



IFIC BANK LIMITED
HR Development & Training Institute
Head Office, Dhaka

Special Interview

Innovative products to help us stay ahead: Abdullah

IFIC Bank MD shares his views on the banking scenario with The Independent



Mohammad Abdullah

International Finance Investment and Commerce Bank Ltd (IFIC Bank), after having over 30 years of banking experience, is now working on introducing innovative banking products and technologies to stay ahead of its peers. The bank plans to introduce mobile banking with unlimited number of payment facilities, credit cards, debit cards, liability products, and to develop a major ATM network and multiple delivery software. The bank's managing director, Mohammad Abdullah, tells the story of the bank in an exclusive interview with The Independent, narrating how under his stewardship, a first-generation bank graduated to a sophisticated modern bank. Abdullah said the country has enormous opportunity for mobile banking, as only 13 per cent, or about two crore of the 15 crore people of the country, have bank accounts. "About 4.8 crore mobile users, who don't have bank accounts, could easily be brought into the banking network, by introducing mobile banking," Abdullah said. He said the bank is working on introducing innovative liability products, since the country's existing banks, which have innumerable asset-based products, do not have many of them. The banking sector, which closely works with the corporate sector, does not see enough links between the big biz sector and the small and medium enterprises (SMEs), he said. "The bank is seriously working on developing links between the SMEs and the corporate sector, aiming to bring more and more business into banking, especially the variety that does not have collateral support," he added. IFIC Bank was incorporated in 1976, as a joint venture between the government of Bangladesh and sponsors in the private sector, with the objectives of working as a finance company within the country and setting up joint venture banks/financial institutions overseas. In 1983, when the government allowed the private sector to open banks, IFIC was converted into a full-fledged commercial bank. The government now holds a 32.75 per cent stake in the bank. Directors and sponsors, with vast experiences in trade and commerce, own an 8.62 per cent stake and the rest are held by the public.

Excerpt:**What are the new products or services that your bank plans to introduce?**

Mohammad Abdullah: As you know, innovation and marketing of new products is a continuous process for a banking institution. To meet the changing demands of various segments of customers of our bank, we have introduced various products, both on the liability and asset sides. Development of new liability products for the small savers and depositors is on the top of the agenda.

Financing to the SME sector is gaining importance in our country. However, financing in this sector is quite risky because of the absence of borrowers' track records. Big industry and corporate outfits depend on SMEs for their value addition. So, if the SMEs could be integrated with the corporate sector as a backward linkage, financing risk in the SME sector could be minimised. In a country like ours, we can kill two evils – poverty and unemployment – by tapping the employment potential of the SMEs. So, we are focusing on developing products for the SME sector, keeping in mind its integration with the corporate sector. E-banking is another area where a variety of new products and services can be offered. Our ATM penetration ratio is still quite low and we have chalked out a plan to expand our ATM network more aggressively. Our recently launched products include More Money, Protimash, School Savings Plan – A Plus, and Millionaire Dream Plan.

What is the overall performance of your bank?

The overall performance of a bank can be measured by balance sheet, and/or achievement of objectives set for a particular period. The year 2011 experienced adverse market situation and turmoil and volatility in the capital market. As a result, unpredictability and uncertainty prevailed throughout the year.

However, we have successfully managed liquidity risk and interest rate risk through prudent asset-liability management. We have achieved approximately 34 per cent growth, both in deposit and credit portfolios. To improve the overall performance of the bank, we focused on capacity building in organisational structure, introduction of simplified business process and human resource development. Accordingly, the organogram of our bank was restructured to introduce multiple distribution channels for delivery of multiple products for diversified business models. Large-scale adoption of technology has pushed our banking to a higher level of sophistication.

Business process has been simplified through our robust Misys Core Banking technology platform, so that branches can concentrate on business mobilization and on providing better customer service. All our branches are under Real Time Online Banking network.

What are the targets for the current and next years?

First, we are aiming to strengthen our capital base, so that we can meet the regulatory requirements and also create necessary cushion for expansion of our business. Our next target is human resource development. A blue print for business-driven HR reforms has been developed. This contains an actionable and doable agenda of change to ensure accelerated growth of our bank. The blue print also includes development of new business capabilities through talent identification and grooming programmes to meet emerging requirements. We have already put in place a transparent and merit-based recruitment system for entry-level officers ensuring their proper training. We want to develop a cadre of professional bankers who will provide necessary leadership in the institution. We have also taken initiatives to increase our asset size to remain competitive in the market and secure a respectable position in the industry.

What do you think about extending the banking services to the unbanked?

This is one of the most important and interesting areas where the opportunity is enormous. The honourable Governor of Bangladesh Bank has given financial inclusion a top priority, in order to bring the unbanked population into the banking network. Mobile banking can be the most effective tool in reaching out to the unbanked population. Around 4.80 crore mobile users, who do not have bank accounts, can be brought under banking through Mobile Banking.

Introduction of Mobile Wallet with payment instruments, such as, credit cards, debit cards, bank accounts, and SVA, will create a revolution in banking in our country, where most of the population is still out of the reach of financial services. We have an optimistic forecast that in the current year, we will introduce M-banking with innovation and competence.

What about taking banking services to the villages? How many branches of your banks are located in rural areas?

A lot of progress has been made in expanding our banking network to the rural areas. We are following the directives of Bangladesh Bank under Branch Expansion Programme, and also pursuing our own goal to serve the rural people for their economic uplift. Currently, we have 29 rural branches.

What is the uniqueness of your bank?

We have a very unique ownership composition. Nowadays PPP is one of the most popular and much-talked about business models. Twenty-eight years back, IFIC Bank started its operation as a private-public partnership. Currently, the Government of Bangladesh holds a 32.74 stake in the bank and the rest is held by prominent industrialists, renowned conglomerates and highly reputed business groups of the country, and the general public. The government shareholding is represented by four directors, nominated by the government. Due to the significant government shareholding, the depositors have strong confidence in our bank. The management of the bank receives continuous support and valuable guidance from the directors who have vast experience and knowledge.

Another uniqueness of our bank is that, since inception, it has focused on setting up joint ventures abroad. We have established Bank Maldives Limited, Nepal Bangladesh Bank Limited, NDLC-IFIC Bank Limited (now NIB Bank Limited in Pakistan), and Oman International Exchange LLC.

Please narrate the CSR activities of your bank?

It is encouraging that the participation of banks, telcos and corporate houses in CSR activities is increasing day-by-day. We believe that CSR should not be limited only to donation and subscription, but it should be related with the mainstream of banking activities. Bringing the unbanked population within the formal banking network can also be treated as CSR.

Introduction of new products and services for under-served population of the country can also be a CSR activity. We are working in the area of skill development for the migrant workers who are major foreign currency earners for the country.

This year, we have introduced the IFIC Literary Award, to play an active role in the field of literature and culture.

In addition, we have also donated one Hino Bus to the students of Dhaka University, a dialysis machine to BIRDEM, and an ambulance to a hospital. Besides, we have sponsored the Fourth National Air-Gun Championship, organised by Shooting Federation of Bangladesh, and other sports activities. We have distributed winter clothes to poor people in various parts of the country.

Do you think, there is a need for new banks?

This is a debatable issue. Arguments for and against are strong. However, this is the policy decision of the regulatory authorities.

Do you think the present lending rates are too high for growth of industry? How can we reduce it?

You will agree with us that there is a co-relation between the interest rates on deposit and lending. I think that the present high rates of interest are a temporary phenomenon due to volatility of various economic indicators of the country.

Appropriate adjustment in lending rates will be made with the passage of time for ensuring sustainable growth of our economy. At IFIC, we are trying to adjust the loan pricing in a responsible manner.

What are the qualities required to be a successful banker?

Innovativeness, strong caliber and vision, coupled with professionalism, highest integrity and proven competence, are required to become a successful banker.

What are the measures you are taking to reduce non-performing loans in your bank?

To reduce non-performing loans, we have to consider two things: stock issue and flow issue. The stock portion of our total NPL (classified and written off) can be reduced through follow up, legal measures and expeditious

disposal of court cases.

And the flow issue of NPL can be controlled through improvement of asset quality. As you know, as per Bangladesh Bank guidelines, we have implemented the Credit Risk Management Policy Guidelines and, accordingly, new sanctions are given using various risk parameters and after full documentation formalities have been maintained.

What kind of policy support is required for the improvement of the banking sector?

I think policy issue is not much important as Bangladesh Bank, as the central bank of the country, has provided policy guidelines in respect of capital adequacy, adoption of best international practices, risk management, corporate governance, prudential regulations and other related areas for improvement of the banking sector.

The half-yearly monetary policy review of Bangladesh Bank is also guidance for the banking sector. The most important thing is true implementation of the policy guidelines by the banks and taking the initiative of self-regulation.

The Independent: 30.01.2012

Euro ends year as worst performing currency

More than \$6.3 trillion have been wiped away from global stock markets as the impact of eurozone debt crisis reverberated across the world calling into question the strength of the mightiest currency in the world- the dollar. The capitalisation of the global stock market fell by 12.1 per cent, according to Bloomberg new agency. Euro ended the year as the worst performing major currency. There is more than euro 457 bn due to be repaid in the first quarter of 2012. Italy is the biggest defaulter. In the Middle East, Saudi Arabia, however, seems to be in most comfortable position. The Kingdom had approved a budget raising spending by one quarter in 2011 to thwart social unrest. The Saudi Arabia is expected to announce an eye-popping budget for 2012 with a huge stimulus package. The budget could be as high as \$184 billion. There will be an 11 per cent increase in Saudi Arabia's public expenditure in 2012.

