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# The Proliferation of Commercial Banking Sector in Bangladesh and the Competitive Position of Top Three commercial Banks

Project Report

Submitted To

**Mr. Muhammad Rehan Masoom**
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Submitted by:

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**Summer 2020.**
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# Letter of Transmittal

February 27, 2021

To
Mr. Muhammad Rehan Massom
Assistant Professor
School of Business and Economics
United International University

**Subject: Submission of Project report on "*The Proliferation of Commercial Banking Sector in Bangladesh and the Competitive Position of Top Three commercial Banks.*"**

Sir,

That I have concluded my project report based on analyzing the Banking industry of Bangladesh, which covers the competitive position of Hong Kong and Shanghai Banking Corporation (HSBC), Dutch-Bangla Bank Limited (DBBL), and Islami Bank Bangladesh Limited (IBBL). "The Proliferation of Commercial Banking Sector in Bangladesh and the Competitive Position of Top Three commercial Banks" is the title of the report I have prepared. As a requirement for the BBA program, I've put together this report using the data I haveve gathered. In addition, I'd want to thank you for all of your help and guidance. In order to achieve the study's objectives, I have put all of my effort into it. I will be happy to provide any more information you may need.

Please keep in mind that the research is based on many optional resources like journals, daily newspapers and the distributions of suspected creators, among others. There is no direct copying of any data from any other source in any of the information.

Therefore, I humbly ask and hope that you will take the time to review my project report and provide me with your valuable feedback.

With Kind Regards,

Debashis Kundu Sourov
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# EXECUTIVE SUMMARY

The report based on analyzing the Banking industry of Bangladesh, which covers the competitive position of Hong Kong and Shanghai Banking Corporation (HSBC), Dutch-Bangla Bank Limited (DBBL), and Islami Bank Bangladesh Limited (IBBL). It was in 1996 that the first branch of HSBC in Bangladesh opened its doors for the first time. If you want to do business with it, you can get commercial and consumer banking, global liquidity and cash management for your money and trade service, treasury, custody and clearing, and more. HSBC has been working in Bangladesh for 25 years, and its international activities have been going on for over 150 years. HSBC opened a branch in Bangladesh in 1996. For the bank's 25th anniversary, HSBC made a film to make people in Bangladesh think about how they can make changes for the better. In order to live, accept that things change, but shifting your focus can open up new worlds of opportunity. Seeing every change as a chance to improve. As shown in HSBC's film, the world is always changing, and it is important for businesses to stay up to date with it. If you're older, stay up to date with the younger generation, but the world is always moving. For Bangladesh, the Dutch-Bangla Bank was the first joint venture bank to open for business. Local shareholders, led by the bank's first chairman, M Sahabuddin Ahmed, and a Dutch company called FMO, worked together to start the bank. Throughout the bank's history, its main goal has been to help Bangladesh's high-growth industries get money. People in Bangladesh make a lot of things and sell them all over the world. In the end, Bangladesh can grow as much as it wants because it has put money into this industry and focused on it. One thing Dutch-Bangla Bank is interested in is Corporate Social Responsibility (CSR) (CSR). There are a lot of words that describe what a company does for the community, but the Dutch Bangla Bank used them first to talk about how much they cared about the community. This work has made Dutch Bangla Bank the largest donor in Bangladesh. The bank is socially responsible, and it has won a lot of awards from all over the world. Islami Bank says that it is the "strongest Islamic retail bank in Bangladesh." Bangladesh's Islami Bank Bangladesh has won the Cambridge IFA and Islamic Retail Banking Awards' seventh annual Islamic Retail Banking Awards for being the best Islamic retail bank in Bangladesh. If you read a news release from a school called Cambridge Institute of Islamic Finance, they say that it gave the prize out based on how well Islamic banks and retail financial institutions in the

US, Asia and Africa were ranked. This is how Mohammed Monirul Moula, who is the head of Islami Bank Bangladesh, gave the honor to Nazmul Hassan. The same group also named Islamic Bank Bangladesh, which is in Bangladesh, “Strongest Islamic Retail Bank in Asia”.

Bangladesh’s banking sector has been plagued by two key issues over the years, according to analysts. We have too many banks, owned by a small group of powerful individuals, and this is the first problem. They have routinely granted loans to subsidiaries owned by other bank owners or people linked with them, who are among the country’s most frequent loan defaulters. It linked this to the second issue, which is the tremendous rise in the banking industry in terms of non-performing loans (NPLs). In both cases, our regulators have either implemented or failed to implement rules that have led to them. For the first time in more than a decade, the Bangladesh Bank has agreed to allow banks to treat borrowers as defaulters if they pay only 15 percent (or more) of their total loan payments. They also made it possible for banks to record the unpaid interest on 85 percent (or less) of their loans in their income books, an increase from 75 percent a year earlier. Because of this liberal regulation, borrowers who paid only 15% of their loan balances each year could avoid default. With lower provisioning requirements, the operating profitability of most banks in 2021 went up.

# Table of Contents

# Chapter One: Historical Background of the Banking Industry in Bangladesh

With banking services and customer care, Bangladesh's government-owned banks are abysmal, especially when compared to private banks. Bangladesh Bank, the country's central bank, has recently attempted to mimic the banking structure of more industrialized countries, however this effort is often thwarted by incompetent or politically driven government policies. Because of the financial system's role in promoting corruption and unlawful monetary activity, the politically prominent and criminals are encouraged to engage in these activities while those who are less well-off are hindered in their pursuit of goods and services.

