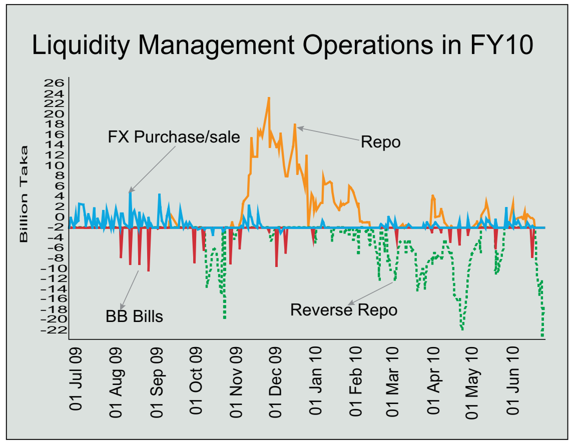
Money and Credit

Stance of Monetary and Credit Policies

4.1 The main features of the economic landscape of Bangladesh in FY10 can be described as weakening export demand caused by belated pace of global recovery; slowdown in new investment mainly because of energy shortages; and resulted large liquidity overhang cumulated from slow utilisation of growing inflows of remittances. Monetary programme for FY10 has been chalked out accordingly, based on real GDP target of 5.5 to 6.0 percent and inflation ceiling of 6.5 percent. Monetary policy was designed to support government's policies and programs to meet the expectation for sustainable recovery in export and new investment growth momentum and of faster inclusive economic growth. In pursuit of these goals, growth supportive stances were maintained in both fiscal and monetary policies, with warier eye over inflationary pressures.

As a result, export improved steadily, though it took up to Q4 of FY10 to enter into a positive territory from the negative growth rates of initial months. Industrial term loans and opening of import LC for capital machinery took off by Q3, but growth in actual import of capital goods remained slow from power and gas supply outages. Output growth performance in the agriculture sector in Bangladesh was robust in FY10, with climatic conditions favourable on the whole, and with strong hands on support from agriculture ministry and government ensuring timely access to adequate inputs and financing.

Chart 4.1



High growth in foreign assets at the expense of slower growth of domestic assets characterised monetary development in H1 FY10 caused a surge in huge excess balance. Interbank call money rates plunged to near zero levels in Q1 FY10. To engage with the market towards limiting the liquidity growth, BB resumed auction of BB bills, and from October 09 resumed reverse repo auctions after lowering the repo and reverse repo rates by 200 basis points to 4.5 and 2.5 percent respectively, levels closer to the then current call money rates. Liquidity in the domestic money market came down to near normal level by Q2 with pick up in private sector credit and in opening of LCs for import of capital goods. Interbank call money rate exceeded 4.0 percent, from the near zero levels at the beginning of FY10. But the demand pressure in the domestic money market remained moderate with actual fund outflows for imports languished mainly because of power supply scarcity. On the other hand, inflows from expatriate workers, and negative bank borrowing by the government with higher revenue alongside external financing receipts kept adding to market liquidity (FY10 closed with excess cash reserves of banks with BB at Tk.60.2 billion).

To compensate loss in external demand by creating more domestic demand, monetary policy stance for FY10, therefore, would continue to add priority to unhindered flow of credit to the productive sectors. In compliance with the policy stance, BB's monetary policy operations in FY10 remained light fingered rather than heavy handed, so as not to impede pick up in output, exports and new investment activities.

Increase in workers' remittance inflows and slow outflows for imports resulted in swelling BOP current account surplus. The consequent appreciation pressure on Taka was checked by BB with continuous purchases of foreign exchange inflows from the market (net purchase of USD 2.1 billion) to retain Taka on a slight undervaluation bias for export competitiveness. Liquidity injection through foreign exchange purchase was only partly sterilized by liquidity management operations, thus, not to hinder hoist in output, exports and new investment activities. Chart 4.1 plots BB's liquidity management operations during FY10.