Fin. Exp: 01.01.2012

Euro crisis deepens as ratings agency strikes

The eurozone economy plunged back into crisis as France and Austria were stripped of their top triple-A credit ratings and Standard and Poor's downgraded a swathe of debt-laden EU members. Only Germany escaped unscathed, as all other eurozone members were either downgraded — some by two notches — or else warned their current ratings were being re-examined amid fears about sovereign deficits. Meanwhile, talks between private banks and Greece's technocratic government on a managed write-down of Athens' debt stalled, raising the prospect of a messy default in one of the eurozone's weakest states. S&P is only one agency; rivals Moody's and Fitch have not issued the same downgrades, but the long-expected news hit the markets. As news of the report card leaked out through the day the euro plunged to a 16-month low against the dollar. The euro dived as low as \$1.2624, a level last seen in August 2010. By 2200GMT the euro had rebounded only slightly to \$1.2677 against \$1.2816 the day before. The euro also fell to 97.20 yen, the lowest level since December 2000. The US firm cut its long-term ratings on Cyprus, Italy, Portugal and Spain by two notches; Malta, Slovakia and Slovenia by one notch. Belgium, Estonia, Finland, Ireland, Luxembourg and the Netherlands all had their current ratings confirmed, but were placed on 'negative watch' — meaning they could be downgraded in due course.

New Age: 01.01.2012

Remittance tops \$12b in 2011

The remittance inflow in 2011 hit \$12.16 billion growing by 10.64 per cent compared to the previous year, with the monthly inflow of the remittance setting a new record in December despite global economic crisis. 'Bangladesh received a record \$12.16 billion remittance in 2011 calendar year with the monthly remittance hitting \$1.14 billion in December. Bangladesh Bank data showed that expatriate Bangladeshis sent home \$10.99 billion in 2010 and \$10.72 billion in 2009. This is a good sign that the country's remittance inflow grew by 10.64 per cent in 2011, but the growth was still low compared to the huge import bills that grew by around 30 per cent in last one year. Expatriates sent home more money in 2011 because of falling value of taka

against the US dollar. Despite growth in remittance and export earnings, the country's foreign exchange reserve is now hovering around \$9.60 billion, coming down from \$11.32 billion in March 2011, because of huge bill payment for fuel oil imports. The central bank data showed that the remittance earned in December 2011 was 25.92 per cent higher than November of the same year and 18.09 per cent higher than December 2009. The previous highest record for monthly remittance inflow was \$ 1,102.98 million in March 2011. The total remittance during the first half of the current fiscal year (July-December) 2011 stood at \$ 6.06 billion. In 2011, the country received remittance worth \$970.54 million in January, \$986.97 million in February, \$1,102.98 million in March, \$1,001.97 million in April, \$998.42 million in May, \$1,038.91 million in June, \$1,015.58 million in July, \$1,101.79 million in August, \$855.44 million in September, \$1,039.48 million in October, \$908.79 million in November and \$1,144.38 million in December. According to expatriate welfare and overseas employment ministry, the number of migrant workers increased was 5,43,101 in 11 and half months till December 15 in 2011 against 3,90702 in 2010.

New Age: 02.01.2012

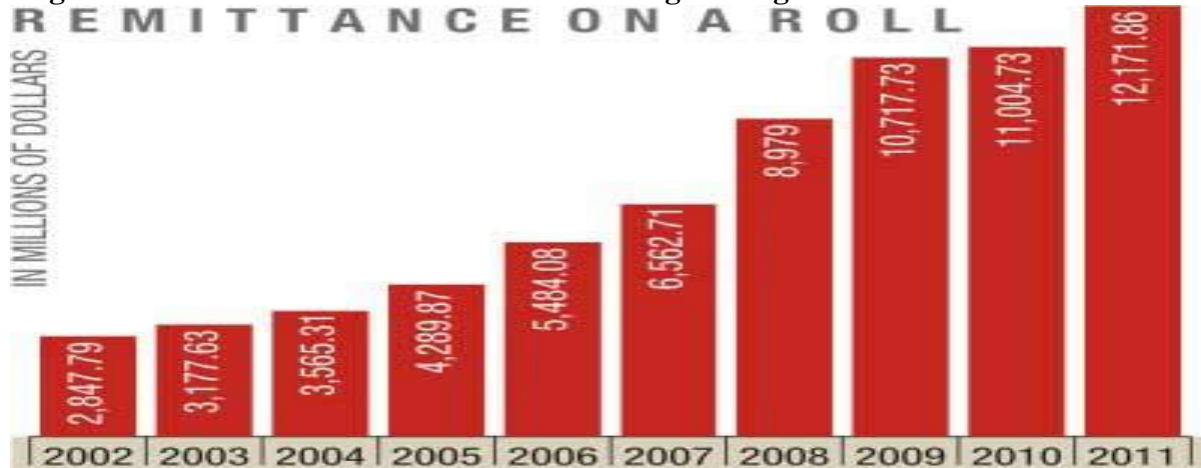
Reserve may fall below \$9b after ACU payment

The country's foreign exchange reserve is likely to tumble below \$9 billion for the first time in the past three years, with the Bangladesh Bank struggling to contain the surging import payment. The government was scheduled to pay \$746.32 million to the Asian Clearing Union as import payment within next seven days and after adjusting the ACU payment the current reserve of \$9.63 billion might fall below \$9 billion-mark. The ACU payment has to be made every two months. Bangladesh had to make an ACU payment of around \$840 million in November to meet its import liabilities to the ACU member countries including India. The country's forex reserve slipped below \$10 billion just after that ACU payment. The central bank statistics show the reserve crossed \$8-billion mark for the first time in 2009 and hit a record \$11.32 billion in March, 2011. Bangladeshi currency taka is likely to take another beating against the US dollar if the reserve falls further below the current level. The value of taka continued to slide against the US dollar for the last one year hitting Tk 82.30 a dollar. Taka devaluated by around 15 per cent in 2011. The central Bank is struggling to keep the foreign exchange reserve stable against the backdrop of the huge import payments made in the past two years. Initiatives including discouraging unnecessary and luxury imports and encouraging the inflow of remittance through official channels have already been taken but it will take some time to see the outcome of the steps. The country's overall import payments grew by nearly 22.04 per cent between July and November due mainly to a sharp increase in the fuel import cost. Import bill of fuel oil increased by 92.44 per cent during July-November period of the current fiscal year to \$2,206.27 million from that of \$1,146.47 million during the same period of the last financial year.

New Age: 02.01.2012

Remittance hits 10-year high

Migrant workers remit more to cash in on falling taka against dollar



Remittance inflows hit a decade high of \$12.17 billion in the just concluded year, offering the government a much-needed cushion against dwindling foreign exchange reserves and exchange rate volatility. Remittances grew 10 percent in 2011 from the previous year. According to data from Bangladesh Bank, remittances rose 26

percent to \$1.14 billion in December, compared to the previous month. The latest growth in remittances comes as more workers are joining the bandwagon of more than 7.6 million Bangladeshi migrants, 80 percent of whom working in the oil-rich Middle East. During 2011, the outflow of migrant workers surged 45 percent to a two-year high at 568,000 due to opening of new jobs. Between the years 2002 and 2008, remittance earnings were below \$10 billion. After 2008, the outflow of new migrants slumped due to a slowdown in demand. But it rose again last year, enabling Bangladesh to emerge as the eighth largest remittance earning country, according to a World Bank survey released last month. The growth in remittances, the second biggest foreign currency earning sector after exports, gives a much needed cushion to the government to face a rising pressure on the country's balance of payments (BoP).

Daily Star: 03.01.2012

Rupee loses ground

The rupee fell in its first session of 2012 on demand from oil importers, though losses were limited by a turnaround in domestic stocks and dollar-selling. Volumes were light in the dollar-rupee market as many investors chose to stay away for the New Year holiday. The rupee settled at 53.30/31 to the dollar, 0.4 percent down from Friday's close of 53.08/09, after dipping to 53.34 in early trade.

Daily Star: 03.01.2012

Trade deficit swells to \$5.19b in 5 months

The country's trade deficit soared by 30.69 per cent to \$5.19 billion in the first five months of the current fiscal year compared to the same period of 2010-11 financial year putting further pressure on foreign exchange reserve and value of taka. The exchange rate of taka against dollar hit a new record of Tk 83.30 in inter-bank trading, slipping almost every day since October 14 because of shortage of the greenbacks. According to a provisional data of Bangladesh Bank, the country's import payment surged to \$14.90 billion against exports worth \$9.70 billion in July-November in the current 2011-12 fiscal year. The trade gap was \$3.97 billion in July-November in 2010-11 financial year whereas the total trade gap that fiscal year was \$ 7.328 billion, a record high. Despite the fall in import of food grains in the first five months of the current fiscal year the trade gap soared mainly because of huge import of fuel oils by the government for the costly rental power plants. BB data showed that import grew by 21.65 per cent, export by 17.33 per cent while 9.28 per cent in July-November this financial year compared to the same period of the previous year. Settlement of letters of credit for import of food grains decreased by 22.63 per cent during July-November to \$3.58 billion from \$4.63 billion during the same period of the last financial year. But LC settlement for fuel import soared by 92.44 per cent to \$ 2.20 billion in the first five months of the current financial year compared to that of the corresponding period of the last FY2010-11.

