



Bangladesh Bank: Comparative Scenarios of Financial Inclusion and Other Changes (2002-05 vs. 2009-12)

2012

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Bangladesh economy has weathered the global economic crisis of 2008-2009 very well when other emerging economies along with the developed world were in deep trouble facing volatility in their economies. This has been possible mainly because of the strategic move of widespread financial inclusion initiatives. These initiatives have not only paid positive dividends of multi-dimensional macroeconomic stability but also enhanced opportunities of much desired inclusive growth. The world faced another round of economic crisis in FY2011 and FY2012 creating challenges to maintain global economic stability. The government of Bangladesh's long-term vision aimed at achieving sustainable growth by keeping the effect of world economic instability at a minimal level to see a prosperous, resourceful and developed Bangladesh through faster alleviation of poverty and human resources development was indeed well anchored. Considering these development the government took a number of initiatives during the last four years (2009-2012) to build a skilled, technologically advanced and dynamic banking sector along with making the central bank participatory with a humane face, modern technology based and pro social welfare oriented.

02. Despite the global economic crisis, Bangladesh economy has not only managed to sustain sound and resilient but also developed a strong base with many far-reaching activities and appropriate policy responses during the last four years. Major indicators of macro economy namely GDP, import-export, remittance inflows and foreign exchange reserves showed substantial upward trend. Inflation is also in a declining trend due to prudent monetary policy stance of Bangladesh Bank.

- Annual real GDP growth of 5.74%, 6.07%, 6.71% and 6.32% respectively have been recorded for the last four fiscal years (2009-2012). Average GDP growth rate over the last four years (2009-2012) has been 6.21%, which is 0.74% higher than that of previous four fiscal years (2002-2005). A 7.2% GDP growth rate has been targeted for the current fiscal year 2012-13, which, of course, may not be feasible. Yet the growth rate will remain robust and one of the best in the region.
- The amount of remittance inflows during last four fiscal years are 9.69, 10.99, 11.65 and 12.84 billion US dollar respectively, averaging 11.29 billion dollars during 2009-2012. In sum, the remittance inflows was three and a half times higher than that of the previous four fiscal years. As of November 2012, 6.11 billion US dollar has been received in the current fiscal year. The country recorded 14.2 billion US dollars of remittance in the calendar year 2012.

- Foreign exchange reserves increased at the end of fiscal year 2009-10, 2010-11 and 2011-12 to 10.75, 10.91, 10.36 billion US dollar respectively from only 2.93 billion US dollar at the end of FY 2004-05. In October 2012, the foreign exchange reserves surpassed the country's history for the first time by crossing over 12 billion dollar reaching 12.70 billion on December 23, 2012 recording an increase of more than 400 percent. The present reserve (12.51 billion US dollars) is adequate to pay-off four and a half months of import payments. Different types of incentives provided from Bangladesh Bank and stable Taka-dollar exchange rate have been contributing towards this success.
- Total export earnings during the last four fiscal years increased by 2.79 times to approximately 79 billion US dollar with an average of 20 billion dollar per year. A total of 10.13 billion dollar export earnings has been recorded during the first five months of current fiscal year with a growth rate of 4.36 percent.
- Import payments also witnessed strong growth during the last four years. As compared to the previous four years, total import payments in the latest four years increased by about three-folds to 115.35 billion US dollar with a yearly average of 28.84 billion US dollar. Import payment in first four months of current fiscal year stood at 10.97 billion US dollar, which is 6.75% less than that in the same period of previous year. This may have been due to the global economic slow down and poor infrastructure development particularly in the energy sector.
- The rates of annual average CPI inflation were 6.66%, 7.31%, 8.80% and 10.62% respectively at the end of last four fiscal years. The rates of point-to-point inflation, on the other hand, were 2.25%, 8.70%, 10.17% and 8.56% respectively during the same period. Currently, inflation is at a comfortable single digit level. At the end of last November, average annual and point-to-point CPI inflation were 8.98% and 7.41% respectively. The figures further eased in December, the yearly average headline CPI inflation decreased to 7.43% in December 2012 from 7.86% of preceding month.

03. Banking sector of Bangladesh is in a healthy state as well. Capital adequacy ratio related BASEL-II has been implemented fully. Actual risk based capital of all banks was 11.31% in 30 June 2012 and 10.85% in 30 September 2012 as against required level of 10% as described in BASEL-II. Banks are preparing to adopt and implement the BASEL-III principles in near future. The capital base of the banking sector has been tremendously expanded during last four years. This has been possible due to the transfer of a sizeable portion of banks' profits into capital. As a result, the base of banking system has become much stronger. Up to 2008, banks were following BASEL-I principles in keeping risk based capital reserve resulting in reserve capital of Tk. 20,578 crore by the end of 2008. During the last four years, on the other hand, likewise the required capital, the reserve capital of banks, has increased to Tk. 56,201 crore as per BASEL-II requirements resulting in an increase of to Tk.35,623 crore or 173% capital.

