

BANKING

Problems and Prospects

Special Supplement

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Interview with Finance Minister M Saifur Rahman and Finance Secretary Nasimuddin Ahmed

Non-performing Debt is still a Big Chunk in Lending Portfolio

Finance Minister M Saifur Rahman has always been a vocal proponent of the need to reform the country's banking sector and making it more efficient. Since he took over the helm of the ministry some three years ago, he also launched a one-man crusade against, what he called, the prevalent "default culture" of some large borrowers not willing to pay their outstanding bank loans. However, his much publicised debt recovery programme has so far failed to produce the desired results.

In an interview with The Daily Star Senior Reporter S Y Bakht at his Secretariat chamber last week, the Finance Minister shared his views on the current state of the country's banking sector and its problems. Finance Secretary Nasimuddin Ahmed was also present throughout the hour-long interview and answered some of the questions which the Minister redirected towards him.



The Daily Star (DS): How is the present state of the country's banking sector? How are the private sector banks doing?

Saifur Rahman (SR): The position of the banking sector is definitely much better now than what I inherited when I took over the finance ministry. Particularly in the public sector, banks there have been a lot of defaulting loans. Serious efforts have been undertaken to recover these non-performing debts. There has been some success in recovering the debts, and if it wasn't for the delay in the legal process, we could have done much better. The banks are not directed to be more active in advancing their lending programmes, both for investment as well as for working capital support to trade, commerce and industry. And from the amount of disbursement by the banks it appears that they are substantially increasing their lending activities. Yet there is a lot of liquidity in the banking sector. The only way for the banks now is to encourage the entrepreneurs to take credit from them and to invest in trade, commerce and industry.

DS: In your opinion, what are the primary problems facing the banking sector at the moment?

SR: Well, in our national banking sector the major problem that I see is that there is still some hesitation among the bank management for taking a liberal approach in their lending programmes. They still have the hesitation because of the past bad performance of the borrowers. In addition, the non-performing debt is still quite a big chunk in our lending portfolio. So, the bankers are still somewhat shy to go in for more aggressive or for a more entrepreneurial lending programme.

DS: What about the private sector banks? how are they performing?

SR: The private sector banks are doing alright. But their operations are still on a very limited scale as yet and I have found that their activities are predominantly limited to their owners or their shareholders and others. The bulk

of the total loans are still coming from the nationalised commercial banks. I think from the exporters or other business enquiries, the people who want help from the banks still feel that the private sector banks continue to operate on quite a limited scale.

Despite their complaints against the nationalised banks, an overwhelming number of business people still go to them for their credit needs. I think the management of the private sector banks has to be further improved upon if they are to play an active role in the credit market.

DS: You just noted that there are excess liquidity in the banking system, what kind of percentage of the total lendable amount are you talking about?

Nasimuddin Ahmed (NA): The excess liquidity in the banking sector is over Tk 2,000 crore of the total deposit.

SR: But Tk 2,000 crore would not be the lendable liquidity.

NA: No, but excess liquidity. Total credit is around Tk 25,000 crore, of which, excess liquidity constitutes roughly around 10 per cent.

SR: But, recently the banks have undertaken programmes for liberally lending to commerce and industry, which they did not during the previous year. In fact, they have worked out a much larger lending programme and gradually this excess liquidity will be absorbed. And we hope that the percentage of excess liquidity will come down by December next.

NA: Actually, you can say that the excess liquidity is around six to seven per cent because some of it is related to the maintenance of the statutory liquidity requirements and cash reserve ratios.

SR: Yes, actually over and above the statutory needs the excess liquidity percentage is around six to seven per cent. And it is coming down.

DS: You have earlier publicly criticised the credit delivery system of the banks. Has it improved?

SR: Not to my satisfaction as yet. But as I said, banks having suffered from the non-

performance of the borrowers were yet to be encouraged to lend liberally. To some extent there has been a perceptible improvement in the credit delivery system of the banks. But credit delivery to the poor and middle income borrower is still a difficulty. So, we are trying to compensate by delivering credit through Grameen Bank. We have given Tk 850 crore worth of lines of credit to the Grameen Bank for disbursement. Besides, we are also extending further credit through the Palli Karma Shahayak Foundation to the tune of around Tk 75 crore for lending to small scale activities. They will deliver the credit through over 100 NGOs. We have also arranged to deliver substantial amount of credit with the Youth Development Training Programme. As soon as these youth are trained they will be given Tk 5,000 to Tk 10,000 as credit, so that they can immediately go and start some self-employment activities.

DS: This relates to your previous comment about the private banks. The reported indiscipline in the private banking sector, which you have also publicly criticised, has earned them a bad public image. Has the situation improved?