New Age: 04.01.2012

BB makes money costlier for banks

The Bangladesh Bank increased the Repo rate (at which it lends money to commercial banks) and the reverse Repo rate by 50 basis points or 0.5 per cent to further decrease the money supply to the banking channels in a bid to tackle inflation. This is for the fifth time that the central bank has increased these policy rates in the past 12 months and the latest hike is seen to hit hard the money supply in the banking sector which has been reeling from a severe liquidity shortage. The BB increased the Repurchase agreement rate to 7.75 per cent from 7.25 per cent with effect from 08.01.2012 while the reverse Repo rate, which is the interest rate earned by a bank for lending money to the central bank in return for government securities, was also raised to 5.75 per cent from 5.25 per cent. The central bank has increased the Repo and reverse Repo rates to the current level from 5.5 per cent and 3.5 per cent respectively in five phases since January 2011. The IMF recently asked the BB to increase the Repo rate by 200 to 300 basis points by next June to tighten further the monetary policy, which means raising it to the range of 9-10 per cent by that time. According to the Bangladesh Bureau of Statistics, the overall inflation rate stood at 10.63 per cent in December last. The central bank in its monetary policy for the first half of the current fiscal year announced in July 2011 set a target of cutting down the private-sector credit growth to 18 per cent by June 2012 from 25.5 per cent in June 2011.

New Age: 05.01.2012

BBS to set FY '05-06 as base year for measuring inflation, GDP

Bangladesh Bureau of Statistics has decided to change the base year for measuring consumer price index and gross domestic products from current 1995-96 fiscal year to 2005-06 fiscal year with effect from April this year. The BBS also decided to expand the range of current consumer items in measuring CPI index to make it well representative of the consumer items. It will increase the number of the consumer items included in CPI for measuring the inflation in the rural areas to 318 items from 215 and that of consumer items included in CPI for urban areas to 422 items from 302 items from April. 'Inclusion of more consumer items in the CPI of both rural and urban areas will increase the coverage and make the CPI well representative of overall consumer items in measuring the inflation scenario.

New Age: 05.01.2012

BB raises policy rates



The central bank on 5th January increased its policy rates by around 50 basis points at the beginning of New Year when non-food inflation has been rising alarmingly. Food inflation always increases more than the non-food inflation. But in December, non-food inflation crossed food inflation for the first time on a point-to-point basis and reached 11.38 percent as diesel and electricity prices went up. Bangladesh Bureau of Statistics (BBS) 5th January released the inflation data for December, which shows food inflation stood at 10.40 percent. The BB increased the repo rate from 7.25 percent to 7.50 percent and hiked the reverse repo rate to 5.75 percent from 5.25 percent. The repo rate is an interest rate at which the central bank lends money to commercial banks. The reverse repo rate is the return banks earn on excess funds parked with the central bank. The central bank last year increased the policy rates four times.

Daily Star: 06.01.2012

Govt's bank borrowing in H1 stands at Tk 17,936cr

The government's bank borrowing in the first half of the current fiscal year amounted to Tk 17,936.98 crore with the government resuming bulk borrowing in the second half of December after a decrease in the first half of the month. The Bangladesh Bank data shows the government's bank borrowing in July-December was Tk 17,936.98 crore, rising from Tk 15,121.96 crore on December 27, because of meeting high import bills of fuel oils and a drastic fall in disbursement of foreign loans and grants. According to the provisional data of the central bank, the government's borrowing from the banking system rose to Tk 21,321.17 crore on December 4. The amount decreased to Tk 15,121.96 crore on December 27 after the government had repaid a considerable portion of the Tk 3,200 crore it received in licence renewal fees from four mobile phone operators in the second half of the month. The BB data shows the government had surpassed its annual bank borrowing target of Tk 18,957 crore in the first four months and seven days of the current financial year. It borrowed Tk 18,986.17 crore in July 1 to November 17 from the banking channels.

New Age: 07.01.2012

China local government debt threatens economy

Local governments across China have borrowed billions of dollars to build bridges, apartments and shopping malls, leaving many insolvent and endangering the country's financial system. While the central government

in Beijing is in good financial shape — it has a relatively small budget deficit, a huge trade surplus and the world's largest foreign exchange reserves — it is a different picture outside the capital. Local governments had borrowed 10.7 trillion yuan (\$1.7 trillion) — 27 per cent of GDP — by late 2010, according to official data, though ratings agency Moody's believes the figure is underestimated by 3.5 trillion yuan. Several provinces have since published reports showing their debt-to-GDP ratio was higher than the national figure. Moody's believes that between eight and 10 per cent of loans made by Chinese banks will never be recouped.

New Age: 08.01.2012

Banks to raise lending rates

The commercial banks are set to raise lending rates on industrial loans and import financing of eight essential food items from 8th January to help reduce the gap between their returns on credits and their cost of funds. Under the latest move, the lending rate on food items will be re-fixed at a maximum of 17 per cent, instead of the existing 12 per cent while term loans to large and medium-scale industries will be increased to a maximum of 16 per cent, in place of existing 13 per cent. On January 04 last, the central bank withdrew the cap on lending rate for all sectors and items, barring only two -- agriculture and export -- to facilitate the country's overall economic growth through boosting investment in different fields. Besides, the lending rate ceiling on import financing for eight essential food items was earlier withdrawn from the (January 4) through the latest circular relating to fixation of lending rates. The Bangladesh Bank (BB) earlier asked the commercial banks to keep the lending rate on import financing for eight essential food items at a maximum of 12 per cent to help ensure smooth supply of the items to the local market. The deposit rate reached a maximum of 13.00 per cent on fixed deposits last December while the interest rates on other savings accounts ranged between 1.00 per cent and 12 per cent, according to the central bank statistics. The banks have been providing loans to large and medium-scale industrial enterprises at lending rates ranging between 11.50 per cent and 13.00 per cent and to small industries, between 10.50 per cent and 18.00 per cent. In 1989, the BB introduced a flexible interest rate regime through issuance of a circular in line with the Financial Sector Reforms Programme (FSRP). Under the FSRP, the banks are free to charge or fix their deposit and lending rates, excepting the lending rate on export credits.

Fin. Exp: 08.01.2012

State of the economy: BoP under stress

The balance of payments (BoP) is fast emerging as the soft underbelly of the economy. It was in rather good health since 2001-02. The current account balance was positive throughout the new millennium except for a blip in 2004-05. This was certainly an unusually good outcome for a resource-poor least developed country. In particular, the country ran large current account surpluses since 2005-06 that helped to build up a substantial stock of international reserves. This gave the external value of the domestic currency a stability that was unheard of in its short history; the value of the US dollar, the principal currency in trade transactions, vis-a-vis the Bangladesh taka remained stable for nearly 5 years. Since the beginning of the last year the BoP came under some stress, and it does not seem to be relenting. The situation has worsened considerably during the last six months. International reserves have fallen markedly to less than three months' import payments. The foreign exchange market has become jittery and the taka has depreciated substantially. From a stable value of about Tk69/US\$ at the beginning of 2010-11, it is now trading at over Tk82/US\$, a depreciation of nearly 20 percent. There is a distinct prospect of further depreciation of the taka. The current account of the BoP records all current transactions including goods and services, factor incomes and current transfers. Import payments requirements of Bangladesh always exceeded export receipts such that the trade balance was always negative. During the first 5 months of 2011-12, the merchandise trade deficit has ballooned to \$5.2 billion, a 30 percent increase over the corresponding period last year. However, with the slowdown of remittances during the last 3 years, the current account surplus declined sharply from \$3.7 billion in 2008-09 to only \$0.99 billion in 2010-11. The European economic crisis and the global recession have started to impact the external sector of the country. The growth of export that had reached a dizzying height of 41.5 percent last year has fallen off sharply. The growth during the period July-November 2011 stood at 17.3 percent. The November growth rate tumbled to only 2.4 percent. The rate of decline during the last few months suggests a real possibility that the export growth for the fiscal year 2011-12 will be in a single digit. This would most likely lead to a substantial deficit in the current account. Multilateral agencies have predicted a one billion dollar deficit; but it could be larger unless remittances pick up sharply. The current account deficit need not stress the BoP if the capital

account is in sufficient surplus. However, this seems very unlikely at least this fiscal year. Negotiations with the development partners for funds have fallen on a hard rock. Allegations of corruption and denials have stifled progress on major loan commitments. As a result foreign assistance has declined precipitously. The net disbursement of aid during the first 5 months of the current fiscal year was only \$68.9 million in contrast to \$322.7 million that was received during the same period last year. The government had hoped for substantial budget support from the World Bank and BoP support from the IMF. In the recently concluded consultation with the IMF, the government seems to have come up with an empty hand. The IMF has imposed some very tough conditions for the release of funds. Other major donors who had promised funds seem to have withdrawn with a 'wait and see' attitude. It will be difficult to change their mind until the World Bank resumes funding. There is not much to be hopeful about a turnaround of the BoP in a short time. The problem arose with the excessive spending and borrowing by the government and a drying up of the foreign sources of funds. While the former reflects poor economic management the latter reflects a poor handling of foreign relations. Some tough decisions will have to be taken to move the economy out of this mire.