BB's monetary policy stance was to accord priority to credit support for creation and expansion of output capacity rather for stoking of demand pressure. Thus, credit to private sector has grown strongly along with decline in government's bank borrowing making room for credit to this sector somewhat higher than the programmed level growth in FY10, but with no correspondingly strong pick up in manufacturing output activities or with import growth. Higher non food inflation in rural areas

Table 4.1 Money and credit situation

(billion Taka)

	End June 09	End June 10	
	Actual	Programme	Actual
1. Net foreign assets	474.6	607.2	670.7
	(+27.2)	(+27.9)	(+41.3)
2. Net domestic assets (a+b)	2489.0	2815.7	2957.5
	(+17.8)	(+13.1)	(+18.8)
a) Domestic credit (i+ii)	2818.2	3258.1	3313.3
	(+15.9)	(+15.6)	(+17.6)
i) Credit to public sector [1/]	638.9	714.9	605.7
	(+20.3)	(+11.9)	(-5.2)
ii) Credit to private sector	2179.3	2543.2	2707.6
	(+14.6)	(+16.7)	(+24.2)
b) Other items (net)	-329.2	-442.4	-355.8
3. Narrow money (i+ii)	662.9	-	877.8
	(+12.0)		(+32.4)
i) Currency outside banks	360.5	-	461.6
	(+10.3)		(+28.0)
ii) Demand deposits [2/]	302.4	-	416.2
	(+14.0)		(+37.7)
4.Time deposits	2300.7	-	2750.4
	(+21.4)		(+19.5)
5. Broad money (1+2)or(3+4)	2963.6	3422.9	3628.2
	(+19.2)	(+15.5)	(+22.4)

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.
NOTE: Discrepancies may arise after decimal point due to rounding of figures.

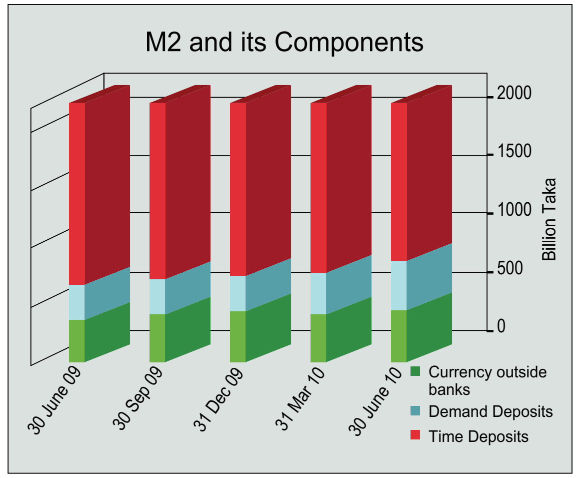
in FY10 may be indicative of some diversion from the strongly promoted agricultural and SME credit into acquisition of consumer goods; urban private sector borrowings may likewise have been used partly for consumer goods or for speculative investments in capital markets and real estates. As precautionary measures against these various current and likely future pressures on consumer prices, BB has put in place intensified surveillance on capital market activities of banks and restrictions were imposed on bank lending for land purchase and on any land acquisition by banks, in the overheated state of the real estates market; and lately has also raised the CRR and SLR for scheduled banks by one half percentage point of their demand and time liabilities from mid May 2010.

4.2 The policy stance for FY10 was designed around a 6.0 percent real GDP growth in a scenario of 6.5 percent annual average CPI inflation. Accordingly broad money (M2) growth was programmed at 15.5 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 FY10 was 22.4 percent, which was higher than 19.2 percent growth in FY09 and 15.5 percent growth targeted under the programme for the year. The accelerated growth in broad money (M2) was mainly due to higher growth in net foreign assets (NFA). The growth in NFA stood at 41.3 percent, higher than the programme of 27.9 percent in FY10 and 27.2 percent growth in FY09. Inflows from workers' remittances and slow outflows for import resulted in enlargement in surpluses in current account balance of BOP that led to record growth in NFA. The growth in NDA stood at 18.8 percent as against programmed 13.1 percent during FY10 consequent by a rise in growth of private sector credit by 24.2 percent. However, credit to public sector registered a 5.2 percent negative growth due to downside revision of ADP and better revenue collection and a consequent decline in government's bank borrowing. Government's negative bank borrowing, however, made room for higher than programmed growth of credit to the private sector. Overall, domestic credit growth was 17.6 percent, higher than the projection of 15.6 percent and the actual growth of 15.9 percent during FY09.

