Banks in financial re-engineering

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BANKS mobilise savings, regenerate savings through investment, plough back generated savings to reinvest again and the cycle moves on. A bank functions at each step of the 'savings ? investment' process. Banks are therefore, known as mirror of a country's economy.

For the last two years, investment remained stagnant in the country, presumably because of promulgation of emergency laws, which meant withdrawal or curtailment of basic human rights and also other normal citizens' rights as recognised by the Constitution of our country. Investments flourish in a market economy, when democratic rights are protected by the state. Political democracy is congenial for the growth of free market economy. Both enjoy similar rights to exist and prosper.

Against this background, restoration of democratic government through a free and fair election, participated by record number of voters, is a positive event for economic development.

We may refer to the inferences drawn by the governor of our central bank at the time of presenting the new monetary policy. New policy visualises an increased growth rate of national income at 6.50 percent and decreased inflation rate of 8.50 percent. This is an optimistic projection. In my opinion, this is achievable. Finally, growth rates may vary from the projection, but the trend shown by the projection will not change. Rate of inflation will decrease and rate of growth of GDP will increase.

If we look back to glance through the price scenario in our country during the past couple of years, we observe steep rise in prices of all essential items, pushing the inflation rate to cross double digit. The reason was obvious. Natural calamity hit the country hard; severely damaged crop and properties of people and created almost a famine condition in the affected areas. Food price was very high in the international market. At one point, there was no exportable surplus of rice in any country.


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At the end of 2008, operational profits of the banking sector looked handsome, even higher than those of the previous year. This was a puzzle to many people, as the banks earned high profits, though investment was stagnant throughout the year. This is because banks earn major part of their profit from the interest accrued on outstanding loans. Market conditions discouraged the borrowers to pay back loan installments and the bank happily calculated profits on default loans

Many big industrialists and business magnets were rounded up and put behind the bar during the emergency rule. Some were detained without any formal charge sheet or case. Harsh measures were taken to strike back at corruption. The intention was noble but the process proved counter-productive. Result is stagnation of investment, local or foreign. Had it been for a short spell of time, return to normalcy could have been easy. But two years' time cannot be treated as a short period. Hence, restoration of normalcy in investment in particular and overall economy in general may take some time.

Bangladesh has witnessed a contrasting scenario at the end of 2008. Price of petroleum came down to US $ 40 from a peak of 150. Prices of rice, wheat, edible oil drastically declined in the international market. Crop production within the country brought smile on the face of farmers. The trend of decline in prices continues in the new year, 2009. Under the changed circumstances, projection of inflation rate at 8.5 percent seems reasonable. We will not be surprised if inflation rate dwindles down even below 8.5 percent.

We do not have very strong argument in favour of increasing GDP growth rate to 6.5 percent. If investors get back their lost confidence, if they really start investing in productive sectors, if foreign investors follow suit and if peaceful business environment continues, there is hope for increasing GDP growth. A keen eye may have already discerned some positive signs of investment regeneration. Reaching the target will depend on many more factors.

With such projections and overall outlook in mind, we may now enter into the financial sector to understand its present and future behaviours.

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During emergency rule, depositors were scared of unusual search and enquiry about their bank accounts. In the process, large deposits were withdrawn from the banks, presumably for safe hiding. Withdrawal of deposits did not create liquidity crisis because of simultaneous stagnation of investment.

After restoration of democratic rule, the situation may take a positive turn. But the process appears to be zig zag in nature. All the deposits, withdrawn during emergency rule may not rest idle in the country. Part of it might have flown to other countries seeking safety and investment. Financial crisis in the west might have eaten up portion of such fund. Rest of the money may return to the country, if financial environment becomes congenial.

Banks will find their critical role in anticipated financial re-engineering. We may witness large consortium loans in coming days. The process appears to have already started.

Bangladesh Bank has advised all local and foreign banks to go for agri lending. Bangladesh Krishi Bank is proceeding steadily. Other government owned banks are also supportive. But the private and multinational banks are reluctant, because of their absence in the rural areas. Moreover, typical structure for city-based banking is not appropriate for financing rural economic activities. We may innovate and develop a suitable rural banking structure in line with Micro-financial Institutions (MFI) to meet the challenge of rural finance.