Fin. Exp: 08.01.2012

BB controls money supply to curb imports

The central bank has tightened money supply to discourage imports and reduce mounting pressure on forex reserves, Governor Atiur Rahman said on 7th January. Bangladesh Bank raised the repo rate, which is used to inject money into the banking system, by half a percentage point to 7.75 percent on 5th January. It was a fifth hike since March. It also increased the reverse repo rate, through which it absorbs excess cash from banks, to 5.75 percent. Also, the central bank has recently raised the LC margin, which is an advance payment to bank by importers, to 50 percent from 30 percent of total value to discourage imports. It also withdrew cap on lending rates so that banks can set it in line with their rising cost of funds. According to BB data, import payments for fuel have doubled to over \$6 billion this fiscal year to feed the rental-power plants which are creating a mismatch in the balance of payments and reserve.

Daily Star: 08.01.2012

Exports rise as orders shift from China



Exports grew 29.76 percent to \$2.06 billion in December, compared with the previous month, as apparel orders shifted from China to Bangladesh. The earnings in December fell 11.15 percent short of the periodical target, according to data released by the Export Promotion Bureau (EPB) on 8th January. Companies sold \$1.60 billion worth of products overseas in November. Exports rose 3.85 percent in December from the same period a year earlier, according to data. In the July-December period, the first six months of fiscal 2011-12, Bangladesh's exports grew 14.72 percent to \$11.78 billion, compared with the same period of the previous fiscal year, the data showed. However, export earnings in July-December were 4.98 percent short of the periodical target. Bangladesh's knitwear exports rose 11.12 percent to \$4.80 billion and woven garment exports increased 22.56 percent to \$4.45 billion in July-December, compared with the same period a year ago.

Daily Star: 09.01.2012

Global regulators signal leeway on new bank liquidity rules

Global regulators vowed to press ahead with tough new liquidity rules for banks from 2015, but in a move to head off opposition from industry, also said lenders can tap into safety buffers in times of stress. The Basel

Committee on Banking Supervision, which authored the new Basel III bank capital and liquidity accord that will be phased in from 2013 to make banks able to withstand shocks without taxpayer bailouts in the next crisis. Many banks already meet the tougher Basel III capital requirements, but the liquidity standards are new and lenders argue that building up such buffers by buying government and corporate bonds in times of market stress is expensive and could force them to crimp lending to the economy. The Basel Committee has been asked to clarify that liquid assets accumulated in normal times are intended to be used in times of stress and provide additional guidance on the circumstances that would justify the use of the liquidity pool. But the global regulators and central bankers refused industry calls to push back the introduction of an LCR from 2015. Most of the liquidity buffer has to be in the form of top-rated government bonds, with the remainder in highly rated corporate debt.

New Age: 09.01.2012

BB warns banking system may face similar fate of Europe

Bangladesh Bank has warned that the country's banking system could face similar fate of the monetary crises of some European banks if the government continues with its heavy borrowing from the banks. The central bank also observed that a cut in the subsidy for fertiliser, irrigation and power has increased food inflation in recent months, pushing up the prices of commodities. The credit availability in the private sector has not been hampered that much following the sudden high growth of government borrowings from the banking sector. But the risk [of slowing down credit availability] will be heightened if the government continues with heavy borrowing. The BB observed that the primary dealer banks that are obliged to buy government treasury bonds are already overburdened and their liquidity position is in risks as there was no secondary bond market in the country. The BB statement said that the cost of local production for food grains went up in recent months because of the subsidy cuts. Under the circumstances, the country's inflation prevailed in double digit in the last year. The point-to-point inflation in December 2011 stood at 10.63 per cent from that of the 11.58 per cent in November. It expected that soaring inflation will be stable in the coming months and come down to single-digit in the last quarter of the current 2011-12 financial year.

New Age: 10.01.2012

CSR: A concept often confused and misused in Bangladesh

It seems CSR or 'Corporate Social Responsibility' has become a buzzword in Bangladesh. It is often make confusion over charity and CSR, and are indulging in several activities in the name of CSR. Corporate social responsibility goes far beyond charity. It is not just about making contributions towards good causes or charitable organizations. But it is also an all year round responsibility that companies should accept to serve the community. It must integrate with corporate values, cultures, business strategy and add to future sustainability too. An organization's profits should reflect core values and adherence to the best practices. CSR is in fact more than charity for the sheer engagement of a company in the local community. It is also for the recognition that brand names do not depend on only quality, price and uniqueness. Other factors include the cumulative effects of how companies interact with its workforce, community and the environment. Charity can be an important part of CSR, which signifies a corporation's contribution to the community where it does business. CSR creates a bigger picture when a company voluntarily integrates a complete range of economic, social, and environmental concerns in its business and communicates with its stakeholders. A bank with common owners donating a vehicle to an education institute (may be its' client too) can't be treated as 'CSR'. in the same way, 'rural financing' or even 'financial inclusiveness' will remain a fluid exercise, if we only treat these as part of commercial banks' 'CSR'. CSR is beyond these- giving back to the community, where we make money from. CSR has continued to develop well beyond its philanthropic and community roots with a growing focus on the business case, making the business a socially responsible one and different from the crowd and serving the core values of the society or community the corporation or company works in.

Fin. Exp: 10.01.2012

Pvt banks gearing up services abroad

The country's private banks are gearing up services abroad with a view to increasing the remittance inflow. As remittance is the vehicle of economic development of the country, the banks have decided to increase facilities for the expatriates. The central bank has recently directed all commercial banks to expand facilities for the expatriates to enhance the inflow of remittance. As the expatriates make great contribution to the country's

economy by sending remittance, the bank has taken a good number of initiatives to increase the remittance inflow. According to Bangladesh Bank (BB), some \$ 31.8 billion has been remitted over the last three years which is very much a positive sign for the economic development of the country.

Fin. Exp: 10.01.2012

Current account falls into deficit

BALANCE OF PAYMENTS			
IN MILLIONS OF DOLLARS			
	JULY-NOV 2010-11	JULY-NOV 2011-12	% CHANGE
Exports	8,297	9,785	17.93
Imports	11,051	13,430	21.53
Trade deficit	2,754	3,645	
Remittances	4,581	4,921	7.42
Current account balance	762	-14	
Overall balance	-584	-978	

The current account balance entered a negative terrain for the first time in the current fiscal year as exports receipts and remittances could not fill in the gap in trade deficit. Soaring import bills, mainly for oil, widened the trade deficit. The shortfall in the current account balance was recorded at \$14 million in the July-November period this fiscal year against a surplus of \$762 million in the same period the previous year. Meanwhile, the country's trade deficit soared to \$3,645 million in July-November of the current fiscal year from \$2,754 million in the same period a year ago, according to Bangladesh Bank data. The taka lost 11 percent in value against the greenback since July this fiscal year. An importer, who could buy a dollar at Tk 70 a year ago, now spends Tk 82-Tk 83. In the July-December period, the first six months of the current fiscal year, exports grew 14.72 percent to \$11.78 billion compared with the same period of the previous fiscal year, according to Export Promotion Bureau. With a thin flow of foreign currencies, the government will either live with the challenge of import-induced inflation by allowing depreciation of the taka or sell from the reserves to boost the value of the local currency. Foreign exchange reserve, which was \$10.91 billion at the end of fiscal 2010-11, slipped below \$9 billion this week.

Daily Star: 11.01.2012

BB discourages LC opening for non-essential imports

The central bank has asked commercial banks to discourage opening of letters of credit for import of non-essential and luxury goods as the exchange rate of the Taka has depreciated further against the Dollar hitting Tk 85.50. Bangladesh Bank governor in a meeting with managing directors and chief executive officers of various commercial banks asked them to discourage LC opening for non-essential and luxury products as the banking system was facing a dollar shortage.

New Age: 11.01.2012

Jute export income falls by 13 per cent

Export earning from the jute sector declined by 13 per cent in six months to December due to lower demand and prices of raw jute and jute goods in the international market. With the euro-zone crisis deepening, the requirements of jute products have also turned downward. The country earned US\$ 477.10 million during July-December period of 2011-12, down from US\$ 548.66 million in the corresponding period of the last fiscal year, Export Promotion Bureau (EPB) data showed. The sector also missed the target of export earning during the period to US\$ 548.66 million from US\$ 627.07 million. During the July-December period in fiscal year, the country earned jute yarn exports \$ 227.84 million, down from \$ 248.40 million and \$ 125.37 million from raw jute lower from US\$ 184.66 million in the corresponding period of last year. Middle East, North African countries and Turkey import 66 per cent of Bangladesh's yarn to use it as a raw material for making carpet. India, China and Pakistan are the major buyers of Bangladeshi raw jute. Vietnam, Ivory Coast, Malaysia, the Netherlands, Nepal, Bhutan, USA, Russia, and Thailand also import raw jute from the country.

Fin. Exp: 12.01.2012

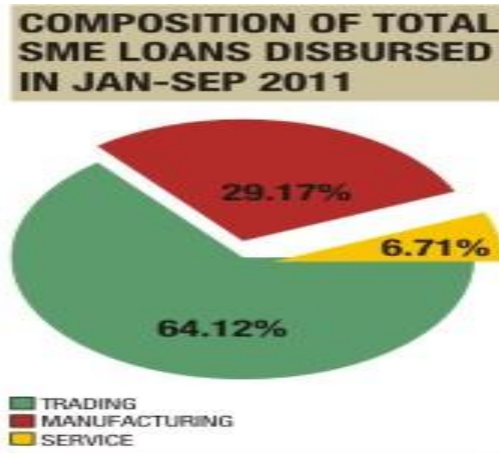
Dec import down by 13.76pc

Import bill payment in December decreased by 13.76 per cent from that in December of the financial year

2010–11 mainly because of lower import of food grains, industrial raw materials and capital machinery with oil import soaring, according to the latest provisional data released by the Bangladesh Bank. The import bill payment in December in the current fiscal year also decreased by 19.63 per cent from \$3.09 billion that was in November of the year. Letters of credit worth \$2.48 billion obtained by importers, according to the Bangladesh Bank data, were settled in December compared with letters of credit worth \$2.88 billion settled in the corresponding period of the past financial year. The import bill payment worth \$213.85 million for fuel oil, meanwhile, was settled in the period. Import orders in December have declined because of lower import of food grains, capital machinery and industrial raw materials. Short supply of the dollar has also contributed to lower import orders in the period.