Classified loan in the banking sector declined to 7.17% in June 2012 from 13.60% on 30 December 2005, which increased to 8.75% in September 2012. Currently, liquidity and exchange rate in the interbank money and foreign exchange markets are in stable condition. Differences in deposit growth and lending growth have been lowering lately. Loan-deposit ratio is currently 77.66% (08 November). Weighted average exchange rate is now Tk. 79.60/US dollar.

04. The high growth rate alone is not sufficient for economic development, growth needs to be poverty-friendly and sustainable. In addition to its mandated duties, Bangladesh Bank is providing necessary supports to government's poverty alleviation drive so that the benefits of growth can reach to the larger bottom portion of country's population pyramid. Bangladesh Bank is also working to bring financial services for the un-banked people i.e., to accelerate financial inclusion activities by ensuring sufficient and visible credit facility to agricultural, SME, environment friendly and productive sectors of the economy. Loan facility has been increased significantly in agriculture and SME sectors. Appropriate loan policies for agriculture and SME have been adopted by Bangladesh Bank. Those who did not have access to finance like extreme poor, landless, sharecroppers, marginal farmers, poor women, small businessmen, women entrepreneur and the deprived from financial services are now able to get bank loans and financial services.

- Disbursement of agricultural credit stood respectively at Tk. 9284 crore, Tk. 11117 crore, Tk. 12184 crore and Tk. 13137 crore during the last four fiscal years. Total agricultural credit disbursement increased by three time during the last four years than that of previous four years. In the current fiscal year, the disbursement up to November 2012 is Tk. 4,562 crore as against the yearly target of Tk. 14,130 crore, which is almost 32% of the target.
- An innovative re-financing scheme of Tk. 500 crore has been initiated for the first time for the neglected sharecroppers who have hardly any formal access to finance. By now, about 4,81,000 sharecroppers have received Tk. 577 crore under this scheme. Since the inception of the project in 2009, the sharecropper who have received agriculture credit for the first time are truly getting substantial benefits reflecting positive impact on their living standard. There are a significant number of women farmers among the sharecropper borrowers as well.
- Concessional credit disbursement (with 6% subsidy on interest rate) for import dependent crops like pulse, oil-seed, spices, etc., and maize was approximately Tk. 71 crore and Tk. 82 crore for last two fiscal years respectively reflecting a reasonable stability in the prices of those commodities.
- As of October 2012, Tk. 83.84 crore was disbursed through 24 banks/financial institutions under environment friendly refinance scheme of Tk. 200 core, which was

initiated in FY2009-10. Of this 43 percent was for solar panels and 31 percent for bio-gas plants.

- With a view to creating employment and empowering women, BB initiated a special SME credit program disbursing Tk. 53,544 crore and Tk. 53,719 crore respectively in 2010 and 2011. As of September 2012, Tk. 49,604 crore was disbursed against the yearly target of Tk. 59,012 crore, which is about 84 percent of the target.
- Since half of the population of the country are women, with a view to ensuring women participation in mainstream development and creating opportunities for women entrepreneurs, Bangladesh Bank reserved a certain portion of low interest agriculture and SME credit facilities for them. Bangladesh Bank believes that development of SME sector will ultimately develop the women entrepreneurships. That is why BB allocated 15% of the SME sector refinance fund for women entrepreneur only. By now, Tk. 447 crore has been financed to 6,365 women entrepreneurs under this refinance scheme.
- ‘Cluster Approach’ has been introduced so that SME credit can be targeted to a particular region with vantage points. As many as 20-25 clusters have been identified for disbursement of such credit.

05. Opportunities are given to the farmers and hard-core poor to open a bank account at Tk. 10 (12 cents) only as a part of financial services inclusion drive of Bangladesh Bank. Total number of such accounts opened by the banks stood at about 13.1 million of which approximately 9.6 million accounts have been opened for the farmers and the rest for the beneficiaries under various social safety net programs and for the school students.