SR: Yes, it has improved. The central bank has improved their supervisory and inspection roles and the Banking Division of the ministry of finance is also more active in exercising supervision over the banking sector. And I should say to that extent there should be improvement in the management of the private sector banks. There is a constant watch and vigilance from the central bank to ensure that the private sector banks do not fall into any indiscipline in handling their credit activities.

DS: What problems in the banking sector is affecting the growth of investment in the country?

SR: No, I should not say that the banking sector is affecting the growth of investment in the country. The banks, in fact, have set a target of disbursing over Tk 3,000 crore during the current fiscal

year, for industry as term lending. Never in the history of commercial banks has such a large target been set for term lending in investment. In addition, the House Building Finance Corporation has taken up a programme to disburse Tk 500 crore in the housing sector during the current fiscal year. So, this Tk 3,500 crore is earmarked for disbursement in trade, commerce, industry and the housing sector on term lending.

Thus, this is quite a substantial amount of money and the question is if there will be enough customers to take this credit. If there are enough borrowers enabling the banks to disburse his amount of money, then, if need be, they are in a liquidity position to disburse even more than that amount of money. The point is that we must find the good borrowers first. What we need is good borrowers. My impression during the last three years is that there is dearth of good borrowers and good entrepreneurs for banks to give credit. Because, after all money is the banks' stock, it is through investing money that they earn their living. So, I have a feeling that the banks do not want to invest, but they are not finding the proper persons with adequate security to extend them credit.

DS: What changes have been implemented in the banking sector under the Financial Sector Reform Programme (FSRP)? What other changes are in the offing?

NA: The important aspects of the FSRP include legal reform, institutional reform, monetary policy reform, reform of the management, modernization of banking practices, human resource development, enforcement of financial discipline and norms of prudential banking, and proper evaluation, analysis and rating of the credit operations.

With the ultimate objective of developing efficient, effective financial entrepreneurship in Bangladesh. Financial institutions intermediate between the depositors and the borrowers.

strengthened. The on-site and off-site supervision and surveillance of the central bank over the banking institutions have been strengthened. The management information systems are being put in place, computerization have been introduced and large numbers of lower and mid-ranking bankers are being trained in modern banking practices. And that is the key factor. I believe that it is the human element which will eventually determine how far we will progress in developing our financial sector. But these are time consuming measures. We have to deepen the reform process of the financial sector. Even now the banks are saddled with a large quantum, over 30 per cent, of their credit which can be termed as bad loans. And this has put a tremendous pressure on their balance sheets and eroded their profitability. Now, recovering of the bad loans has been one of the most intractable problems that we have been encountering over the last several years, despite that fact that separate loan courts have been established and a separate law has been enacted. The overall result has been for satisfactory. The historical debt burden has created a serious impediment on the bank's present day lending operations. As I said, but for this high quantum of non-performing loans the banks would have been able to reduce the lending rates by another three per cent, which would have really stimulated investment in the country. One of the major objective of the jute sector reform is to restructure debt, so that the stability and viability of the financial institutions are not eroded. So, the FSRP is a complex and multi-dimen-

sional programme. But we are committed to it because reform and development of the real sectors of the economy is inconceivable without reform of the financial sector. They are interdependent and they complement each other.

DS: There are allegations that the Bangladesh Bank's inspection procedure of the banking sector is inadequate and irregularities are not detected on time. Would you please comment on that allegation?

SR: We are strengthening the inspection directorate of Bangladesh Bank and its supervisory activities. And I think there will be much more surveillance over the private sector banking so that any laxity on their part will be detected before it becomes serious.

DS: Are there any plans to close down unprofitable branches of the nationalised commercial banks?

SR: This is for the banks to make their own assessment and scrutinize the operations of their branches. And if some of the banks are found to be draining resources instead of earning them, it is only financially prudent that they should think about withdrawing from the activities or merge with other banks. They should rationalise their operations by merging the branches suffering chronic losses by merging them with those of other public sector banks. So, there could be a selective process of merger as well as closure also. If some of the branches are really draining resources, so that eventually the banks can turn out a profit from their operations.

DS: Thank you Hon'ble Minister. Thank you Mr Secretary.

Loan Disbursement Index Summed up

by Sohel Manzur

THE bank loan disbursement index has shown an all time upward trend during the last 17 years. But allegations were also strong against the banks of being shy in lending for industrialisation.

According to official estimate, disbursement of loan started to increase almost vertically from January 1988 and continued to increase accordingly upto January '91, when a new government came to power after a major political changeover.

The disbursement index, then, took a little turn towards the horizontal line. The second turn towards that direction was visible from January, '93, when massive reforms were implemented in the banking sector under the Financial Sector Reform Project (FSRP). Apart from the changes made in the procedure of loan classification and provisioning and in the delivery system of credits, the huge size of bad debt was considered to be a major factor that has made the banks more cautious in long term lending.

