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The Daily Star

BUSINESS

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Banks' lending performance, profitability: Data defy popular beliefs

Star Business Report

There have been considerable discussions in recent times about the state of the economy and how the banking sector is contributing to it. The general perception of slowdown in economic activity has given way to a set of popular beliefs that banks have high margins, charge too much fees and are reluctant to lend, particularly take the risk of long-term industrial finance.

It is, therefore, not surprising that a level of bank bashing exists, when there have been little progress on improving political stability in the country or the 'default culture' currently prevailing in the banking industry. Interestingly, the last two variables along with reforms, privatisation and consensus on the country's economic agenda, are cited by development partners and foreign investors as essential ingredients for attracting foreign direct investments (FDIs) in the country. A strong inflow of FDIs has historically proved to be the engine of growth for developing economies that in turn, drives liquidity, interest rates and term financing.

Going back to the issue of popular beliefs, at least on paper, the banking sector is performing reasonably. Out of 26

Private Commercial Banks (PCBs), 16 old PCBs (9 have started operation in last 6 months) have posted pre-tax profit of BDT 10 crore or more in 1999. Among the 13 foreign banks, only 4 have posted pre-tax profit of BDT 10 crore or more.

The rhetoric, however, appears to be unfavourable to Foreign Commercial Banks (FCBs) who are accused of profiteering and contributing little to the economy. It is, therefore, necessary to cut through the clutter of opinions, half-truths and perceptions and get to the facts.

An analysis of data in "Activities of Banks and Financial Institutions 1998-99", published by the Ministry of Finance was undertaken to examine the performance of different banks and to see how they stacked up in

- industrial lending, both term and working capital (as opposed to other less economically-gainful lendings)
- bad debt ratio
- profitability (adjusted for bad debts)
- interest cost and operating cost
- interest and fee revenue

SELECTED BANK STATISTICS - NATIONALISED, PRIVATE AND FOREIGN COMM. BANK

| 1998 | | | | | | |
|--------------------|-----------------|-------|-------------------|---------------------------|------------------------|------------------------|
| | Customer Assets | PBT | PBT As % Of Asset | Fees/Comm. As % Of Assets | Fees/Comm. As % Of PBT | Fees/Comm. As % Of PBT |
| Islamic | 13,436 | 680 | 5.1% | 542 | 4.0% | 79.7% |
| Pubali | 14,702 | 510 | 3.5% | 416 | 2.8% | 81.6% |
| Uttara | 15,178 | 388 | 2.6% | 469 | 3.1% | 120.9% |
| National | 11,682 | 875 | 7.5% | 703 | 6.0% | 80.3% |
| Eastern | 5,750 | 403 | 7.0% | 178 | 3.1% | 44.2% |
| Prime | 3,190 | 222 | 7.0% | 153 | 4.8% | 68.9% |
| Dutch Bangla | 970 | 35 | 3.6% | 32 | 3.3% | 91.4% |
| South East | 3525 | 170 | 4.8% | 45 | 0.1% | 2.6% |
| Dhaka | 2692 | 115 | 4.3% | 109 | 4.0% | 94.8% |
| ANZ Grindlays | 12,228 | 1,091 | 8.9% | 461 | 3.8% | 42.3% |
| Standard Chartered | 8,718 | 711 | 8.2% | 535 | 6.1% | 75.2% |
| Credit Agricole | 3,378 | 326 | 9.7% | 249 | 7.4% | 76.4% |
| Amex | 1,757 | 171 | 9.7% | 200 | 11.4% | 117.0% |

* Source: Bangladesh Bank Data

Industrial Lending
36.51% of advances disbursed by the nationalised commercial banks (NCBs) in 1998 went to the industrial sector. During the same period, PCBs lent 22.2% to the industrial sector, and ironically, FCBs lent 36.4% to it.

Projections in the same publication indicate that during first half of 1999, the NCBs would disburse 31.1% of their total loans in industrial sector; during the same period PCBs committed to disburse 17.5% in the sector while FCBs committed to disburse a whopping 50.6% of their loans and advances. In 1998, of the total industrial loans outstanding in their books, term loans disbursed by NCBs, PCBs and FCBs were 71.6%, 65% and 53% respectively.

Non-Performing Debt
While the various levels of commitment of NCBs, PCBs and FCBs towards industrial term finance become evident in the above data, what happens when banks decide on unplanned aggressive growth, reveals another story when we look at debt management statistics of the commercial banks.

