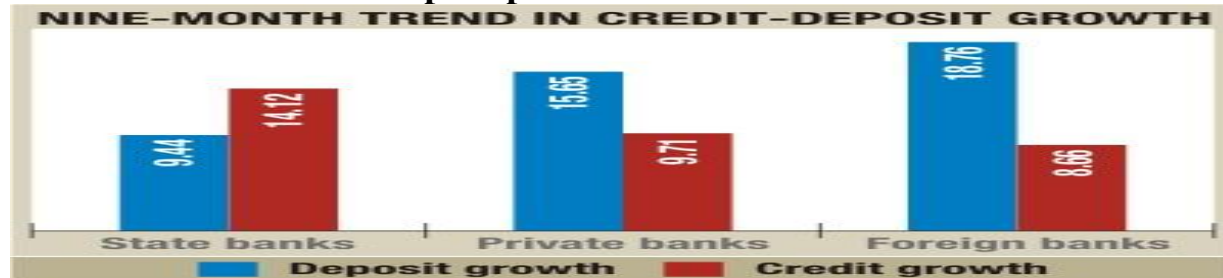




**IFIC BANK LIMITED**  
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## State banks' credit outstrips deposit



State banks' credit disbursement outpaced their deposit in nine months, according to data from Bangladesh Bank. Credit growth of the state-owned commercial banks was 14.12 percent, while deposit grew by 9.44 percent compared to December 31 last year, the data showed. However, the private and foreign commercial banks' deposit growth was more than their credit growth in the period. Due to the liquidity crisis, the central bank has recently sent letters to the Banking Division and the chairmen of four state banks, asking them to better manage their fund. On October 6, the overall deposit growth in all the banks was 13.86 percent, against the credit growth at 8.80 percent compared to December 31 last year. Deposit of the private banks went up by 15.65 percent but their credit rose 9.71 percent. However, deposit of the foreign commercial banks grew by 18.76 percent, but their credit growth was 8.66 percent. Credit growth in most of the private banks is below 9 percent. Even many banks recorded the growth at 1-5 percent. The World Bank also sounded the alarm about the country's banking sector, especially the state banks. The global lender's Bangladesh Economic Update said there has been a steady rise in the volume of non-performing loans due to deflation in asset prices, lending squeeze caused by liquidity pressures, and weak underwriting practices. The WB report said the capital levels of banks and other financial institutions may be overstated due to unrecognised loan losses from evergreening of loans, weak loan classification and provisioning requirements, and intangible assets in state-owned banks. Weak corporate governance in parts of the banking sector, especially state-owned banks, leads to sub-optimal loan decisions.

Daily Star: 01.11.2011

## Deferred payments? Third party steps in

Local exporters become gloomy as their customers are increasingly shouldering deferred payments, even for up to six months. Their troubles deepen when they see importers do not want to open a fresh LC (letter of credit) as their banks are also going through troubled times. As the overall situation looks gloomy for the exporters and importers, a third party steps in, looking for a business opportunity by purchasing the exporters' receivables. DS-Concept Factoring, a German trade financing company with offices all across the globe, introduced the third party business idea -- factoring -- in Bangladesh in 2008, witnessing the growing trend among the exporters getting deferred payments. Factoring is a financial transaction in which a business job sells its accounts receivables or invoices to a third party (called a factor) at a discount. In advance factoring, the third party provides financing to the seller of the accounts in the form of cash. Factoring is not a loan. It is the purchase of a financial asset. A sight LC means that payment is made immediately to the beneficiary/seller/exporter upon presentation of the correct documents in the required time frame. If there are no deferred payments, exporters often take 3-6 months to get their money as transportation and shipment take too much time. The export factoring product is designed to help businesses export their goods and services

with the comfort of a trusted financial partner, helping them evaluate credit and eliminate the wait to be paid. The concept is gaining popularity in Bangladesh as a means of financing as compared to traditional modes of funding through the banks. Here, access to funds is quicker as well as cheaper, and does not require any security and collateral whatsoever.

Daily Star: 01.11.2011

### **Australia cuts interest rate to 4.5pc**

Australia's central bank cut interest rates for the first time in more than two years as unemployment rises, inflation moderates and the global economy continues to pose risks. The Reserve Bank of Australia said while fears of a major global downturn had not yet been realised, a 25 basis point cut to 4.5 per cent was appropriate as it seeks to restore impetus to the economy. Over the past year, the Board has maintained a mildly restrictive stance of monetary policy, in view of its concerns about inflation. With overall growth moderate, inflation now likely to be close to target and confidence subdued outside the resources sector, the Board concluded that a more neutral stance of monetary policy would now be consistent with achieving sustainable growth and 2-3 per cent inflation over time. Interest rates last moved in November 2010 when the RBA lifted them 0.25 per cent to 4.75 per cent, continuing a climb that began in October 2009 after Australia survived the global financial crisis without dipping into recession. The latest move had been widely expected, particularly after the release of inflation data last week put the underlying measure through the year at 2.5 per cent — snugly within the RBA's 2.0-3.0 per cent target zone.

New Age: 01.11.2011

### **Britain on brink of recession despite Q3 growth**

The economy is teetering on the brink of recession despite a solid performance in the third quarter, increasing pressure on the government to boost growth as fresh turmoil in the eurozone creates new risks. Gross domestic product grew by 0.5 per cent on the quarter as business services and finance posted the strongest quarterly increase in four years, the Office for National Statistics said on 01.11.2011 a notch more than analysts had forecast. However, the Purchasing Managers' Index survey released earlier showed manufacturing activity in October fell at its sharpest monthly rate since June 2009 when Britain was still in recession. Economists see most of the third quarter growth as a mere rebound from weak growth of 0.1 per cent in the second quarter when an extra holiday for the royal wedding and supply-chain disruptions caused by the tsunami in Japan shaved off as much as 0.5 percentage points from quarterly growth. 'This performance overstates the underlying strength of the economy and this is likely to be as good as it gets for some time to come. Overall services output grew by 0.7 per cent. Industry output rose by 0.5 per cent, with manufacturing posting only 0.2 per cent growth. Construction was down 0.6 per cent on the quarter.

New Age: 01.11.2011

### **Call-money rate rises ahead of Eid**

The central bank is trying to control the inter-bank call-money market, but is not supporting commercial banks adequately with repo, an important tool in the stability of the money market. Bangladesh Bank as the regulator advised the commercial banks to maintain the inter-bank call money rate within 21 percent during the Eid-ul-Azha when demand for money goes up. The call money rate was the highest at 17 percent on 1<sup>st</sup> November. The rate was 19 percent for non-banks. But bankers questioned the central bank's role in repo support, especially to the primary dealer (PD) banks. Primary dealer banks were the main borrowers in the inter-bank call money market as a huge amount of their money is invested in government securities. There are 15 primary dealers: three are state-owned banks, nine private banks and three non-bank financial institutions. The inter-bank call money market is an overnight market which mainly serves commercial banks in meeting their immediate liquidity needs and reserve deficiencies. The normal repo rate is 7.25 percent, which becomes 9.25 percent in special cases. The central bank lent Tk 304 crore at normal repo rate and Tk 2,300 crore at special rate, data shows.