According to official estimate, the bad debt of the banks stands at around 30 per cent of the total investment loan portfolio of Tk 25,000 crore. The bad debt to the jute sector alone accounts for nearly 25 per cent of the total non-performing loans of the banks, which is about Tk 4000 crore. However, under the Jute Sector Adjustment Programme, steps have been taken to balance the bank records relating to outstanding jute sector credit.

Officials in the Finance Ministry believe that both the banks and their clients are yet to adjust themselves with the reform measures undertaken in the banking sector. There are also lack of adequate confidence about the investment atmosphere in the country, which may be considered as another factor to discourage the disbursement of long term loan, the officials said.

Till March, 1994, a total of Tk 24,768 crore were disbursed by the banks against the total disbursement of Tk 23,955 crore of previous fiscal year (1992-93). The amount was Tk 22,283 in fiscal 1992-93.

However, the increase in the amount of disbursement could fulfill neither the expectation of the government nor that of the business circle, as they feel the amount should have been much higher than that was disbursed during the

last two years.

The banks have been facing excess liquidity for the last few years. They are sitting on huge money, but the investment is not taking place to that extent because of their 'overcautious' approach to the loan proposals, said a businessman, while commenting on the banks' shyness in long-term lending.

According to information available, bank deposits increased faster than the advances made by the banks during the last three years.

Till March, 1994, a total of Tk 28,267 crore were deposited with the banks against Tk 27,057 crore and Tk 24,454 crore of the 1992-93 and 1991-92 fiscal years. Of the deposits, 83.04 per cent, 83.06 per cent and 82.88 per cent were time deposits. This is not a positive sign for the banks and for the economy as a whole, an official of the Bangladesh Bank said, adding that the situation is, however, expected to improve within a short period of time as the government measures like Small Investors' Credit Guar-

antee Scheme has started to produce good results.

The banks have, in the meantime, started providing credit to the small investors under government guarantee for various small scale industries like poultry and dairy farms.

The investment-GDP ratio has increased slightly to 14.5 per cent this year from the previous year's 13.3 per cent, the official said.

In the current fiscal year, the government has fixed a target of long term lending of Tk 3000 crore beside Tk 500 crore to be disbursed through the House Building Finance Corporation (HBFC) for the housing sector.

Officials at the Bangladesh Bank believe that the measures taken under the FSRP has started to reduce the amount of bad debt. The banks are now equipped enough to analyse the risk involving factors of the loan proposals, he said, and added that increased amount of good investment would take place as soon as the banks would adjust themselves with various reform measures in the sector.

Development of Forex Market in Bangladesh

by Mamun-Ur-Rashid

THE Taka has been made convertible on the current account since October 1993. This convertibility relates mostly to relaxation of control regarding trade and service accounts rather than exchange rate mechanism. These relaxations are also based on the spirit of opening up the market, for instance, i) investment in shares/securities by non-residents, ii) remittance of profit/dividend/capital gains by foreign operators, iii) remittance of salaries and savings by expatriates, iv) foreign currency loans/local currency loans to foreign controlled manufacturing

firms/companies, v) retention quota for private merchandise and service exporters, vi) release of foreign exchange for travellers, exporters, education, treatment, vii) foreign currency accounts and viii) activating foreign exchange market.

Relaxations were also made in areas like ix) opening of foreign branches by local firms, x) foreign currency bid bond or performance guarantee, xi) advance payment of import price, xii) remittance of foreign exchange for family maintenance and (xiii) remittance

of pre-shipment inspection fees etc.

In fact, the Bangladesh Bank has been liberalising the foreign exchange restrictions for the last two years, in keeping with the government's

reform policies of trade liberalisations, export orientation and deregulation of exchange market. All these steps have come in phases, giving the market the breathing space to adjust with

the changes. In order to activate the market and develop inter-bank transactions, the central bank widened the gap between their selling and buying. Gradually it stopped quoting spot buying

and selling rates for currencies other than US dollar and left the commercial banks to decide on this. Afterwards it also stopped quoting forward rates. These led to the emergence of an inter-bank forex market. Before all these liberalisations, though allowed by the central bank, transactions in the inter-bank market were very few partly because of the banks' unwillingness to go beyond the normal in finding appropriate counterparts in the local market and over-dependence on the central bank. It could also be attributed to the very thin margin between Bangladesh Bank's buying and selling rates which left little scope to derive a reasonable profit. Development of the inter-bank market was also hindered by problems faced by commercial banks in accommodating small limits set by the Bangladesh Bank on the open position and foreign currency balances held abroad. ANZ Grindlays Bank, American Express and Agrani Bank have used small amount of USD/BDT and GBP/BDT deals in the inter-bank specifically on their own customer requirements.

Though some of the problems still exist, and active inter-bank forex and money



Development of Forex in Bangladesh

BANK CREDIT

