



Bangladesh Bank in the Year since May 2009

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1. Shadows of an ongoing global financial crisis and economic downturn were looming on the economy when I took over as Bangladesh Bank Governor in May 09. Our tradition of cautious discipline in economic management served well to protect Bangladesh economy from major harm; but demand weakness in our traditional markets of export goods and manpower necessitated monetary and fiscal support and stimulus in coordinated package to uphold domestic demand and to sustain growth. Our financial sector was generally in good shape, with banks on course for adoption of Basel II capital regime and the attendant shoring up of risk management. Bangladesh Bank (BB) itself had major institutional reforms ongoing, including commissioning of ERP, Banking and Data warehousing facilities with all BB offices in an online integrated IT platform; payment system strengthening with automated clearing and settlement of paper based and electronic fund transfers; and full automation of CIB with online accessibility by banks for inputting and extracting credit information.

The shortcomings inherent in our financial sector's narrow focus on a mainly urban better off client base were however laid bare in the aftermath of the global slowdown. Surplus liquidity in banks kept swelling as loan demand from this better off urban client base weakened. Banks kept on parking with BB their swelling fund surpluses as zero return excess reserves, although effective swift channeling of these funds in financing the under-served masses of rural and urban poor for the multitude of their small scale on and off farm productive activities could have generated higher employment, output and income, stimulating the economy both on supply and demand sides. Corporate Social Responsibility (CSR) performance of the financial sector also had major gaps, particularly in addressing environmental concerns.

BB policies and programs did have instructions and guidance for the financial sector for reaching out to small farmers and SMEs, as also for embracing CSR obligations; but commitment among the BB staff themselves to these Financial Inclusion and CSR objectives remained to be widened and firmer ingrained.

2. It was in this context that I picked up thrusts in financial inclusion and CSR as the first priority for my initial months in BB. Besides immediately embarking on multi-pronged programs targeting and tracking disbursement of substantially higher credit flows for agriculture (including small holder and sharecropper farming), SMEs and environment

friendly projects; BB's strategic goals and objectives were revisited and refocused in a strategic planning retreat, clearly articulating and cohesively integrating financial inclusion and CSR objectives within the core central banking priorities of maintaining price stability, financial system development and stability, and support for national policies pursuing sustained high inclusive economic growth for rapid poverty reduction and human development.

Secondly, while pushing ahead with new thrusts in financial inclusion and CSR, the reform agenda already ongoing in BB was not left in neglect, and given fresh push towards completion on or ahead of schedule. Programs for up gradation of knowledge base and analytical skills of BB staff have received particular attention.

Thirdly, I opted for a more open consultative, communicative approach with external stakeholders and media in policy formulation and dissemination; for a heightened profile at home and abroad for BB's policies and programs. Initiatives in this direction included frequent field visits and press briefings by me and others in BB senior management; frequent stakeholder consultations preceding policy formulations; increased participation of BB staff in local and foreign seminars/workshops/conferences; a cross country road show reaching out to people to highlight new services offered by the financial sector.

3. I am gratified that BB initiatives during the year since May 2009 have helped the Bangladesh economy and BB in maintaining decent growth and price stability performance, while also attaining or crossing quite a few important new milestones. Major outcomes over the year included:

i) 5.9 percent real GDP growth in FY 09 at the height of the global crisis with double digit growth in export and workers' remittance inflows, not far below the 6.2 percent FY 08 growth. CPI inflation has been on uptrend in FY 10 (9.06 percent p-to-p and 5.95 percent annual average as of February 2010), driven mainly by rising import prices of tradables, but are at levels lower than in most of our South Asian neighbors.

ii) BB's foreign exchange reserves reached and exceeded USD 10 billion, with net foreign assets of the banking system growing by 86.5 percent y-o-y in February, 2010.

iii) A visiting Financial Sector Assessment Program (FSAP) mission of IMF assessing the financial sector of Bangladesh in 2009 with stress tests and other quantitative and qualitative diagnostics reported our financial sector as being generally in healthy shape. This was heartening, particularly as financial sectors in most of the mature developed economies were at that time in severe solvency and liquidity crisis.

