

Banking Sector in Bangladesh: Where are We Heading to?

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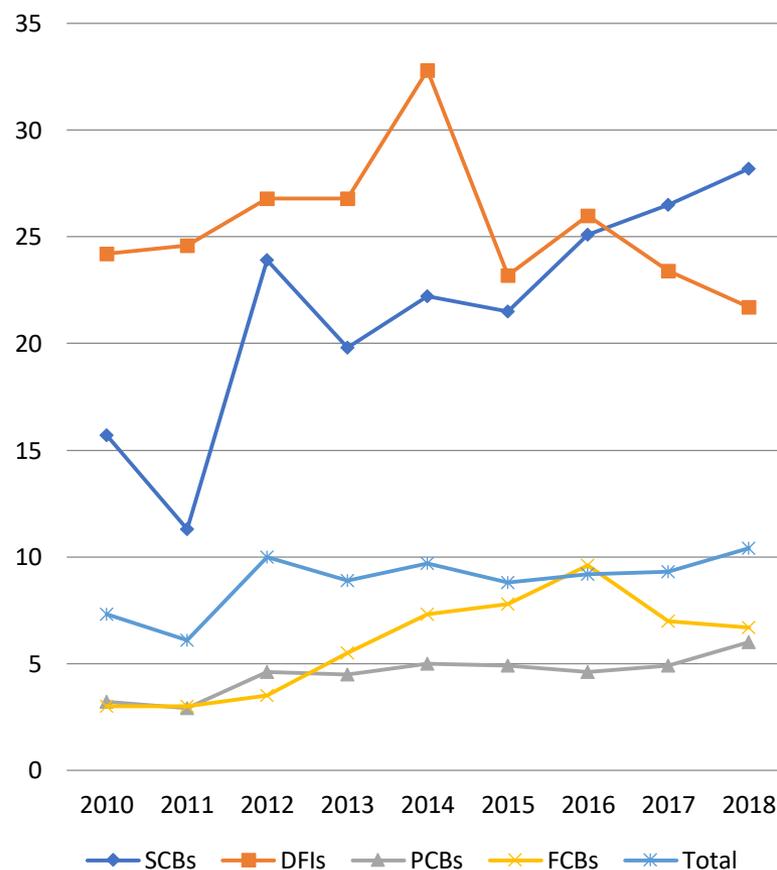
Main Trigger Questions

- ▶ Why NPL is increasing?
- ▶ Is the interest rate structure declared by BAB sustainable? If not, why?
- ▶ Are new banks necessary for the economy?
- ▶ What should be the policy to protect depositors' right?
- ▶ In the current context, where is the banking sector heading to? What are the remedies?

Non-performing Loan Situation

- **Gross NPL ratio**

- Total NPL stands at 10.33% of total outstanding loan—BDT93,370 crore
- Government banks have the highest share of NPL
- PCB's share of NPL is also increasing—they try to keep it low by loan restructuring/rescheduling
- Main reasons: adverse selection, political interference, bankers' corruption, weak corporate governance; BB's weak monitoring capacity



Interest rate structure

- BAB-declared 6-9% interest band has already failed
- Current deposit rate (fixed) hovers between 9-11% and lending rate between 13-15%
- This structure is not feasible
- **Reasons:** Market distortion due to higher NSD certificate rate; high NPL; low operating efficiency
- Is NSD rate not possible to revise?

New Banks—how many do we need?

- Customers' confidence on the banking sector is getting lower
- Only a few banks get “A” credit rating
- Current 59 banks are in operation—newly entered banks situation is not good
- Banks are in liquidity crisis
- Banks concentrate more on urban areas (share of credit in urban areas 89.6%--BIBM study, 2019)
- Still a large section of population are out of banking access
- Banks main source of lending is deposit—very unsustainable structure in absence of bond market

Banking Sector Reforms—Few Suggestions?

- **Solution to NPL:** Improve corporate governance-- needs restructuring with reducing family-based directorship and tenure as well as appointing professional persons as director
- **Depositor's right:** Introduce **Deposit Insurance Scheme** for protecting depositor's right
- **Protecting from failing:** Merger & Acquisition of banks
- **Addressing demand for new banks:** Considering huge demand for new banks, “Unit Banking” policy may be introduced?
- **Enforcement of regulation:** Enhance Bangladesh bank's autonomy to address irregularities and reduce the role of Banking division of the Ministry of Finance

THANK YOU