## Before independence

The Bank of Hindustan, which was formed in Calcutta in 1770, was the first modern bank in Bengal. It was an offspring of Messrs. Alexander and Co., a trade concern that went bankrupt in 1832. Its notes were only available in Calcutta and the surrounding area. General Bank of Bengal and Bihar (1733–75); Bengal Bank (1784–91; no relation to later Bank of Bengal; later, General Bank of India (1786–91); Commercial Bank (1819; The Calcutta Bank (1824; The Union Bank; The Government Savings; and The Bank of Mirzapore (1833) followed, none of which survived beyond the middle of the 19th century (1835). The oldest bank still in operation is the Bank of Calcutta, founded in 1806. Bank of Bengal was renamed in 1809, Imperial Bank of India was incorporated into it in 1921, and the State Bank of India was established in 1955.

Founded in 1846, Dacca Bank was Dhaka's first modern bank. Limited business and no banknotes were issued by it. The Bank of Bengal purchased it in 1862. It wasn't until 1873 and 1900 that the Bank of Bengal established branches in Sirajganj, Chittagong and Chandpur. When Bengal was partitioned in 1947, it had six East Bengal branches at Dhaka, Chittagong, Chandpur, Mymensingh, Rangpur, and Narayanganj, all of which were located in East Bengal. Following the partition, registered banks began moving their East Bengal branches to India or ceasing business there. As a result, by 1951, there were just 69 branches left throughout East Pakistan. When the Eastern Mercantile Bank Limited was founded in 1959, it already had 106 branches. As a result, they found Eastern Banking Corporation in 1965 and quickly grew to 60 employees just in time for the liberation war to begin. Some well-known Bengali businesspeople started the establishment of these two banks in order to help the local entrepreneurs who had limited access to financing from West Pakistan financial institutions at the time of their establishment.

## After independence.

There were two branches of the State Bank of Pakistan and seventeen significant commercial banks at independence (1971), of which two were owned by Bangladeshi entities and three by non-West Pakistan investors. 14 smaller commercial banks existed. Most financial services were in or near major cities. A new government in Dhaka quickly proclaimed the State Bank of a Pakistan branch in Dhaka to be the country's central bank, renaming it the Bangladesh Bank. Exchange regulation and management of the government's official foreign exchange reserves were all responsibilities of the bank. It all began with the Bangladeshi government nationalizing the country's entire banking sector, which it then reorganized and changed the names of each bank. As a result, Bangladeshi banks with foreign ownership are free to carry on their operations. It created another potential investment fund when insurance companies were nationalized. Cooperative credit networks and postal savings offices serviced small individual and rural accounts. The new banking system could implement credit and currency management systems that were quite efficient. At least seventy-five percent of overall advances in the 1970s were used to fund trade and public sector activities.

Bangladesh's new government took control of the country's twelve foreign banking institutions after the country gained its independence.

Changes in lending practices were brought about as a result of government support for agricultural development and private business in the late 1970s and early 1980s. There has been a huge increase in agricultural loans in Bangladesh thanks to the Bangladesh Krishi Bank. More than 3,330 rural bank branches were opened between 1977 and 1985, a more than doubling of the original number. As the Bangladesh Bank and the World Bank denationalized and private industry grew, they decided to focus their lending on this growing sector. Farming and industry have both seen an increase in the share of their respective sectors' GDP that is financed by scheduled bank lending.

Administration issues have arisen as a result of a shift in financial priorities. In order to identify potential borrowers and projects, there was no reliable mechanism of project appraisal. Lending institutions lacked the independence to make their own decisions about which borrowers and projects to fund, and were frequently given orders from above. There were two more problems: The incentive system for the banks was based on disbursements rather than debt recoveries. Also, the banks' financial reporting and debt acquisition systems didn't work well enough to deal with debt recovery. Lenders simply disbursed financial assistance to private persons who qualified for loans more for political than for economic reasons. Borrowers defaulted on loans at a higher rate than they were repaying them. In FY 1986, agricultural loans had a recovery rate of only 27%, and industrial loans had a recovery rate of much lower. In the wake of this poor performance, key donors stepped up their pressure on the government and banks to take stronger measures to improve internal bank management and lending discipline. Recovery rates began to improve in 1987 as a result. Bangladesh's three-year compensating funding agreement with the IMF, agreed in February 1987, included many of the structural improvements advocated by the National Commission on Money, Credit, and Banking.

When the Grameen Bank was created as an independent bank in 1983, it was a notable exception to the management issues that plague Bangladeshi banks. In the late 1980s, the bank continued to give low-interest loans to the underprivileged and to promote self-sufficiency without the support of outside organizations. Many of its clients were landless people who needed small loans for a variety of purposes, including buying a house. The vast majority of the borrowers were women, who were previously underrepresented in institutional lending. Grameen Bank loans could also be used by rural cooperatives to purchase equipment such as tube wells, rice and oil mills, and power looms, as well as to lease land for joint farming. Loans from Grameen Bank averaged around Tk2,000 (US$25) in the 1980s, while the maximum was only Tk18,000 (US$100) (for construction of a tin-roof house). Rural housing loans had a 4% down payment requirement, whereas conventional loans had an 8.5% down payment requirement.

In its first ten years, the Grameen Bank loaned 200,000 landless people collateral-free loans. In most cases, this was the first time that its consumers had engaged with a regulated financial institution. Astonishingly, only 4% of Grameen Bank's loans were overdue despite the widespread trend of bad debts in Bangladesh's banking sector. The bank had implemented a unique method of close credit monitoring from the start, making it stand out from the competition. Despite its modest size, its success gave rise to the optimism that it could be scaled up and applied to other areas of development. During the late 1980s, the Grameen Bank was planned to open 500 branches across Bangladesh.