4.3 Driven by trends in external prices, particularly those of neighboring countries, CPI inflation maintained upward trend from Q2 FY10, with point to point food price inflation at double digit levels by Q3 despite satisfactory domestic food grain output. Both food and non food 12-month point to point CPI inflation have been easing down slowly from March 2010, but both point to point and the 12-month average

Chart 4.2



CPI inflation crept up to 8.70 and 7.31 percent in June 2010, exceeding the earlier projected 6.50 percent level for end FY10 (June 2010). Movements of M2 and its components over FY10 may be seen at Chart 4.2.

Reserve Money Developments

4.4 During FY10, 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.

4.5 In line with the projected broad money growth, the monetary programme set a 7.0 percent growth of RM for FY10 against which it grew by 18.1 percent. The larger than projected growth of RM during the year was contributed by the substantially higher growth in net international reserve. Growth of net domestic assets, however, was negative due to negative growth in domestic credit. Domestic credit growth was negative because of government's higher repayment of credit from the banking sector and huge government borrowing from the non-bank sources particularly from the national savings schemes.

An analysis of the behaviour of the liability side of the central bank balance sheet shows that a significant increase in currency issued by BB mainly resulted in a remarkable increase in reserve money that BB maintained to keep domestic credit condition easy in a recessionary global environment and to lubricate the path to investment and economic activities.

4.6 Because of lower growth in reserve money compared to broad money, money multiplier increased to 4.89 in FY10 as compared to the actual number of 4.72 in FY09. This outcome is mainly because of fall in reserve-deposit ratio to 0.09 from 0.11 of FY09 level. Currency-deposit ratio, on the other hand, increased to 0.15 from FY09 level of 0.14 and kept money multiplier from further growing. Consequence of change in both these ratio have been reflected in the growth in money multiplier. Movement of domestic credit and its components in FY10 may be seen at Chart 4.3. Actual development of M2 and RM against their respective programme path is shown in Chart 4.4.

Income Velocity of Money

4.7 The income velocity of money decreased from 2.07 in FY09 to 1.90 in FY10 (Table 4.3). The rate of decline in FY10 was 8.21 percent, as against a decline of 5.48 percent, 1.79 percent and 3.04 percent decline in FY09, FY08 and FY07 respectively. Income velocity of money was on a declining trend over the past several years indicating increased monetisation and financial deepening in the economy. Movement of GDP growth, M2 growth, inflation and income velocity of money during FY99-FY10 are shown in Chart 4.5.

Bank Credit

4.8 Outstanding bank credit (excluding foreign bills and inter-bank items) during FY10 rose by Taka 523.16 billion or 23.16 percent to Taka

Table 4.2 Reserve money position

(billion Taka)

	End June 09	End June 10	
	Actual	Programme	Actual
1. Net International Reserve 1/@	365.5 (+32.7)	496.7 (+35.9)	547.8 (+49.9)
Net International Reserve2/@	349.6 (+25.8)	482.2 (37.9)	536.0 (+53.3)
2. Net domestic assets1/	261.9 (+30.9)	174.6 (-33.3)	193.5 (-26.1)
Net domestic assets2/	277.8 (+40.7)	189.1 (-31.9)	205.3 (-26.1)
a) Domestic Credit	332.1 (+6.2)	222.8 (-32.9)	252.2 (-24.1)
i) Credit to the public sector 3/	271.1 (+10.2)	161.8 (-40.3)	193.7 (-28.5)
ii) Credit to deposit money banks 4/	61.0 (-8.7)	61.0 (+0.0)	58.5 (-4.1)
b) Other items (net)	-70.2	-48.2	-58.7
3. Reserve money (i+ii) or (1+2)	627.4 (+31.9)	671.4 (+7.0)	741.3 (+18.1)
i) Currency issued	394.5 (+10.7)	482.5 (+22.3)	504.7 (+27.9)
ii) Deposits of banks with the Bangladesh Bank 5/@	233.0 (+95.6)	188.9 (-18.9)	236.6 (+1.6)
4. Money Multiplier (M2/RM)	4.72	5.10	4.89

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, 09 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.