New Age: 13.01.2012

SME loans bypass area of focus



Two-thirds of loans given to small and medium enterprises are used in trading, which is a threat to sustainable economic growth. Nearly Tk 25,000 crore or 65 percent of SME loans disbursed in January-September of 2011 went into trading, 29 percent into manufacturing and the rest into the services sector, according to data from Bangladesh Bank. Regulatory permissions, such as environmental clearance for a manufacturing unit, also discourage entrepreneurs. Though business becomes easier for a bank if it funds trading activities, the country is missing out on the much needed transformation to manufacturing and industrialisation. SMEs contribute significantly towards industrial output, exports and employment generation for the economic growth of any country. Bankers found SMEs weak in managing business -- from planning to purchasing, design, production, quality control, marketing, finance, human resources, public relations, new business developments and target growth. Due to their small size, SMEs cannot afford to appoint qualified fulltime financial executives to manage their activities, and interact with the bankers and regulatory agencies.

Daily Star: 15.01.2012

BB to take action against illegal forex trading

Bangladesh Bank (BB) has moved to take legal action against the persons and the institutions that are offering people illegal currency trading through internet and electronic trading portals. In a statement, the central bank advised people not to involve in this illegal business and warned them of stern consequences for such activities. The BB referred to some recent advertisements in the media that offered people training for earning high returns from online foreign exchange trading and dealing. The BB said these advertisements also offered currency loading facility in debit cards to run the online foreign currency exchange business by taking the 'risks' of the 'daily fluctuation of exchange rates'. The trading of its kind by unauthorised people and organisations is illegal. The Foreign Exchange Regulation Act allows only licensed dealers and money exchangers to run such business. It advised people to refrain from responding to such tempting, but illegal offers and warned respective advertisers of punitive actions. People are advised to make the margin payment for these transactions through their credit or debit cards, which are not only illegal, but also involve high risk of losing their total credit or debit limit to unknown people.

Daily Star: 15.01.2012

Sudden hike in interest rate rattles industry

A sudden but significant rise in interest rates has emerged as a threat to the local industry, which is already

feeling the pinch of a record devaluation of the taka against the dollar. Bankers forecast that a rising interest rate can lead to an increase in default rates. Earlier January, Bangladesh Bank (BB) withdrew the cap on lending interest rates, except on farm credit, to put brakes on soaring inflation. BB had placed the cap in April 2009 in the backdrop of the world economic crisis. Soon after the cap was withdrawn, banks that were collecting deposits at higher costs to maintain the regulatory ratio entered a race to raise the lending rate. The borrowing cost increased 4-5 percentage points in the first two weeks of January. The lending rate for commodity imports, which was 12 percent, went up to 17-18 percent. Similarly, the cost of borrowing for corporate loans (both term loan and working capital) and small and medium enterprise also shot up 3-5 percentage points.

Daily Star: 16.01.2012

Banks drastically cut SME loan disbursement target

The commercial banks and non-bank financial institutions might have to cut their annual loan disbursements to small and medium enterprises in 2012 due to severe liquidity crisis and heavy government borrowings from the banking system. BB data showed that the banks and NBFIs had targeted Tk 38,000 crore to SME loan in 2010 but the institutions had achieved the target by 138 per cent higher, granting a total of Tk 52,000 crore at the end of the year. According to data available till September 2011, the banks and NBFIs disbursed Tk 39,940.62 crore or 70.14 per cent of their annual SME credit target of Tk 56,940 crore in the first nine months of the year. Ninety Five per cent targeted loans or around Tk 53,000 crore might have been disbursed in the last year compared to disbursement of 138 per cent of the targeted SME loan in the previous year. The central bank could not prepare the annual SME loan disbursement target yet for 2012 since all banks and NBFIs did not send their disbursement targets to the BB. According to BB data, the overall dependence of the commercial banks and NBFIs on the call money market marked a 23.67 per cent rise in 2011 from that in the previous year because of the heavy liquidity shortage in the banking sector.

New Age: 16.01.2012

Is Basel II adequate to protect the banking system?

Internationally accepted regulations for capital adequacy under Basel-I were initiated in December 1992, with a view to requiring banks to maintain enough capital to absorb losses and to create a level-playing field for them to ensure international competitiveness. The requirement of Basel-I for a minimum capital adequacy ratio was 4.0 per cent for Tier 1 capital to its total risk-weighted assets (RWA) and 8.0 per cent for Tier 1 and Tier 2 capital. The Basel-I risk-weights for different assets / loans were a fixed percentage and the options were very few categories of asset class. Later in June 2004, a 'revised framework' known as Basel II followed with a few revisions. However, the Bangladesh Bank adopted the latter version of Basel II with some customised changes in the name of "Guidelines on Risk Based Capital Adequacy (RBCA)". Till date, this is prevailing with the Capital Adequacy Ratio (CAR), varying from the original Basel accord. The focal points of the RBCA are three:

- * Minimum capital requirements to be maintained by a bank against credit, market and operational risks;
- * Process for assessing the overall capital adequacy aligned with risk profile of a bank as well as capital growth plan; and
- * Framework of public disclosure on the position of a bank's risk profile, capital adequacy, and risk management system.

The above three points are popularly known as Pillar 1, Pillar 2 and Pillar 3 respectively. At the initial level, most banks are following the simplified approaches of Basel II. In contrast, the improved risk-based (IRB) and the advanced IRB approaches of Basel II require banks to specify the probability of default (PD) for each individual credit, its loss-given-default (LGD), and the expected exposure to default (EED). This requires highly-complex modelling and aggregation, and offers banks with the necessary expertise, the possibility of deriving more risk sensitive weights. This approach also requires the approval of the Bangladesh Bank. Therefore, Basel II is such a measure where the greater the risk to which a bank is exposed, the greater the amount of capital the bank needs to hold in order to safeguard its solvency and overall financial stability. Despite a healthy export growth, imports have bettered it. As a whole, decrease in foreign currency earnings and simultaneous increase in import payments have created pressure on the country's foreign exchange reserves. Consequently, the taka has depreciated against the dollar. Depreciation of the taka in turn has increased the cost of our imports, which is triggering inflation. From the very nature of Basel II system, it is

known to be pro-cyclical. Pro-cyclicality refers to any aspect of economic policy that could magnify economic or financial fluctuations. Banks' asset price or value is high in good times and low in bad times since it depends on the current market value. If asset values do not accurately reflect future cash flows, this situation results in pro-cyclicality. Counterparty credit policies are easy in good times and tough in bad times. Bangladesh Bank and the banks/financial institutions (FIs) operating in Bangladesh should take/make adequate measures/plans upfront to tackle the additional capital requirement of different banks/FIs at the time of distress to fulfill the capital requirement according to Basel II rules which itself is a capital-hungry pro-cyclical policy.

Fin. Exp: 16.01.2012

New monetary policy to cut inflation

The monetary policy planned for January-June period will be announced with an aim to cut the double-digit inflation down to a single-digit rate. The central bank announces two monetary policies every fiscal year, one in the beginning and the second in the middle. Repo and reverse repo interest rates have been increased to check flow of money to the market. The central bank has also withdrawn the cap on interest rate of bank loans for several sectors. The inflation rate has hit a double-digit rate for the past 10 months. The contractionary monetary policy have already impacted the stock market negatively. Turnover of the country's two bourses has decreased while the indices have lost points. The central bank had planned to keep growth of loans to private sectors within 18 per cent by the monetary policy for July-December. In 2010-11 fiscal year, the growth rate had been expected to be within 16.5 per cent but it reached 25.5 per cent when the year ended. According to the Bangladesh Bureau of Statistics (BBS), the rate of inflation was 10.63 per cent (on point-to-point basis) in December and 11.58 per cent in November. The rate was 11.42 per cent in October and around 12 per cent in September. In the budget for the current fiscal year, the rate has been expected 7.5 per cent but it stood at 10.71 per cent by the end of December.

Fin. Exp: 17.01.2012

IMF pushes for repo rate hike

The International Monetary Fund (IMF) has recommended increasing repo and reverse repo rates by 200 basis points by March to tighten Bangladesh's monetary policy. The IMF sent the recommendations to the government last month. The IMF recommended that the monetary policy be further tightened and interest rate distortions be eliminated, which are leading to a mispricing of bank credit and adding to liquidity pressure. Besides, it recommended increasing the special repo rate by 300 basis points. However, no deadline has been set for that. In the first week of January, Bangladesh Bank (BB) hiked the repo rate by 50 basis points making it to 7.75 percent. The central bank increased the special repo rate by 100 basis points to make it to 10.25 percent at the end of December. In its report, the IMF said BB should ensure that the domestic money markets are adequately liquid on the days of the rate hikes to mitigate the risks of disruptive moves in call money rates. In December, food inflation fell by 2.07 percentage points and non-food inflation went up by 1.19 percentage points in November. In the last several months, non-food inflation has been rising continuously for which BB has been taking steps to bring down credit growth. In BB's first monetary policy for the current fiscal year, the target was fixed to bring down private sector credit growth to 16 percent. Last year, the central bank increased the repo and reverse repo rates four times. On the other hand, India and China increased the rates more than 10 times to contain non-food inflation.