A tight money strategy was instituted by the government in late 1985 to limit the rise of domestic private credit and government borrowing from banks. Much of the money supply and total domestic credit was reduced as a result of this policy. During the fiscal year of 1986, the government's net credit to the public decreased. There was an ongoing threat to the stability of the monetary system because of misallocation of resources and extreme disparities caused by the credit recovery problem. However, despite the government's efforts to enhance financial discipline, the drastic restriction of credit availability posed a risk of stifling fresh economic growth.

At the end of the fiscal year in 1986, the country's foreign exchange reserves were $476 million, or about two months' worth of imports. Bangladesh's reserves increased by 20% over the previous year, mostly due to increased remittances from Bangladeshi employees working overseas. Exports were also cut by 10% to US$2.4 billion in the same period of time. Only 6% of Bangladesh's state debt was held by private creditors, due to the country's status as a low-income country that received concessional loans. As of the end of the fiscal year in 1986, the country's external public debt was US$6.4 billion and annual public debt repayments were US$467 million.  In future years, the reform program continued. Bangladesh bank was in charge of the World Bank's Financial Institutions Development Project from 2000 to 2006. This allowed Bangladesh to make "significant progress toward financial sustainability of private enterprise initiatives to expedite industrial growth," says the Asian Development Bank.

# Chapter Two: The banking System of Bangladesh

It was estimated that there were seventeen significant commercial banks operating in Pakistan at independence, with only two being owned by Bangladeshi investors and three by international investors other than West Pakistanis. There were a total of fourteen smaller banks. In urban locations, almost all banking services were available. When the country gained its independence, the newly installed government quickly renamed the State Bank of Pakistan's Dhaka branch, the Bangladesh Bank. Controlling currency, monetary policy, and the official foreign exchange reserves were all handled by the central bank. Initial nationalization of the banking system in Bangladesh was followed by a major reorganization of the several institutions. The Bangladeshi government allowed foreign-owned banks to continue operating in the country.

Another potential source for investment capital was the nationalization of the insurance industry. Postal savings offices as well as cooperative credit systems were used to service modest individual and rural accounts. As a result of the new banking system, credit and foreign exchange management procedures were reasonably efficient. Credit was mostly used to support commerce and the public sector in the 1970s, which accounted for 75% of total advances. Agricultural growth and private business were given government support in the late 1970s and early 1980s, which changed lending practices. Lending to farmers and fishermen increased considerably under the supervision of the Bangladesh Krishi Bank, a specialized agricultural banking institution. More than 3,330 rural bank branches were established between 1977 and 1985. Because of denationalization and the rise of private industry, the Bangladesh Bank and the World Bank have decided to concentrate their lending efforts on this sector. For private agricultural, scheduled bank advances climbed from 2 percent in 1979 to 11 percent in 1987, while for private manufacturing, scheduled bank advances rose from 13 percent to 53 percent in the same period. The shift in financial priorities has resulted in issues with administration.

As a result, it was impossible to identify creditworthy borrowers or projects. Lending institutions lacked the independence to make their own decisions about which borrowers and projects to fund, and were frequently given orders from above. There were two more problems: The incentive system for the banks was based on disbursements rather than debt recoveries. Also, the banks' accounting and debt collection systems didn't work well enough to deal with debt recovery. Lenders simply disbursed financial assistance to private persons who qualified for loans more for political than for economic reasons. Borrowers defaulted on loans at a higher rate than they were repaying them. Agricultural and industrial loan recovery rates were only 27% and 28%, respectively, in FY 1986. In the wake of this poor performance, key donors stepped up their pressure on the government and banks to adopt stronger measures to improve internal bank management and lending discipline.

People started getting better at getting better in 1987 as a result of all this. It was proposed early in 1987 that Bangladesh's financial intermediation system be restructured, and many of these recommendations were incorporated into a three-year compensatory financing arrangement inked with the IMF in February 1987. The Grameen Bank, which began as a government project in 1976 and became an independent bank in 1983, was one notable exception to Bangladeshi banks' management challenges. As of the late 1980s, the bank has continued to offer low-income people access to credit at fair rates and to help them start their own businesses without the need for outside help. Landless people who needed small loans for various kinds of business ventures, including houses, were its clientele.

The vast majority of the borrowers were women, who were previously underrepresented in institutional lending. Investment in tube wells, rice mills, and power looms can also be financed by the Grameen Bank for collective agricultural companies. For a maximum of Tk18, 000, Grameen Bank's highest loan amount was Tk 2,000 (US$65) (for construction of a tin-roof house). Rural housing loans had a 4% down payment requirement, whereas conventional loans had an 8.5% down payment requirement. In its first ten years, the Grameen Bank loaned 200,000 landless people collateral-free loans. The vast majority of its consumers have never previously engaged with a formal lending organization. In spite of a widespread pattern of bad debts in Bangladeshi banking, only 4% of Grameen Bank loans were past due, which was a remarkable achievement. From the beginning, the bank had implemented a unique method of credit monitoring that set it apart from the rest of the industry. It generated hope that it could continue to grow and that it could be reproduced or adapted to other development-related concerns, even though it was still a very small scale.

During the late 1980s, the Grameen Bank was planned to open 500 branches across Bangladesh. A tight monetary policy was instituted by the government beginning in late 1985 in an effort to restrain the rise of private credit in the country and government borrowing from banks. To some extent, it worked to slow money supply expansion and domestic credit growth. In FY 1986, the government's net credit actually decreased. There was an ongoing threat to the stability of the monetary system because of misallocation of resources and extreme disparities caused by the credit recovery problem. It's possible, though, that the government's drastic reduction in credit availability will discourage new economic development despite its efforts to strengthen financial discipline. At the conclusion of fiscal year 1986, the country had $476 million in foreign exchange reserves, enough to cover imports for slightly more than two months.