Table 4.3 Income velocity of money

(billion Taka)

Year	GDP at current market prices (billion Taka)	Broad money (M2) (billion Taka, end June position)	Income velocity of money (GDP/M2)
FY06	4157.3	1806.2	2.30 (-6.12)
FY07	4724.8	2114.4	2.23 (-3.04)
FY08	5458.2	2486.9	2.19 (-1.79)
FY09	6148.0[r]	2963.6	2.07 (-5.48)
FY10	6923.8[r]	3628.2	1.91 (-7.73)

Figures in the parentheses indicate percentage changes.
r=revised.

2782.50 billion as against an increase of 14.90 percent in FY09. The rise in the bank credit during FY10 were driven by the increase both in advances and bills purchased and discounted.

Advances increased by Taka 499.63 billion or 23.32 percent, as against an increase of 16.99 percent during FY09. Bills purchased and discounted increased by Taka 23.53 billion or 20.09 percent in FY10 as compared to a decrease of 13.39 percent in FY09. This higher growth in bank advances may be attributed to increase in business activities due to the recent recovery of global financial crisis. 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 and restricted deposits) increased by Taka 582.23 billion or 20.90 percent to Taka 3368.46 billion during FY10 against 20.26 percent increase in FY09. The rise in total bank deposits was shared by increase in demand deposits, time deposits and government deposits. Time deposits increased by Taka 449.7 billion or 19.55 percent and stood at Taka 2750.43 billion in FY10 against growth of 21.42 percent during FY09. Demand deposits increased by Taka 113.85 billion or 37.65 percent in FY10 to Taka 416.22 billion against 14.02 percent increase in FY09. Government deposits increased by Taka 18.68 billion or 10.20 percent to Taka 201.81 billion in FY10, against 16.78 percent increase of FY09. Quarterly position of bank deposits in FY10 may be seen at Table 4.5.

Credit/Deposit Ratio

4.10 The credit/deposit ratio of the scheduled banks, excluding the specialised banks was 0.83 at the end of June 10 and was 0.81 at end of June 2009.

Chart 4.3

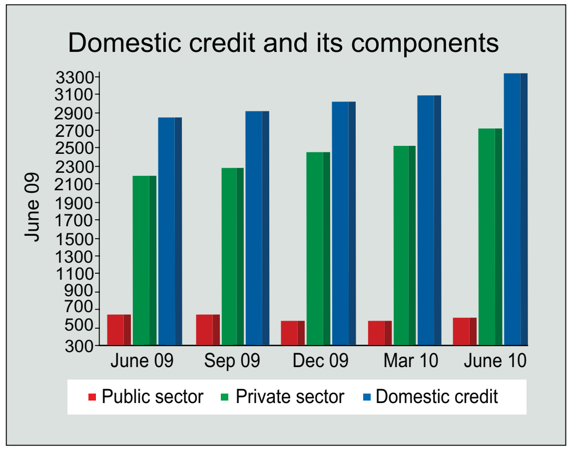


Chart 4.4

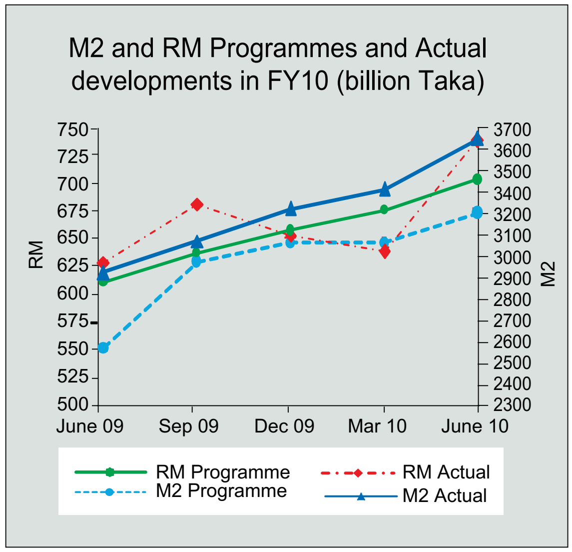


Table 4.4 Bank Credit*-FY10 quarterly positions

(billion Taka)