iv) The maiden sovereign credit ratings of Bangladesh by both S&P and Moody's turned out to be more favorable than for most of comparator developing economies, ahead of all South Asian neighbors except India; signaling a vote of confidence on Bangladesh as an attractive investment venue, and promising more favorable costs and terms for external borrowings by our businesses.

v) Automated clearing and settlement of paper based (cheques/drafts etc.) and electronic fund transfers commenced in April 2010; as a major step ahead in payments system efficiency. A number of innovative bank-led partnerships of banks, MFIs and mobile phone companies for efficient cost effective IT based remote delivery of remittances, and other financial services commenced operation during the year, important steps forward in deepening financial inclusion and realizing the government's vision of digital Bangladesh.

vi) A new group-based scheme of agricultural loans for sharecroppers introduced under supervision of an MFI. A newly created SME Department in BB issued SME lending guidelines for banks.

vii) Guidelines and instructions issued for mandatory stress testing at half yearly intervals in banks for regular self assessment of their vulnerabilities, with BB's supervisory oversight.

viii) Investments in infrastructure projects (including those under Public Private Partnership) rendered boost with IPFF, a WB funded financing line managed by BB.

ix) Part of BB's burgeoning foreign exchange reserves are now being deployed in newer growth supportive uses, including placements in offshore units of banks and augmentation of the Export Development Fund (EDF) for financing capital goods and input procurements of direct and deemed exporters. Amounts of foreign exchange accessible by residents for travel and other current external expenses without prior BB authorization were also enhanced substantially.

x) Solar power panels installed in BB's main building roof top now meet part of the power needs of daytime lighting of the executive floor and night time lighting of the boundary walls of HO premises. A BB refinance line is available against lending for renewable energy and effluent treatment projects. Alongside existing refinance lines against agricultural and small enterprise loans, BB refinance is now available also against financing for raw jute (a biodegradable natural substitute for polluting synthetic packaging materials) purchases by BJMC.

To motivate and facilitate wider, more well-rounded engagement of our financial sector in CSR actions, BB has recently released the first issue of a review of CSR activities of banks covering the years 2008 and 2009; surveying their current engagements and the gaps/missing dimensions yet to be covered adequately.

xi) Deft monetary and fiscal management of Bangladesh during the global financial crisis and economic slowdown, and BB's work in promoting financial inclusion have attracted substantial external interest. During the year I have been invited frequently to speak on these issues in regional and international events in Indonesia, Singapore, India, Kenya, Uganda, Thailand, Turkey and UK.

4. Here we need not go into all details of BB's multidimensional activities over the year; these are available in reports and reviews accessible from BB website

(www.bangladeshbank.org.bd). I would like instead to sum up by reasserting that BB intends to reap over the coming years the fullest possible benefits from financial inclusion and CSR engagements in terms of inclusive, environmentally sustainable economic growth at sustained high rates and steeper decline in poverty. A few sentences may be in order here about how we see financial inclusion and CSR linked up with traditional central banking priorities of price stability and financial sector stability. Monetary and credit policies of BB seek to contain inflationary pressures both on the demand and supply sides. Demand side pressures are kept in check using monetary policy instruments to regulate liquidity and monetary growth; while credit policies and programs aimed at channeling adequate credit flows to all productive sectors are employed to stimulate supply responses easing price pressures. The thrust for fuller, deeper financial inclusion of all population segments and all productive sectors will lead to financial deepening affording wider, newer transmission channels of monetary policies for more effective containment of price pressures on the demand side. Financing access afforded by financial inclusion to micro, small and medium scale enterprises will simultaneously yield increased output response on the supply side, easing price pressures with increased contribution to the country's GDP. While GDP measures merely quantify output growth, inclusive growth is concerned also with the quality dimensions of environmental sustainability and fair advancement opportunity for all population segments in the society. From this inclusive growth viewpoint, promoting financial inclusion is a compelling CSR obligation for the financial sector.