Daily Star: 17.01.2012

Taka keeps falling, efforts fizzle out

The fall of the local currency, which was devalued by more than 15 percent against the dollar last year, is continuing this year despite measures from the central bank and dealers to prevent the downtrend. In the latest move, Bangladesh Foreign Exchange Dealers' Association (BAFEDA) came up with a new remedy by setting a benchmark price for the taka against the dollar. A statement signed by chairman of BAFEDA said no banks will be allowed to quote more than Tk 83 for a dollar to the exchange house abroad effective from 12th January. Remitters send money through these exchange houses. The BC (bills for collections/import payments) selling rate could be highest at Tk 83.5 per dollar, said the statement sent to all scheduled banks. But only two banks out of 45 BAFEDA members kept the BC selling rate within Tk 83.5 on 17th January. The Some banks, which tried to comply with the BAFEDA decision, missed out the much-needed remittances as

other banks offered higher prices for the dollar. The taka has depreciated by more than 15 percent against the dollar last year. In the beginning of 2011, the dollar was sold at Tk 71 for import payments. The exchange rate was steady at Tk 68-Tk 69 between 2004 and 2010. Bankers attributed the rate hike to the widening gap between demand and supply. Exports, remittances and foreign aid compose the supply side and imports drive the demand for the dollar. The ongoing debt crisis in Europe and rising oil prices are posing further threat to the widening gap. More than half of Bangladesh's nearly \$23 billion exports last fiscal year were destined to the Eurozone countries and a prolonged crisis may dampen the country's exports there.

Daily Star: 18.01.2012

BB launches customer interest protection centre

The Bangladesh Bank opened a Customer Interest Protection Centre equipped with hotline and e-mail services to receive customers' complaints of harassment and poor service by any bank. BB governor inaugurated the unit and the hotline having the No. 16236 at the central bank headquarters. The CIPC has been set up to protect and ensure the interest of the clients. The BB established the CIPC at its headquarters and eight branches across the country to protect the customers' interest. Moreover, the CIPC would provide services like giving bank related information to the customers.

New Age: 19.01.2012

World Bank slashes global GDP forecasts, outlook grim

The World Bank warned developing countries to prepare for the "real" risk that an escalation in the euro area debt crisis could tip the world into a slump on a par with the global downturn in 2008/09. The World Bank predicted world economic growth of 2.5 percent in 2012 and 3.1 percent in 2013, well below the 3.6 percent growth for each year projected in June. The World Bank said if the euro area debt crisis escalates, global growth would be about 4 percentage points lower. It forecast high-income economies would expand just 1.4 percent in 2012 as the euro area shrinks 0.3 percent, sharp downward revisions from growth forecasts last June of 2.7 percent and 1.8 percent, respectively.

Daily Star: 19.01.2012

PD banks urge BB to extend timeframe

Primary dealer (PD) banks have urged the central bank to extend the timeframe for securities held under 'held for trading (HFT)' category until December 2011 instead of October (of the same year). On January 15 last, the central bank proposed a new calculation system for valuation of the treasury bonds held by the PD banks to help minimise any adjustment loss. The PDBL member also said they have already submitted their opinions formally to the central bank for taking necessary measures. The central bank earlier selected 15 PDs -- 12 commercial banks and three non-banking financial institutions (NBFIs) -- to deal with the government-approved securities in the secondary market.

Fin. Exp: 19.01.2012

Consolidating gains in the banking sector

Bangladesh can take some satisfaction that it has been progressing well with the establishment of a modern banking sector. A series of reforms starting in early 1980s but gathering momentum in the 2000s has paid off handsomely in terms of most indicators of banking performance. Broad money (M2) to gross domestic product (GDP) ratio, which is often used as an indicator of the depth of the financial sector, has risen from 12% in 1980 to 59% in 2011 (November); bank credit as a share of GDP has grown from 14% to 60% over the same period; and the share of private credit to total credit has similarly expanded from 36% to 77%. First, there are sharp differences in the performance of banks, especially between private and public banks. Second, the banking sector as a whole is not fully compliant with the capital adequacy requirement of Basel II. As of June 2011, foreign commercial banks substantially exceeded this requirement (17.1% as compared to the required 10% under Basel II). Third, the accounting standards for loan classification and provisioning are not in line with international best practices. As such the reported indicators of financial health might mask somewhat the true picture. Fourth, public banks are not within the purview of the supervision of the BB. As such, their compliance with prudential regulations is weak. This is a serious risk to the stability of the banking system and ought to be corrected quickly.

Fin. Exp: 20.01.2012

Commercial banks extend support to 26 SME clusters

The Bangladesh Bank has selected 26 SME clusters across the country for financing by commercial banks to gear up production of small and medium enterprises. A number of commercial banks have already started to disburse loans to the SME clusters. The central bank in October last year had asked the commercial banks to coordinate the credit programme of at least one SME cluster. A bank can coordinate financing programme of one or more clusters if it wants.

New Age: 20.01.2012

SCBs refuse to open L/Cs for BPC

The state-owned commercial banks (SCBs) -- Sonali, Janata and Agrani -- are refusing to open Letters of Credit (L/Cs) for Bangladesh Petroleum Corporation (BPC) to import petroleum, as the banks are now facing serious dearth of liquidity both in US dollar and Bangladesh Taka. The MoF could not give any solution to the problem, while Bangladesh Bank (BB) shifted responsibility to the government to solve the crisis. The proposed L/Cs were sought to import diesel and furnace oil.

Fin. Exp: 21.01.2012

BB squeezes car, home loan disbursement

Bangladesh Bank squeezed consumer financing by banks by reducing home and car loan disbursement. The central bank in a circular lowered the equity-loan ratio to 30:70 for new home loans from the previous 20:80. It also brought down the equity-loan ratio for car and other consumer loans to 70:30 from 50:50. The circular means the clients will now get 70 per cent loan instead of the previous 80 per cent of the total cost of building a house and 30 per cent loan instead of the previous 50 per cent of the price of a car or any other consumer product. The central bank took the move to squeeze the loan supply for consumer financing to divert funds to productive sectors. Bangladesh Bank was trying to make loans costly for consumer financing in line with its aim to adopt a tighter monetary policy for the January-June period. The central bank also asked the commercial banks to discourage opening of letters of credit for import of non-essential and luxury products amid the prevailing liquidity and foreign exchange shortage.

New Age: 22.01.2012

Banks asked not to charge higher interest rate

Bangladesh Bank asked commercial banks not to charge higher interest rates for loans after the central bank had withdrawn ceiling on interest rate for all types of loans, except agriculture and pre-shipment export loans. The central bank in a circular asked the banks to maintain a spread between average deposit rate and lending rate up to 5 for all types of loans, except the high-risk consumer loans, including credit card and SME loans. The new directive means that if the average deposit rate of any bank stands at 9 per cent, the bank will not be able to charge more than 14 per cent interest on loans, except consumer and SME loans. The cap on interest rate for agriculture loans remains at 13 per cent and pre-shipment export loans at 7 per cent. The BB on January 05, 2012 withdrew cap on interest on all type of loans, except agriculture and pre-shipment exports.

New Age: 22.01.2012

New deputy governors for BB

Bangladesh Bank announced appointments of three deputy governors on 23rd January, with Nazneen Sultana becoming the first woman to hold the post in the history of the central bank. Abu Hena Mohd Razee Hassan and Shitangshu Kumar Sur Chowdhury are the two other deputy governors, the central bank said in a statement. Prior to the contractual appointment for a three-year term, they were the executive directors of BB. The appointment of Sultana shows consistence with its new gender policy, BB said. The new officials along with two senior advisers and the most senior deputy governor, Md Abul Quasem, will form the governor's senior management team. Nazrul Huda, Ziaul Hassan Siddiqui and Murshid Kuli were the previous deputy governors who completed their tenures in December.

Daily Star: 24.01.2012

India banks may cut lending rates in some segments

Indian banks are likely to reduce lending rates for select sectors and may see an improvement in their net interest margins after the central bank cut cash reserve requirements for banks. The banks, however, did not set a timeframe for lowering their lending rates. The Reserve Bank of India had

raised rates 13 times between March 2010 and October 2011, slowing demand for credit in Asia's third-largest economy and triggering worries about pile-up of bad loans and pressure on profit margins.