Daily Star: 02.11.2011

### **Bank, NBFIs profits down in 9 months**

#### **Liquidity shortage and capital market crisis take toll**

Profits of half of the banks listed with the capital market and almost all of the non-bank financial institutions in the first nine months of the year dropped significantly because of ongoing liquidity crisis in the banking

channel and crash of stock market. According to data released by Dhaka Stock Exchange in last seven days, profits of 15 listed banks out of 30 declined during January-September period compared to the same period last year. Profits of 15 banks increased in nine months of this year. Data showed that United Commercial Bank's profit in January-September came down to Tk 151.11 crore from that of Tk 158.93 crore during the same period last year while AB Bank's profit slid to Tk 137.78 crore from Tk 333.88 crore, Bank Asia's Tk 140.60 crore from Tk 172.03 crore and Eastern Bank's Tk 162.21 crore from Tk 186.01 crore. Profits of Exim Bank came down to Tk 69.89 crore from Tk 155.04 crore, IFIC Bank Tk 86.07 crore from Tk 142.02 crore, Mutual Trust Bank Tk 35.87 crore from Tk 71.77 crore, NCC Bank Tk 85.37 crore from Tk 138.65 crore, ONE Bank Tk 118.20 crore from Tk 141.79 crore, Premier Bank Tk 32.75 crore from Tk 64.26 crore, Pubali Bank Tk 171.35 crore from Tk 248.33 crore, Shahjalal Islami Bank Tk 85.80 crore from Tk 164.67 crore, Trust Bank Tk 84.33 crore from Tk 102.81 crore and Standard Bank Tk 54.25 crore from Tk 98.78 crore. Most of the banks faced liquidity shortage starting from the beginning of the year. The ongoing crisis in capital market also affected the profitability of banks. The benchmark general index of Dhaka Stock Exchange has been hovering around 5,050-5,400 points for the last few days, after a series of plunges brought down the index to current level from 8,900 in December, 2010. The cost of business of banks had also increased because of increased number of branches and manpower. Bankers, however, said some of the banks that had less exposure in the capital market last year continued to perform well in core banking business this year. The profit of First Security Bank increased to Tk 37.94 crore in January-September from Tk 33.24 crore during the same period last year. Profits of Southeast Bank increased to Tk 141.07 crore from Tk 113.25 crore, Alarafa Bank to Tk 152.19 crore from Tk 105.40 crore, Dutch-Bangla Bank Tk 153.61 crore from Tk 141.00 crore, Dhaka Bank Tk 151.44 crore from Tk 99.45 crore, Islami Bank Tk 464.97 crore from Tk 352.80 crore, Jamuna Bank Tk 110.11 crore from Tk 59.98 crore, Mercantile Bank Tk 156.35 crore from Tk 92.81 crore, National Bank Ltd Tk 449.62 crore from Tk 332.36 crore, Prime Bank Tk 250.89 crore from Tk 232.64 crore, Social Islami Bank Tk 71.48 crore from Tk 33.41 crore, Uttara Bank Tk. 114.36 crore from Tk. 109.26 crore, Rupali Bank Tk 75.05 crore from Tk 52.21 crore and City Bank Tk 1,36.80 crore from Tk 134.58 crore. DSE data showed that profits of 16, out of 18 NBFIs that announced their financial statements, plunged in January-September compared to the same period last year.

New Age: 02.11.2011

### **Tk 365cr bank loan to buy rawhide**

Public commercial banks have increased the amount of loan this year to help traders purchase rawhides of sacrificial animals during Eid-ul-Azha on November 7. The four PCBs — Sonali, Janata, Agrani and Rupali — sanctioned Tk 365 crore loans for facilitating the tanners' rawhide purchase this year compared with last year's Tk 300 crore. Leather Goods and Footwear Exporters Association, expressed the hope that this year's rawhide collection would be better compared to last year and the tanners had taken all out measures to this end. Sources in the department of livestock said the country would have about 18 million sqf of rawhides during Eid as nearly 10 per cent animals are sacrificed on this occasion. The country has nearly 47.5 million domestic animals including 23 million cattle, 1.2 million buffalo, 20 million goats and three million sheep.

New Age: 02.11.2011

### **Global food prices fall but UN warns on volatility**

Global food prices fell sharply in October but volatility on commodity markets is hurting prospects for world food security, the UN food agency warned as G20 leaders met for a summit in Cannes. The UN's Food and Agriculture Organisation said its monthly food price index fell four per cent to 216 points from September, mainly due to production increases in key regions and falling demand due to the economic crisis. But the Rome-based organisation said there was no room for complacency, pointing out that while the index was down from a record high of 238 points reached in February, it was still far higher than 205 points in October 2010. Letting international markets continue in their present state, volatile and unpredictable, will only aggravate an already grim outlook for world food security. A group of 450 economists including from top universities like Cornell and Oxford urged the G20 last month to take urgent action to stop speculation on commodity markets that is fuelling high food prices and hunger. France, which has been chairing the G20 group of leading world economies, has pushed for greater transparency on commodity markets. High food prices are seen as one of the factors behind the famine in southern Somalia and the uprisings in North Africa this year.

New Age: 03.11.2011

## Fed lowers GDP forecast

The Federal Reserve slashed its forecast for growth, raised projections for unemployment and said it was mulling the possibility of buying more mortgage debt to spur a struggling recovery. Buying more mortgage-backed securities was an option to help the economy and the US central bank was still looking for ways to give clearer guidance on its policy path. Moreover, there are significant downside risks to the economic outlook. Most notably, concerns about European fiscal and banking issues have contributed to strains in global financial markets, which have likely had adverse effects on confidence and growth. The central bank was 'closely' monitoring developments in Europe. Concern about potential instability in Europe — especially after a shock decision by Greece to hold a referendum on a bailout package that had been agreed to — likely played into the Fed's decision. US stocks held early gains, prices of 10-year treasury notes were little changed on the day and prices for MBS tracked the larger debt market. In fresh quarterly projections, the Fed lowered forecasts for growth and raised forecasts for unemployment for this year, 2012 and 2013. Policymakers do not see the jobless rate, now at 9.1 per cent, falling to a level they consider consistent with full employment even by the outer edge of their forecasting horizon, the final quarter of 2014.

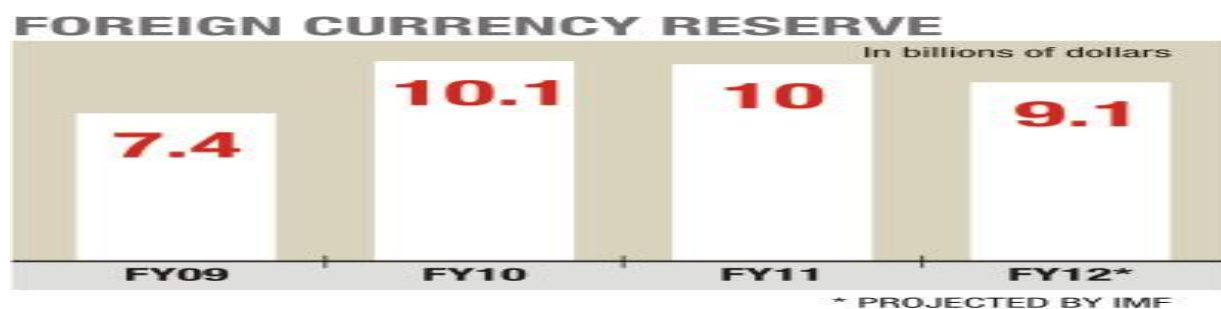
New Age: 03.11.2011

## Taka falls further as cap goes

The taka fell further against the dollar after the cap on the exchange rate expired. On October 10, Bangladesh Foreign Exchange Dealers Association (BAFEDA) set the dollar rate at a maximum of Tk 76 at customer level to avoid volatility in the market. The ceiling was valid for 15 days. The dollar traded as high as Tk 76.55 at customer level (LC payments) 2<sup>nd</sup> November and the day's lowest rate was quoted at Tk 76.30. The inter-bank rate, also known as wholesale price, was at Tk 76.27. The taka has depreciated against the greenback by 60 paisa or nearly one percent in the last seven days, said a treasury official of a private commercial bank. The official passed the reason for depreciation of local currency on a higher remittance costs. Though remitters and exporters are benefiting from the currency depreciation importers and consumers are feeling the pinch with inflationary pressure. Since the expiry of the BAFEDA-set cap, the price of the dollar has been soaring, riding on the growing demand to meet import bills, particularly for power equipment, edible and fuel oils. Demand for the greenback by hajj pilgrims has also contributed to the price hike. Bangladesh received remittances worth \$1.04 billion in October, which is nearly 22 percent higher than \$855 million in September. Petroleum import bills are estimated to be \$6.8 billion this year, down from \$3.6 billion last year.