By the end of June 30, 1999, the combined unclassified loans of NCBs bloated by 6.60% to an astronomical 46.98% of their total loans in six months from December 31, 1998, to June 30, 1999. Sonali Bank, the country's largest commercial bank, is through its worst-ever time with 50.09% of the total loans becoming classified. Consolidation mode as evident in industrial loan disbursement ratio of PCBs led to an improvement in their combined unclassified loans ratio to 28.98% as at close of 30.06.99 from 32.98% at the end of previous six months. The classified ratio for FCBs for the same period remained static at 4%.

Profitability
In terms of profitability, the perception is that the FCBs charge high interest and fees and, therefore, make huge profit with small operation. On the other hand, the NCBs or the PCBs make less profit because they charge less.

But Daily Star effort to get at the facts reveal a different story — generally, the FCB interest and fees are comparable to those of NCBs or PCBs. The answer then as to why FCBs make more money with smaller operation lies somewhere else.

Taking the government-published figures of 1998, The Daily Star first compared the

SELECTED BANK STATISTICS - NATIONALISED, PRIVATE AND FOREIGN COMM. BANKS

| 1998 | | | | | | |
|--------------------|--------------|-------|-------------------|---------------------------|------------------------|------------------------|
| | Total Assets | PBT | PBT As % Of Asset | Fees/Comm. As % Of Assets | Fees/Comm. As % Of PBT | Fees/Comm. As % Of PBT |
| Islamic | 23,782 | 680 | 2.9% | 542 | 2.3% | 33.0% |
| Pubali | 30,351 | 510 | 1.7% | 416 | 1.4% | 19.0% |
| Uttara | 19,140 | 388 | 2.0% | 469 | 2.5% | 32.0% |
| National | 38,434 | 875 | 2.3% | 703 | 1.8% | 39.0% |
| Eastern | 11,270 | 403 | 3.6% | 178 | 1.6% | 13.0% |
| Prime | 5,988 | 222 | 3.7% | 153 | 2.6% | 23.3% |
| Dutch Bangla | 2945 | 35 | 1.2% | 32 | 1.1% | 16.7% |
| South East | 7352 | 170 | 2.3% | 45 | 0.1% | 12.2% |
| Dhaka | 6805 | 115 | 1.7% | 109 | 1.6% | 20.9% |
| ANZ Grindlays | 20,582 | 1,091 | 5.3% | 461 | 2.2% | 21.0% |
| Standard Chartered | 25,027 | 711 | 2.8% | 535 | 2.1% | 33.6% |
| Credit Agricole | 7,562 | 326 | 4.3% | 249 | 3.1% | 31.0% |
| Amex | 6,558 | 171 | 2.6% | 200 | 3.0% | 26.5% |

* Source: Bangladesh Bank Data

total costs (TC) of selected banks with their customer liability (CL).

It was found that the TC as a percentage of CL for Sonali Bank was 7.2 per cent, Janata Bank's figure stood at 8.1 per cent, Agrani's 7.9 per cent, Islamic Bank's 7.2 per cent, Pubali's 7.5 per cent, Uttara's 8.1 per cent, National Bank Ltd's 8.1 per cent, Eastern Bank's 9 per cent, Prime Bank's 8.6 per cent, Dutch Bangla's 9.2 per cent, South East's 11.3 per cent and Dhaka Bank's 8.4 per cent. The figures of four FCBs were also analysed and it was found that ANZ Grindlays' TC as a percentage of CL came to 6.3 per cent, Standard Chartered Bank's 13.1 per cent, Credit Agricole's is 8.8 per cent and AMEX 11.3 per cent.

From these figures, it is evident that most of the commercial banks have similar total cost ratios. On the other hand, when the total income (TI) of the banks are compared with their customer assets (CA), it appears on the surface that the income ratios of the NCBs and PCBs are significantly lower, comparable with FCBs.

(Equals Total Cost of Funds+Total Operating Costs).
Total Income and Bad Debts

The total income (TI) as a percentage of customer assets (CA) for Sonali Bank stood at 10.3 per cent, while it was 13.3

per cent for Janata Bank, 11.3 per cent for Agrani, 12.3 per cent for Islamic Bank, 15 per cent for Pubali, 12.1 per cent for Uttara, 19.6 per cent for National Bank, 16.5 per cent for Eastern Bank, 17.3 per cent for Prime Bank, 19.9 per cent for Dutch Bangla, 20.6 per cent for South East Bank, 19.4 per cent for Dhaka Bank, 17.4 per cent for ANZ Grindlays, 24 per cent for Standard Chartered and 24.3 per cent for Credit Agricole.