Outstanding as of	Advances	Bills	Total
30 June 09	2142.19 (94.81)	117.15 (5.19)	2259.34
30 Sep 09	2233.03 (94.99)	117.83 (5.01)	2350.86
31 Dec 09	2401.65 (94.89)	129.45 (5.11)	2531.10
31 Mar 10	2466.08 (94.78)	135.89 (5.22)	2601.97
30 June 10	2641.82 (94.94)	140.68 (5.06)	2782.50

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

Box 4.1

'Changes in Monetary Policy of BB and its impact on Bangladesh economy'

Since inception of the Financial Sector Reform Programme (FSRP) in 1990 Bangladesh Bank's policy stance has been shifted from a regime of direct control towards indirect control in monetary management. Bangladesh Bank (BB), as a central bank, pursues monetary policy through its monetary policy framework identifying a logical and sequential set of action. Within the framework, monetary policy aims to support highest sustainable output growth along with reasonable price stability and smooth adjustments to internal and external shocks faced by the economy. With this end in view Bangladesh Bank prepares annually as well as quarterly 'Money and Credit programme and Reserve money programme'. Since 90s indirect policy tools are being used to achieve monetary policy objectives and targets. As the time passes on, many changes in monetary policy are observed. However, some noticeable changes can be traced since 1990 in formulating monetary policy which are given below:

- The situation began to change in the 1990s with the abolition of directed lending and gradual liberalisation of interest rates.
- In addition to the traditional instruments like bank rate, SLR, CRR etc. BB introduced its own security 91-day BB bill in 1990 and later on 30-day BB bill; and started to use modern monetary tools like REPO and reverse REPO in FY03 to achieve monetary policy objectives.
- Since 31 May 2003 BB has been pursuing full floating exchange rate system under which the exchange rate of Taka is determined on the demand-supply basis. However, BB can participate in the foreign exchange market to protect exchange rate from the seasonal volatility mostly generated by excess market pressure.
- Before 2006, Monetary policies were published through BB's annual report and BB used to prepare 'Money and Credit programme and Reserve money programme' annually for its official use only. However, since the beginning of 2006 BB has been announcing half yearly monetary policy statement (MPS) to anchor inflation expectations of economic agents and the general public.
- Now a days, the stakeholders' views are also taken into consideration following intensive physical consultations with them to prepare MPS and copies of the same are distributed to them. Since July 2009 (the eighth number) MPS is made available in printed form.
- Government debt management and monetary management have been separated in 2007. Now the Yearly as well as quarterly auction calendars of government credit are announced before the start of the fiscal year and the auctions of government bonds & bills now only perform the task of debt management.
- In preparing annual Money and Credit programme, real GDP growth rate and inflation rate were taken as assumed value (exogenous) before 2006; while real GDP growth rate and inflation rate now are not taken as axioms; rather BB sometimes projects these variables considering national and global macroeconomic variables and that are being used in preparing monetary programme.
- Basically, BB always formulates growth supportive monetary policy, let it be contractionary, expansionary or accommodative in line with the prevailing macroeconomic fundamentals; the change is that BB is now more closely watching the banks' activities than before so that the banks' lending /investment is on track.
- The comparative picture of BB's monetary programme and actual developments are now given in the daily set of 'Key Monetary Indicators' for the perusal of Monetary Authority and to take decision accordingly.
- Since July 2009, BB intends to include more people under the umbrella of financial system with a view to strengthening financial deepening and broadening financial inclusion. Under this consideration, BB instructed the banks to allow farmers opening savings account with only taka 10.
- Much more emphasis has been given to strengthen lending in Agriculture, SME, environmentally sustainable projects such as bio-gas and solar energy; and also in new power plant establishment than before.
- So, monetary policy and programme are now more transparent, open, pro-people and inclusive.

Box 4.1

'Changes in Monetary Policy of BB and its impact on Bangladesh economy' *(contd.)*

The impact of monetary policy could not be seen directly i.e. in a one to one basis. Monetary policy helps promote economic growth along with the consistent fiscal policy.