Daily Star: 03.11.2011

## IMF board suggests credit to Bangladesh to ease economic trouble



The International Monetary Fund (IMF) board has advised the multilateral agency to resume the Extended Credit Facility (ECF) for Bangladesh to help stabilise its foreign currency reserves and take reforms forward. ECF provides financial assistance to those countries that have problems with their balance of payments. The financial support is aimed at ensuring stable and sustainable macroeconomic conditions in those countries. IMF pledged a \$1 billion ECF last fiscal year to Bangladesh to ease pressure on the balance of payments. The IMF report said the executive directors commended the economic performance and authorities' poverty reduction efforts in a fragile global environment. While near-term growth outlook is favourable, high commodity prices and accommodative policies are contributing to deterioration in the current account and inflation pressure. The IMF projected that GDP growth will be 6.3 percent in the current fiscal year, against the government's projection of more than 7 percent. It was 6.7 percent last fiscal year. The IMF also projected that inflation may rise to 10.7 percent in the current fiscal year, which was 8.8 percent last year. The IMF

board of directors encouraged the government to press ahead with the tax reforms, including modernising the tax regime and timely approval of the new VAT and income tax laws. The IMF board also supported further monetary tightening and continued exchange rate flexibility. They urged BB to reduce its financing of the budget deficit in line with achieving its FY12 monetary targets, accompanied by higher policy and treasury rates and limited liquidity support. The board emphasised ensuring the soundness of the financial sector that is essential to maintaining macroeconomic stability and reducing fiscal risks. Key priorities are to strengthen bank supervision and oversight, and improve governance and performance, in particular of the state-owned commercial banks. Directors stressed the need for strong equity market oversight, including containing systemic risks that could arise from market volatility.

Daily Star: 03.11.2011

### **Sale of savings tools dips 65pc in Q1**

Government savings certificates sale has plummeted by a massive 65 per cent in the first quarter (Q1) of 2012 fiscal from the same period last year as experts attribute the drop-off to its lower interest rates. The net sale of savings tools has stood only at Tk 4.98 billion in July-September period of 2011-12, down from Tk 14.33 billion in the same period last fiscal, data from Directorate of National Savings (DNS) showed. According to data, the sale amounted to Tk 3.11 billion in July, Tk 260 million in August and Tk 1.61 billion in September respectively. The net borrowing target of the savings certificates has been fixed at Tk 64 billion for the 2012 fiscal year. Banks now offer interest rates up to 12.00 per cent on deposits, but the government fixed the rates at 11 per cent for different savings certificates this year. Experts said the massive fall in sale of savings schemes forced the government to turn to the banking system for borrowing, which the central bank says is more than 36 times higher in the first 115 days of the current fiscal. The bank borrowing reached Tk 111.99 billion until October 23 as against Tk 3.07 billion in the corresponding period of the last fiscal.

Fin. Exp: 03.11.2011

### **BB to open unit to take complaints from bank customers**

Bangladesh Bank (BB) will open a unit to ensure customers get proper services from banks without any hassle, said Governor. The unit, known as Customer Interest Protection Centre, is expected to open at the BB headquarters in a month. The centre will allow customers to file complaints against officials of any bank for the poor services or harassment they receive in both urban and rural areas by phone, fax or email. "A team of 10 officials at Bangladesh Bank will receive complaints from customers and take steps to solve the problems immediately," said Rahman. The governor favoured avoiding over-regulation and giving flexibility to MFIs so that they can develop financial products that suit poor people's needs.

Daily Star: 04.11.2011

### **Cotton production likely to exceed target in 2011-12 season**

The lint cotton production in the country is likely to exceed the target of 1,20,000 bales in the current fiscal year due to the increased use of high yielding hybrid variety along with favourable weather. In the current fiscal year, 35,675 hectares of land have been brought under cotton cultivation and expecting the production to exceed 1,20,000 bales of lint cotton. In the season 2010-11, some 33,500 hectares of land were brought under cotton cultivation and the country achieved the expected production target of 80,000 bales. The lint cotton production of 80,000 bales in the last fiscal is, however, too small compared to the country's demand of over 40 lakh bales. Out of the 35,675 hectares of land under cotton cultivation in the current fiscal, some 22,000 hectares are in the plains while the rest in the hilly areas. Of the plain lands, some 3,500 hectares were brought under hybrid cotton cultivation with the use of hybrid seeds increasing to 10 tons from 2 tons. According to Bangladesh Bank statistics, the country imported 40 lakh bales of cotton in the 2008-09 fiscal spending Tk 19,137 crore in foreign exchange. Bangladesh, the third largest importer of cotton, usually procures the item from Pakistan, India, USA, Uzbekistan, Benin, South Africa and Senegal.

New Age: 04.11.2011

### **Italy accepts IMF monitoring, EU looks for support**

Italy, under fierce pressure from financial markets and European peers, agreed to have the IMF monitor its progress with long delayed reforms of pensions, labour markets and privatisation. Prime Minister, his government closes to collapse, agreed to the step in late-night talks with eurozone leaders and US president on the sidelines of a G20 summit in Cannes. The move came after a European ultimatum made Greece step back

from a referendum that could have triggered its exit from the euro area and agreed to seek national consensus in support of a new 130 billion euro bailout programme. The leaders of France, Germany, Italy, Spain, the European Central Bank, the IMF and European Union institutions also discussed ways of ramping up the IMF's warchest to help prevent contagion from the eurozone's debt crisis plunging the world economy back into recession. Three options were under consideration, including pooling the eurozone countries' rights to borrow from the IMF to build a fighting fund to support vulnerable sovereigns such as Italy and Spain. This could make available another \$280-300 billion.

New Age: 04.11.2011

### **US unemployment edges down to 9pc**

US unemployment edged down to 9.0 per cent last month, as the economic recovery is only strong enough to nibble away at brutal levels of joblessness. The Labour Department said the economy managed to break away from three months of 9.1 per cent unemployment in October, but that jobs are being generated at a pace that offers little succor to the 14 million Americans looking for work. The economy created 80,000 jobs in October, slightly worse than economists expected, although there were heavy upward revisions for previous months. Over the past 12 months, an average of 1,25,000 non farm jobs were created each month, the Labour Department reported, much fewer than needed to substantially bring down the unemployment rate. To get below eight per cent unemployment by election day, the economy needs to create 263,000 jobs per month.

New Age: 05.11.2011

### **Export performance of non-RMG in first quarter better**

Non-readymade garment (non-RMG) goods and products, dominated the county's export sector, in terms of growth, during the first quarter of the current fiscal over that of the corresponding period of the previous fiscal. The clothing sector, which has been reigning the export sector for more than two decades, grew by 21.2 per cent during the first quarter of the current fiscal while non-RMG sectors -- jute and leather included -- grew by 27.6 per cent, according to official data released by the Export Promotion Bureau (EPB). The official data also showed the growth of knit sub-sector at 18.3 per cent and that of woven at 24.8 per cent in the first quarter. On the other hand, export of raw jute grew by 18.7 per cent and that of leather by 20 per cent. The export of other non-RMG goods also registered a double-digit growth. Garment manufacturers said export fall in the major markets is the main reason behind the gloomy situation of the RMG.

Fin. Exp: 05.11.2011

### **Reserve falls below \$10b following ACU payment**

The country's foreign exchange reserve again fell below US\$ 10 billion 3<sup>rd</sup> November after making a routine payment to the Asian Clearing Union (ACU) against the two months' imports from the member countries of the latter. Bangladesh made a routine payment of US\$ 824 million to the ACU against imports during the September-October period of this calendar year. The country's foreign exchange reserve has been under pressure because of higher import payments, particularly for fuel oils, food grains, fertilizers and power plant equipment. The International Monetary Fund (IMF) has also predicted further fall in the foreign currency reserve mainly due to the lack of stronger policy adjustment and timely structural reforms. Under the existing provisions, outstanding import bills and interest accrued thereof are settled at the end of every two months among the member countries. The amount of payment increased to \$824 million from the preceding installment of \$692 million mainly due to higher imports, particularly of consumer goods, from other ACU member countries. As part of the operation, the BB sold US\$ 10 million to a state-owned commercial bank 3<sup>rd</sup> November to meet its growing demand for the greenback. The central bank has so far injected \$ 256 million directly to the commercial banks to meet the increasing demand for the greenback in the current fiscal year, BB data showed. The country's overall import payments grew by 23 per cent in the first quarter (Q1) of the current fiscal year (FY), in view of more than 100 per cent increase in oil import bill. Letters of credit (LCs) against imports worth US\$ 8.53 billion were settled during July-September period of FY '12 compared with those valued at \$ 6.92 billion of the corresponding period of the last fiscal.

Fin. Exp: 05.11.2011

### **IMF recommends tighter control over banks' exposure to stocks**

The International Monetary Fund (IMF) has urged the government to intensify supervision of banks and the mechanism to oversee the stockmarket. IMF has warned that the exposure of the banks in Bangladesh to the

stockmarket is more than the regional norm and that it deepens risks. It further recommended strict licensing criteria for the approval of new banks. Most banks are currently within the overall shareholding limit of 10 percent of total liabilities. However, the limit is more relaxed than the regional norm, which is typically around 25 percent of bank regulatory capital. IMF also said Bangladesh Bank should continue to strengthen its supervision and overseeing of the banking system, focusing on improving the governance and finances of the public banks and ensuring all banks compliance with new capital adequacy requirements.