In promoting financial inclusion, BB is looking forward to more of innovative partnerships between banks, MFIs and mobile phone companies and payments related IT platforms coming up with manifold new cost effective financial service delivery packages specifically tailored to the needs of the urban and rural poor and their economic activities thus far not served or under-served by the financial market. These partnerships need to be bank-led, because of prudential regulatory and consumer protection concerns. BB intends to pursue survey and analytical work tracing and monitoring the linkage sequence of financing-output generation-output marketing by micro and small scale enterprises. Services produced by such enterprises are unlikely to face major marketing difficulties, as rising income of the poor will generate growing demand for basic services. Micro, small and medium scale enterprises may however face challenges in marketing their farm and non farm products profitably enough, unless they can link up viably with or organize collectively into larger businesses for marketing or further processing of their outputs. BB will welcome collaboration of the academia, CSOs and think tanks in these and other related studies and analytical investigations.

Highlights of Bangladesh Bank Policies and Activities during the Year since May 2009

Bangladesh Bank (BB) has been supporting the priority sectors such agriculture and SMEs with the view of attaining inclusive and environmentally sustainable economic growth commensurate with stable price level. Besides, BB on its part is moving fast in attaining a digital financial sector by 2021. BB has taken strong initiatives in recent times to widen the coverage of banking services, especially by including the disadvantaged section of the society in the formal financial system. A glance of these initiatives are summarized below:

Successful Economic Management during the Global Financial Crisis and Economic Downturn

The limited, regulated openness of Bangladesh economy to short term global fund flows kept the financial sector of Bangladesh free of toxic assets and contagion from the global financial crisis. Net FDI inflows remained positive even at the height of crisis, a small net FPI outflow has been far outweighed by sustained surge in remittance inflows from workers abroad using enhanced exchange house facilities introduced by Bangladeshi banks in different countries (savings transfers from jittery markets in host countries, besides usual subsistence money for dependents). Competitiveness of the apparels sector kept FY 09 export growth of Bangladesh in double digits, despite export decline in other commodities. Decline in import of food grains due to good domestic harvest and generally lower global commodity prices kept overall import payments low and thus improving the overall trade balance. The low outflows from the surging inflows of workers' remittances and export proceeds kept local financial markets awash with liquidity, in sharp contrast with most markets elsewhere facing liquidity crunch triggered by large scale flight of FPI and other short term funds.

BB encouraged the financial sector to utilize the liquidity glut in supporting productive pursuits, including lending more to typically under-served sectors like agriculture, SMEs, renewable energy projects etc.; keeping BB refinance lines available there against in case of need. Export sectors hurt by demand weakness received modest government subsidies, incentives for exports to new markets, and some tax/fee waivers etc.; the government also expanded social safety net expenditures. BB allowed temporary relaxation of bank loan rescheduling terms for affected exporters, besides maintaining easy credit conditions with supportive monetary policies. These support measures cushioned the impact of the global slowdown; 5.9 percent real GDP growth was attained in FY 09 following 6.2 percent growth of FY 08.

CPI inflation remains moderate compared to other South Asian countries (annual average 5.95 percent as of February 2010); BB's monetary policies aim at containing inflation at moderate single digit levels. The floating exchange rate of Taka (1 USD=Taka 69.2550, weighted average, in interbank market on 20.4.2010) remains stable, with BB's market interventions maintaining a slight undervaluation bias for competitiveness.

From 2010, Basel II based capital adequacy is mandatory for banks. A visiting Financial Sector Assessment Program (FSAP) mission of IMF assessing the financial sector of Bangladesh in 2009 with stress tests and other quantitative and qualitative diagnostics reported Bangladesh's financial sector as being generally in healthy shape. In the aftermath of the global financial crisis, ways of introducing/reinforcing countercyclical elements in capital and provisioning requirements are being regularly looked into.

