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INNOVATION KEY FOR THE FUTURE

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Banking innovation key to prosperity



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Banking, the lifeblood of any economy, faces unique challenges in Bangladesh. A high percentage of non-performing loans (NPLs), inadequate capital, and an overreliance on bank financing are just a few of the many obstacles impeding advancement. Ultimately, Bangladesh's banking industry's prosperity depends on its ability to navigate these obstacles and capitalise on its innovative spirit.

OBSTACLES ON THE PATH TO PROGRESS
Non-performing loans, or NPLs, are a lurking threat. The ratio of NPLs to total loans stood at 9.93 percent in Q1FY24 as

per Bangladesh bank data. The ratio of non-performing loans for state-owned commercial banks (SCBs) was a staggering 21.70 percent and for private commercial banks (PCBs) it was 7.04 percent at the end of September 2023. Both these ratios are higher than the IMF set condition of an average NPL ratio below 10 percent for state-owned banks and below 5 percent for private commercial banks by June 2023. This not only restricts lending capacity but may also limit access to necessary funding.

Growth is further impeded by undercapitalisation, with the capital shortfall of 14 banks reaching a combined value of Tk 37,506 crore in the third quarter of 2023. As a result of vested interests making use of political ties, default loans are becoming more and more prevalent, further perpetuating the cycle of inefficiency. Far from recovering thousands of crores of the public's money and penalising the defaulters, the banks are instead giving them rescheduling benefits, with relatively low interest rates and long-term restructuring facilities.

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A surge of digital innovation is reshaping the financial landscape.

ILLUSTRATION: BIPLOB CHAKROBORTY

But these are not the only obstacles prevailing in the banking landscape. Even though the nation has a strong entrepreneurial culture, start-ups, and small enterprises frequently struggle to get the funding they need to succeed. In addition, there is an overreliance

on bank financing and banks remain hesitant to invest in long-term infrastructure projects due to concerns about exposure to credit risks and maturity mismatches. The stagnant bond market acts as a hurdle to achieving the country's infrastructure goals.

INNOVATION ACROSS THE VALUE CHAIN
Despite these obstacles, a surge of digital innovation is reshaping the financial landscape. Internet banking users soared 44.6 percent in FY 22-23, reaching 78.1 million, while mobile financial services (MFS) boast

over 217 million subscribers in a population of 170 million as of October 2023. Initiatives like the interoperable Bangla QR and Binimoy platform paved the way for seamless digital transactions, connecting banks, MFS providers, and payment

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