Daily Star: 06.11.2011

### **Rawhide collection drops this Eid**

A sluggish international market, unstable prices, increased cost of processing and poor collection of rawhides this Eid-ul-Azha have created uncertainty in the trade of hides in this peak season of collecting the raw leather that fetches huge export revenue. Reluctance of the tanners in fixing the price before the Eid created the confusion in price but the collection was not hampered. This year the collection of raw hides would be nearly 15 per cent less than the last year's total collection of about 24 lakh pieces. But the situation would not affect the overall export of leather and leather goods this year as the exporters still had around 20 lakh pieces of hides in stock due to the sluggish the global market.

New Age: 09.11.2011

### **Exporters brace for lower export earnings in current fiscal year**

The country may not achieve its export target of \$26.3 billion in the current fiscal year up to June 2012 due to the fresh global slowdown emerging from Europe's debt crisis, experts and traders said on 4<sup>th</sup> November. The Export Promotion Bureau (EPB) has set the export target, which is 15 per cent higher than the target of \$18.5 billion in the previous fiscal (2010-11). The country's total exports reached a record \$22.92 billion, including \$17.90 billion fetched by ready-made garments (RMG), in the FY 2010-11. The total export earning in FY 2010-11 was 41.5 per cent higher than the previous fiscal and earning from RMG during the same period was 43 per cent higher. The exports in the July-September period were worth \$6.16 billion, against a target of \$6.26 billion. The exports in the first quarter were 22.56 per cent lower than the exports in the corresponding period of the last FY, according to EPB data. During July-August, knitwear and woven garment sectors' earnings grew by 29.64 and 33.54 per cent respectively.

Fin. Exp: 11.11.2011

### **Govt on bank borrowing spree**

#### **Tk 1.24b borrowed daily in first 120 days of FY 2011-12**

The government borrowed an unprecedented amount of Tk 1.24 billion a day from the banking channel on average during the first 120 days of the current fiscal year due mainly to the diminishing foreign aid inflow. According to Bangladesh Bank record, the government borrowed Tk 149.05 billion in July to October of FY2011-12. Although the amount of government's average daily bank borrowing was around Tk 1.00 billion in the first quarter of the current fiscal year, it jumped by more than 60 per cent as around Tk 50 billion was borrowed in October alone. In the process, the government has already availed of more than two-thirds of its projected annual bank borrowing of Tk 189.57 billion. Moreover, almost half of the borrowed amount in the first four months of FY2012, or Tk 78.87 billion, was taken from the central bank and the rest from commercial banks. BB officials attributed the unprecedented amount of borrowing to a hike in the government's public spending amid a declining trend in foreign loan inflow. The country in the first quarter of FY2012 received only \$246.2 million from multilateral and bilateral lenders but had to pay them \$171.8 million back in debt servicing.

New Age: 12.11.2011

### **Euro gains on crisis progress**

The euro jumped 1.4 cents against the dollar on 4<sup>th</sup> November after Greece, Italy and Portugal all made progress toward implementing bankruptcy-avoiding austerity plans. The euro also jumped to 105.97 yen from 105.58 yen, while the dollar fell to 77.12 yen from 77.63. A very tentative breath of relief was felt in stocks and currency markets as the three embattled eurozone states made political process toward getting reform programmes underway that could avert meltdowns at the national and even regional level. Italian lawmakers gave their initial approval to a package of key reforms aimed at staving off bankruptcy, Greece's new unity

government was sworn in to ratify the crucial EU bailout, and in Portugal, lawmakers gave preliminary approval to the government's 2012 austerity budget.

Fin. Exp: 13.11.2011

### **15 more items to get duty-free access to India**

Fifteen more Bangladeshi products will get duty-free access to India after it slashed its sensitive list of products of the least developed countries to 25 from 480 under the South Asian Free Trade Agreement. Indian Prime Minister on 10.11.2011 announced in his statement at the inaugural session of the 17th SAARC Summit in the Maldives that India had issued a notification shortening the sensitive list of products of the LDCs to 25 tariff lines from 480 under the SAFTA. Zero basic customs duty access will be given with immediate effect to all the items removed from the list. In line with the India's notification, 15 more Bangladeshi products will get duty-free access to India. The 15 products that received duty-free access to the Indian market are beetle nut, toilet or facial tissue, fresh potato, refined coconut oil, printed paper, lubricating oil, CR Coil, CI sheet, GP sheet, iron bar/rod, SS bar/rod, iron angle, and animal bones. Bangladesh in the last fiscal year posted a trade deficit of around \$4 billion with India, with Bangladesh importing goods worth \$4.58 billion against a \$512 million worth of exports. Bangladesh is a major apparel exporter in the world and apparel exports accounted for nearly \$18 billion or more than 80 per cent of the country's total export earning of \$22.92 billion in FY2010-11.

New Age: 13.11.2011

### **Dhaka accepts EU move to give 74 Pak items duty-free access**

Dhaka on certain conditions accepts the EU move to grant duty-free access to 74 Pakistani textile products, eight of which are also major export items of Bangladesh that enjoy the same facility. Bangladesh has urged the international trade regulator World Trade Organisation either to drop the eight items from the list of Pakistani products drawn up by the European Union to get duty-free access to its market or to impose an export cap to keep the Pakistani items' export growth to Europe for two years within a certain limit. The EU at end-2010 proposed providing Pakistan with duty-free access for 74 textile products to the European market for two years to help the country's economy recover from severe flood damages the same year. According to the WTO rules, Pakistan as a developing country cannot get duty-free access to the international market. The facility is dedicated for the least developed countries. The WTO in a meeting on November 7 decided to impose an export cap on 13 of the EU-selected Pakistani products, six of which were common with Bangladesh, to restrict their export growth to Europe to 20 per cent. Bangladesh may lose a maximum of \$200 million and a minimum of \$58 million a year, if Pakistan is allowed duty-free access to the EU market.

New Age: 15.11.2011

### **Tk 10b revenue loss feared this fiscal due to fall in banks' profit**

The tax revenue collection from the largest corporate taxpayers might drop significantly in the current fiscal, following a decline of operating profits of private commercial banks (PCBs) in the first quarter. Large Taxpayers Unit (LTU) of the National Board of Revenue (NBR) feared a revenue loss of Tk 10 billion in the current fiscal year (FY) due to a sharp fall of operating profits of most banks, both public and private. Banks, financial institutions, insurance and leasing companies contribute about one-fourth of the revenue earnings by the income tax department. Elaborating further, they noted that a larger fiscal deficit in the context of the current inflationary pressures in the economy and also because of an increasing amount of deficit of its balance of payments, will further compound the problems. During July-September period of FY 2011-12, the revenue board collected Tk 10.53 billion as income tax only from banks. The aggregate tax collection target of the LTU from different sources for the first quarter of the current fiscal was Tk 18.15 billion. The unit has, however, exceeded its aggregate revenue collection target by Tk 10 million. According to available statistics, fifteen PCBs, out of 20, earned around Tk 13.74 billion as operating profits in the first quarter of FY 2011-12 against Tk 31.18 billion in January-March and April-June period of the last fiscal. The operating profits of PCBs declined by Tk 1.85 billion -- taking the average figure of earlier two quarters into account -- in the third quarter of the current calendar year, compared to the situation during its first six months. LTU collected 62 per cent of its tax receipts from banks, financial institutions, leasing and insurance companies. Out of this collection, banks alone contributed to 58 per cent of the aggregate income tax. This fiscal, the government set

