

A challenging year for banks

LOOKING BACK



SAJJADUR RAHMAN

BANKS in Bangladesh passed a critical year, surfing through an anti-business climate both at home and abroad in 2011.

Amid challenges, the banking industry witnessed a major change -- deregulation in some major areas including the interest rate and exchange rate, in the outgoing year.

Soaring inflation, huge bank borrowing by the government, sliding foreign investment, aid and remittances, a bearish stockmarket and lack of infrastructure were the main barriers at the local level that out banks in a tight spot.

A shift in imports -- from food grains to fuel oils and fertilisers -- also affected banks' businesses in the outgoing year. However, the liquidity crisis was the most discussed issue in 2011.

On the international front, the ongoing sovereign debt

crisis in Europe, which is a major destination for Bangladesh's exports, and the troubled US economy, also hit local businesses.

"A lot of non-bank factors affected our business in 2011," said Nurul Amin, managing director of NCC Bank. "The overall business climate, both domestic and global, was not favourable for banks."

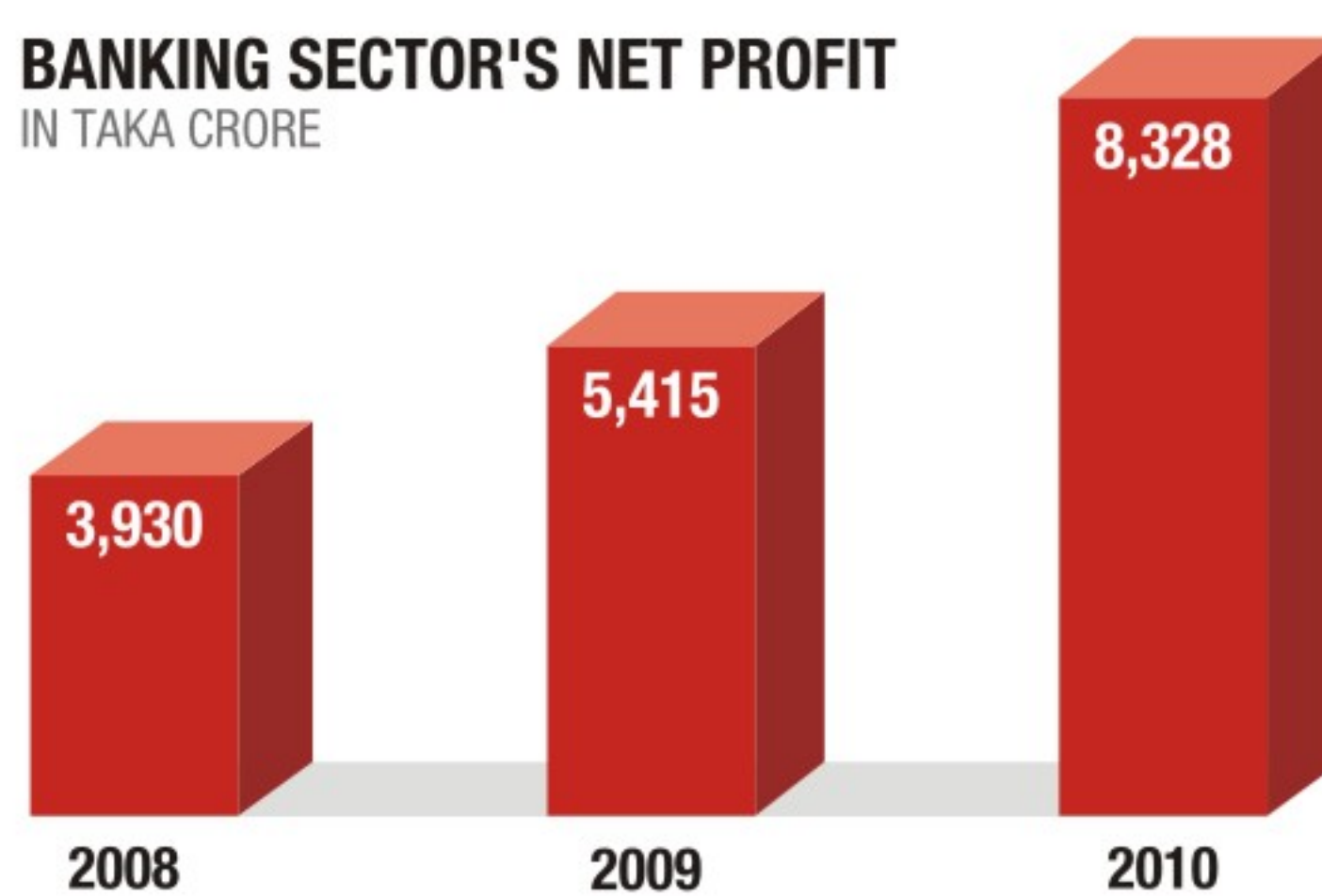
"There was a liquidity pressure, but not a crisis," remarked Helal Ahmed Chowdhury, managing director of Pubali Bank, the largest private bank in terms of network, on the outgoing year.