Supporting Sustained Agriculture Growth

The agricultural credit program announced by BB enjoins all banks to engage in lending for a comprehensive range of on- and off-farm rural economic activities, with refinance lines available to them from BB in case of need. The target for disbursement of agricultural/rural credit for FY 2009-10 has been set at around Taka 11.5 thousand crore, a record, which is about 23 percent higher than the previous fiscal. A 3-level monitoring system (BB Head Office, BB Branch Office and Banks) has been developed to ensure proper disbursement and recovery of the loan. Besides, bank branches are advised to display the list of the farmers in the notice board.

BB has launched refinance scheme of Taka 500 crore for the sharecroppers, a first ever initiative for the sharecroppers who had been in the 'missing middle' for a long period in access to institutional credit. Banks are now advised to allow farmers to open bank accounts at only Taka 10. About 8.5 million farmers have already opened bank accounts since the measure taken by BB. Such measure will smoothen the process of agriculture subsidy and will enhance BB's objective of strengthening and broadening the process of financial inclusion. Besides, the Governor of BB directly monitors and directs the refinancing schemes to ensure proper monitoring system of credit disbursement. The newly recruited Assistant Directors are visiting the farmers at the district level to identify the obstacles in accessing bank credit. A strong monitoring and evaluation mechanism has been set up both at the Headquarter and branch offices of BB.

The agriculture sector output activities are responding robustly to market price incentives and support measures provided by the Government of Bangladesh and Bangladesh Bank. During July-March FY 2009-10, the growth of agricultural credit disbursement was

recorded at 18 percent against 9.4 percent during the same period of FY 09. Around 71 percent of the total target has been achieved in the first nine months of the current fiscal.

Supporting and Strengthening SMEs

The role of Small and Medium Enterprises (SMEs) is important for overall economic development of a country particularly for developing countries like Bangladesh. Since this sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation. BB has provided refinance support for expanding small enterprise financing. ADB and IDA are also co-financing this refinancing line.

A new ‘SME and Special Programmes Department’ has been established in BB for policy formulation and monitoring of SME financing activities of the financial sector. The new department has issued SME lending guidelines titled “SME Credit Policy and Programmes”. The guidelines seek to promote an ‘area approach’ identifying and utilizing the specific comparative advantages of different regions for the diverse range of SME activities.

A total target of SME credit worth Taka 240.0 billion has been set by the banks and financial institutions for the first time in 2010 considering SME development as a high policy priority. Among SME enterprises/entrepreneurs in our country, small entrepreneurs have more prospects for generating employment, reducing unemployment and achieving economic growth. Keeping this in view, at least 40% of the total disbursement target of SME credit has been reserved for small entrepreneurs with the rest allocated to medium entrepreneurs.

BB has taken steps and formulated a guideline for the banks & financial institutions to ensure more institutional financial facilities for women entrepreneurs in SME sector. To ensure balanced industrial development, at least 15% of total BB refinance fund for SME sector has been allocated for women entrepreneurs. Besides, Banks and Financial Institutions may provide a maximum loan facility of Taka 25, 00,000/- against personal guarantee if borrower is woman or majority of the owners of the enterprise are women. Banks/Financial Institutions are also suggested to establish special advice and service centre for women entrepreneurs in selected branches and to ensure service friendly approach towards women entrepreneurs.

Digital Bangladesh Bank

Bangladesh Bank, being the monetary authority of the country, is at the forefront of government’s firm commitment to be digitized. BB has achieved a historic milestone in trade and business arena, departing conventional banking with the introduction of e-commerce

recently; a giant stride towards digital Bangladesh. Banks have been allowed to make online money transactions; payment of utility bills through internet, transfer of funds (account to account), payments for trading goods and services, and facilitate online credit card payments in local currency. Indeed, the electronic payments will be considered as cash transactions, which will be regulated under the 'Anti-Money laundering Act' as well as other relevant rules and regulations. A national payment gateway, connecting all banks for inter-bank transactions (e-banking) is expected to be established soon.

BB is on the lookout for creative partnerships in regulated IT based remote delivery of financial services. A number of BB approved initiatives are already in operation (to begin with, mainly in utility bill payments and in delivery of remittances from Bangladeshi workers abroad to their families at home), others are at various stages of implementation, with some of these including smartcards and POS terminals in delivery networks besides mobile phones.

