



The BB Financial Stability Report 2022, released in August 2023, revealed that the banking sector's risky loans amounted to Tk 377,922 crore by December 2022.

VISUAL: SALMAN SAKIB SHAHRYAR

How default culture plagues Bangladesh's banking sector



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A pre-Socratic Greek philosopher named Parmenides first articulated the famous idea: "Nothing comes from nothing." Later, it appeared in Aristotle's *Physics*. The Roman philosopher, Lucretius, echoed the same, and so did William Shakespeare in his famous play "King Lear." The quote was also used in a song from the famous classic movie, "The Sound of Music." The same is true for Bangladesh's banking sector and the emerging default culture which has reached an extreme level because of three things: i) inept institutional leadership; ii) various wrong policies in banking and loan management; and iii) the indulgence of financial plundering by politically mighty business tycoons.

Simply put, Bangladesh's default bonanza did not emerge from either economic debility or financial crises. Nor was it the consequence of political instability. Not a single global factor is attributable to this steadily rising trend in bad loans. It is simply the outcome of government indulgence to habitual defaulters who somehow managed to get crooked politicians to back them no matter which party comes to power. And this threatening the country's prospect of becoming a developed nation by impinging on private investments, reducing employment opportunities,

promoting money laundering, and eventually dampening GDP growth.

BANKS, FIS, AND FINANCIAL INCLUSION

The banking industry after independence included six nationalised commercial banks, three specialised banks, and nine foreign banks. They operated under the guidance of the Bangladesh Bank (BB), the

three specialised banks to serve agriculture and industry, 33 conventional private commercial banks, 10 Islamic Shariah-based commercial banks, and nine foreign banks. Non-Bank Financial Institutions (FIs) are those types of financial organisations which are regulated under the Financial Institution Act 1993 and controlled by BB. Now, 35

percent in 2011 to 53 percent in 2021.

However, as Brac observes, the momentum is decelerating—account ownership rose by just three percentage points from 50 percent to 53 percent between 2017 and 2021, suggesting that nearly half of the adult population remains outside of the financial sector's purview. And the current state of banking

crore while credit to the private sector was Tk 15.5 lakh crore, and the rest is credit to the public sector. The banking sector is deeply troubled with a huge share of nonperforming loans (NPLs)—which did not occur as a result of economic distress, but because of judicial tardiness and political favouritism toward wilful defaulters.

The BB Financial Stability

Tk 44,493 crore. The report also acknowledged that the overall asset quality has dropped and the NPL ratio has edged up. The percentage share of classified loans peaked at 10.11 percent of total outstanding loans in June 2023, while it was 7.66 percent in December 2020.

DEFAULT LOANS AND SOFT DEFINITIONS

The number game in the banking sector is complicated because of the mismatch between the timeliness of data and its mischievous quality. BB often finds some banks hiding their real data to show a lower amount of NPL and less amount of capital provisioning which enables them to show higher profits. The circus goes on. Roughly, while Tk 16 trillion remains as outstanding loans to the private sector in the economy, almost one-fourth of that amount comprises risky loans. Thus, Tk 4 trillion turns out to be the amount of risky loans, of which, around 40 percent—around Tk 1.6 trillion—appears to be declared as defaulted loans. A Prothom Alo report on October 3 of last year found the total amount of defaulted loans to be Tk 1.56 trillion, while the actual amount would have been more than double had the soft definition of default loans not been used.

The default figure remains highly undervalued on purpose. The report refers to the World Bank website that publishes data and analysis on default loans by collecting information from various central banks. Bangladesh occupied the second highest position in South Asia following Sri Lanka, whose default loans amounted to 13.33 percent of total loans. Bangladesh's default loan stood at 10.11 percent, while it was only 4.8 percent in 2013 according to the report. The corresponding figure for Pakistan was 7.4 percent and India only 3.9 percent.

SEE PAGE 22



The role of the central bank to regulate the banking industry has come under criticism since the 1980s.

VISUAL: STAR

central bank of the country. The BB Order 1972 was the de facto constitution which BB followed in regulating the industry. Due to policy changes in the 1980s and financial deregulation in the 1990s, the industry kept expanding because private banks were allowed to enter the field under the Banking Company Act 1991.

Currently, the list of scheduled banks includes six state-owned commercial banks,

FIs are operating in the market. The architecture of banking and finance is huge, even though the measure of financial inclusion among adult Bangladeshis is not correspondingly satisfactory. According to the Global Findex Database 2021, financial account ownership in Bangladesh has grown substantially since the Awami League took office in 2009. Among Bangladeshi adults particularly, it grew by 22 percentage points, from 31

being mired in malfunctions does not bode well to accelerate the pace of financial inclusion anytime soon.

THE BELEAGUERED BANKING SECTOR

A BB fortnightly report in November 2023 revealed that the total bank deposits that include both demand and time deposits amounted to Tk 16.4 lakh crore in November 2023. Domestic credit amounted to Tk 19.6 lakh

Report 2022, released in August 2023, revealed that Bangladesh's banking sector's risky loans amounted to Tk 377,922 crore by December 2022. This amount is the summation of total NPLs, outstanding rescheduled and restructured loans, as well as written-off loans. At the end of 2022, the banking sector's NPL stood at Tk 120,649 crore, outstanding rescheduled loans at Tk 212,780 crore and outstanding written-off loans at

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