After hefty profits in 2009 and 2010, driven by a surge in investment demand and whooping gains from capital market operations, banks felt the pinch in 2011, especially from the second quarter, and expected a slowdown in growth.

"Banks will not post healthy growth this year," said Amin of NCC Bank, also the chairman of the Association of Bankers Bangladesh, a forum of private bank chief executive officers.

Bank operating and net profits surged in 2010, riding on gains from the stockmarket and a rebound in investment demand after two years' of sluggishness when the caretaker government was

BANKING SECTOR'S NET PROFIT
IN TAKA CRORE



in power in 2007-08.

The banking sector's operating profits rose by over 47 percent to Tk 17,092 crore in 2010 from Tk 11,625 crore a year ago. Net profits also increased by nearly 54 percent to Tk 8,328 crore in 2010 from Tk 5,415 crore in the previous year.

The industry's return on assets (ROA) and return on equity (ROE) also increased alongside net profits. In 2010, the ROA increased by 34 basis points to reach 1.72 percent, while the ROE increased by 3 basis points in 2010 to reach 19.89 percent.

"Banks' investment opportunities were limited in 2011 due to a gas crisis. The housing sector and all consumer credit were also squeezed in the outgoing year," said Touhidul Alam Khan, head of

corporate affairs of Bank Asia.

Banks faced a lot of other challenges as well, of which, asset-liability management, deposit mobilisation, managing interest rates after withdrawal of the cap and declining remittance and volatility in the exchange rate were the major ones.

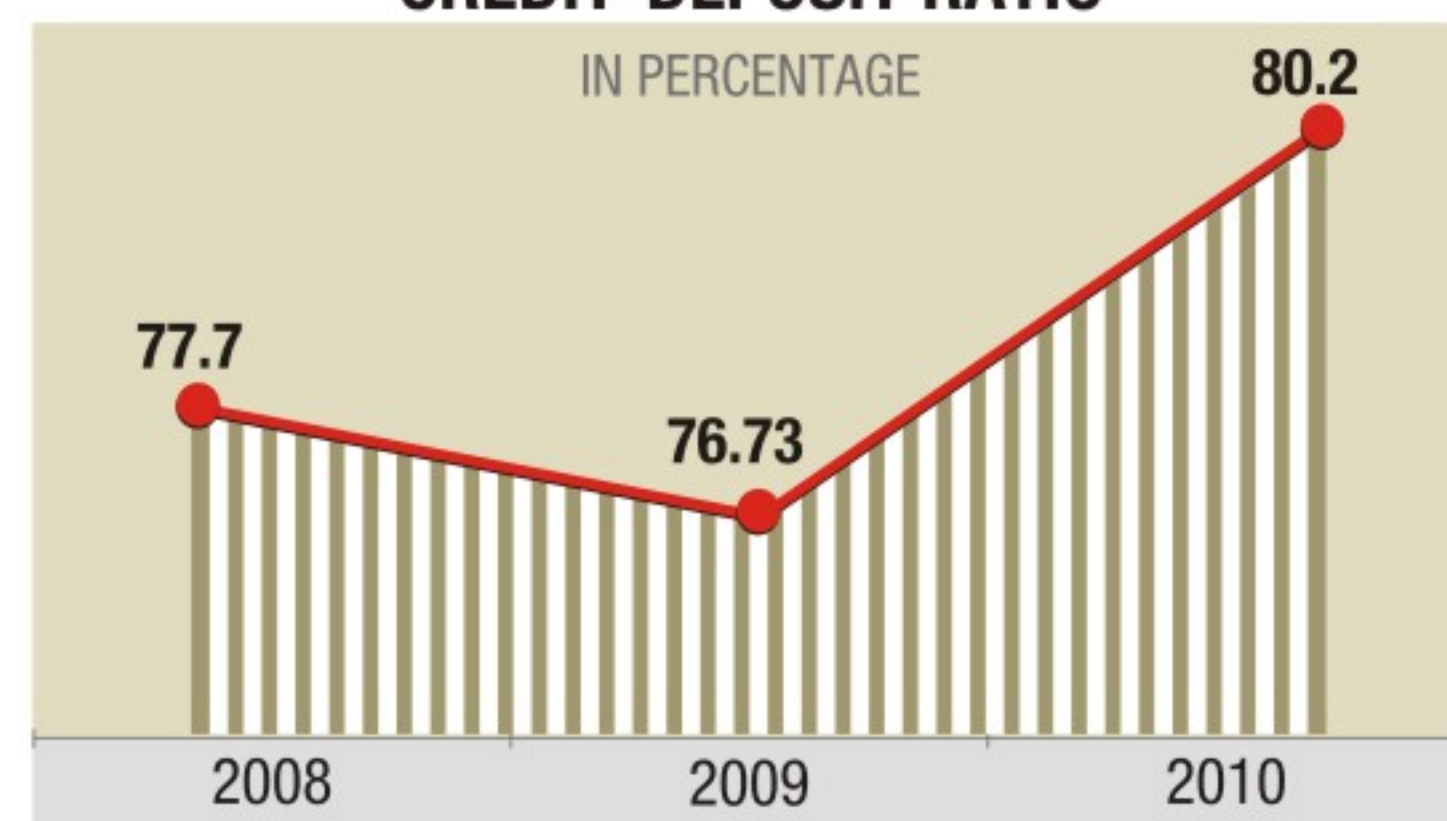
Banks overextended lending to make profits that created the asset-liability mismanagement situation in 2011, bankers said.