Over the past year, Bangladesh's reserves grew by 20%, mostly due to increased remittances from Bangladeshi expatriates. US$2.4 billion in imports were also cut by nearly 10%. Due to its status as a least developed country, only roughly 6% of Bangladesh's outstanding state debt was held by private creditors. A total of US$6.4 billion was owed outside of the country, and the annual debt service payments were US$467 million. Bangladesh's banking sector is heavily regulated and monitored by the Bangladesh Bank, the country's national bank. The main issue is that the market can't support as many banks as it has right now. Consequently, the market will only be able to accommodate the most competitive and lucrative banks in the long run. Currently, the banking system's largest financial institutions include:

1. Bangladesh Bank

2. Commercial Banks including Islamic Banks

3. Leasing Companies

4. Finance Companies

## Scheduled Banks in Bangladesh:

Bangladesh's banking system began its journey after independence with six nationalized commercial banks, two state-owned specialized banks, and three foreign banks. Private banks entered the banking system in the 1980s, resulting in tremendous growth. Banks in Bangladesh can be divided into two broad categories:

### Scheduled Banks

It is referred to as a Scheduled Bank if it receives a license to operate under the Bank Company Act, 1991 (Amended in 2003).

### Non-Scheduled Banks.

They're called Non-Scheduled Banks since they're set up for a specific purpose and function in accordance with the laws in place to accomplish that purpose. These institutions are unable to carry out all of the duties of a scheduled bank. According to Bangladesh Bank Order, 1972 and Bank Company Act, 1991, the central bank has full control and oversight over the country's 56 scheduled commercial banks. The following are the types of scheduled banks:

### Owned and Operated by the Government (SOCBs).

The Bangladeshi government owns a majority stake in four SOCBs.

#### For-Profit Institutions (SDBs).

Banks dedicated to certain goals, such as agricultural or industrial development, have been founded and are now in operation. Bangladesh's government also owns a large portion of these banks.

#### Commercial Private Banks (PCBs).

There are 39 privately owned commercial banks in the United States. PCBs can be divided into two types: passive and active.

#### The old-fashioned PCBs.

There are currently 31 conventional PCBs in use in the industry. Their banking activities are carried out in a traditional manner, with interest being the primary basis for payment.

## PCBs based on Islamic Shariah.

In Bangladesh, there are eight Islami Shariah-based PCBs that operate in the Profit-Loss Sharing (PLS) mode in accordance with Islamic Shariah principles.

## Foreign Commercial Banks (FCBs).

There are now nine FCBs in Bangladesh, which are branches of foreign-based banks, functioning in Bangladesh. BB has been Bangladesh's central bank since its independence in 1971. Maintaining the foreign exchange reserve, printing currency and providing transaction facilities for all public monetary concerns are the primary responsibilities of the Central Bank of India. Bangladesh Bank (BB) has served as the country's central bank since the country's independence in 1971. Maintaining the foreign exchange reserve and facilitating the transactions of all public monetary concerns are its primary responsibilities. BB is also in charge of devising and enacting the nation's monetary policies.

The BB is ruled by a nine-member council headed by the Governor. Of the ten branches, two are in Dhaka, while the others are in Chittagong; Rajshahi; Khulna; Sylhet; Rangpur; and Barisal. The head office is located in Dhaka.

There are now 53 banks in Bangladesh. As a result of a total of 53 banking institutions, four are NCBs (Nationalized Commercial Banks), 28 local private commercial banks, 12 international banks, and five Development Financial Institutions (DFIs). Among the NCBs, Sonali Bank is the largest, while Pubali is the most prominent in the private sector. Standard Chartered is the largest of the 12 international banks operating in the country. It is worth noting that in addition to the regular banks there are Samabai (Cooperative), Ansar-VDP and Karmasansthan (Employment) banks. As of June 2000, there were 6,038 scheduled bank branches in the United States. 39.95% of the branches are located in urban regions, while 60.05% are located in rural areas. NCBs have 3,616, private commercial banks have 1,214, foreign banks have 31, and specialized banks have 1,177 of the total number of branches.

## Current account services (Accounts, FDR, PDS, Deposit Scheme)

Accounts of this type are typically opened for commercial purposes. One or several withdrawals are permitted against a customer's deposit. Customers in this account will not be able to earn any interest. The bank has the ability to deduct taka 50 from each account as an incidental charge every six months if the deposit is less than taka 1,000 on average. Loans can be secured against this account. The minimum deposit to open this account is usually 500 taka. Cash or check/bill can be used to open this type of account. When it comes to creating a current account, nearly every bank follows the same set of guidelines.

## Savings Account with a Financial Institution.

As a security measure, many consumers open a low-interest account of this type. This is also an effort to instill a savings habit among people. A taka 100 initial deposit is required to open this account. In June and December, six-monthly interest payments are due. When a depositor withdraws more than 10,000 taka (or 25 percent more than the total deposit) twice a week or more, interest is not paid. This account serves as a form of collateral for loans. Except for international banks, which have a different deposit policy, almost all banks have the same requirements for savings accounts. All banks, on average, offer a 6% interest rate.