Fin. Exp: 25.01.2012

BB to tighten monetary policy

BB to focus on

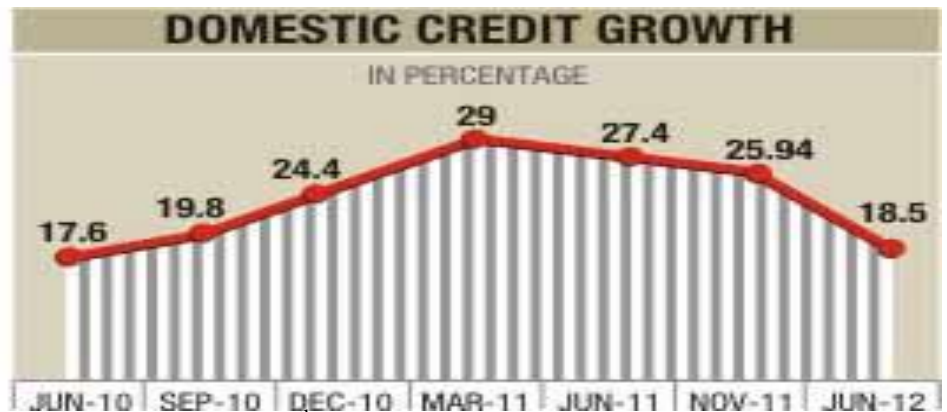
Achieving targeted GDP growth

Reining in inflation

Curbing domestic credit growth

Easing pressure on forex reserve

Cutting down import growth



Bangladesh Bank will announce its monetary policy on 26th January for the second half of the current fiscal year with a further tightening approach. This time, the monetary policy will also reflect the recommendations of the International Monetary Fund (IMF) as Bangladesh is going to enter the credit programme of the donor agency after about a decade. Non-food inflation crossed double digits in the recent years and outpaced food inflation for the first time in December. Point-to-point inflation has been rising at a double-digit rate for a consecutive nine months since March last year. Such a rare incident was last seen at the beginning of 1980s when inflation grew at a double-digit rate for a long time. The central bank may also set a target to bring down domestic credit growth below 19 percent by June this year to rein in inflation. In the first monetary policy of the current fiscal year announced in July the target was 20 percent. The target for private sector credit growth may be set at 13-15 percent by June next which was 18 percent in the first monetary policy. The rate of private sector credit growth already came down to 19.33 percent in November 2011 from around 28 percent last fiscal year. The BB has already taken several steps to contain credit growth. The moves include increasing repo rate and lifting the lending cap. The repo rate may be raised further by June. On January 18 foreign currency reserve was \$9.04 billion, down from \$10.91 billion on June 30 last year. The amount of the country's present reserve is equal to 2.87 months' import bill. But according to international standard, keeping the foreign currency reserve equal to a country's three months' import bill is considered as a safe limit.

Daily Star: 26.01.2012

BB spells out five steps to keep economy on track

The central bank has announced five steps that include hiking interest rates on savings certificates, mobilising more external and domestic resources and rationalising public expenditures to implement its monetary policy. First, the central bank said there is scope for increasing private sector credit growth for productive investments beyond the programmed level if there is a reduction in growth in credit to the public sector. Second, the BB will ensure liquidity support for banks, so that productive credit growth is not crowded out. Third, while the interest rate regime will remain liberalised, the central bank will focus more on monitoring interest rate spreads so that they remain below 5 percent except for SME lending (as the costs of SME operations are higher) and consumer lending. Fourth, the central bank said, in order to reach the new external sector equilibrium, overall import demand needs to be rationalised. Fifth, the central bank will take further steps to improve the stability and outreach of its financial system. In November 2011, reserve money growth and broad money growth were 15.4 percent and 17.7 percent respectively, well below the 16 percent and 18.5 percent targets set out in the July MPS. While weighted average lending rates have gone up on average by 1.6 percentage points in 2011, the BB said it is closely monitoring spreads so that they remain in low single digits for all sectors, except SME and consumer credit.

Daily Star: 27.01.2012

Pressure on forex reserves to ease in months

MONETARY AGGREGATES

(Y-O-Y GROWTH IN PERCENTAGE)

	Actual					Programme
	FY09	FY10	FY11	Sep-11	Dec-11	June 2012
1. Net foreign assets	27.2	41.3	5.3	-0.8	-8.6	-8.9
2. Net domestic assets	17.8	18.8	25.0	24.3	22.9	21.9
Domestic credit	15.9	17.6	28.4	27.2	25.7	19.1
Credit to public sector (including govt)	20.3	-5.2	39.9	52.4	62.0	31.0
Credit to private sector	14.6	24.2	25.8	22.0	18.0	16.0
3. Broad money	19.2	22.4	21.4	19.6	17.4	17.0
4. Reserve money	31.9	18.1	21.0	17.6	12.5	12.2

The central bank on 26th January said the pressure on foreign exchange reserves would ease in the coming months due to a fall in the opening of new letters of credit and restraints on domestic credit environment that is expected to limit import growth further. The Bangladesh Bank said the number of LC openings fell 8 percent in January compared to the same period a year ago. A more restrained domestic credit environment will cut down import growth, the BB said in its Monetary Policy Statement for the second half of the current fiscal year. The central bank said the recent trends suggest that the pressure on foreign exchange reserves would ease in the coming months. On January 18, foreign currency reserve was at \$9.04 billion, down from \$10.91 billion on June 30 last year. The BB also said the external sector is facing a challenging environment, and addressing this is an integral part of the bank's monetary stance. Export growth, which was 14.7 percent during July-December last year, lagged behind the import growth at 22 percent between July and November, partly due to the projected 57 percent rise in petroleum imports in fiscal 2012 compared to the previous year. The central bank said remittances appear to have responded positively to the depreciation of the taka.

Daily Star: 27.01.2012

Sharp decline in farm loans disbursement by banks

Farm loan disbursement in the country sharply declined during July-December period as private commercial banks (PCB) and foreign commercial banks (FCB) were lagging far behind the target, central bank data showed. Bankers blamed the ambitious target set by the central bank and the soaring cost of funds and interest rates for the poor performance. The SCBs and PCBs jointly disbursed around Tk18.26 billion in the first half of the current fiscal year (FY), which was nearly 16 per cent lower than their targeted amount of disbursement for the period. In absolute terms, the targeted disbursement went down by nearly Tk 8.19 billion during the period.

Fin. Exp: 28.01.2012

Tax revenue earnings grow by 16pc in H1

National Board of Revenue earnings increased by 16.09 per cent in the first half of the current financial year which is slightly more than the target set for the period. Revenue earnings in July-December of the financial year were recoded at Tk 39,090.82 crore, which is Tk 150.53 crore more than the target. The tax administration set a collection target of Tk 38,940.29 crore for the period and the target for the entire financial year is Tk 91,870 crore, setting out a 21.52 per cent growth. The revenue board has achieved 43 per cent of the target set for the financial year and it now needs to achieve the 57 per cent in the remaining six months. The board had already set up several monitoring cell to increase revenue earnings and the monitoring cells had started visiting different places. They will also work to expand the tax net. The revenue board earned Tk 5,506.34 crore more compared with the corresponding period of the previous financial year. Revenue collection was Tk 33,584.48 crore in July-December in the 2010-11 financial year. In the first half of the 2010-2011 financial year, revenue earnings, however, grew by 27 per cent compared with the corresponding period of the 2009-2010 financial year. In the first half of the current financial year, the revenue earning growth was 26.06 per cent at the income tax level and value added tax collection grew by 13.97 per cent at local level.

New Age: 28.01.2012

1.68cr more mobile subscribers in 2011

The country's mobile phone subscribers grew by 1.68 crore or 24.48 per cent in 2011 as the number of total subscribers of six operators reached 8.54 crore at the end of December. The growth in subscribers in the year, however, was lower compared to the growth in 2010 when the users grew by 1.62 crore, or 30.91 per cent year-on-year. According to data released by the Bangladesh Telecommunication Regulatory Commission, the total mobile subscribers reached 8.54 crore at the end of December 2011 from 6.86 crore in December 2010. 'The growth in subscribers in 2011 is relatively good. Mobile operators have diversified their products in the year by increasing wireless internet facilities to woo subscribers. He said the competition among the operators would grow in the coming months and they would increase data service to woo more subscribers. The actual number of mobile users might be slightly below 8.54 crore as many of the subscribers use multiple connections of different mobile companies.

New Age: 29.01.2012

BB forms new intelligence unit to curb money laundering

The Bangladesh Bank has formed a new intelligence unit to fight money laundering and establish more discipline and transparency in financial sector. The unit, Bangladesh financial intelligence unit, will replace the BB's anti-money laundering department and financial intelligence unit. BFIU will carry out its operation as per power bestowed upon it by the Anti-Money Laundering Ordinance 2012, Anti-Terrorism Act 2009 and Anti-Terrorism Ordinance, 2012 (Amended). BFIU will now take over the manpower and activities of the anti-money laundering department. The deputy government who has been given the responsibility of the newly-formed BFIU will act as head of BFIU, the executive director as deputy head of BFIU and the general manager as operational head of BFIU. The central bank constituted this separate unit as per the clause 24 (1) of the Anti-money Ordinance 2012.

New Age: 29.01.2012

Bankers resist regulatory restraint on bonuses at Davos

Budding bankers expecting the bumper bonuses of years gone by will have to think again, with only the top performers likely to be paid top dollar. Business leaders and bankers at the annual Davos forum were largely dismissive of attempts to cap or restrict compensation in the financial services industry through regulation. But they said a combination of public anger, tighter scrutiny from watchdogs, tougher performance measures and a structural fall in profitability in banking in the post-crisis world would curb the excesses of the past.