- Over the last four years, about 1,218 new bank branches were opened, out of which 253 are exclusively agriculture/SME branches.
- Special emphasis has been given on opening rural bank branches in order to bring the people of the rural areas under banking/financial services (50% of the branches must be rural branch).
- In order to facilitate the collection of foreign remittances, BB has given approval to open 62 foreign exchange houses including 258 drawing arrangements throughout the world.
- A specialized bank named ‘Probashi Kallyan Bank’ has also been established for the overall welfare of the expatriates and for the people aspiring to go abroad. BB has also given approval to establish 3 new NRB banks and 6 new commercial banks to further deepening of financial services.

- In order to achieve pro-poor economic growth, BB has taken various initiatives to establish a stable financial sector through introduction of an innovative financial services system. BB has put special emphasis on CSR activities with a view to expanding humane dimension of financial services. BB has given directives to banks to expand financial allocations and services in various fields like education, health, nutrition, sports, disaster management, renewable energy, women development, people with disabilities, freedom fighters and their families, poor and helpless people facing climate change disasters, under CSR. In the meantime, banks have expanded their CSR activities allocating about Tk. 41 crore, Tk. 55 crore, Tk. 233 crore and Tk. 233 crore respectively for such activities during last four years. Up to June 2012, banks have allocated about Tk. 101 crore in this sector.

All these activities have already created positive impacts on rural economy through increasing agricultural production and employment opportunities and mitigating rural poverty resulting in qualitative change in the overall living standard of rural people.

06. BB, as the regulator of financial sector, has emerged as a lead organization in the country in implementing the government's vision of establishing '**Digital Bangladesh**' during the last four years. BB is firmly committed to transform the banking sector the country into a full-digitalized sector. In order to provide financial services with highest efficiency and skill, BB has undertaken a 5 (five) year strategic plan (2010-14) to develop a modern technology based banking/financial sector. Almost 85 software including Net-working, ERP, banking application, enterprise data warehouse, open data initiatives, web-site and intranet development, e-tendering, e-recruitment have already been activated in order to build up a 'Digital Bangladesh Bank' through ensuring modern information-technology. A new software 'goAML' is being launched to accelerate the activities in preventing international terrorism financing and money laundering. In addition, the banking sector of the country is adopting all these IT based activities very fast. Meanwhile, on-line banking, on-line CIB services, E-commerce, on-line payment gateway have already been introduced. Bangladesh Automated Clearing House and Bangladesh Electronic Fund Transfer Net-work have been established in order to modernize payment system. Activities of introducing national payment switch are also going on very swiftly. Mobile banking service is also introduced with a view to providing financial services to the people of remote areas of the country. Under this innovative service, remittance is transferred to the recipients swiftly coming from home and abroad. It is noteworthy to mention that about 15 lacs people already opened mobile banking account and it is increasing day by day. Money from urban areas is transferring to the rural areas through this mechanism creating positive impact on the rural economy. As a result of such technology-based initiatives, banking sector's services, pace and skill have been consolidated. Apart from this, BB is going join to the paper less banking system soon.

07. With a view to maintaining economic stability along with price stability, a series of initiatives have been taken to keep prudential regulations consistent with the best international practices, to strengthen regulatory infrastructure, to issue guidelines on risk management and stress testing, to establish Financial Stability Department in Bangladesh Bank, to publish financial stability report, to prepare for the implementation of financial projection model, to establish Deposit Insurance Department and to bring strategic changes in supervision to fight systematic risk in banking sector. Besides, Bangladesh Bank has established a Customer Interest Protection Centre in its Head Office and all branch offices to resolve complaints on banking services followed by creating a Financial Integrity and Customer Services Department. BB has arranged road-show program from Teknaaf to Tetulia in 2010 in order to create public awareness in agricultural credit, SME financing and money laundering prevention and to encourage people in sending remittance through banking channel. Road-show has also been arranged abroad in order to boost up investment in various bond introduced for expatriates and to increase foreign remittance inflows.

08. Bangladesh has achieved sovereign credit ratings of BB- and Ba3 in 2010 respectively by two international credit rating agencies namely, Standard & Poor's (S & P) and Moody's exclusive evaluation regardless of the worldwide recession. Bangladesh has been able to keep that credit rating unchanged in 2011 and 2012 even though the rating has been lowered in many rich countries of the world. According to the report of Standard and Poor's (S & P) published on the May 31 2012, Bangladesh's position is just below India in South Asia. Turkey, Philippines, Indonesia and Vietnam hold the equal status as Bangladesh. On the other hand, according to the latest report of Moody's, maintaining the credit rating unchanged indicates the well managed economy and stable banking sector in Bangladesh when other countries bear same credit rating with per capita income more than five times higher than that of Bangladesh. Financing in foreign trade, reducing risk in transaction, obtaining capital for development easily, enhancing confidence of local and foreign investors and a favorable environment for foreign direct investment has created in Bangladesh due to the well maintained credit rating of the country.