## The Bank's Extraordinary Services.

Some banks offer unique services to their consumers, which attracts customers from other banks. Using a financial institution's online banking system. Customers require a method of connecting to the Internet. His user ID and password will be unique to him as a customer of Internet Banking. It is now possible for the customer to check his or her account balances at any time. To keep Internet conversations safe, it has become the de facto usual practice. All reporting information has been encrypted using Version and Secure Sockets Layer (SSL) in order to protect the privacy of consumers' personal information (SSL). Using your own bank account at home.

Most transactions in home banking will be automated, allowing consumers to check their account activity, transfer funds, and acquire a line of credit from the comfort of their own desks.

In addition to a wide range of reporting options and transaction initiation choices, the Electronic Banking Service for Windows (EBSW) supports both. Through EBSW, customers will be able to make all of their payments, begin L/Cs, and make any necessary adjustments. Any bank that uses SWIFT, including Standard Chartered, will be able to see their account balances. Furthermore, remote authorisation can be used to approve transactions even if the approver is not present.

## Payroll Depository (ATM).

To ensure that customers have 24-hour access to cash, ATMs, a new concept in modern banking, have already been introduced. Customers will be able to conduct non-branch banking through ATMs that have been sufficiently expanded. Use of a telephone to conduct banking transactions. Customer can view their bank account information 24 hours a day with Tele Banking. Subscribers can easily change their information by phone. They are able to transfer any deposit amount to another account from any location, be it at home or at work.

## SWIFT.

As a non-profit cooperative, Swift is established in Belgium and serves the world's banking community. With a network of 6,495 banks and financial institutions in 178 countries, it assures secure messaging at all times. Each day, SWIFT's worldwide network transports around 4 million messages with a combined value of USD 2 trillion. Using Swift, banks can send and receive free-format messages, such as fund transfers and L/C-related messages, to and from any other banks participating in the network. Banks will be able to serve their customers more effectively and profitably if they have access to the SWIFT network. Our clients who deal with imports, exports, remittances, and the like will especially benefit from it.

## Financial and Credit Policy.

Economic growth and full utilization of domestic resources were the main goals of the monetary and credit policy for the financial year ending in June, 2000, while inflation was kept to a reasonable level. For the terrible floods of 1998, a modern, expansionary monetary and credit strategy was implemented to make up for the losses suffered by agriculture, industry, and infrastructure. The economy remained slow in the first quarter of 1999-2000, and the demand for private sector lending decreased. Expanding the Annual Development Program (ADP), as well as increasing private sector development efforts, was done in response to this Thus, the public sector was able to utilize loans more quickly. There was less yearly growth in gross domestic credit than expected, despite an increase in private sector lending near the year's conclusion. In 1999-2000, the money supply grew by 15.3 percent, compared to 8.6 percent growth in the previous year.

## Limited resources.

Nearly Tk. 2,631.90 crores (or 15.3%) was added to the country's Narrow Money in 1999-2000, bringing the country's total to Tk.19881.30 billion. A 17.2 percent increase in Narrow Money's currency outside banks and a 13.3 percent increase in demand deposits were the main contributors to the increase. Comparing 1999-2000 to the year before, broad money increased by Tk.11735.70 crores, or 18.6%, to Tk.74,762.40 crores. Narrow money grew by 15.3% and time deposits by 19.9% in Broad Money, compared to increases of 8.6% in Narrow money and 14.5 percent in time deposits in the previous year. Narrow money is a component of Broad Money. Compared to 30th June 1999, the percentages of currency outside of banks (13.0%), demand deposits (13.0%), and time deposits (73.4%) in Broad Money on 30th June 2000 were 13.6 percent, 13.6 percent, and 72.6 percent correspondingly. Expanding Broad Money was made possible by an increase in loans to the private sector, government sector, and other assets (net), as well as a rise in net foreign asset values.

Comparing the previous year's 8.3% increase to Tk.17064.50 crores, Reserve Money grew by Tk.2321.80 crores (15.7 percent). When compared to the increase of Tk.533.30 crores or 6.5 percent the year before, currency outside banks climbed by Tk.1489.40 crores or 17.1 percent of Reserve Money. The balances of Bangladesh's scheduled banks climbed by Tk.770.90 crores or 15.3% in 1999-2000, compared to the previous year's increase of Tk.488.20 crores or 10.8%. Tk.61.50 crores or 6.0 percent of their cash in tills grew, compared to the previous year's increase of 11.2 percent. The Bangladesh Bank's credit to the government (net) increased by Tk.1,738.10 crores, while the net surplus in the foreign sector increased by Tk.1,262.40 crores. Tk.333.60 crore and Tk.44.90 crore in borrowings by the scheduled banks and other financial institutions respectively, combined with the reduction of Tk.300.20 crores in other assets were compensated by the expansionary effect of those sectors.

A 13.6% growth to Tk. 71,489.00 crores in total domestic credit was recorded in 1999-2000, up from Tk. 7267.60 crores or 13.1% the year before (including adjustments to government-issued bonds). There was an increase in domestic credit in 1999-2000 of 31.3 percent, 10.7 percent, and 2.5 percent for the government, private, and public sectors, respectively, through the growth of credit. There had been a 21.3 percent increase in government and private sector credit, while public sector credit had decreased by 3.7 percent in the previous year. Obtaining a Loan from a Financial Institution.

When comparing 1999-2000 to the previous year, the outstanding amount of bank credit (excluding foreign bills and inter-bank goods) increased by Tk.5,123.30 crores or 10.3% to Tk.54,646.10 crores. Tk. 4892.70 crores or 10.3% of bank credit advances and Tk. 230.60 crores or 11.3 percent of bank credit bills acquired and discounted rose.