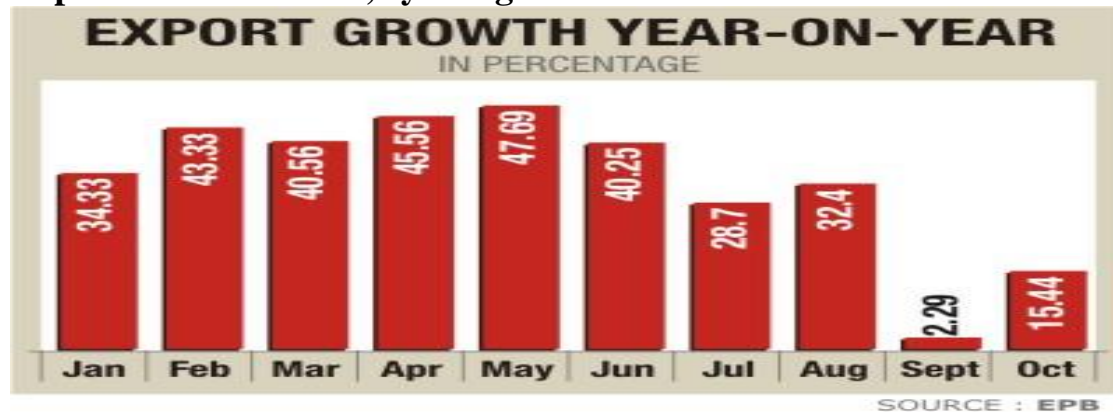
an ambitious target for the LTU at Tk 92.40 billion, projecting a 24.86 per cent growth  
Fin. Exp: 15.11.2011

### Plastic goods exports jump 58pc in four months

Plastic exports climbed by 58.30 per cent in the first four months of the current fiscal, helped by international restrictions on Chinese products. Bangladesh earned Tk 2.27 billion by exporting plastic products in July-October period of 2012 financial year, compared with Tk 1.43 billion in the same period last fiscal, according to the Export Promotion Bureau (EPB). The amount is 15 per cent short of the target of Tk 2.70 billion. According to BPGMEA and Export Promotion Bureau (EPB), the country exports plastic items valued at Tk 5.00 billion directly and Tk 15 billion indirectly to over 23 countries annually.

Fin. Exp: 15.11.2011

### Exports back on track, eye on global crisis



Exports grew by 35.41 percent to \$1.95 billion in October compared to September, riding on the performances of the apparel sector, the Export Promotion Bureau (EPB) said. Exports increased 20.79 percent to \$8.11 billion in the July-October period, the first four months of the current fiscal year, compared to the same period last year. However, export performance was 0.40 percent short of the periodical target at \$8.15 billion, the data showed. In September alone, the earnings from overseas trade were recorded at \$1.44 billion. Bangladesh clocked a staggering 40.25 percent growth in June, but the country's overseas sales started to slow down since then. Firstly, the growth in export is increasing gradually for better performances in the newly developed markets such as Japan, South American countries, South Africa, New Zealand and Australia. Secondly, the export in value is increasing due to higher prices of per unit of garment items from the high-end customers. The trends show that a good number of high-end brands are now outsourcing garment items from Bangladesh. As a result, the prices of per unit of garment item also increased in value.

Daily Star: 15.11.2011

### Ban on hybrid shrimp keeps BD from higher forex income

The government's apathy to allow cultivation of hybrid white shrimp and lack of modern technology are depriving the country of earnings over US\$2.0 billion in exports a year. The government in mid- 90s had imposed a ban on cultivation of this species of shrimp in the country for its white spot syndrome virus (WSSV), which spread many countries in the world. According to the Bangladesh Frozen Food Exporters Association (BFFEA), countries like India, Thailand, China, Vietnam, Taiwan, the Philippines and Indonesia have increased shrimp production through cultivating white shrimp, thus raising their forex earnings. The association said that the countries which cultivate white shrimps can produce more than 1000 kilo gramme (kg) on per hectare of land, whereas production of the traditional shrimp (Bagdha) in Bangladesh is around 200 kg per hectare only. Bangladesh earned around US \$300 million through export of shrimp whereas India earned over US \$1.0 billion, Vietnam US \$ 1.2 billion and even Thailand earned about three times more than that of Bangladesh during the fiscal year 2010-11, BFFEA sources informed. Driven by shrimp, Export Promotion Bureau (EPB) data showed that the country's frozen food export registered a 40 per cent growth to US\$ 625 million in the last fiscal year (2010-11) from \$ 437 million in the 2009-10 fiscal.

Fin. Exp: 15.11.2011

## **BoP comes under further strain**

The country's balance of payments (BoP) has come under further stress, apparently worrying the government. The central bank has expressed concern over it and urged the government to take necessary steps to attract foreign currency to the country. In the first three months of the current fiscal year, the current account balance fell down to \$307 million, which is less than half compared to the same period last year. During the corresponding period last year, the surplus in current account balance was \$622 million. The International Monetary Fund (IMF) has projected that the current account balance may be deficit by \$849 million in the current fiscal year, while it was \$995 million surplus last year. Early November, the BB also sent a letter to the government alerting it to the ensuing pressure on the BoP. The BB in the letter said, if expected progress in receiving foreign direct investment and mid- and long-term foreign assistance is not achieved, financial account of the BoP will come under further pressure in future. In the first two months of the current fiscal year, the deficit in financial account was around \$1 billion which was \$1.58 billion in the entire last year. The BB said, in this context the taka may become weaker against the US dollar, leading to instability in the overall macro-economy. The taka depreciated by around 3 percent against the dollar on November 9 compared to June. On the date the taka-dollar exchange rate was Tk 76.35.

Daily Star: 16.11.2011

## **BB comes to aid of SCBs by selling dollars to them directly**

The central bank has strengthened its foreign exchange support through selling the US dollar directly and providing overdraft (OD) facilities to the commercial banks for settlement of import bills. As part of the operation, the Bangladesh Bank (BB) sold US\$ 50 million at market rate to two state-owned commercial banks (SCBs) directly on 15<sup>th</sup> November to meet the growing demand for the greenback. The US dollar was quoted at Tk 76.48-Tk 76.51 in the inter-bank foreign exchange market on the day against Tk 76.48 of the previous working day, according to the BB statistics. The country's foreign exchange reserve stood at \$9.62 billion 15<sup>th</sup> November after the sale of \$50 million by the central bank to the SCBs. The central bank has so far pumped in \$306 million directly to the commercial banks to meet their increasing demand for the greenback in the current fiscal year, the BB data showed.

Fin. Exp: 16.11.2011

## **Poor fund management triggers crisis in SCBs**

The financial health of the state-owned commercial banks (SCBs) has deteriorated over the years gradually because of their failure to manage their funds properly. In recent months, the easy access to their funds by the government to meet the latter's financing needs, in the context of growing budget deficit and deteriorating balance of payments (BoP), has further aggravated the situation of the SCBs. The deposit growth of four SCBs has declined in recent months compared to their credit growth. Total deposit growth of the SCBs declined to Tk 1087 billion on October 27, 2011 from Tk 1094 billion on June 30 this year, according to the central bank data. The rate of credit growth of the SCBs increased to Tk 841 billion in the period under review from Tk 831 billion on June 30 last, the BB data showed. Average credit-deposit ratio (CDR) of four SCBs -- Sonali, Janata, Agrani and Rupali -- rose to 75.03 per cent on October 27 from 72.90 per cent on June 30 last, reflecting their credit growth rate being higher than that of deposit. Most SCBs are now maintaining a 'go-slow strategy' for consumer financing aiming to manage their assets and liabilities in line with the BB's advice.

Fin. Exp: 17.11.2011

## **Cash crunch hits fertiliser import**

As financial pressure for import of a huge quantity of fuel oil for generation of power is badly hitting the public exchequer, the government is now faced with a new problem -- it is unable to finance timely import of fertiliser. The letter said dues of three banks -- Sonali, Janata and Krishi banks -- on account of fertiliser import stood at Tk 3,280 crore till October 9. The government has not cleared this in time, and is now paying Tk 1.08 crore a day in interest on the amount. This would not have happened had the government released in time Tk 4,761 crore budgetary allocation of subsidy for import of urea fertiliser. According to Bangladesh Bank (BB) statistics, the government's bank borrowing till November 1 crossed Tk 16,000 crore, which is about 85 percent of the annual target.