Combined NCB TI ratio is 11.2 per cent, for FCBs it is 15.3 per cent as compared to FCBs combined 20.2 per cent. A closer analysis of the published results and government data reveal that 50 per cent of NCB lending and 30 per cent of PCB lending is classified. If the classification ratio is taken into account, then this NCB and PCB incomes become comparable with FCBs, and in fact, in most cases, higher than FCBs.

In simple terms, income is counted only on performing loans and NCBs have about 50 per cent classified loans. So, their income have come from only 50 per cent of their customer assets. Had the NCBs as low classified loans as the FCBs, the return on customer asset percentages would have just doubled. This would put their income at par with the FCBs.

Again, if one looks at the bad debt adjusted yields of the banks, it appears that NCBs and PCBs are making more money than the FCBs. Adjusted margin derived by subtracting cost of fund from adjusted yield also prove that the local banks make more money than FCBs. On the other hand, bad debts are pulling down the effective yield of the local banks.

The net result of this huge non-performing debt is that — the good borrowers are paying for the delinquent borrower. If the non-performing portfolio was within acceptable standards, these banks (which control 75 per cent of the banking industry) could charge lower interest rates.

— the country is denied the use of these massive amounts of money for financing of productive economic activity.

Fees
Is it then higher fees and charges again that is pegging FCB income? Hardly so—figures again do not tally with the statement.

When the fees and commissions of the banks are compared with customer assets or total

incomes, it appears that FCBs are at par with the local banks. Fee earnings as a percentage of total income of FCBs are also similar or less as compared to NCBs and PCBs.

In 1998, Fees and commissions as percentage of total income of Islamic Bank was 33%, Pubali Bank 19%, Uttara Bank 32%, National 39%, Eastern Bank 13%, Prime Bank 23.3%, Dutch Bangla 16.7%, and Dhaka Bank 20.9%. Among major FCBs, ANZ Grindlays fees/commission as percentage of total income was 21%, Standard Chartered 33.6%, Credit Agricole 31%, American Express 26.5%. In 1998, Fees and commissions as % of total assets of Islamic Bank was 2.3%, Pubali Bank 1.4%, Uttara Bank 2.5%, National 1.8%, Eastern Bank 1.6%, Prime Bank 2.6%, Dutch Bangla 1.1% and Dhaka Bank 1.6%. Among major FCBs, ANZ Grindlays fees/commission as percentage of total assets were 2.2%, Standard Chartered 2.1%, Credit Agricole 3.3% and American Express 3.0%.

So the question is, how do the FCBs make their money? "By being efficient" was the reply of the chief executive of a

FCB. "Our return on capital is high because our staff are more productive, non-performing assets are very low and we have the latest technology to work efficiently. This brings our cost base down."

Not far from the truth — with similar margins, cost/liability ratio and earnings to asset return, FCBs are gaining on account of low bad debts and operating costs. Operating cost to total income ratio for FCBs hover around the 30%-35% mark whereas most FCBs operate on a 20% operating cost to income ratio.

According to banking experts, the local banks should examine their cost lines more closely, embrace modern technology, see if opportunities exist for business process reengineering — in short, raise productivity and cut waste.

The new private sector banks have a clean slate to work with. Perhaps, they will show the way by ensuring adherence to internationally acceptable bad debt ratios, putting in place state-of-the-art technology and processes, supported by strong management practices.

SELECTED BANK STATISTICS - NATIONALISED, PRIVATE AND FOREIGN COMM. BANKS

| 1998 | | | | | | | | | | |
|--------------------|-------------------------------|--------|-------|----------------------|--------------------|-------|--------------|--------|------------|-----------------|
| | Customer Assets & Investments | Yield | IR | Customer Liabilities | Cost of Fund (COF) | IP | Net Interest | Margin | Bad Debt % | Adjusted Margin |
| Islamic | 13,456 | 7.81% | 1,024 | 23,800 | 4.39% | 1,044 | (20) | 3.2% | 19.80% | 4.0% |
| Pubali | 17,286 | 10.03% | 1,734 | 22,587 | 4.51% | 1,019 | 715 | 5.5% | 44.72% | 10.0% |
| Uttara | 17,199 | 5.81% | 1,000 | 18,013 | 5.47% | 985 | 15 | 0.3% | 39.53% | 0.6% |
| National | 13,777 | 6.83% | 941 | 17,365 | 5.17% | 898 | 43 | 1.7% | 39.82% | 2.8% |
| Eastern | 6,682 | 14.83% | 991 | 8,872 | 6.94% | 616 | 375 | 7.9% | 7.53% | 8.5% |
| Prime | 3,988 | 11.74% | 468 | 5,313 | 5.99% | 318 | 150 | 5.8% | 1.99% | 5.9% |
| Dutch Bangla | 1,313 | 10.43% | 137 | 1,874 | 5.98% | 112 | 25 | 4.5% | 0.53% | 4.5% |
| South East * | 4,035 | 0.50% | 20 | 4,918 | 0.39% | 19 | 1 | 0.1% | 3.51% | 0.1% |
| Dhaka | 3,063 | 13.22% | 405 | 5,299 | 6.11% | 324 | 81 | 7.1% | 2.63% | 7.3% |
| ANZ Grindlays | 15,883 | 9.89% | 1,670 | 16,595 | 4.43% | 738 | 934 | 5.5% | 1.44% | 5.5% |
| Standard Chartered | 10,811 | 9.74% | 1,053 | 10,571 | 6.28% | 665 | 388 | 3.4% | 4.05% | 3.6% |
| Credit Agricole | 5,028 | 10.80% | 543 | 5,603 | 5.27% | 295 | 248 | 5.5% | 15.41% | 6.5% |
| Amex | 2,820 | 15.82% | 446 | 5,062 | 4.37% | 221 | 225 | 11.4% | 1.65% | 11.6% |

