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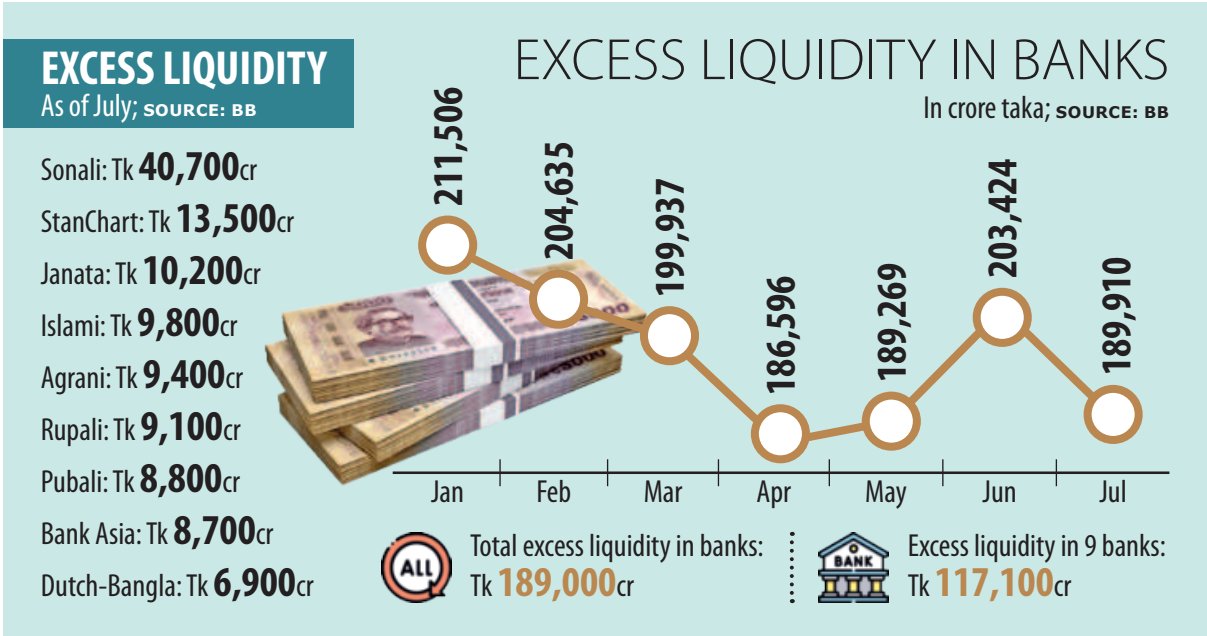
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Banks prefer govt bonds to private sector lending

Higher bond yield, lending rate cap to blame

AKM ZAMIR UDDIN

Banks with surplus funds in Bangladesh are increasingly preferring government securities to lending to the private sector as the former gives higher yields amid the continued interest rate cap.

Excess liquidity totalled Tk 189,910 crore in July, down 7 per cent a month before and 15 per cent year-on-year, data from the Bangladesh Bank showed.

However, 62 per cent of the excess fund was concentrated in only nine banks.

Excess liquidity held by banks means the country's private sector is not getting adequate loans, experts say. This is because the banks that sit on surplus funds usually invest them

in the bills and bonds issued by the government.

The nine banks that are enjoying surplus liquidity are Sonali Bank, Standard Chartered, Janata Bank, Islami Bank Bangladesh Ltd, Agrani, Rupali, Pubali, Bank Asia, and Dutch-Bangla Bank Ltd.

Some of them are now turning to Treasury bills and bonds because of a reasonable yield compared to the interest rate on loans going to the private sector.

A bank receives up to 8.65 per cent on their investment in government securities whereas they can earn a maximum of 9 per cent on the loans owing to the interest rate ceiling, which has been in place since April 2020.

In addition, there is no

requirement for keeping provisions against their investment in government securities.

On the contrary, banks have to earmark 0.50 per cent to 5 per cent of their operating profits against general category loans, 20 per cent against classified loans of substandard category, and 50 per cent against classified loans of doubtful category.

Besides, if banks invest in Treasury bills and bonds, there is no default risk whereas loans carry the risk of turning sour.

There are nine types of bills and bonds in Bangladesh, with the tenure ranging from 91 days to 20 years. The interest rates on the instruments are between 6.04 per cent and 8.65 per cent.

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