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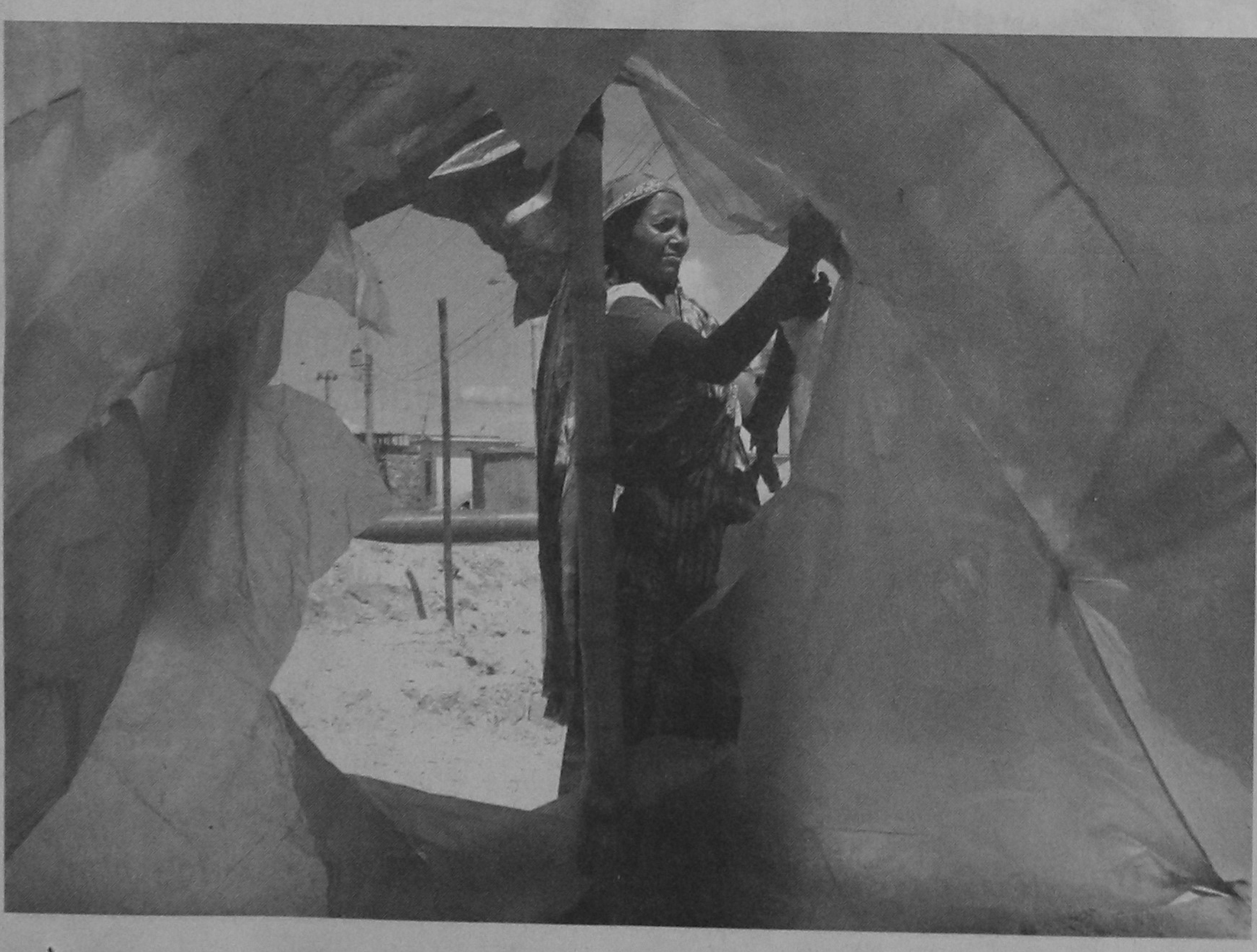
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The dual challenge

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Also, whatever pro-poor growth has been made, that too has not happened evenly across various sections of the society. It is claimed that women have been able to come out of poverty to a large extent through their participation in more productive wage employment facilitated by higher education. But such improvements are concentrated mostly amongst richer women and thus the impact on poorer women is much less. The paradoxical situation that faster reduction in poverty has, in fact, been accompanied by increasing inequality indicates that poverty has various dimensions and therefore, poverty reduction programmes require consideration of multifaceted impact on the poor people.

Poverty is a primitive problem of human civilisation. The world has progressed economically, socially, technologically. However, poverty continues to be a companion, like a shadow of development. During the pre-historic period lack of resources has been the prominent cause of poverty while in modern days it is the lack of efficient use of resources and inequality in distribution of resources. Hence policy initiatives towards poverty reduction have to consider these aspects as much as the need for accelerated growth. Those who were once our co-fighters in the journey of poverty alleviation such as Indonesia, Malaysia, South Korea and Taiwan in the seventies have progressed leaving us behind. We bear the pain of poverty till today. While we find gratification by decreasing poverty level even by a small percent, others now talk about social justice and right of access to resources. Human beings are born not to fight against poverty but to nurture and utilise their talents, express their creativity. The real meaning of progress is embedded in this.

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