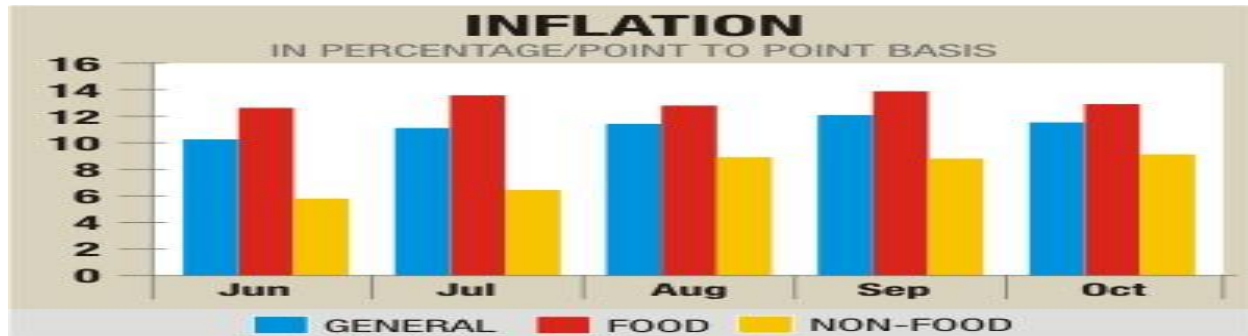
Daily Star: 17.11.2011

## Crisis in rich nations to take toll on LDCs

Economic turmoil in advanced countries and a spike in food and oil prices are likely to slow down economic growth of the least developed countries (LDCs), warned a United Nations agency. The LDCs may grow by 4.9 percent in 2011 from 5.7 percent the previous year due to a slowdown in exports, remittances and aid flows in the wake of economic crisis in the developed economies, said LDC Report 2011 of the United Nations Conference on Trade and Development. In the mid term, economic growth of all LDCs, now 48, may slow down to 5.8 percent from 7.2 percent a year during 2002-2008, the report said.

Daily Star: 18.11.2011

## Inflation ticks a bit lower



Food inflation slowed in October, but non-food inflation went up due to a rise in petroleum prices and the government's heavy borrowing from the banking sector. The overall inflation decreased to 11.42 percent in October, compared to 11.97 percent a month before, according to Bangladesh Bureau of Statistics. Food inflation declined mainly due to a drop in the prices of some commodities such as rice, edible oil, lentil, sugar and onion in October. But still the inflation figure is a 13-year high. Food inflation fell by about 0.93 percentage point in October and stood at 12.82 percent. Non-food inflation increased by 0.28 percentage point and reached 9.05 percent in October, which was 8.77 percent in the previous month. In just four months and nine days of the current fiscal year, the government borrowed Tk 18,860 crore from the banking system, which is 99 percent of its target for the entire year, according to the statistical agency. In October, food inflation fell slightly compared to September as the price of rice and edible oil went down.

Daily Star: 18.11.2011

## US economy gains traction ahead of European storm

The US economy is gaining steam as factories churn out more cars and slowing inflation boosts spending power, putting the country on stronger footing to resist an economic storm gathering over Europe. Recent readings of the US economic pulse have steadily topped. Many now think the fourth quarter will prove stronger than the third, when the economy expanded at a 2.5 per cent annual rate. A slowdown in inflation has also helped households regain a little spending power, with weekly earnings rising in September and October when accounting for price changes. That has helped retail sales. New car sales, for example, rose 7 per cent last month to their highest level since February. Sales will likely rise another 8 per cent in November. New claims for unemployment benefits fell last week to their lowest level since April. That could be a signal that employers are finally poised to ramp up hiring, which has been the missing piece in the country's sluggish recovery from the 2007-2009 recession.

New Age: 18.11.2011

## Seven banks sued over MF Global collapse

Seven banks that helped MF Global Holdings Ltd sell bonds were sued by pension funds who said the bonds' offering prospectuses concealed problems that led to the futures brokerage's collapse. The lawsuit was filed 18.11.2011 afternoon in Manhattan federal court against units of Bank of America Corp, Citigroup Inc, Deutsche Bank AG, Goldman Sachs Group Inc, Jefferies Group Inc, JPMorgan Chase & Co and Royal Bank of Scotland Group Plc. Other defendants include several officials associated with MF Global, including former chief executive. The lawsuit may be one of the earliest efforts for investors to recover money from relatively deep-pocketed defendants that they believe may share in responsibility for MF Global's October 31 bankruptcy. The remaining banks did not immediately respond to requests for comment. According to the

complaint, the registration statements and prospectuses for about \$900 million of MF Global note offerings this year omitted how the company was using high leverage, investing heavily in risky European sovereign debt, and not properly segregating client assets from its own. It said the seven banks helped draft the offering documents and sell the notes, collecting \$21.2 million of fees, but that their 'failure to conduct an adequate due diligence investigation was a substantial factor' in MF Global's collapse, as well as in defaults on the notes.

New Age: 19.11.2011

### JS committee recommends act on Islamic banking

The parliamentary standing committee on finance ministry recommended formulation of Islamic Banking Act for smooth operation of Islamic banking in the country. Under the existing system, the Islamic banks are operating under the Bank Companies Act 1991 and they complained that they were facing problems under the act. They also faced problems in call money market as they cannot lend in the market. Bangladesh Bank will soon formulate a rule under which Islamic banks can take part in the money market.

New Age: 20.11.2011

### IMF suggests intense efforts to curb inflation

The International Monetary Fund asked Bangladesh to tighten monetary policy to contain inflation that soared to a 13-year high of 11.42 percent in October. The IMF presented a six-point proposal to the government to help the country address challenges to the economy. The IMF's six-point recommendations also include safeguarding reserves by continued exchange rate flexibility and interventions only to smooth short-term volatility, and addressing financial sector vulnerabilities by strengthening and enforcing bank supervisory framework and market oversight and ensuring sound governance. The overall balance of payments was in a deficit for the first time in a decade, leading to foreign reserve losses in 2010-11. On the domestic side, it said further loosening in macro-policies and weakening of policy anchors could prove destabilising.

Daily Star: 22.11.2011

### Govt's borrowing crosses full-year target in 4 months

<b>SUBSIDY IN FY12</b>			
<b>IN CRORES OF TAKA</b>			
	Allocation in budget	Demand	Probable allocation
<b>AGRICULTURE</b>	<b>4,500</b>	<b>11,600</b>	<b>8,000</b>
<b>EXPORT</b>	<b>2,200</b>	<b>2,700</b>	<b>2,700</b>
<b>FOOD</b>	<b>1,677</b>	<b>1,677</b>	<b>1,677</b>
<b>PDB</b>	<b>5,200</b>	<b>10,000</b>	<b>7,400</b>
<b>BPC</b>	<b>3,500</b>	<b>16,700</b>	<b>12,000</b>
<b>BJMC</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>
<b>OTHERS</b>	<b>500</b>	<b>500</b>	<b>500</b>

The amount of the government's borrowing from the banking sector crossed the entire year's target in just four months and 17 days due mainly to a heavy spending on subsidy and a shrinking foreign aid flow. From July 1 to November 17, the government borrowed Tk 18,986 crore from the banking system, which is Tk 29 crore more than its borrowing target for the year. Of the total Tk 18,986 crore the government has borrowed so far, the loan from the central bank alone was Tk 11,167 crore. In the agriculture sector, the additional demand is Tk 11,600 crore which may be cut down to Tk 8,000 crore.

Daily Star: 21.11.2011

### US growth cut to 2pc

The estimate of US growth in the third quarter was cut to 2.0 percent on 22<sup>nd</sup> November, sharply lower than the 2.5 percent initial estimate that gave markets hopes the economy was rebounding. The Commerce Department attributed the cut to businesses drawing down inventories without spending to replace them, along with slower state and local government spending.

Daily Star: 23.11.2011

## **Indian rupee hits record low against US dollar**

The Indian rupee on 22<sup>nd</sup> November hit a record low against the dollar, as fears about eurozone debt and the global economy as well as falling local stock markets provoked further selling of the currency. The rupee plunged to 52.50 against the greenback as foreign exchange markets opened, causing further problems for the Indian central bank as it tries to rein in near double-digit inflation. The weakening rupee is expected to fuel domestic inflation because oil imports priced in dollars will become more expensive, translating into higher prices for local consumers and businesses.

Daily Star: 23.11.2011

## **Income-spending mismatch fuels govt's bank borrowing**

The government's borrowing from the banking sector is increasing fast although it has received Tk 3,184 crore in licence renewal and spectrum fees from mobile operators this month. The government did not get as much as it expected as earnings from savings instruments, mobile operators and aid from donors. In four months and 22 days (July 1 to Nov 22), the government borrowed Tk 20,204 crore from the banking system, which is 638 percent higher than in the same period a year ago. The amount is Tk 1,248 crore more than the borrowing target for the current fiscal year. Bangladesh Bank had been expecting that the amount would cut the government's borrowing from the banking channel. Borrowing from the central bank has been on the rise, and in four months and 22 days Tk 12,222 crore or 61 percent of the total amount borrowed was taken from the BB, creating pressure on inflation. During the four-month-22-day period, the government gave Tk 588 crore as loans to the autonomous and semi-autonomous bodies. The government had a borrowing target of Tk 6,000 crore through savings instruments in the current fiscal year. During the July-September period the government borrowed Tk 498 crore through savings instruments. The amount was Tk 1,767 crore during the same period last year. People are now less interested in savings instruments as they get higher interest on their deposits in banks.