Installation of '**Bangladesh Automated Clearing House (BACH)**' is a remarkable event in the history of financial sector in Bangladesh which will ease the remittance channel and payment system, and therefore, will bring dynamism in business activities. The system has been started in early November 2009 on experimental basis, participated by some well prepared banks and will be inaugurated formally soon. The system will support both intra-regional and inter-regional clearings based on a centralized processing centre in Dhaka and designated clearing regions; conforms to the international best practices, cost effective solution for cheque processing.

A modern and technology based health care system has been developed in the Central Bank keeping electronic record of medical information including disease and medicine history of the patients, digital prescription, stock of medicine etc.

Central Bank reform program initiated ICT packages; includes Networking, Banking application, Enterprise Resources Planning Solution, Enterprise Data Warehouse etc.; with a view to ensuring efficient management of assets including human resources.

Under networking program, all the departments of BB Head Office and its nine branch offices have already been brought under computer network (LAN/WAN) connecting almost 3100 PCs. Therefore, any official sitting elsewhere in BB (Head office or branches) has access to the same kind of resources; sharing knowledge and information; ensure knowledge based management.

Enterprise Resources Planning (ERP) solution covers digitization of procurement (e-procurement), cash management, access control etc. Meanwhile, recruitment process under BB has been digitized (online application, sorting, validation etc.).

Banking application includes automation of all the accounts with BB (banks, financial institutions and government), Foreign Exchange Management, Currency Management, Treasury and Securities Systems/Module, Public Debt Management Module, and also establishment of a Central Depository System (CDS) to build a platform for secondary trading of treasury bills and bonds.

Enterprise Data Warehouse (EDW) creates an electronic data bank, which will provide all information and statistics of monetary, trade and fiscal areas of the national economy, where all the concerned people of BB will have access to use it for further policy analyses.

BB is going to commence web based e-tendering system pretty soon which will cover announcement of tender, distribute schedules, bidding etc. to ensure simplicity and transparency of tendering process.

Mobile Banking

Prompt delivery of workers' remittances, at affordable costs, to recipients in rural areas away from bank branches has for long remained a challenge for banks. Remitters and recipients not well-served by banks have often been lured by fast acting hundi channels diverting the foreign exchange inflows to illegal capital flight, tax evasion and crime/terrorism financing.

Mobile banking, using cell phone as a tool, extends banking services to the door of the mass people. Fast expanding mobile telephony in Bangladesh already covers well over half the total adult population. This has opened up windows of opportunity for creative partnerships of banks and mobile telephone companies in devising cost effective arrangements for delivery of remittances (and eventually other financial services) through the countrywide area agent networks of mobile phone companies covering rural areas distant from bank branches. BB has now been encouraging such partnerships between banks and mobile phone networks, a number of such BB approved partnerships are already active.

Recently, BB has strengthened its monitoring and supervision activities on agricultural and SME loan with the help of the existing countrywide mobile network, keeping record of cell phone numbers of farmers and small entrepreneurs.

Automation of Credit Information Bureau

Online CIB report, a pivotal component of risk management measure, is expected to be experimentally launched by June 2010. The final operation of CIB will then be launched in October 2010. Banks and financial institutions will be able to access the CIB data base online, and get the credit report of the concerned borrower. The database consists of detailed information of individual borrowers, owners and guarantors. Meantime, a project 'online credit bureau' has been started using advanced technology to establish online connectivity between CIB of BB and Head offices of all banks and financial institutions. It is crucial to upgrade the capacity of CIB to respond the policy priority accorded to financial inclusion; expansion of SME and agricultural lending, and overall increasing growth of trade and business. Online CIB will minimize the extent of default loan by facilitating the banks and financial institutions with credit reports of the loan applicants very quickly, and therefore, lending institutions would not encounter any credit risk while extending lending or rescheduling facility.