## Deposits in a bank.

To reach Tk.70,278.70 crores in 1999-2000, bank deposits (excluding inter-bank items) climbed by Tk.11044.70 crores, or 18.6 percent, compared to a 14.2 percent increase in the preceding year. Tk.54,881.10 crores, Tk.723.60 crores, and Tk.9,103.80 crores of time deposits, government deposits, and demand deposits all increased by a total of 19.9 percent, 14.8 percent, and 13.3 percent, respectively. Restricted deposits, on the other hand, rose by Tk.74.80 crores between 1999 and 2000.

### Requirements for Cash Reserves (CRR).

CRR for scheduled banks was reduced from 5 percent of their liabilities (demand plus time deposits) to 4.0 percent with effect from October 1, 1999 for scheduled banks.

### Interest Rate on a Bank's Deposits.

On August 29th, 1999, the bank rate was cut from 8% to 7%, and it remained that way until June 30th, 2000.

# Chapter Three: The competitive Position of Top Three Privately Owned Banks

## Hong Kong and Shanghai Banking Corporation (HSBC)

In 1996, the first HSBC branch in Bangladesh opened its doors. Commercial banking, consumer banking, global liquidity and cash management, trade services, treasury, and custody and clearing are some of the services it provides in Bangladesh. HSBC has been helping change to generate possibilities in Bangladesh for 25 years with its international activities dating back over 150 years. In 1996, a branch of the Hong Kong and Shanghai Banking Corporation (HSBC) was opened in Dhaka. HSBC made a film to motivate people in Bangladesh to make positive changes in honor of the bank's 25 years in the nation. "Living means accepting that change is a part of life, but shifting your focus can open up new vistas of possibility. Seeing every change as an opportunity to do better. As depicted in HSBC's film, the world is always evolving and it is imperative that businesses keep pace. While the older age has to stay up with the younger generation, the world is always changing.

"As you bring in those who will remain in your world after you, your perspective shifts. We have the same hope for a better Bangladesh as you do. Because of this, we're working hard to provide you with a wide range of possibilities that will help you grow as a person and as a member of the community. Among the many financial services the bank provides in Bangladesh are commercial and consumer banking, liquidity and cash management on a worldwide scale, trade services, treasury, and clearing and custody. It also promises to keep looking for fresh opportunities in the future.

One of Bangladesh's major microfinance organizations, Thengamara Mohila Sabuj Sangha (TMSS), received a loan from Hong Kong and Shanghai Banking Corporation (HSBC) based on the Social Loan Principles (SLP). To help alleviate social problems, the SLP, issued by the Loan Market Association (LMA) and the Asia Pacific Loan Market Association (APLMA), promotes and supports economic activities. A news statement stated that SLP was established by a team of experts from prominent financial institutions and law firms on the global loan markets. to help reduce poverty, create jobs, and support small businesses in the agricultural and SME sectors of Bangladesh, TMSS will use this loan.

For a sustainable economy and the attainment of the Sustainable Development Goals (SDGs), the Bangladesh Bank Bogura Office executive director Shaikh Md Salim said: “Bangladesh Bank greatly emphasizes agriculture, CMSME, women entrepreneurs, and green finance.” With this in mind, HSBC’s Social Loan is a good fit.” “We are happy to collaborate with HSBC to contribute to Bangladesh’s social development and optimistic that this cooperation would be a significant milestone for the country’s growth,” stated the founder and executive director of TMSS, Professor Dr Hosne Ara Begum.

According to HSBC Bangladesh CEO Md Mahbub ur Rahman, “We are happy to be able to launch the very first SLP-based financing in Bangladesh for TMSS. As part of our global sustainability effort, we are grateful for the enabling policy environment provided by our central bank. Thanks to TMSS for partnering with us to make sure the community has social support! It’s in our DNA,” stated Kevin Green, Country Head of Wholesale Banking at HSBC Bangladesh. We enable our customers adopt business models that are aligned with our global sustainable aim by supporting ecologically and socially sustainable economic activity and growth.” According to the press release, this is Bangladesh’s first SLP-based funding program aimed at achieving the United Nations’ Sustainable Development Goals (SDGs), which include creating jobs, reducing poverty, and assisting small companies.

One of Bangladesh’s major ready-made garment manufacturers, M&J Group, has partnered with HSBC Bangladesh to implement a Host-to-Host Integration (H2H) solution. According to a press release, the digital solution will allow M&J Group to handle various local payments straight from their ERP system. Both M&J Group CEO Salahuddin Ahmed and the Country Head of Wholesale Banking at HSBC Bangladesh attended the virtual event’s opening ceremony. “In order to assist society as a whole, our organization is always open to new ideas that will help us grow our business. HSBC's paperless solution will greatly assist M&J Group in achieving our goal "Salahuddin Ahmed, the M&J Group's CEO, stated as much.

He was also pleased with the bank's help and the smooth implementation of the project within the timeframe set. "Agile, customer-focused, cross-functional teams are the best way to keep up with the rapid rate of change in our customers' expectations as well as our own technological capabilities. When it comes to technology, we're utilizing it to provide better experiences for our customers, make our bank more efficient and open up new growth prospects for HSBC. I am confident that M&J's H2H connectivity will enable a seamless end-to-end flow of their working capital management with our innovative financial solutions "Kevin Green, Country Head of Wholesale Banking for HSBC Bangladesh, stated. HSBC Bangladesh's head of corporates, Riaz A Choudhury, made the following statement: "Putting the power of our international universal bank in every customer's pocket is what we're all about, and we're doing it by focusing on customer-centric solutions. We look forward to working with our clients and their businesses for many more years to come."

