

Interview with Governor of Bangladesh Bank Khorshed Alam

There has been a Basic Change in the Area of Banking

The Daily Star (DS): How is the state of the country's banking sector?

Korshed Alam (KA): A straight question like this makes me a little hesitant to proceed. But I would definitely say that it is not very healthy. But what we are trying to aim at is improving it. And I can only say that it is true for both NCBs and private banks. They are more or less at par in terms of their health. But efforts are on to make them healthier and better performing.

DS: What has been the trend in the banking sector over the last 10 years or so?

KA: Well, you have noticed that the banking sector has been growing in terms of number of banks and the branches of the banking have also increased. The total network has expanded and the banks have now become more market oriented. So, the major changes that I see in the banking system is that the overall size has expanded, the operation has definitely grown in a growing economy and the volume of business has increased along with increased deposits and more lending. And with the new reform measures, which we will talk about later, the banking system will become more market oriented. So, there has been a basic philosophical change in the area of banking.

DS: How serious is the bad debt problem of the banks?

KA: Well, the bad debt problem is quite serious. I have no doubt in that this is because of the prevalent default culture and bad lending by the banks in the past. But I can assure you that steps have been taken to get out of this debt problem. Continues monitoring by the central bank about the performance of the banks is going on. We are now providing early warnings to the various public and private sector banks and indications, both from the Financial Sector Reform Programme (FSRP) team and my own colleagues at the central bank, are that the monitoring has been strengthened. And now the new lendings of the banks are definitely much better than the old ones and if this trend can be maintained I hope that the problem that had arisen in the past will not recur again.

DS: What changes have been implemented in the area of debt classification of the banks? What has been the effect of these changes on the banking sector?

KA: Well, altogether new classification rules have been brought in under the FSRP. Where previously it was all subjective classification and no objective criteria, now we have made it very objective, depending on the age of non-performing loans. The banks now have to classify their lending portfolios along with more details and this has provided the debt problem more transparency. We now know

the status of the portfolios of various banks. Under the new classification rules, if a loan is non-performing for more than one year then it is classified as a sub-standard loan. If the loan is non-performing for more than three years then it is called doubtful, and if it is non-performing for more than five years then it is considered as a bad debt. I hope that you understand that this standard is still very lax and far short of the international standards. For restoration of the health of the banks, you would feel that this standard has to be raised to the international level and the sooner it is done the better it is for the banking system.

DS: What major changes have been initiated in the banking sector under the FSRP? What other changes are in the offing?

KA: As I have already mentioned, the banks are becoming more disciplined, and more careful in their lending programmes because their portfolios are becoming transparent. Now they are aware of the quality of their investments. As a result they are becoming more careful, which I hope will improve their health in the future. The banks are also making more efforts to recover the outstanding debts. Past debts have to be collected and the banks are aware of this requirement under the new classification rules. As for the changes under the FSRP it has been widely discussed in the public forums. But to recapitulate, the interest rates have been liberalised and the banks are now free to set their own rates. And as I already mentioned, the new classification rules and provisioning against classified loans have been introduced. And with the NCBs, improvement in their performance is being continuously monitored. And this is a key element of this reform programme. Their accounting system has already been modernised and management information systems and performance planning has also been introduced. The lending risk analysis has been introduced several months back.

Another element is the training of the personnel of the nationalised banks and the Bangladesh Institute of Bank Management is also being upgraded. The training programme is being supported by a technical assistance programme, the NCBs and Bangladesh Bank is also being computerised. So, there have been improvements in the management and operation of the banking system as whole and the supervision mechanism of the central banks has also been strengthened.

As I have earlier said the loan classification rules are to be further strengthened up to the international standard. And we are all firms on this particular issue, both the Bangladesh Bank and the government. The supervision capacity of the

central bank, which has definitely improved recently, will be further upgraded.

DS: How is the foreign exchange market behaving following the currency convertibility on current account introduced last year? Is convertibility on capital account being contemplated?

KA: The currency was made convertible from October last year and it was made fully convertible on current account by removing all remaining restrictions in April. The banks are now free to set their own exchange rates. Bangladesh bank has an indicative buying and selling rate only, where previously all the rates all currencies were set by the central bank. But now individual banks can set their own rates.

Secondly, the interbank foreign exchange operations have also developed. Previously, we used to find that all the banks rushed to the central bank to buy foreign exchange when they needed it. But now we have set a limit below which we will not buy or sell and then we expanded the band within which the banks can operate. And this has made the banks to look for foreign exchange dealings with other banks. We monitor the market daily and we find that the foreign exchange market has developed and it has room for further growth.