Monetary Policy

Monetary policy of BB aims at maintaining price stability while permitting monetary expansion needed to support output growth at sustained high rate. In connection with the monetary policy announced for the first half of FY 2009-10, monetary policy for the second half of FY 2009-10 has been announced with the view to achieving sustainable and higher economic growth, ensuring credit to the productive sectors and achieving higher growth in exports and remittances. For the first time, drafting of the Monetary Policy Statement for the second half of FY 2009-10 was preceded by extensive stakeholder consultations from the grassroots level up to the level of experienced professionals including past Finance Ministers /Advisers / Governors, think tanks and trade bodies. Moreover, an in house policy committee has been constituted with top central bankers including governor and deputy governors to brainstorm on monetary policy issues every month. This exercise is strengthening the capacity of the bank in formulating monetary policy, which is the principal activity of BB.

In campaign field visits for wider financial inclusion BB Governor and his senior management team members have interacted at grass roots level with people engaged in farming and in SMEs. The broad consensus emerging out of the stakeholder consultations is that supportive monetary stance and stimulatory fiscal stance need to continue till fuller restoration of investment confidence in the domestic economy with firmer demand recovery in export markets emerging out of the global recession; with exercise of due caution about inflation risks on the path ahead.

In this monetary policy statement, BB seeks to support enhancement not only in quantum but also in quality of growth measured in terms of inclusiveness and environmental sustainability. Therefore, BB has recently embarked on campaign-like thrust on broadening

financial inclusion, and has launched several refinance support lines for increased lending to sectors like agriculture, SMEs, effluent/waste disposal, solar/ biogas/other renewable energy projects.

Real GDP growth rate is predicted at 5.5-6.0% and average inflation rate is forecasted at 6.5%. More emphasis has been given in containing the supply chain in the Open Market Operations (OMS) and other supply side factors. Besides, the major portion of the excess liquidity prevailing in the banking system has been used in channeling credit to the private sector and import payments to ease inflationary impacts of excess liquidity. Government loan from the banking sector has declined due to increasing reliance on foreign borrowing and investment in National Savings Scheme for deficit financing which will in turn enhance credit availability to the private sector. Indeed, the flow of credit to the private sector has already been started picking up.

Institutional Reforms and Measures to Strengthen Financial Base of the Banks

(i) Strengthening Capital Base

Bangladesh entered the Basel II regime, the latest version of risk-based capital standards set for banks worldwide, on the first day of 2010 where BB instructed all scheduled banks to follow the guidelines on risk-based capital adequacy (RBCA) from January 1. This newly introduced Basel II capital regime for banks has lower risk weights and correspondingly lower capital charges on loans to favorably rated businesses. Banks will be able to pass on to favorably rated borrowers the lower carrying costs of loans, with lower interest rates.

(ii) Improving Risk Management

To create favorable environment for risk management, BB has issued guidelines for banks to open their own risk management unit. TOR for the risk management unit has already been fixed. To build strong foundation for risk governance, a risk management unit will also be set up in BB. Besides, BB has already started applying stress testing exercise in all banks to evaluate bank risks more clearly and technically.

(iii) Starting of DIBOR

Dhaka Inter-Bank Offer Rate (DIBOR) has been started to widen and deepen Inter-Bank transactions where banks will fix interest rates by treating DIBOR as the benchmark. DIBOR will be considered as the benchmark interest rate in order to determine the interest rate of inter-bank financial market and time loan. By implementing DIBOR, transparency and accountability will be established in determining Banks' loan and deposit interest rates.

(iv) Strengthening Debt Management

A new Department named Debt Management Department has been established in BB to properly manage government debt. To enhance the program further, well trained employees as well as logistic supports (internet, computer and other logistics) have been provided.

(v) Develop Bond Market

Circular has been issued to avoid sell-purchase settlement risk between two banks in Delivery Versus Payments (DVP) system.

(vi) Enforce Good Governance

Measures regarding good governance have been strengthened to confirm better bank management. Circular containing comprehensive guideline has been issued for the directors of banks so that they can play their oversight role more efficiently under banks' corporate governance.