In the Euromoney Cash Management Survey 2021, HSBC was voted "market leader" and "best service" in Bangladesh. There have now been 12 consecutive years in which HSBC has been recognized as Bangladesh's "market leader," as well as the "best service" for the fourth year in a row. Euromoney, the world's biggest business and finance magazine, conducts this survey. According to a press statement, the prizes show HSBC's leadership in cash management in the country. According to HSBC Bangladesh CEO Md Mahbub ur Rahman, "This award is a testimonial to the faith our clients have put on us as to our exceptional capacity and service standard in the cash management arena." "Honestly, it's a huge compliment. Our clients and stakeholders will benefit from this award as we continue to link them to a world of possibilities." In a statement, Kevin Green, HSBC Bangladesh's country head of Wholesale Banking, congratulated the Bangladesh team on their "amazing success." It's our goal to keep digitising and enable our customers construct a smarter business with an easier and better-informed customer experience." According to a press release, HSBC Bangladesh offers a wide range of products for managing liquid assets, including payables, receivables, clearing, and foreign currency.

A new Cash Flow Forecasting tool was introduced by the bank earlier this year to help customers better predict their financial futures and better manage their liquidity. In addition, HSBC Bangladesh has previously launched smart digital solutions like Enhanced Virtual Account, Direct Debit, eVAT, eDuty, etc. to support the digital banking needs of the clients, it said.

## Dutch-Bangla Bank Limited (DBBL)

The Dutch-Bangla Bank was the first joint venture bank in Bangladesh to open for business. Local shareholders, led by original chairman M Sahabuddin Ahmed and Dutch corporation FMO, worked together to establish the bank.

Throughout the bank's history, its primary focus has been financing Bangladesh's high-growth industrial industries. The reason for this is that Bangladesh's manufacturing industry exports its goods all over the world. As a result of funding and focusing on this industry, Bangladesh is able to accomplish the growth it desires. Corporate Social Responsibility (CSR) is another area of interest for Dutch Bangla Bank (CSR). Despite the fact that the phrase "corporate social responsibility" (CSR) has become overused, Dutch Bangla Bank was the first to use the word to describe its commitment to society. A major donor in Bangladesh, Dutch Bangla Bank has grown to be the largest bank donor in the country as a result of its work in this area. A socially responsible bank, the bank has garnered a slew of prestigious honors from around the world.

Automated banking services were pioneered by Dutch Bangla Bank in Bangladesh. In 2002, the Electronic-Banking Division was founded to implement quick automation and contemporary banking services in this sector. The introduction of plastic money to the Bangladeshi populace was made possible in 2003, when full automation was achieved. In addition, Dutch Bangla Bank runs the country's largest ATM fleet, allowing customers to save an astounding 80 percent on ATM fees and charges. Furthermore, the Dutch Bangla Bank's decision to choose a low-profit path in this area has startled many. Because of the bank's CSR efforts, Dutch Bangla Bank had no intention of profiting from the banking sector's vast automation. As a result, all of its customers now have access to the most cutting-edge banking technologies available. Rather of establishing their own financial infrastructure, most local banks have joined the Dutch Bangla Bank's instead, thanks to this mentality.

Consumer and investor trust has never diminished, despite a history of big technology expenditures and even greater donations. In 2008, the stock price of Dutch-Bangla Bank broke the Dhaka Stock Exchange's all-time high record.

DBBL was the first bank to offer mobile banking. Atiur Rahman, governor of the Bangladesh Bank, was in Dhaka yesterday to announce the opening of Dutch-Bangla Bank Ltd's mobile banking service via Citycell and Banglalink. Executive directors from BB, Banglalink, Citycell, and DBBL, as well as BB's Asim Das Gupta, Ahmed Abou Doma, and Citycell's David Lee, and DBBL's KS Tabrez, all attended. Photo by DBBL

For the first time, Dutch-Bangla Bank Limited (DBBL) has made its mobile banking service available to customers outside of the city. By depositing Tk 2,000 and withdrawing Tk 1,500 over Banglalink and Citycell mobile networks in the Motijheel neighborhood yesterday, Bangladesh Bank Governor Atiur Rahman formally inaugurated the service. Already, ten banks have received permission from Bangladesh Bank to begin using mobile banking services. DBBL was the first of the two. During an inauguration press conference at Hotel Purbani, the central bank governor remarked, "Mobile banking is an alternative to traditional banking, through which financial service may be accessed at the doorsteps of the underprivileged sector of society." There will be a wide range of financial services available to people using mobile devices, according to Atiur Rahman. DBBL-approved Citycell and Banglalink agents across the country can register an account for subscribers who present the relevant documentation and pay a Tk 10 registration charge.

Subscribers must have a cell phone from any provider in order to use the banking service, and they will be given a four-digit PIN number. Bank services, including deposit and withdrawal, are available to him using the PIN number he has set up for himself. Customers will give over cash to the agent, who will then initiate the transaction using his smartphone. The agent will then assist the account holder in performing their banking duties by helping them to remember their personal identification number (PIN). Five deposits or withdrawals per day are allowed, with a daily limit of BDT 5,000. Cash-in-charges shall be taken at the rate of one percent of the transaction account or Tk 5, whichever is greater. To withdraw money, a fee of 2% of the transaction value, or Tk 10, will be applied. There will be no charge for the registration, salary, or remittance disbursement services. Additionally, DBBL Managing Director KS Tabrez, CEO of Banglalink Ahmed Abou Doma, and CEO of Citycell David Lee addressed at the event.