Bangladesh Bank has taken various developmental initiatives in last four years intending to take the country towards achieving an inclusive and environmental friendly sustainable economic growth, keeping the innovative efforts of large population free from regulation and ensuring its utilization, implementing the strategic planning to include the underprivileged population in financial services. Benefits of all these activities already started to show-up.

Bangladesh Bank: Comparative scenarios of financial inclusion and changes

Sl.	Activities	2002-05	2009-12	Comments
1.	GDP Growth (average)	5.47	6.21	Despite global recession due to global financial crisis of 2008-09, the average GDP growth was 0.74 percentage points higher in 2009-12 than that of 2002-05 period.
2.	Total Foreign Remittance (bill \$)	12.78	45.17	Total foreign remittances increased more than 300 percent (353%) in the last four years relative to previous four years.
	Average Foreign Remittance (bill \$)	3.20	11.29	
3.	Total Foreign Reserves (bill \$)	2.93	12.70 (23.12.12)	As of 23 December 2012, total foreign reserves increased by 4.33 folds to \$ 12.70 billion from only \$ 2.93 billion of end FY2004-05. The current level of foreign reserves is equivalent to 4 months of import payments.
4.	Total Export Earnings (bill \$)	28.32	78.98	Total export earnings increased by 2.79 times.
	Average Export Earnings (bill \$)	7.08	19.75	
5.	Total Import Payments (bill \$)	42.25	115.35	Total import payments increased by 2.73 times.
	Average Import Payments (bill \$)	10.56	28.84	
6.	Implementation of Basel Rules/ Principles	Basel-I implemented	Implantation of Basel-II started in 2010 and completely implemented in 2011.	Preparation of implementing capital adequacy related Basel-III is also underway.
7.	Capital Adequacy of Banking Sector (Tk. in crore)	20,578 (Dec. 2008)	56,201 (Jun. 2012)	During the last four years, capital base of the banking sector increased by 173 % or Tk. 35,623 crore.
8.	Classified Loans in Banks (in %)	13.60 (Dec. 2005)	7.17 (Jun. 2012)	Percent of classified loans in banks declined to 7.17 in June and 8.75 in September 2012 from 13.60 in end December 2005.
9.	Total Agricultural Credit Disbursements (Tk. in crore)	15,239	45,723	Total credit disbursements in the later four years increased by 3-folds relative to the amount disbursed in the
	Average Agricultural Credit Disbursements (Tk. in crore)	3,810	11,431	

				previous four years. As of November 2012, total agricultural credit disbursements stood at Tk. 4,562 crore, which is 32 percent of the targeted amount of Tk. 14,130 crore for the whole year.
10.	Number of farmers under special credit line of Tk. 500 crore for sharecroppers	No such credit line existed	4,81,00	This special credit line for the sharecroppers, which started in 2009 for the first time, indeed, benefitted them by uplifting their living standard. A large number loan recipients are women.
	Amount disbursed loans (Tk. in crore)		577	
11.	Amount of disbursed loan for import dependent crops at rebated interest rate	No such loan facility was existed	153	The indicated amount was disbursed during the last two years (FY10-11 and FY11-12) stabilizing the domestic market prices of those goods.
12.	The number of no-frill Bank account for farmers	No such program was existed	95,86,990	This 10-Taka bank account for the poor farmers brought a huge number of people under banking services through huge financial inclusion in the country.
13.	The number of bank accounts under social safety nets.		34,13,233	
14.	The number of bank accounts under school banking		67,220	
15.	Amount financed (Tk. crore) under the environmental friendly refinance scheme of Tk. 200 crore.	No such scheme was existed	83.84	As of October 2012, the indicated amount (Tk. 83.84 crore) was disbursed through 24 banks/financial institutions, which started in FY2009-10. Of which 43 was for solar panels and 31 percent for bio-gas plants.
16.	SME loan disbursements (Tk. in crore)	-	1,07,263	With a view to creating employment and empower women, BB initiated a special credit program disbursing Tk. 53,544 crore and Tk. 53,719 crore respectively in 2010 and 2011. As of September 2012, Tk. 49,604 crore was disbursed against the yearly target of Tk. 59,012 crore, which is about 84 percent of the target.