(vii) Ensuring logical interest rates, charges and commissions

Bangladesh Bank has issued circulars mentioning the highest rate of service charges and commissions that can be applied by banks to make interest rates, charges and commissions logical. A master circular has been issued to manage and fix the interest rate for the priority sectors and to support and extend opportunities for Export Development Fund (EDF).

Foreign Exchange Management

The foreign exchange reserve of the country has crossed USD 10 billion in FY 2009-10. To reduce uncertainty and to facilitate exports, stability in the foreign exchange market has been assured. Credit facility under the Export Development fund (EDF) has been increased to USD 300 million from USD 150 million to help expansion of exports. Credit facility against export is now USD 10 million. Besides, mills of BTMA have been brought under the EDF facility. The obligation of taking BB's approval for foreign exchange transaction regarding foreign trainings, education costs under current account has been relaxed as a step toward liberalization of foreign exchange market.

A wide range of measures has already been adopted to keep the economy safe from the contagion effects of global meltdown. Export subsidy/cash incentive has been enhanced for affected industries; Frozen food, Jute and leather products (shipped April-June 09). Besides, plastic and finished leather products have been included in addition to the existing 13 categories of export subsidies. 70 percent of the export subsidy/cash incentive may be released before audit formalities, and remaining 30 percent shall be payable after completion

of audit. Limit of advance payment from Exporters' Retention Quota (ERQ) has been enhanced to USD 10,000 from USD 5,000 for emergency import payment. Loan rescheduling conditions have been relaxed, waiving down payment requirements (up to Sept 30, 2009) for recession-hit export oriented industries (depending on banker-customer relationship), especially frozen food, leather and leather products, jute and jute goods, textiles (including spinning) and RMG. Regulations for undertaking forward transaction of foreign exchange have been liberalized to reduce the foreign exchange risk in international trade. The limit for borrowing (single borrower) from Export Development Fund (EDF) has been increased to USD 2.0 million from USD 1.5 million for importing raw materials (Back to Back L/C) against export L/C.

Green Banking

BB has introduced Taka 2.0 billion refinance line in FY 10 against bank loans for environment friendly investments in solar energy, biogas plants and effluent treatment plants. All commercial banks will provide loans up to Taka 1 crore for setting up effluent treatment plant (ETP), solar panel and bio-gas plant at a 9 percent interest rate. Recently BB switched over to solar-powered lighting by setting up a 20 kilowatt solar panel, as a move towards encouraging green energy in Bangladesh. A new refinance facility of Taka 5.0 billion has just been introduced to capacitate jute sector, the age-old green pillar of Bangladesh economy.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is gaining fast global acceptance as a standard for environmentally sustainable and socially equitable business practices. CSR programmes of business can bridge the market failures and market gaps that limit the access of the poor to the services necessary for their well being and thus ensure inclusive economic development. BB has been exhorting banks and financial institutions to embrace fostering financial inclusion as a CSR obligation. As part of it, the banking community has responded sensibly to the call for CSR and sustainable social development. A comprehensive review on CSR in banks has already been prepared by BB and posted in its website.

Bangladesh Bank Strategic Plan 2010-14

Bangladesh Bank has formulated a 5-year strategic plan for 2010-14 envisaging its vision and mission to retain performance excellence to keep pace with the evolving environment. In the plan, BB's vision is stated as to develop continually as a forward-looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive growth, employment generation and poverty eradication in Bangladesh. BB will catalyze and support socially

responsible and environmentally sustainable development initiatives, inter alia including fuller financial inclusion of under-served productive sectors and bringing in needed new dimensions in financial markets and institutions; to facilitate broad based growth in output, employment and income, for rapid poverty eradication and inclusive economic and social progress. Over the near and medium term, BB will develop core values such as professionalism, transparency and accountability, open-mindedness, team work, integrity, adaptability as well as will formulate strategies for efficiency in adopting prudential regulations, currency management, monetary policy formulation, use of ICT, risk management and financial inclusion.