"Some banks tried to destabilise the market by distorting treasury management," said Chowdhury of Pubali Bank.

Despite these challenges, banks tried to diversify lending to potential areas, said the corporate affairs chief of Bank Asia.

Power, construction and shipbuilding are some new avenues where banks invested

CREDIT-DEPOSIT RATIO



in the outgoing year, Khan added.

"Managing the asset-liability issue was the biggest challenge in the outgoing year. But this will remain a big challenge in the coming year, following the requirements of Basel-II," said Khan.

Banks have to be more cautious in their investments, he pointed out.

Even though 2011 was a challenging year for banks, they did get some freedom.

Banks got a decontrolled interest rate and liberalised norms for foreign exchange. Earlier, the central bank imposed a ceiling on the lending rate and intervened in the foreign exchange market frequently.

In 2011, Bangladesh Bank (BB) withdrew the cap on the lending rate that was

imposed at different times to support the country's business sector. Now banks are competing with each other and offering good rates to grab customers.

Though lending rates are still competitive, exchange rate became volatile soon after the central bank kept itself away from intervention as in previous years.

In 2011, the taka depreciated by 15 percent and reached Tk 82 in exchange for a dollar at import levels.

"BB did not deregulate us. Rather it was a self-regulation," said Amin, chairman of the bankers association.

"We had freedom, but the central bank monitored our activities efficiently," said Chowdhury of Pubali Bank.

sajjad@thedailystar.net

"Banks' investment opportunities were limited in 2011 due to a gas crisis. The housing sector and all consumer credit were also squeezed in the outgoing year"

Ring in New Year, digitally

Sales of paper greetings cards drop as e-cards gain popularity



Paper-made greetings cards lost their popularity in the presence of e-cards and SMS.

KONGKON KARMAKER, Dinajpur

THE New Year is around the bend and holiday season has begun in full swing and people all around are ready to greet their loved ones. However, greetings cards made of paper are no longer popular here in Dinajpur and adjacent districts. Sales of these cards have dropped alarmingly this time as people prefer to send e-cards and SMS with the advent of technology.

"With the virtual world taking over, sending paper cards is fast becoming a thing of the past. However, the paper cards used to add warmth to drawing rooms where the cards were displayed. This is a charm that is missing in the virtual world," said Md Abul Kalam Azad, who used to collect paper cards. With the clock ticking to New Year's Eve, local card sellers in the district are frustrated as sales have not yet picked up.

Sellers in Dinajpur said cards sales dropped by 85 percent compared to the sales before Christmas and New Year's celebrations in the last few years.

"Greetings card sales are yet to pick up even though the celebrations and festi-

ties have already started," said Alamgir Hossain, a roadside card vender in Dinajpur.