Daily Star: 27.11.2011

## **Farm loan disbursement slows down in Jul-Oct**

Farm loan disbursement by the banks in July to October of the current fiscal year had declined by 6.79 per cent from that of the same period of FY2010-2011. The state-owned, private and foreign commercial banks and specialised banks in the period collectively disbursed 21.81 per cent, or Tk 3,010.29 crore, of the targeted agriculture loan disbursement of Tk 13,800 crore for the current fiscal year, compared to disbursement of 28.60 per cent, or Tk 3,608.39 crore, of the targeted farm loan disbursement of Tk 12617.40 crore in the previous fiscal year. According to Bangladesh Bank data, the state-owned commercial banks – Sonali, Janata, Agrani, and Rupali – and the two specialised banks – Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank – disbursed Tk 1,979.74 crore or 23.26 per cent of their annual disbursement target of Tk 8,510 crore. The six state-owned banks had distributed 30.59 per cent of their annual target of agricultural lending in the corresponding four months of FY2011. As usual, the percentage of disbursement of targeted agriculture credit by the private and foreign commercial banks was far lower than that posted by the state-owned banks. They handed out to farmers Tk 1,030.55 crore in agriculture loans, which is 19.48 per cent of their total annual disbursement target of Tk 5,290 crore.

New Age: 27.11.2011

## **BB chief sees \$70m from carbon trading**

Bangladesh has the prospects of earning \$70 million a year from carbon trading in the global carbon credit market, the central bank governor said on 27<sup>th</sup> November. It is high time to introduce environment-friendly technology in the brick manufacturing process in Bangladesh, said the country director of UNDP Bangladesh.

Daily Star: 28.11.2011

## **Pvt banks plan to introduce multi-use ATM cards**

The country's private banks are planning to introduce multi-purpose ATM (Automated Teller Machine) cards with incentives to boost their income. The move comes in response to the needs of customers who do not want to carry cash for security reasons and avoiding the risk of getting counterfeit notes.

Fin. Exp: 28.11.2011

## **BB for making local accounting, auditing international standard**

Bangladesh Bank governor said that the central bank "is looking forward to the work of the Institute of Chartered Accountants of Bangladesh (ICAB) towards full convergence of the local accounting and auditing standards in financial and real sector with the international best practice standards.

Fin. Exp: 29.11.2011

## **We don't have unlimited cash for crisis: Germany**

Germany hit back at those calling for the country to dig deeper into its pockets to solve the eurozone debt crisis. There have been appeals from around the world for Germany either to contribute more heavily to the eurozone rescue fund or to backtrack on its opposition to pooling debt within the 17-nation zone. Berlin is also blocking what many see as the most powerful solution to the eurozone crisis: allowing the European Central Bank to intervene more forcefully on the bond markets to bring down member states' borrowing costs.

Fin. Exp: 29.11.2011

## **BB issues guidelines for banking services on customer premises**

Bangladesh Bank issued a detail guideline for banks to offer their services on the customer premises. 'For the sake of transparency in respect to the rights and obligations of customers, uniformity in approaches and putting proper risk management tools in place, it is felt that some general principles and broad parameters should be followed by banks while offering these services,' a circular issued by the Banking Regulation and Policy Department said. It said the central bank observed that a number of banks are offering different banking services like, cash pickup and delivery under their own schemes, on the premises of customers in an attempt to fulfill genuine customer needs. The BB advised the banks to prepare schemes for offering pickup and delivery services to their customers, in accordance with the guidelines. According to the guideline, banks can offer pickup of cash and instruments, delivery of cash against cheques received at the bank counter and delivery of instruments to their corporate, government and public sector customers. Individual customers will get only pickup of cash and instruments and delivery of instruments at their doorsteps.

New Age: 30.11.2011

## **BB disseminates info about FC, RFC, NRFC accounts**

Bangladesh Bank disseminated information about the opening of private foreign currency, resident foreign currency deposit and non-resident foreign currency deposit accounts, and foreign currency transaction. The central bank disseminated the information on foreign exchange transaction and the account opening so that Bangladeshis living abroad can send remittances smoothly. This initiative would also help prevent money laundering and illegal transaction of foreign currencies. Bangladeshis living abroad will be allowed to open and maintain private foreign currency accounts and the clients will be able to send remittance through banking channel by using the accounts. The Bangladeshis who return from different countries will be allowed to open resident foreign currency deposit accounts. Besides, those living abroad with dual citizenships and those working in Bangladesh missions abroad will be allowed to open non-resident foreign currency deposit accounts.

New Age: 30.11.2011

## **Eurozone unemployment hits record 10.3pc in October: EU**

Eurozone unemployment rose to an all-time record of 10.3 per cent in October, official figures showed the indebted 17-nation bloc falls towards a recession. The Eurostat data agency estimated that nearly 16.3 million men and women were out of work last month after the ranks of the unemployed rose by 1,26,000 compared with September. The seasonally-adjusted rate was above the 10.2 per cent forecast by analysts polled by Dow Jones Newswires, the same percentage as September. The jobless rate across the wide, 27-nation European Union also rose as it reached 9.8 per cent in October compared to 9.7 per cent a month earlier. Almost 23.6 million people were unemployed in the EU in October, an increase of 1,30,000 from September. The highest unemployment rate was still in Spain where it rose to 22.8 per cent in October compared to 20.5 per cent a year earlier. In Greece, a nation trapped in the eurozone debt crisis, the jobless rate soared to 18.3 per cent in August (the most recent available data) compared to 12.9 per cent the same month in 2010. Austria recorded the lowest rate at 4.1 per cent, followed by Luxembourg 4.7 per cent and the Netherlands at 4.8 per cent.

New Age: 30.11.2011

## Bad loans pile up on stock losses

The amount of defaulted loans rose by Tk 688 crore or 2.82 percent in three months as banks could not recover their investment in the stockmarket last year. On September 30, banks recorded their defaulted loans at Tk 25,072 crore of their outstanding loans, up from Tk 24,384 crore on June 30, according to Bangladesh Bank statistics. In the second quarter up to June this calendar year, the amount of defaulted loans rose by Tk 643 crore or 2.66 percent, while in the first quarter up to March, the rise was Tk 1,043 crore or 4.59 percent. The rise in the amount was meager in percentage as their outstanding loans went up significantly. On September 30, the total amount of defaulted loans was 7.17 percent of their outstanding loans -- up from 7.14 percent in June. According to the central bank statistics, the defaulted loans of the private banks soared more than other banks as the private banks invested more in the capital market. In September, defaulted loans of the state banks rose by Tk 132 crore compared to June, according to BB statistics. Such loans in the private banks increased by Tk 512 crore and in the foreign banks by Tk 73 crore. Provision means the banks keep aside a part of their income against the equal amount of defaulted loans and the money cannot be given to the shareholders as profit. The amount of defaulted loans of all the 30 private banks, except two, is below 6 percent, according to BB statistics. Of the total 47 public and private banks, five banks have provision shortfall. After the adjustment of provision, the banks' net default loan is only Tk 4,088 crore or 1.24 percent of their outstanding loans.