Thirdly, many people thought that there will be volatility in the exchange rate, but there has been no volatility in the foreign exchange market. We prepared the banking system for quite sometime, they were educated, trained and were told in advance what was in the offing, what was coming and what were the likely possibilities. And the market and the banks responded very eminently. I would say the market is behaving quite normally and convertibility on capital account will definitely come in due course depending on the fundamentals of the economy. It takes different periods of time for different economies. But again I would like to mention that the currency is significantly convertible even now.

The foreign nationals can bring in and take out any amount of foreign exchange they want, they can invest in the stock market, they can have 100 per cent ownership and investment, and they can repatriate their profits without any restrictions, without any permission being necessary from the government or from the central bank. And for the non-resident Bangladeshis they can also open foreign exchange accounts without having to close it after their return, as previously required. And out of these accounts they can take out any amount they like for expenditure in any country. Previously, the country they could spend the foreign exchange in was also restricted. If you earned the money in England then you could only

spend it there. But now there are no such restrictions and the accounts are also interest bearing.

DS: What is the reason for having such a large foreign exchange reserve, which currently stands at around 2.8 billion US dollars or about eight months worth of the country's imports? What are the advantages and disadvantages?

KA: Another very topical and relevant question. I think we do not realise in Bangladesh that a reasonable reserve is necessary. And if I

Interviewed by
by SY Bakht

can answer the first part of your question, as to why the reserve is growing. The exports have been growing steadily for the last couple of years. Import growth, on the other hand, has been less than the export growth. The remittances have been significantly increasing also. Traditionally we have been seeing a 10 to 11 per cent growth in the volume of remittance amount, but last year it was more than 17 per



cent because of increased transfers through official channels because of the currency convertibility. And finally there is also increased capital inflow, not only the aid money, but, particularly last year, a substantial amount has been invested through the stock exchange. So, all these factors together contributed to the accumulation of the reserve level. I would say this is a healthy outcome of the foreign

exchange deregulation that we have made for the foreign investors. They are bringing in more money. It's not aid. All these factors together have resulted in the higher reserve level. A comfortable level of reserve is needed in a country like Bangladesh, which suffers from natural calamities, to meet emergency requirements. You never know, we might suddenly need the reserve in case of a cyclone or

drought. I recently met my counterpart from India and they also have a large reserve. They started with low reserves and had to sell gold reserves a few years ago, but now they have a huge reserve.

And we both agreed that it is better to have more than less.

It is easier to manage plenty than to manage shortage or scarcity. In our circumstances it is a required level of reserve and I will make a point that this reserve is not being built by denying investments or expenditure. In fact, there has been more private sector investments last year compared to 1992-93. So, the reserve level is not at the cost of investment.

DS: What, in your opinion, are the major problems currently facing the banking sector?

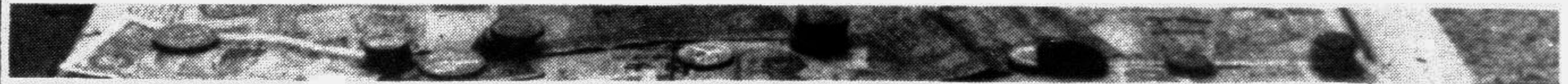
KA: I have been here in this position for one and a half year. I started off with my perception of the role of the central bank and the role of the governor. The normal traditional responsibility is to monitor monetary policies, exchange rate, and interest rate policies, and closely observing the inflation rates. But in our circumstances today, after one and a half year, as we all will agree, that dealing with the past bad loans that means recovery of 'past stuck up loans is the

number one priority. The banking system is in the problem of having a healthy well performing banking system and they have to recover their past loans by all possible means by direct persuasion, through legal actions and in that respect, they find that there are short comings in the legal system itself. The banks can go to the court, they get decrees that take months and after having a decree, bank has to find another court for execution that takes another 2 to 3 years.

So, this is a very lengthy legal process. This has to be shortened and the government is fully aware of this and is trying to bring an amendment to bring the execution also within the purview of the same court. This will bring in a legal strength in the banking system. And secondly, the major problem is dealing with the overall lack of efficiency and competitiveness of the banking system. This is another area we have to tackle very quickly.

DS: Is the regulatory power of the central bank adequate?

KA: We have full powers for supervision and even for taking actions. The inspection authority is fully given to the Bangladesh Bank. They are free to exercise it. There is no lack of authority in supervising the banking system and also taking corrective measures.



CUSTOMER SERVICE

Serve with a Smile

by Sharier Khan

man having a piece of land, you will get the loan," the manager told The Daily Star bit-terly.