Source: Bangladesh Bank Data

Czech Republic keen to invest in joint venture gas, energy projects

The Czech Republic has shown interest to invest in joint venture projects in Bangladesh's burgeoning gas and energy sectors in addition to setting up of fertiliser factories, reports UNB.

This was indicated by the visiting Vice Minister for Industry and Trade of Czech Republic, Jiri Maceska, when he met with Industries Minister Tofail Ahmed at his official residence in the city yesterday.

"We have a long experience in power generation, gas distribution and other manufacturing industries," the Czech vice minister said.

In this context, he mentioned that some projects in Bangladesh including Shikabaha Hydroelectric Project, Dhaka Leather, Bangladesh Insulator and Sanitary Ware Factory had adopted Czech technologies.

Jiri Maceska invited Tofail to visit his country with a view to exchanging ideas with the government and potential investors of the Czech Republic.



Asian Sky Shop inaugurated its first dealer outlet at Mirpur-10 in the city on Friday. The picture shows (from right) Afroza Akhter, Manager-Marketing, and Ravi Chandran, Managing Director of Nationwide Communications Limited (Asian Sky Shop & Telebrands), chief guest Mosharraf Hossain, President of Bangladesh Chamber of Industries, special guest Mowdud Khan, Chairman of Bengal Fine Ceramic Ltd, and Amir Hossain Pannu, dealer of Asian Sky Shop for Mirpur-10, at the opening ceremony.

—Asian Sky Shop photo

Jalil for local technological base to manage resources

Underlining the importance of efficient management of natural resources, Commerce Minister Abdul Jalil has strongly pleaded for developing a local technological base to ensure the best use of resources, reports UNB.

"Development cannot be imported or borrowed... it needs sustainable technology," he told the diploma engineers as they gathered at the Institute of Diploma Engineers Bangladesh (IDEB) in the city yesterday on the occasion of its 24th national council.

Imported technology in the past could not be properly used and proved less-worthy as the lion's share of foreign technology assistance went on hired consultancy, he observed.

Referring to the Nigerian experience in natural resources management, Jalil said people there did not get the fruits of the country's rich resources. That's why the government wants to employ local manpower and technology in managing natural resources.

The minister also identified political stability and uninterrupted discipline as preconditions of economic development. "I believe all political parties want Bangladesh to grow," he said, urging the political leaders to be united for the nation's prosperity. "Anarchy and lawlessness cannot be the language of democracy," he said.

'Weak euro best for Europe's economy'

SINGAPORE, Apr 15: The weakness of the new common European currency has helped Europe rather than hurt it, analysts and officials said Saturday at an international conference in Singapore, says AP.

"The behaviour of the euro in its first year of existence could not have been better," said Antonio Borges, dean of France's INSEAD business school.

The euro lost roughly 17 per cent of its worth against the US dollar after its launch at \$1.16 on Jan 1, 1999, hitting a low of 93.90 cents in late February.

Speaking to the Associated Press on the sidelines of the Europe Asia Forum, Borges said the euro's relatively low value has made European exports more competitive.

Dow, Nasdaq suffer worst one-day point drops

NEW YORK, Apr 15: The US stock market suffered a history-making collapse Friday that shook professional and armchair investors alike, says AP.

Already weary from days of heavy selling, investors panicked after the government released a surprisingly bad inflation report. As prices tumbled, many who bought stocks with borrowed money were forced to sell to repay loans, accelerating the downward spiral.

The Dow Jones industrial average plunged 617.78 points, or 5.7 per cent, to 10,305.77 — by far its biggest one-day point drop ever.