Daily Star: 30.11.2011

## Bangladesh bank Circulars during November, 2011

Date	Circular Number	Subject
01/11/11	BRPD Circular No. 08	Bank account for small life insurance policy holders
02/11/11	FEPD Circular No. 20	Special cash incentives for textile related mills
14/11/11	FEPD Circular No. 21	Inclusion of Export Registration Certification (ERC) No. of direct/deemed Exporter for loan from Export Development Fund (EDF)
16/11/11	BRPD Circular No. 09	Mapping of External Credit Assessment Institutions (ECAIs) rating scales with Bangladesh Bank (BB) rating grade
20/11/11	FEPD Circular No. 22	Providing new market exploration assistance
21/11/11	DOS Circular Letter No. 21	Revised format for submission of weekly statement of position for banks
22/11/11	DOS Circular Letter No. 22	Holidays during 2012
24/11/11	DOS Circular No. 04	Holding of shares & capital market exposure for bank companies.
30/11/11	BRPD Circular No. 10	Guidelines for banking services at customer premises

Source: BB website

## Information on Economy

	Amount	Previous year's/ month's Position
<b>1. Foreign Trade:</b>	Million US\$	Million US\$
<b>a. Exports (2010-11)</b>	<b>22928.20</b>	<b>5478.90</b>
b. Exports (September-2011)	1447.50	2376.80
<b>c. Imports (2010-11)</b>	<b>33657.50</b>	<b>23738.40</b>
d. Imports (September-2011)	3271.80	2552.80
<b>2. Workers' Remittance (September-2011)</b>	1101.79	1015.58
<b>3. Inflation: point to point (September-2011)</b>	11.97	11.29

Export= FOB Value, Import = CFR Value  
Economic Trends: October 2011

**Banking Sector and Economic Information:**

	Amount (TK in Cr.)	Amount (TK in Cr.)
	<b>July - 2011</b>	<b>June - 2011</b>
<b>1. Bank Deposit</b> (excluding inter bank)	411227.30	410470.70
<b>2. Bank Credit</b> (excluding inter bank)	423086.90	422475.70
<b>3. Money Supply</b>		
a. Currency Outside Banks	55274.60	54795.10
b. Demand Deposit	48001.50	48106.20
c. Deposit with BB other than DMBs	257.60	199.80
<b>d. Narrow Money (a+b+c)</b>	<b>103533.70</b>	<b>103101.10</b>
e. Time Deposit	339006.30	337418.90
<b>02. Broad money (d+e)</b>	<b>442540.00</b>	<b>440520.00</b>
<b>4. Excess Reserve (Liquidity)</b>	<b>12652.50</b>	<b>15599.90</b>
5. Weighted average rate of Deposits of Schedule Banks(Quarterly)	7.32	7.27
6. Weighted average rate of Advances of Schedule Banks(Quarterly)	12.55	12.42
<b>7. Ratio of DMBs Credit to Deposits (%)</b>	102.88	102.92
<b>8. DMBs Total Assets/Liabilities</b>	1090805.30	1087850.30
<b>9. F.E. Reserve (million \$US )</b>	<b>10381.30</b>	<b>10911.60</b>
<b>10. Cash Base of the Economy</b>	99055.70	101082.70

- **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: October 2011
- (p)= Provisional

**Academic Activities November - 2011:**

- I. IFIC Bank Employees Contributory Welfare Fund recently awarded cash reward to meritorious children's of its employees who obtained GPA-5 in the S.S.C & H.S.C examination and outstanding result in "O" level and "A" level examination 2011 in the Academy of the Bank. **Mr. Mohammad Abdullah, Managing Director, Mr. Mati-Ul-Hasan, Deputy Managing Director (Business) and Ms. Zaitun Sayef, Deputy Managing Director (Risk Management)** along with all the Head of Divisions attended the program. Managing Director distributed cash reward and certificates to the succeeded candidates.
- II. A Seven weeks long "**Foundation Course for Probationary Officers (12<sup>th</sup> Batch)**" of IFIC Bank Ltd. Inaugurated on November 20, 2011 at its Academy at Chamber Building (8<sup>th</sup> floor), 122-124, Motijheel C/A., Dhaka. **Dr. Mohammed Farashuddin**, President, Board of Trustees, East West University & Former Governor, Bangladesh Bank, inaugurated the course as chief guest and delivered his address to the participants. **Mr. Mohammad Lutfar Rahman, Chairman**, Executive Committee of Board of Directors was present as special guest. **Mr. Mohammad Abdullah, Managing Director** presided over the program while Deputy Managing Director (Business), Deputy Managing Director (Risk Mgt) and the divisional Heads of Head office were also present. The main objective of the course was to impart different operational aspects of General Banking, Credit and Foreign Exchange. A total number of 60 newly recruited probationary officers of the Bank attended the course. It may be mentioned here that this was the 34<sup>th</sup> programme of IFIC Bank Academy in the year 2011.

**Readers please:** Elaborate NFCD & RFCD?

Match our answer with yours: Knowledge Update: 154

**Answer:** The point to point inflation of our country was 11.97 for the month of September.

We can be reached at: [tnr@ificbankbd.com](mailto:tnr@ificbankbd.com)

**Team Members**

**A. K. Mojibur Rahman, FAVP**

**Jayanta Sutradhar, OG – I**

**Barni Saha, OG – I**

# **Revisiting Basics**

## **FUND TRANSFER PRICING**

A method used to individually measure how much each source of funding is contributing to overall profitability. The funds transfer pricing (FTP) process is most often used in the banking industry as a means of outlining the areas of strength and weakness within the funding of the institution. FTP system “measures the value of products furnished by a profit center to other responsibility centers within a company. A good FTP system should enable the followings:

- Allocating interest margins to assets and liabilities, in order to reflect cost of funding.
- Determining profitability of products and customers in order to boost changes in assets and liabilities structure that lead to increased total profits. Transfer prices set a minimum required level of profitability for products, indicating which of them bring more gains to the bank.
- Evaluating business decisions in organization basing on the contribution of branches and business lines to overall profits. To fulfill this goal, it is necessary that decision makers are held responsible for the results that they are able to control.
- Control of interest rate and liquidity risk by transferring it to the unit responsible for interest rate risk management. Overall market risks can only be effectively managed on the central level, by treasury department and by ALCO.

### **Defining transfer price**

Each fund transfer pricing system relies on transfer prices (TP). A transfer price is an internal rate of interest used to calculate transfer income or cost due to an internal flow of funds in a financial institution. It is very similar to actual rate of interest paid or received on a bank product, since it concerns the same transaction balance that the actual rate of interest does. As the actual accounting income received on a loan is calculated based on the interest rate, the internal transfer expense is calculated using the transfer price. For each loan, there’s a transfer cost, whereas for each deposit, there’s a transfer income. The difference between interest rate and a transfer price is the interest margin, which allows to calculate the internal interest profit on a transaction. The actual method of assigning TP to a loan or deposit depends on the choice of FTP methodology.

### **Single pool method**

Out of many FTP methods created to allocate interest margin to bank’s assets and liabilities the most basic one is the single pool method. This method treats all transactions uniformly, putting them in one pool of funds. The providers of funds add to the pool, and the users take from it. Under this approach, the same one and only transfer price rate is assigned to all the loans and deposits. There’s no difference in pricing products with various repricing and maturity characteristics.

### **Advantages and drawbacks of single pool:**

The single pool method is simple and easy to implement, without much investment in data systems. It doesn’t require much know-how or buying expensive IT systems. In fact, FTP calculations for this method can be done by one person in a spreadsheet. Single pool allows for assigning average cost of funds to all transactions, giving a crude estimate of product or branch profitability. It is good enough when a bank doesn’t have detailed databases of transactions, and possesses product information only on balance sheet level. It is suitable for a small bank, with stable and undiversified sources of funds, financing its loans with deposits only.

This method however has a number of drawbacks that make it obsolete for larger commercial banks with various products. These disadvantages include the following:

- Interest rate risk is not separated from credit risk and it cannot be transferred
- Single TP makes it impossible to create managerial incentives to attract deposits without simultaneously providing disincentives to sell loans.
- A single rate values doesn't allow differentiating transfer results according to the term structure of the portfolio.
- The method doesn't take into account the historical interest rates prevailing at the time of transaction origination.
- It doesn't allow fair measurement of managerial results

### **Calculating internal transfer price**

In the single pool method, the transfer price is usually calculated internally – as an average interest rate on bank's products. At the moment of calculation, all interest received on loans and paid on deposits is weighted by their outstanding balance. The resulting rate is a weighted average rate of interest of all banks A&L. To calculate the transfer income or expense, the TP is multiplied by product balance. Different levels of product decomposition can be used for balance, either basing on BS or customer's account data. The balance can be calculated as a mean for a period of time. The actual length of the period should equal the frequency of TP calculation, which should be done repetitively, to account for interest rate variation. Variations of average internal fund price calculation include computing it based only on interest expense on deposits or only on interest income on loans. However, choosing the mean deposit rate as the single TP favors loans (lower transfer expense) at the detriment of deposits, whereas choosing the average loan rate would have the opposite effect. ....(to be continued)

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