However, the growth performance and inflation situation of the economy since the change in monetary policy and its strategic management are fairly appreciable. During the last decade (FY00-FY09) Bangladesh experienced a growth of GDP at a rate of 5.83% on an average and the inflation rate ranged 1.94%-7.20% (except 9.94% in FY08 due to pre-crisis price boom in the international market). Even, in the face of recent world crisis, Bangladesh successfully remained closer to its growth trend in FY10. Inflation has also remained under control. On the backdrop of global economic slowdown, BB tried to boost up internal demand to help promote the economic growth by easing the credit condition and channeling of adequate credit to sectors not well served by the market. Consequently, output growth has not been affected much. Though industry and service sectors grew at a rate slightly lower than previous years' growth rates, agriculture sector maintained a robust growth due to pursuance of prudent monetary policy e.g., supplying adequate credit for cultivation, raw materials and insecticides, strong monitoring etc.

In order to arrest the rising tendency of inflation observed at the fourth quarter of FY10, BB has taken some effective measures (raise banks' reserves, policy rates) which along with supportive fiscal measures have played direct role in decreasing credit supply in the relatively unproductive sectors thereby reducing inflationary pressure. However, there is a relative long lag (9-15 months) between money growth and inflation as seen in different studies. Point to point inflation has already started falling. Average inflation also seems to ease in near term period.

There is always a gap between the potential growth and actual growth. This gap could be minimised through a sound and healthy financial system. All measures taken up in the monetary policy are thus likely to act as building block in establishing sound and healthy financial system.

Scheduled Banks' Borrowing from the BB

4.11 Scheduled banks' borrowings from the Bangladesh Bank decreased by Taka 2.2 billion or 3.61 percent to Taka 58.52 billion at the end of June 2010, against 8.71 percent declined during FY 09.

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

4.12 Balances of scheduled banks with the BB decreased by Taka 6.45 billion or 2.24 percent to Taka 294.18 billion at the end of June 2010, against the increase of 72.17 percent to Taka 287.73 billion at the end of June 2009. Cash in tills of scheduled banks increased to Taka 43.08 billion as of June 2010 against Taka 34.00 billion as of end June 2009.

Table 4.5 Bank deposits*- FY10 quarterly positions

(billion Taka)

Balances as of	Demand deposits	Time deposits	Govt. deposits	Total deposits
30 June 09	302.37	2300.73	183.13	2786.23
30 Sep 09	303.60	2406.67	169.41	2879.68
31 Dec 09	337.77	2528.32	176.41	3042.50
31 Mar 10	359.35	2600.00	187.75	3147.10
30 June 10	416.22	2750.43	201.81	3368.46

*Excluding interbank and restricted deposits.

Table 4.6 weighted average interest rates of scheduled banks

Items	As of end June (in %)					
	FY05	FY06	FY07	FY08	FY09	FY10
Deposit rate	5.6	6.7	6.9	7.0	7.0	6.0
Advance rate	10.9	12.1	12.8	12.3	11.9	11.2
Spread	5.3	5.4	5.9	5.3	4.9	5.2

Cash Reserve Requirement (CRR)

4.13 The Cash Reserve Requirement (CRR) for the scheduled banks with the Bangladesh Bank has been fixed at 5.50 percent of their total demand and time liabilities with effect from 15 May 2010. It may be noted that banks are required to maintain CRR daily at the rate of 5.50 percent on average on bi-weekly basis provided that the CRR would not be less than 5.00 percent in any single day with effect from 15 May 2010.

Statutory Liquidity Ratio (SLR)

4.14 The Statutory Liquidity Ratio (SLR) for the scheduled banks, except banks operating under the Islamic Shariah and the specialised banks has been re-fixed at 18.50 percent of their total demand and time liabilities, excluding inter bank items with effect from 15 May 2010.The SLR for the Islamic banks re-fixed at 10.50 percent with effect from 15 May 2010 percent. The specialised banks continued to remain exempt from maintaining the SLR.

