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Editorial Notes

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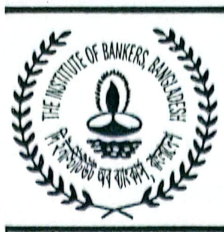
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Call for Papers and Notes to the Contributors

January-June 2005

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Editorial Notes

The leasing industry, which commenced in the mid-80's with only two pure leasing companies has grown significantly with about 28 Non-bank financial institutions (NBFIs) now actively competing for business in the financial market. Currently, out of 28 NBFIs, 22 specialize in lease business and out of 22 leasing companies; only eight are listed on the exchanges. Since its introduction, leasing has been popular and convenient for both large and small business, and this resulted in an impressive growth of annual lease execution volumes over the last twenty years. Today, leasing continues to play a catalytic role in providing alternative source of capital asset financing to the private sector. The total asset exposure of NBFIs has since exceeded BDT 65 billion.

With the arrival of new NBFIs, particularly leasing companies, as well as some banks offering leasing services, the market is becoming more competitive and the market share is being spread over the companies. The activities of NBFIs have witnessed a phenomenal growth during the last five years. The business volumes and the balance sheet sizes have multiplied many times. Leasing, Hire Purchase, Term Finance, Work Order Finance, Receivable Finance (Factoring), Home Loan, Capital Market Operation disbursements by NBFIs are poised to cross BDT 15 billion per annum. According to the latest statistics received from Bangladesh Bank, the overall credit portfolio of NBFIs grew by 36% in 2004 and stood at BDT 48.5 billion. Due to effective credit management policies, the collection rate in the sector is also very impressive at around 95%, while the non-performing loans constitute around 3.2%. Among the investment portfolio mix of NBFIs, lease finance is still dominant one constituting 56% of total investment though declining over the years, followed by term finance and home loan respectively carrying 20% and 16% respectively.

The overall performance of NBFIs, on a number of counts, has been impressive over the years. The revenue of NBFIs has increased to BDT 8.13 billion in 2004 from BDT 6.41 billion in 2003 growing at a rate of 32% and 27% in the years 2003 and 2004 respectively. On the other, financial expenses increased to BDT 3.6 billion in 2004 from BDT 2.99 billion having a rate of 38% and 21% in the years of 2003 and 2004 respectively. However, financial expenses constituted 60% of the total expenses in the year of 2004. Hence the cost of funding continued to increase except for 2004 and became a constraint for the growth of NBFIs. The loan to deposit ratio of NBFIs continued to fall but still remained a quite high of 5.6 times in 2004 suggesting that NBFIs continued to tap other sources of funds for pursuing their growth. Cost of funds of NBFIs continued to rise over the years to 9.7% in 2003 and then to decline to 8.1% in 2004. Estimated net yield and Core profitability have declined over the last four consecutive years showing that margins of NBFIs were being narrowed down. It is noted here that the much publicized downward drive of the interest rate structure, with the promise of lending rates by the commercial banks coming down to single digit at the end of