At its lowest point, the Dow was down 722 points.

The Nasdaq composite index, home to the technology stocks whose popularity has evaporated, also suffered its worst point drop ever — down 355.49, or almost 10 per cent, to 3,321.29.

"We had a semi-panic, almost a full cascading deterioration," said Ned Riley, chief investment strategist for State Street Global Advisors. "The real question is, have we reached the nadir of emotion?"

David Hummel, a 23-year-old computer engineer, has seen the says 12,000 tax refund he invested three weeks ago cut in half.

"The bears aren't just growling, they're roaring the streets. I'm just glad I don't have a wife I have to explain this to," said Hummel as he stared at the flashing stock quotes of the Nasdaq Marketsite in Times Square.

It was one of the worst weeks in US market history.

The Nasdaq fell a record 1,125.16 points, or 25.3 per cent. The Nasdaq is now down 34 per cent from its peak, well into the territory investors characterize as a bear market. The Dow shed 805.71 points. The 7.3 per cent drop was the fifth biggest since the start of 1987. The blue chip index is now 10 per cent off its peak.

The sell-off decimated several sectors, including computer software and semiconductor, brokerage companies, banks and transportation.

The trigger for the collapse was the labour Department's announcement that consumer prices rose more than expected in March, reflecting higher costs for everything from gasoline to housing.

The figures rekindled worries that the Federal Reserve not only would raise interest rates again, but might be more aggressive in trying to cool down the economy in order to remove the threat of inflation.

The Fed has raised rates five times since June, each time by a quarter-point in borrowing charges. Now, many investors fear a half-point increase as early as May.

Even that may not be enough.

The risk is the US economy does not slow enough and the Fed has to raise rates in the second half of the year, in spite of the election. That is not priced into the market," said Nick Sargen, an investment strategist for JP Morgan.

New survey findings show India needs 67,000 IT specialists

NEW DELHI, Apr 15: India is short of some 67,000 computer specialists and programmers according to the findings of a survey published today, reports AFP.

Dewang Mehta, chief of India's National Association of Software and Service Companies (Nasscom) said its joint study with US consultancy firm McKinsey and Co. showed the software profession had the potential to create seven million jobs over the next eight years.

He said India's combined software and hardware export target was projected at 50 billion dollars by 2008 and if the targets were to be realised, the country would need 2.2 million software professionals.

Nasscom says India's software industry is projected to earn 5.7 billion dollars for the year to March 2000, recording a growth of approximately 50 per cent over the previous year's figure of 3.9 billion dollars.

How billionaires fared in US stocks collapse

UNDATED, Apr 15: Here's how some famous billionaires fared as the stock market plunged this week, says AP.

Losers:
William H Gates III, chairman and chief software architect, Microsoft Corp, lost \$11.1 billion his 741.7 million shares of the company.

Charles R Schwab, chairman and co-CEO of Charles Schwab Corp, lost \$2.6 billion on his 175.2 million shares.

Michael S Dell, Chairman and CEO, Dell Computer Corporation lost \$ 2.3 billion on his 306.1 million shares.

Jerry Yang, Chief Yahoo! of Yahoo!, lost \$1.6 billion on his 45.4 million shares.

Stephen M Case, chairman and CEO of America Online, lost \$ 122.4 million on his 8.90 million shares.

Warren Buffett, chairman and CEO of Berkshire Hathaway, gained \$570 million on his 474,998 shares.

US inflation roils world markets

Fed rate jack-up fears worry investors

WASHINGTON, Apr 15: A jump in US consumer prices rocked world financial markets yesterday as investors suddenly worried the inflation-wary Federal Reserve might jack up the pace of interest rate rises in the months ahead, says Reuters.

But after a day of seemingly unstoppable bloodletting in the stock market, most analysts stuck by their forecast for just another modest credit tightening at the Fed's next rate meeting in May. Their argument: the markets' tumble itself had helped take some froth off the bubbling US economy.

Indicating that price pressures in the world's top economy may have begun to pick up after nine years of uninterrupted growth, the US Labour Department said consumer prices rose 0.7 per cent in March, adding to February's 0.5 per cent gain. The increase was driven by higher energy and transport prices.

But even without the more volatile food and energy com-

ponents, the so-called core rate of inflation shot up 0.4 per cent — its biggest rise in more than five years. The gain came after February's more modest 0.2 per cent increase.

Stock prices around the globe fell dramatically on the report, which came just a day after the government said retail sales also had risen faster than expected in March.

The data rekindled fears that demand in the US economy is so robust that the Fed may no longer be content to raise rates gradually, as it has done since last summer.