Period of Stagnation — Not Over Yet

by Inam Ahmed

THE country's banking sector is still going through a period of stagnation, banking experts feel.

"The problem of the sector is that of the economy," observes one government banking expert, "the economy is not growing, so is the banking sector. When there is a sluggish demand in the economy, the banks can not expand their credit operation."

And if their credit expansion is stymied, their profitability erodes and their balance sheets are bulged with excess liquidity. The banks, according to concerned sources, are now stuffed with at least Tk 1750 crore excess liquidity.

The other problem of the banking sector is that of the law, the same expert feels. In fact, banking is totally dependent on contractual guidelines. And if the law is not 'strict and fierce' enough to make customers and banks abide by the contacts, banking is sure to be mismanaged. The banks had tried to combat their excess liquidity situation by cutting their deposit and lending rates without any visible results. In fact, some banks are even trying to avoid high interest hearing fixed deposits while the foreign banks are even shy of accepting short terms deposits.

However, in recent times, the government have taken wise decision of taking advantage of this excess liquidity situation is implementing some of its projects by floating bonds. The T & T had recently floated Tk 375 crore bonds for its 1.30 lakh telephone lines expansion programme and will be able to manage fund at cheaper rates.

However the private and foreign banks are faring much better than the NCBs' both in terms of operational efficiency and amount of debt-default. According to the world bank figures, deposits and loans per employee at private banks are almost twice than that of NCBs. Private banks mobilise almost three times more deposits and loans per branch than do the NCBs.

A comparison between the NCBs and private banks' gross intermediation margin also shows that the private banks are doing far better than the nationalised banks.

Margins at NCBs have been consistently lower than private banks and have been even declining since 1989.

From 2.45 per cent, in 1989 the gross margin of the NCBs slowly declined to 1.38 per cent in 1992. On the other hand, the private banks' margin increased from 2.74 to 3.76 per cent during the same period. These differences between the NCBs and private banks have been attributed to the formers uncommercial approach to pricing loans, their higher share of non-earning assets and their lower income fee.

It is commonly known that the banks have huge bad debts. But the exact amount of bad debt is yet to be disclosed. Even a recent world bank report says "while the extent of bad debts in the nationalised commercial banks is not known with accuracy, they are believed to be substantial."

Not only the NCBs, some names of private banks have also cropped up recently in the list of having huge bad debts. Recently, two such banks had also entangled themselves with financial irregularities.

As stated in the beginning of this report, the framework of business laws and legal procedures need to be more stringent to deal with loan defaulting.

While the government should make micro and macro adjustments to enable the entrepreneurs use their capital efficiently, the banks need legal help to realise their bad debts.

Banks have to be able to foreclose and liquidate collateral in the event of borrower default. For this, the bankruptcy law, yet to be passed by the government, is seen as a major tool by the bankers. Bankers also point out to the lengthy appeal process that virtually halts any legal actions against defaulters. They now feel any appeal must have a time limit and private foreclosure should be permitted to expedite liquidation of collateral. The jurisdiction of the financial loan court should also be extended by including the implementation of its decrees, they say.

The profitability of the NCBs and private banks have been waning since 1990 after the government had imposed strict loan loss provision system on the banks. The banks are now maintaining provision accounts from their profits which have been reflected in their balance sheets. This has resulted in the drop in profitability.

The NCBs' showed a net loss of Tk 44.1 crore in 1990-91 and it increased to 69.90 crore in 1992-94. Private banks made a profit of Tk 1.98 in 1990-91, but the figures reversed the following years and the private banks incurred a net loss of Tk 7.61 crore in 1992-93.

However, the foreign banks maintained a steady profit which increased from Tk 17.65 crore in 1990-91 to Tk 38.36 crore in 1992-93.

Analysing the commercial bank lending from 1987 to 1993, one gets the idea that the lending in industry had stagnated completely at 27 per cent of the total lending since 1989. Agricultural credit also stagnated at around 18 and 19 per cent since 1991.

The overall commercial bank advances actually declined in real terms in 1991 to Tk 131924 million from the previous year's Tk 133160 million. Then it picked up a little to 144815 million in 1992.

This stagnation of credit expansion had surely had its impact on the economic growth of the country which always eluded the target.

The banks had become prudent in their lending when the Bangladesh Bank had clamped strict regulations on their bad loan provisioning that exposed their financial weakness. On the otherhand, the banks could not develop new areas of investment for their clients because of lack of expertise.

On the demand side also, the unchanged poverty situation resulting in low domestic demand of goods, and the country's smaller export market base had discouraged entrepreneur from going for fresh credit. Entrepreneurs also blame the government's slowness in implementing its policies which has stagnated any real demand for credit.

The 12 domestic private banks which include two denationalised banks, are slowly making their foothold in the market that previously was the oligopoly of the NCBs.

Their share in deposit increased from 20 per cent to 27 per cent during 1986 and 1993 and from 14 per cent to 25 per cent in advances. However, their performance could have been more impressive if the two denationalised banks were excluded as these two banks — Pubali and Uttara still inherit the same kinds of problems of the NCBs.

According to the Bangladesh Bank figures, the bank deposit excluding the government's deposit as on June 30, 1994 was Tk 31265 crore which is Tk 4462 crore higher than last year showing an increase by 16.85 per cent. On the otherhand, the bank credit including advances and inland and import bills stood at 24428 crore which is only Tk 547 crore higher than last year's corresponding period showing only a 2.30 per cent increase.

These figures clearly show that the banks had not been so active in their advances as they were in their deposits.

The nationalised and denationalised banks are said to be undercapitalised even under the current standard of loan classification according to a World Bank report. However, the government's recapitalisation programme has improved the situation largely, the Central bank sources said.

However, some private banks are still facing capital shortfall to the tune of Tk 300 crore."

Co-operatives

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tive Societies Ordinance 1984 is concerned it is clearly written : "A co-operative society shall receive deposits and loans from persons who are not members only to such extent and under such conditions as may be prescribed by the rules or bye-laws; and shall in respect of such deposits or loans make such provision for the maintenance of fluid resources as may be prescribed."

So far quite a number of these Co-operative Credit/Savings and Loans Societies are functioning in Dhaka, Chittagong and Bogra in the nature and style of formal banking. All of these are being managed by bankers. Surprisingly, all of them are functioning well despite resource constraints, and although they have no system of getting financial assistance from any quarter as in the case of formal system banking.

These institutions are needed in the society. Most of the economically mid-level and low-level persons are shy to go to the formal system banks, often because of formality requirements. This also deprives the nation of a large amount of savings. They can be served by the Co-operative Credit/Savings and Loans Societies and amount of savings utilised for the benefit of the society. But unfortunately neither the society nor the authorities seem concerned about such necessity. For a steady growth of cooperative banking a bond should be established between their operations and the operations of formal system Banking. This can happen if the Co-operative Credit/Savings and Loans Societies are allowed to use the facilities of clearing house. Also they may be allowed to operate in the call loan market. A system should also be developed so that these institutions become as worthy as to be allowed borrowing from existing formal systems. Any loan allowed by Co-operative Credit/Savings and Loans Societies is recoverable since Public Demand Recovery Act is applicable on the borrowers of a Co-operative Credit/Savings and Loans Society.

We feel that Co-operative Credit/Savings and Loans Societies should be treated as mini-banks and facilities should be created in such a way that they can function like trusted banks. It is possible for the present democratic government to boost up the activities of these organizations.

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