify the loan defaulter by facilitating the banks with credit reports of the loan applicants so that the credit risk facing the lending institutions are minimized while extending any lending or rescheduling facility. Banks are required to submit data on outstanding loan of Taka one crore and above on monthly basis, and outstanding amount of Taka fifty thousand and above but below one crore on quarterly basis. Financial institutions, however, submit data on outstanding loan of Taka fifty thousand and above on half yearly basis.

Recent Developments

The CIB has started collecting separate information on consumer credit effective from June 2004 and also information on classified A/C of credit card of Taka 10 thousand and above effective from September 2004. The write-off loan has been segregated from 'bad/loss' loan effective from June 2004 and is reflected in the CIB report separately. Some summary information relating to CIB are mentioned below:

Summary Statistics of CIB Activities

(In million Taka)

Particulars	FY01	FY02	FY03	FY04	FY04				FY05
					Q ₁	Q ₂	Q ₃	Q ₄	Q ₁
a. Total no. of reporting banks	49	50	49	49	49	49	49	49	49
b. Total no. of borrowers ¹ (in '000')	160.5	177.1	186.1	199.1	191.1	195.2	200.6	199.1	328.3
c. Total no. of classified borrowers ² (in '000')	-	-	-	60.8	-	72.7	72.8	60.8	64.5
Total no. of classified borrowers as % of total no. of borrowers	-	-	-	30.5	-	37.2	36.3	30.5	19.6
d. Total outstanding amount ³ (in billion Tk.)	566.6	624.2	724.0	823.7	749.8	785.2	802.5	823.7	830.8
e. Total classified amount ⁴ (in billion Tk.)	189.7	196.8	207.4	192.0	208.4	210.3	215.3	192.0	168.0
Total classified amount as % of total outstanding	33.5	31.5	28.6	23.3	27.8	26.8	26.8	23.3	20.2
f. Total bad & loss write-off amount (in billion Tk.)	-	-	-	36.9	-	-	-	36.9	63.2

Source: Credit Information Bureau (CIB), Bangladesh Bank.

Notes:

1. Includes bad & loss write-off (BLW), if any.
2. Includes classified amount as substandard (SS), doubtful (DF) and bad/loss (BL) in commercial/consumer credit (including credit card).
3. Information on consumer credit as well as credit card has been incorporated with effect from June & September 2004 respectively and also outstanding amount excludes BLW.
4. Includes SS/DF/BL in commercial/consumer credit including credit card but excludes BLW.

Explanations:

- Total classified amount is the total outstanding amount of the classified accounts.
- Borrowers having classified account are treated as defaulters.
- Figures in this table may change subject to the corrections received from the banks

Box-3

Refinance Scheme for Small Enterprises

One of the major constraints facing the development of small and medium enterprise (SME) sector in Bangladesh is the lack of access to finance and its high cost. To address the problem, among other initiatives, Bangladesh Bank has introduced a refinance scheme of Tk. 1 billion to provide credit facilities to small entrepreneurs for establishing new enterprises as well as rehabilitation and expansion of existing enterprises in the country with effect from 2 May 2004. The World bank also provided US\$ 10 million to Bangladesh Bank under the 'Enterprise Growth and Bank Modernization Project' and it is expected that the Asian Development Bank (ADB) is likely to provide US\$ 30 million under 'Small and Medium Enterprise Sector Development Programme'-a project between ADB and Government of Bangladesh. All these fund will be pulled together to support the financing programme of small entrepreneurs under the above scheme. Banks and financial institutions (PFIs) will be provided with 100% refinance facility under following terms and conditions:

1. Banks and financial institutions will be given refinance against disbursement of both working capital and term loans to the small enterprises having fixed assets not exceeding Taka ten million; the amount for an individual borrower shall range from Taka 2 lac to Taka 50 lac and will be applicable for the advances sanctioned/disbursed after the date of introduction of the scheme.
2. Banks and financial institutions will have to enter into a participation agreement with Bangladesh Bank to avail refinance facilities under the scheme.
3. Banks and financial institutions will apply their own interest rates on the loans made to the borrowers but Bangladesh Bank will charge Bank Rate to the lender banks and financial institutions.
4. Refinance will be given for short-term working capital, medium and long-term loans with maximum maturity period for one year, three years and five years respectively.
5. PFIs will repay as per schedule fixed by Bangladesh Bank. In case any PFIs fails to repay as per repayment schedule Bangladesh Bank shall realize the overdue installment amount (if any) including accrued interest by debiting the current account of concerned financial institution maintained with Bangladesh Bank.
6. Banks and financial institutions having more than 10% classified loans on their small loans portfolio covering up to Taka 5 million will not be eligible for refinance under the scheme.

Banks and financial institutions showed very positive response and the progress made in carrying out the programme appears to be encouraging and already 10 banks and 12 financial institutions have signed participation agreement with Bangladesh Bank upto end December 2004. Six banks and eight financial institutions have availed of refinance facilities amounting to Taka 1010.28 million upto end January 2005 against their lending to 1952 entrepreneurs of which Taka 773.02 million have been provided from Bangladesh Bank and the rest Taka 237.26 million from the IDA fund (Table-1)

Refinance Provided to Banks and Financial Institutes under the Scheme (upto end January 2005)

(In million Taka)

Banks & Financial Institutes	Amount Refinanced				No. of Beneficiary Enterprises
	Working Capital	Mid Term	Long Term	Total	
Banks*	84.54	608.39	5.40	698.33	1667
Financial Institutes**	17.06	160.15	134.74	311.95	285
Total	101.60	768.54	140.14	1010.28	1952

Source : Agricultural Credit and Special Programmes Department (ACSPD), Bangladesh Bank.

* Includes National Credit and Commerce Bank Ltd., Jamuna Bank Ltd., National Bank Ltd., One Bank Ltd., The Premier Bank Ltd. And BRAC Bank Ltd.

** Includes Uttara Finance & Investment Ltd., Prime Finance & Investment Ltd., Midas Financing Ltd., Fidelity Assets & Securities Company Ltd., IDLC of Bangladesh Ltd., Phoenix Leasing Co. Ltd., United Leasing Co. Ltd., Vanik Bangladesh Ltd.