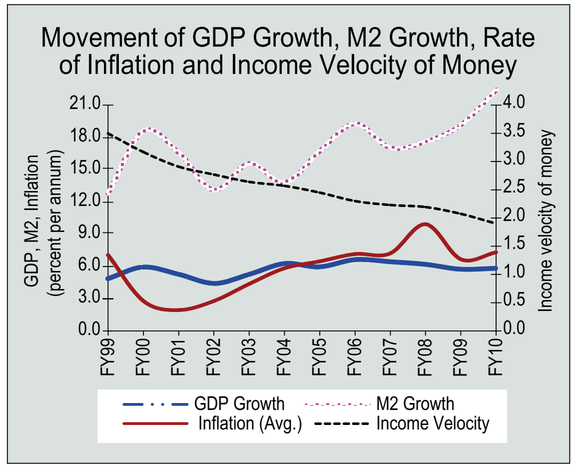
Bank rate

4.15 The bank rate remained unchanged at 5.0 percent in FY10. 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 FY05 to FY10. It is evident from the Table that weighted average interest rate on deposits was increasing throughout FY05-FY08 then remain unchanged at FY08 level in FY09, thereafter declined to 6.0 percent in FY10. Rate of advance, however, moved upward during FY05 to FY07 but continued to fall during FY08-FY10 and reached 11.2 percent in FY10. The spread between advance and deposit rates was increasing throughout FY05 to FY07, and then declined in two successive years. It started to increase again when it reached to 5.2 in FY10 due to lower decrease in lending rate as compared to deposit rate.

Chart 4.5



Changes in Monetary and Credit Regulations

The major policy measures taken in monetary and credit fronts in FY10 were as follows:

- The target for disbursement of agricultural /rural credit has been fixed at Taka 115.0 billion in Agricultural/Rural Credit Guidelines and Programme for FY10 and the amount is the highest so far. This credit allocation will not be limited for food grains and crops only rather adequate allocation has been made for fisheries and livestock, agri-supporting sectors as well as for income generating and poverty reduction activities in rural areas;
- A directive has been given to the banks for giving fresh agri-loan facilities for rehabilitation of agriculture sector in cyclone 'Aila' affected areas. Agricultural credit realisation has been postponed for one year for the affected farmers by the

cyclone 'Aila'. Side by side banks will strengthen their monitoring so that affected farmers could get credit at the fastest time and without any hazard;

- A scheme titled 'Solar Energy, Bio-gas and Effluent Treatment Plant (ETP) Refinance Scheme' has been created by BB primarily by Taka 2.0 billion revolving fund in order to facilitate banks to provide loan to Solar Energy, Bio-gas and Effluent Treatment Plant sector with a view to encouraging use of solar energy and alternative environment friendly fuel and to mitigate deficiency of electricity and gas and for the interest of protecting public health and keeping natural balance;
- In order to ensure trenchancy in banking practice and to protect the interest of the depositors, banks are advised to operate merchant banking activities by constituting separate legal entity i.e., subsidiary company;
- The default loan/lease of the customer of the export oriented industries especially of frozen food, leather and leather products, jute and jute products, textile (including spinning) and readymade garments industries affected by the global economic recession may be re-scheduled on the basis of FI-customer relationship without required down payment up to 30 June 2010;
- It has been decided that from now the re-financing facility which is provided by Bangladesh Bank will not only be applicable for schedule banks but also for the financial institutions of the country subject to the financing under the Refinancing Scheme over the Solar Energy, the Bio-gas and the Effluent Treatment Plant sectors;
- To ensure balanced industrial development and for easy access of small & medium industrial entrepreneurs to the institutional loans the "Refinancing scheme for small entrepreneur" is run by the Bangladesh Bank. The lower limit of loan under the scheme is fixed at Taka 50,000;
- Guideline on 'Risk Based Capital Adequacy (RBCA) for Banks' (Revised regulatory capital framework in line with Basel II) was introduced. Special timetable for all scheduled banks regarding regulatory Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR) has been announced;
- A comprehensive guidelines detailing new directions for SME financing has been published for the banks and financial institutions. The new policy guidelines "Small and Medium Enterprise (SME) Credit Policy and Programmes-2010" introduced some new approach in SME financing in the financial sector. These include:
  - Self determined target for SME sector lending by the banks and financial institutions.
  - Area approach in SME lending.
  - Cluster development initiatives by banks and financial institutions.
  - Tri-level monitoring system for SME lending in the banking sector.
  - Community/Social guarantee and group guarantee as collateral.
  - Entrepreneurship development initiatives by banking sector with greater emphasis on financial literacy and training.
  - Greater access to information on financing for the entrepreneurs.
  - Incentives for the banking sector performance in the SME financing programme;