New Age: 29.01.2012

Bangladesh bank Circulars during January, 2012

Circular Number	Date	Subject
BRPD Circular No. 01	01/01/12	Loan Classification and Provisioning
DFIM Circular Letter No. 01	03/01/12	Financial Institutions under City Corporation area of Comilla to remain closed on the occasion of City Corporation election
BRPD Circular No. 02	04/01/12	Fixing rate of interest on lending
MPD Circular No. 01	05/01/12	Refixation of Repo and reverse repo rate of Bangladesh Bank
DFIM Circular Letter No. 02	09/01/12	Mainstreaming Corporate Social Responsibility (CSR) in Financial Institutions
DOS Circular No. 01	16/01/12	Submission of information/statements related to DOS in rationalized input templates through Web Portal
DOS Circular Letter No. 01	18/01/12	Scheduled banks under Municipality area of Narsingdi to remain closed on the occasion of Municipality by-election
DOS Circular Letter No. 02	19/01/12	Marking to market based revaluation of treasury bills and bonds held by the banks
BRPD Circular Letter No. 01	22/01/12	Rationalization of rate of interest on deposit and lending
BRPD Circular No. 04	25/01/12	Submission of statements/information to Banking Regulation and Policy Department through web portal of the enterprise data warehouse of Bangladesh Bank
DFIM Circular No. 01	26/01/12	Submission of data through web portal using rationalized input template
DOS Circular Letter No. 03	30/01/12	Uniform accounting procedure for REPO transaction

Source: BB website

Information on Economy

	Amount	Previous year's/ month's Position
1. Foreign Trade:	Million US\$	Million US\$
a. Exports (2011-12)	22928.20	22928.20
b. Exports (November-2011)	1591.20	1954.80
c. Imports (2011-12)	33657.50	33657.50
d. Imports (November-2011)	3141.30	2977.00
2. Workers' Remittance (November-2011)	908.79	1039.48
3. Inflation: point to point (November-2011)	11.58	11.42

Export= FOB Value, Import = CFR Value
Economic Trends: January 2012

Banking Sector and Economic Information:

	Amount (TK in Cr.)	
	September - 2011	August - 2011
1. Bank Deposit (excluding inter bank)	420462.90	413434.80
2. Bank Credit (excluding inter bank)	434284.90	429748.90
3. Money Supply		
a. Currency Outside Banks	57154.40	64254.00
b. Demand Deposit	47049.50	47173.70
c. Deposit with BB other than DMBs	301.20	266.80
d. Narrow Money (a+b+c)	104505.10	111694.50
e. Time Deposit	348892.50	342150.90
02. Broad money (d+e)	453397.60	453845.40
4. Excess Reserve (Liquidity)	11619.60	12655.30
5. Weighted average rate of Deposits of Schedule Banks(Quarterly)	7.42	7.40
6. Weighted average rate of Advances of Schedule Banks(Quarterly)	12.74	12.63
7. Ratio of DMBs Credit to Deposits (%)	103.29	103.95
8. DMBs Total Assets/Liabilities	1111338.50	1121204.30
9. F.E. Reserve (million \$US)	9883.60	10931.90
10. Cash Base of the Economy	99658.20	108303.00

- **Narrow Money (M1)** = Currency outside Banks+ Demand Deposits +Deposit with Bangladesh Bank
- **Broad Money (M2)** = M1 + Time Deposit
- **DMBs** = Deposit Money Banks
- **Cash Base of the Economy** = Currency in Circulation+ Balances with Bangladesh Bank
- Monthly Economic Trends: January 2012
- (p)= Provisional

Academic Activities January - 2012:

- I. IFIC Bank Ltd. conducted a day long Seminar on "**Prevention of Money Laundering**" & "**Combating Financing of Terrorism**" on 28 January, 2012 at its Training Institute at Chamber Building (8th floor), 122-124, Motijheel C/A., Dhaka. A total number of 51 Executive and Officers from different branches of the bank attended the seminar.

Mr. Md. Sirajul Islam, Joint Director and Mr. Md. Abdur Rab, Deputy Director, Anti-Money Laundering Department of Bangladesh Bank, Head Office, Dhaka were the main speakers in the seminar. Salient features of the "Prevention of Money Laundering Act.-2009" along with Anti Terrorism Act.-2009 and the actions to be taken by the bank in the light of the Acts were discussed in the seminar. Mr. Syed Zahidul Islam, SEVP & CAMLCO of IFIC Bank Ltd. was present on the occasion and delivered his inaugural speech before the participants. It may be mentioned here that this was the 1st programme of IFIC Bank Training Institute in the year 2012.

Readers please: What is the new name of Anti-money Laundering Department of Bangladesh Bank?

Match our answer with yours: Knowledge Update: 156

Answer: The Repo and Reverse Repo rate of Bangladesh Bank are 7.75% & 5.75% respectively from January 8, 2012.

We can be reached at: tnr@ificbankbd.com

Team Members

A. K. Mojibur Rahman, FAVP
Jayanta Sutradhar, OG – I
Barni Saha, OG – I

IT CORNER

Basics of IT

Snapshot-1

Contributed by: Mr. Biprajit Saha, AVP, IT Division

IT stands for Information Technology. Today IT is the main driving force in our social life. Banking business has also been integrated with IT.

Let's have a look on some of the terms of IT.

Hardware: Hardware is the physical components which are used in IT. For example, Computer, Server, CPU, Hard Disk Drive, RAM, Mother Board etc.

Software: Software is the instructions to Hardware to accomplish a certain set of actions. It has no physical existence, but gives life to Hardware. For example, Application Software (Equation from Misys), Database Software (Oracle, DB2, MS SQL Server, mySQL etc.), System Software (Windows, Linux etc.)

Networking: Networking is the connecting of two or more IT equipments so that they can communicate with each other. For example, Local Area Network (LAN), Wide Area Network (WAN) etc.

Hard Disk Drive (HDD): HDD is the storage unit of PC/Server. Files are permanently stored in HDD. Its capacity is measured in Gigabyte (GB), Terabyte (TB) etc.

Random Access Memory (RAM): RAM is the temporary storage unit of PC/Server. Files are stored in RAM when they are opened. As the power goes off, RAM is cleared. Its capacity is measured in Megabyte (MB), Gigabyte (GB) etc.

Motherboard: Motherboard, also called Main Board, is the main Circuit Board of PC/Server where other components like Processor, RAM etc. are set. It acts as underlying channel for other components to communicate with each other.

Central Processing Unit (CPU): CPU, also called Processor, is the main processing unit of PC/Server. It processes data & calculations and provides final output. It is set on definite socket of Mother Board.

(to be continued...)

Revisiting Basics

FUND TRANSFER PRICING

Is FTP necessary, or can a bank cope without it?

Fund transfer pricing system is necessary for successful management of any major financial institution and literally all large banks have implemented one of FTP methodologies. In a highly competitive environment, with historically low interest rates and decreasing interest margins, banks need to improve their performance management abilities in order to achieve sustainable profits. FTP is the best tool for analyzing net interest income, which is the biggest component of bank's profits. FTP system is fundamental for financial institutions and no bank can be well-managed without possessing some sort of transfer pricing system.

Advantages of using an FTP system

Various FTP methodologies provide different sets of advantages. Overall, fund transfer pricing provides the following benefits:

- Allows calculating a cost of funds and applying them as a price to all internal sources and uses of funds.
- Allows planning, motivating and evaluating management performance based on fair appraisal of results
- Permits removing interest rate risk from sales divisions by setting a fixed margin on transactions, leaving only customer's credit risk
- Allows transferring interest rate and liquidity risk to a central unit responsible for its management
- Facilitates management of market risk through assets and liabilities management
- Transfer price allows minimizing interest margin fluctuations due to market rate changes
- It prices marginal cost of funds in order to improve business decision making
- Facilitates deep analysis of interest income, by product, branch, business line, transaction, etc.
- Interest income decomposition improves product pricing and tailoring the product offer to various needs

How can it improve results:

FTP system improves profitability by enhanced pricing. Applying a transfer price most reflective of actual funding cost to each transaction allows for perfected decision making. Prices for products are then set at a level that ensures an increase in bank's total profits. Customers can be evaluated based on their overall contribution to bank's results, and selective conditions can be awarded. The profit contribution of branches and business lines can be appropriately estimated, allowing closing down the units that don't contribute to profitability. The same methodology can be used to evaluate management and even individual employees, basing on their contribution to profits, compared to their financial targets. Statistical studies show that accurate fund transfer pricing can generate a measurable increase in a bank's interest margin. Another benefit of FTP is the quality of interest rate and liquidity management it entails. Transfer pricing system can effectively move those risks away from sales units into a centralized portfolio. The overall level of bank's risk can be then observed, divided into sources of origin, and managed. Asset and liability management is more effective when it can be conducted towards all bank's loans and deposits and their funding mismatch directly by Treasury department. This is possible only with a sophisticated FTP system with a direct connection to Treasury IT systems.

How to build an FTP system:

Building a basic FTP system is relatively simple. The easiest way to implement an initial FTP system is through the use of a single pool method. In this method, only one transfer price is established, calculated based on average interest rates on all products. It is enough to divide interest profits between

Corporate Activities during the month January 2012

IFIC Bank donates a dialysis machine to BIRDEM Hospital



IFIC Bank authorities recently handed over a dialysis machine to officials of BIRDEM Hospital at Shahbagh in the city. Senior Lawyer Barrister Rafiq-ul Haque, noted physician Dr. AR Khan, President of Bangladesh Diabetic Samity (BDS) Prof AK Azad Khan, Member of the Board of Directors of IFIC Bank Mr. Syed Anisul Huq, Secretary General of BDS Mr. Sayef Uddin, Prof Dr. Abul Mansur and Managing Director of the Bank Mohammad Abdullah were, among others, present on the occasion.

IFIC Bank distributed about 4500 winter cloths



IFIC Bank distributed about 4500 winter clothing among poor people through its 25 branches in different parts of the country. It may be mentioned that the Bank spent significant amount of money in CSR activities in different sectors.