17.	Number of women entrepreneurs under SME refinance scheme	-	6,365	Given the importance of women entrepreneurs development, 15 percent of the total SME fund is allocated for women entrepreneurs only.
	Amount financed under the scheme (Tk. in crore)		447	
18.	Number of new bank branches	121	1,218	With this new 1,218 bank branches total branches stood currently at 8118.
	Agriculture/SME branches	No permission was given to open such branch	253	
19.	Number of drawing arrangements	119	258	The number of total active drawing arrangements between the foreign exchange houses and local banks stood at 920 including the newly approved 258 arrangements during the last four years.
20.	Number of foreign exchange houses opened	Not permitted	62	During the last four years, twenty-three banks got approval of opening 62 exchanges, of which 26 exchanges are already in operations.
21.	Amount spent (Tk. in crore) under Corporate Social Responsibility (CSR)	-	551 (2008-12)	CSR activities are included in the main banking activities. Amount spent under CSR activities increased by 5-folds to Tk. 222 crore in 2011 from only Tk. 41 crore in 2008.
22.	Customer services improvements	No specific structure	Established a Customer Interest Protection Center (CIPC) benefiting customer by registering their complaints through a toll-free hot number (16236) and an e-mail (bb.cipc@bb.org.bd).	As a result, many complaints are settling everyday contributing significantly in improving banking services.
23.	Green Banking	No specific structure	A specific policy guideline for Green Banking has been formulated. Bangladesh Bank has set-up the largest	In line with the international steps, BB has issued Green/environment friendly banking related circular on 27 February 2011. Green banking not only affects

			solar panel of the country on its roof-top generating sufficient energy to light all the security lamps of the main building.	production, business and other financial activities but also help protect from natural calamities.
24.	Digitalization of Bangladesh Bank	The implementation process was slow, although the Central Banking Strengthening Project (CBSP) was started in 2003.	About 85 software related to Networking, Enterprise Resource Planning (ERP), Banking Applications, Enterprise Data Warehouse, Open Data Initiative, E-tendering and E-recruitment have been implemented.	Bangladesh Bank emerged as an IT based lead organization in the country.
25.	Digitalization of banking sector	No such significant development	Banking sector is being digitalized through the implementation of online banking, online CIB services, automated payment systems, E-commerce, mobile banking, online payment gateway, etc.	Bangladesh Bank has been working for last four years to establish a completely IT based banking system in the country. Various IT based initiatives of BB have been helping to move towards the paperless green banking.
26.	Mobile Banking	No steps was taken	Twenty-three banks were given permission for mobile banking, of which 14 banks already started their mobile banking serving more than 15 lacs people.	This has been done to provide banking services to the un-banked rural population.
27.	CIB services	Based on manual service delivery system	Online CIB services activated.	Online CIB services has been started on 19 July 2011 saving time and cost for the customer and banks to generate online CIB reports from their own desks.

28.	'goAML' software implementation	-	With the assistance of the World Bank 'goAML' software has been procured in the Financial Intelligence Unit of Bangladesh Bank with a view to combating international terrorist financing and money laundering.	This software would help in detecting and analyzing suspicious transaction report (STR) and cash transaction report (CTR).
29.	National Payment Switch	-	National Payment Switch has started its operation.	National Payment Switch would be working as a common platform for combining privately established about 3000 ATMs and 2500 POS switches. It would ensure faster, secure and reliable financial electronic transactions.
30.	Introduction of Stress Testing System	-	Stress Testing System has been introduced to verify the risk taking capacity of banks and NBFIs.	Following the BB's guidelines for Tress Testing, now banks/FIs are capable of pursuing Stress Testing on their own on quarterly basis.
31.	Publishing Financial Stability Report	-	Two reports for 2010 and 2011 have already been published.	This report focuses on the capacity of the financial sector of Bangladesh in facing internal and external risks.
32.	Uses of Financial Projection Model (FPM)	-	Necessary preparation has already been made to implement the proper uses of the model.	This model would be very useful in detecting risks and taking necessary steps through Scenario Analysis.
33.	Amount (Tk. in crore) of Equity and Entrepreneurship Fund (EEF)	246	253	During 2009-12, an amount of Tk. 1,441 crore has been approved for 806 agricultural and 30 IT based projects, against which Tk. 253 crore has already been disbursed for 206 agricultural and 12 IT based projects.

34.	Disbursement under IPFF Project	No such project has taken	451	An amount of Tk. 451 crore has already been financed for 7 small power plants and one water purification & supply project based on public private partnership under the on-lending component of IPFF project.
35.	Attainment of Sovereign Ratings	-	Bangladesh achieved BB- and Ba3 sovereign ratings from S&P and Moody's respectively.	Two international credit rating agencies like S&P and Moody's rated Bangladesh as BB- and Ba3 respectively for the last three years reflecting very stable economic, financial and banking sector of the country.