"In the past, paper cards used to sell like hot cake before any celebration. But it has dropped drastically due to advancements in technology and the use of mobiles," Md Mahmudur Rahman Jony, the owner of the Hallmark store at Abedin Plaza in Dinajpur town.

Shafiqul Islam Polash, the owner of Archies Gallery, says the business of paper cards has definitely seen a downfall as technology has reached out even to people living in remote areas. "People now prefer to send an e-mail or an SMS over their mobiles to greet people. This is why our sales have dropped," added Polash.

In addition, birthday cards, Eid cards and puja cards rarely attract customers now, he said.

When the internet and mobile was not such a rage, it was almost customary for many to buy bundles of Christmas and New Years cards to personalise their messages, he said. These cards were not only sent to different parts of the country, but also abroad, he added.

"Greeting cards are a traditional way of

expressing love and best wishes. But people are so busy these days that they do not have the time to go and buy cards. This is why the sales of cards have dropped people are leaning towards the digital methods of greeting people," said Md Mahmudur Rahman, an NGO worker in Dinajpur.

According to local marketers, cards are being sold at Tk 50 to Tk 1,000 each.

The youth finds it wiser to spend a mere 50 paisa for an SMS, an MMS, or simply just send a free online greeting.

"The messages are delivered instantly and people respond to it immediately as well. It is much cheaper than a card as well. We live on pocket money; so it is better for us to send a quick SMS or greet online," added Susmita Roy a college student of Dinajpur.

However, for some people, the charm of cards still remains, she added.

Polash, who sells handmade cards, said paper cards are heart-warming. So many personal messages can be conveyed with a greetings card, and it can be kept safe for as long as possible, he added.

"SMS, MMS and e-cards are impersonal."

Japan's Noda pushes for stronger trade ties with India

REUTERS, New Delhi

Japanese Prime Minister Yoshihiko Noda called for greater economic relations between two of Asia's largest economies on Wednesday, after India's trade minister said bilateral commerce would only reach \$25 billion by 2014.

India and Japan enjoy warm diplomatic ties, but at a paltry \$15 billion, bilateral trade in 2010 was less than 5 percent of Japan's commerce with China.

"I believe that India's middle class will be the driving force if the manufacturing sector grows in India ... we can achieve greater trade volumes," Noda said at a meeting with business leaders in Delhi.

Despite the low trade volume, Japanese companies are increasingly viewing India as a long-term play, with a large and youthful population set to drive growth in coming years.

"We can and should step up economic relations between the two countries," Noda said.

Noda, Japan's sixth prime minister in seven years, said talks with India about sales of civil nuclear technology were "in the right direction".

Japan is working closely with India to build a 1,483km industrial corridor stretching from New Delhi to the financial hub of Mumbai in the west, that could help transform India's economic landscape and give its choked, teeming cities room to breathe.

The corridor includes plans for 24 new cities and Indian Trade Minister Anand Sharma said overall investment would be more than \$100 billion.

Noda was on a one-day trip to India to boost financial cooperation between Asia's second and third largest economies, which are also working more closely on security issues along with the United States.

Japan and India are in the final stages of deciding on a dollar swap agreement which may be announced during Noda's visit and would help defend the rupee, Asia's worst performing currency in 2011.

The planned mechanism is welcome news for India, which is suffering an industrial slowdown that has raised concern about its twin fiscal and current account deficits.

Japanese corporations see India as a major opportunity as Japan's population ages and the fast growth seen by main regional partner China in recent decades slows, said Rajiv Biswas, IHS Global Insight's chief Asia economist.

"When you look at Japan's economy you are looking at demographic ageing, the population is declining, they don't have growth markets domestically," Biswas said.

"They are looking elsewhere to really get growth and India is the prime candidate."

India wants to buy civil nuclear technology from Japan, but talks have been slow, with Japan wanting India to commit to a moratorium on nuclear weapons tests.



Japanese Prime Minister Yoshihiko Noda, wearing a traditional hat presented by Indian Railway Minister Dinesh Trivedi, looks on during the Indo-Japan Global Partnership Summit in New Delhi on December 27.

"The civil nuclear agreement is at the working level, discussions have proceeded in the right direction. I welcome this progress," Noda told reporters and said the issue was raised at a meeting with India's foreign minister.

"I hope it will be achieved," he said. Hours before Noda left for India on Tuesday, Japan's security council relaxed a decades-old arms exports ban. India was the world's top weapons importer last year.