

From bottomless basket to a role model

A history of Bangladesh's banking sector



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Bangladesh's economy has gone from a basket case to being a model case study for economic development across the globe.

It is widely known that the country was termed a bottomless basket in 1971 by US President Richard Nixon's national security adviser Henry Kissinger.

But Bangladesh has interestingly proved the comment false by managing outstanding economic growth in recent decades.

Kaushik Basu, a former chief economist of the World Bank, said in an article that the country's economy has grown at a pace that beat all expectations.

The per capita income of Bangladesh jumped to \$2,824 in the last fiscal year in contrast of \$120 just after independence, a development that has given an indication of the country's economic progress.

However, it is not possible to ensure economic growth without adequate funds.

So, there is a logical question regarding which channels played major roles in spurring the economic growth in Bangladesh.

If anyone looks at the financial sector, businesses have largely taken their funds from banks to set up industries in absence of vibrant bond and capital markets in the country.

Although the banking sector has been facing

criticism from different corners in recent years owing to a lack of corporate governance, no one can ignore the role of the banking sector in boosting the economy.

Private sectors of developed nations can usually mobilise funds from bond and capital markets in tandem with banks, but this narrative has not prevailed in Bangladesh.

Shah Md Ahsan Habib, a professor of the Bangladesh Institute of Banking Management, said the Bangladesh economy has clear overdependence on the banking industry, which caters to almost all short-term, medium-term, and long-term financing needs.

Besides, stakeholders have huge expectations from the banking industry due to the inadequacy of alternative sources of financing in the country, he added.

However, the restructuring process of the banking sector after independence was not an easy task.

DEVELOPMENT OF BANKING SECTOR IN BANGLADESH

After independence, Bangladesh took over a vulnerable banking system consisting of two Bangladeshi banks with 155 branches, 10 Pakistani banks with 920 branches, and 3 foreign banks with 14 branches.

The government then took initiative to restructure the local and Pakistani banks.

Restructuring the banking sector faced difficulties during the period thanks to the fragile economic condition of the country.

The local and Pakistani lenders were restructured into six nationalised banks -- Sonali, Agrani, Janata, Rupali, Pubali and Uttara Bank. The number of bank branches was only 1,116 while the amount of both deposits and loans in banks were less than Tk 1,000 crore in 1972.

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