Bangladesh Bank Road Show

Very recently, BB organized a cross country banking sector road show led by Governor and other senior management members. In this road show commercial and specialized banks came forward to connect and interact with the general population, providing information and receiving user feedback about their lending, deposit, remittance and payments service packages; building up in the general population literacy on financial services and awareness against money laundering and illegal hundi channels in remittance delivery. This major new campaign-mode drive in widening and deepening financial inclusion will be repeated, appropriately refined, in other regions of the country.

Sovereign Credit Rating

Sovereign rating for the first time by two international rating agencies- Standard and Poor's (S&Ps) and Moody's regarded Bangladesh as a reliable destination for international creditors and investors. In the global financial arena, the BB- and Ba3 sovereign credit ratings by S&Ps and Moody's respectively, ranked Bangladesh only behind India in South Asia. The rating takes into account macroeconomic fundamentals, strong external liquidity, supported by resilience in apparel exports and remittances as well as external donor funding and an improving foreign exchange reserve. However, both the rating agencies have identified government's low revenue base and the country's narrow export base (very high dependence on apparels) as rating constraints.

Infrastructural Development

Infrastructural development is a necessary condition for economic development of any nation. Taking this into account, BB has launched refinance scheme of Taka 200 crore to allow banks and NBFIs to grant loans for solar energy, biogas and ETP sector. A participatory agreement has already been signed with 15 banks to refinance the ETP sector. Power generation under the Public-Private Partnership is about to take place. BB on its part has already established 10 kilowatt solar panel. Besides, 178 megawatt of electricity is

already being provided to the national grid under 7 projects of Investment Promotion and Financing Facility (IPFF). BB has successfully negotiated for additional USD 250 million support for IPFF with the World Bank.

Human Resource Development

To improve the capability and professionalism of the employees, regular foreign training initiatives have been taken under the Central Bank Strengthening Project (CBSP). Reserve Bank of India will conduct training, Masters and PhD programme to increase the capacities of the Research Department of BB. A MoU has already been signed with the IFC in this regard. BB is also utilizing the training facilities of local institutions including Bureau of Economic Research, Dhaka University for improving the research skills of its officials.

Poverty Reduction Strategies

In vision 2021, the current government has declared its vision of reducing poverty rate below 15 percent. Steps have been taken to achieve this goal by ensuring easy and hassle free access to agricultural and SME credit. BB's SME loan under the refinance scheme has already been increased from Taka 100 to Taka 600 crore. Similarly, housing fund has been increased from Taka 300 crore to Taka 700 crore. However, BB does not encourage purchase of land through bank finance as it creates asset bubbles.

Improving Consumer Services

Necessary steps have been taken to make services at BB more consumer friendly. As part of it, cash department will be modernized over the near term. Steps have been taken to establish CCTV, helpdesk, separate counters for disabled, women and old customers, display board showing latest information and citizen charter. Automatic note processing, sorting, banding and shredding machines will be provided at the Motijheel office of BB.

Easy and effective access to banking services for physically incapable people has been made mandatory by the BB through a recently issued circular. Banks, for this purpose are directed to designate an official as 'Focal Point' at each branch of a bank.

In conclusion, developing an inclusive financial system is considered to be a necessary element for achieving both high level of income and low level of income disparity, particularly in developing countries like Bangladesh. The relationship between the access to financial services and economic growth makes inclusive financial sector a major policy agenda in Bangladesh. After a long period of time, BB has opened up new avenues to reach the marginalized section of the society by assigning priority in including significant contributors to the economy particularly, farmers and small entrepreneurs. BB's initiatives of

broadening and deepening financial inclusion will combat poverty by unblocking advancement opportunities for the disadvantaged poor, thereby fostering social inclusion and inclusive socioeconomic growth. Over the near and medium term BB will continue its move towards strengthening financial inclusion as an economic war against poverty. BB will continue to work with other stakeholders including academia, CSOs, think tanks, trade bodies to pursue its main strategy of financial inclusion for a more inclusive growth in addition to its participatory and prudent monetary policy formulation and implementation.

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