The Agrani Bank and the Islami Bank get some plus points regarding opening different types of LC. It takes only three days, to open a wage LC there. To open back to back LC, it takes about an hour, ideally.

The customer service of Agrani Bank is also very much appreciated by different clients, even by bankers working in other institutions. It also has credit schemes for the unemployed, doctors, foreign bound workers and others. But the credit terms are not very encouraging and need flexibility.

man having a piece of land, you will get the loan," the manager told The Daily Star bit-terly.

The Agrani Bank and the Islami Bank get some plus points regarding opening different types of LC. It takes only three days, to open a wage LC there. To open back to back LC, it takes about an hour, ideally.

The customer service of Agrani Bank is also very much appreciated by different clients, even by bankers working in other institutions. It also has credit schemes for the unemployed, doctors, foreign bound workers and others. But the credit terms are not very encouraging and need flexibility.

The Agrani Bank has introduced computers for better service in some 10 branches in the city and will install and automatic machine teller (ATM) at its press club branch soon.

The Standard Chartered Bank follows an aggressive customer service policy. Fast delivery and modern technology have made a positive impression in the minds of customers. Its liberal credit policy is drawing the business crowd at an astonishing pace, banking sources say.

The Grindlays Bank is also building a positive reputation in personal loan. Due to increase of banking hours, businessmen and commonmen find a relief. Nowadays, sweaty-crowds are limited to branches

where people pay bills. Although, the banking hour has been extended to 3pm, the Bangladesh Bank cheque clearing house sits only once a day whereas in India, similar clearing house sits twice a day accommodating more business deals.

"But, we don't need clearing houses twice a day. Let the investment scenario gear up first, then we will go for clearing house twice a day," says an experienced banker.

The country's economy now stands at the crossroads of transition according to clients and bankers. There is a remarkable amount of foreign currency and Taka reserves. But the investment ratio is not up to the mark. Here is where the banks play a vital role.

They can encourage small investors. They should create an environment at their branches so that people feel comfortable dealing with them. They should promote consumerism. And above all, they should learn to smile.

ANZ Grindlays Bank

*For You,
From 1905.*

ANZ Grindlays Bank plc
Operating through
13 offices in Bangladesh
dating back 89 years

ANZ Banking Group
Operating in around 50
Countries Worldwide



IFIC—a leading private sector bank has emerged as an International Bank having global correspondents.

IFIC offers comprehensive banking service both nationally and internationally. Our assets include a team of highly competent bankers with experience and integrity. We specialise in creative international banking and offer tailor-made solutions to any banking problem.

IFIC Bank-serves with EXCELLENCE



INTERNATIONAL FINANCE
INVESTMENT AND COMMERCE
BANK LIMITED

808 Building, 8 Rajshahi Avenue, Dhaka, Bangladesh

Tel: PABX 243220-29, ISD 833080, 833084 & 833945, Fax: 880-2-833198, Telex: 642703 IFIC BU & 632404 IFIC BU

Moreover, you may bump into one or two bankers who actually smile — which is a phenomenon previously unthinkable. "In the past the bankers behaved with such an attitude as if they were doing us favours", say many clients nowadays.

But in a scale of improvement from 1 to 9, clients believe, most banks should be ranked between 3 and 6.

During some queries, this Daily Star correspondent found out such instances which may sound very frustrating in regard to the improvement of the banking services.

A couple of months ago, a client had to run from bank to bank for over 20 days just to encash a 300 pound sterling cheque sent from the UK. During this process, he even had to "influence" managing directors of two nationalised banks.

But not everybody can "influence" people on the top in a bank. A banker presenting such a case study told this correspondent, one poor old man from Balidderbazar, Narsingdi sent his son to Saudi Arabia in 1991 with the money obtained through mortgaging his property. Before going to Saudi Arabia, his son opened an account with a local branch of a nationalised bank.

After few months, the son sent his needy father some money from the Kingdom. But due to the complex nature of our banking, the money reached Balidderbazar after several months. By that time, the old man, who needed the money for his treatment as well as to pay back his debts, died.

There are hundred other problems in the customer service which should be immediately addressed to by the banks.

During the first week of a month, certain branches of banks which receive utility bills, are sickeningly overcrowded.

"I paid my electricity bill on the second visit. On the first visit, I waited in the queue for a couple of hours but the banking hour was over much before my turn to pay came," said one Jainul describing his experience.

The Bank officials say, such crowd is unavoidable because the branch is under staffed. But some of them agree, the process of receiving the bills should be made more dynamic and easy.

Another problem faced by