Despite the pandemic, the Dutch-Bangla Bank made a record profit. Despite the pandemic's shocks, a Dutch-Bangla bank official who requested anonymity says the bank has been able to make a healthy profit. Bank's financial statements show that the Dutch-Bangla Bank Limited (DBBL) generated a record profit of Tk550 crore in 2020—the greatest profit in 20 years—despite the raging epidemic. Profits at the publicly traded bank increased by 26.68 percent over the previous year. Anonymously, a Dutch-Bangla bank official reveals that the bank has generated its greatest profit ever. Since its inception, it has never made this much money.

In order to withstand the pandemic's shocks, "the bank has been able to produce a healthy profit, which is increasingly rising," he said. After evaluating its financial accounts, the Dutch-Bangla Bank has announced a 30% dividend for its shareholders. It is expected that at least 15% of this dividend will be paid out in cash and 15% in stock. The bank paid a 15% cash dividend and a 10% stock dividend in 2019. In 2001, Dutch-Bangla Bank went public on the stock market. That's what it says on the Dutch-

Bangla Bank website: “It’s Bangladesh’s first totally automated bank.” In 2002, the Electronic-Banking Division was created with the goal of rapidly automating and introducing contemporary banking services to the financial industry at large. In 2003, the company accomplished full automation, allowing customers to use plastic money.

Dutch-Bangla Bank has the largest ATM network in the country and has reduced fees and costs for consumers by 80%. Dutch-Bangla Bank’s earnings has climbed dramatically even if the interest rate on loan disbursement has dropped to a single digit. As a result of a decision from the central bank, experts believe that dealers made more money than they would have otherwise. Due to a decrease in the number of defaulters, the bank was able to hold less provisions against defaulted loans this time around. The Dutch-Bangla Bank default loan was Tk730.64 crore as of September 2020, up from Tk592 crore at the end of December. The defaulted loan balance of the bank stood at Tk1,107 crore as of December 2019. The EPS of Dutch-Bangla Bank was Tk10 as of December 31, 2020, a 26.84 percent increase over the previous year.

The bank’s net asset value (NAV) was Tk3,225.66 crore, and its NAV per share was Tk58.65 per share. The bank made a net profit of Tk434.14 crore in 2019 and had an EPS of Tk7.89. At Tk2744.33 crore, it had a net asset value (NAV) and a net asset value per share (NAV per share). A virtual meeting of the bank’s board of directors is scheduled on April 26. The record date for dividend payments is set for March 28th. The Netherlands Development Finance Firm was behind the creation of the Dutch-Bangla Bank Limited, a joint venture company. In 2019, Netherlands Finance, on the other hand, disposed off all of its holdings. The corporation has a capitalization of Tk500 crore. On 31 January 2021, sponsors and directors held 86.99 percent of the total 55 crore shares, institutional investors held 5.04 percent, overseas investors had 0.01 percent, and common investors held 7.96 percent.

## Islami Bank Bangladesh Limited (IBBL)

The ‘strongest Islamic retail bank in Bangladesh,’ according to Islami Bank. The Cambridge IFA and Islamic Retail Banking Awards have named Bangladesh’s Islami Bank Bangladesh as the “Strongest Islamic Retail Bank in Bangladesh” in their seventh annual Islamic Retail Banking Awards. According to a news statement from the Cambridge Institute of Islamic Finance, the prize was decided upon based on a global rating of Islamic banks and retail financial institutions in the United States, Asia, and Africa. Islami Bank Bangladesh’s MD, Mohammed Monirul Moula, presented chairman Md Nazmul Hassan with the honor he recently earned. Islami Bank Bangladesh was also named the “Strongest Islamic Retail Bank in Asia” by the same organization.

Legal liquidity ratios and cash reserve requirements for conventional banks total 18.5% of total customer deposits, respectively. They must also keep a maximum loan-to-deposit ratio of 85 percent. Islamic banks, on the other hand, are subject to far less stringent regulations: they must maintain a combined SLR and CRR of 11%, and their loans-deposit maximum is 90%. In light of this, lenders are hopping on board the Islamic banking train. Following in the footsteps of Standard Bank and NRB Global Bank, which became Shariah-based lenders on February 9, Jamuna Bank received central bank approval yesterday to become a full-fledged Islamic lender. In Bangladesh, there are now 11 Islamic lenders. A second conventional bank is waiting for the green light from the central bank before becoming an Islamic lender. Bangladesh Bank’s lack of thorough monitoring of Islamic lenders in Bangladesh raises doubts about whether they are adhering to Shariah principles and regulations.

Ahsan H Mansur, executive director of the Policy Research Institute, remarked that “the central bank does not have enough prudential standards to regulate Islamic banks.” According to Yasin Ali, a former supernumerary professor of the Bangladesh Institute of Bank Management, they routinely violate Shariah norms while designing profit-sharing methods for both deposits and investments. Before taking deposits or making loans, Islamic lenders often set a provisional profit rate. “Islamist lenders in the country, on the other hand, rarely alter their profit margins at the end of the year, which is completely false. According to Shariah, this is not possible."

Ali, a former executive director of the central bank, stated that the country's Islamic bankers had already admitted to the problem when the researchers uncovered it. As a result, Islamic lenders establish the profit rate in the same way that conventional banks set interest rates. According to various research studies, the country's eight Shariah lenders and Islamic windows of conventional banks have loaned out less than 2% of their overall lending portfolio. A full-fledged Islamic banking program has yet to be launched by any bank in the world.

There has been some success with Islamic banking in Malaysia and Turkey. Although these are not authentic Shariah banks, Ali said. When it comes to Islamic banking, "some businessmen are exploiting people by using Islamic banking as an excuse," former deputy governor of the central bank Khondker Ibrahim Khaled remarked. In the seventh century, when Islam was adopted as a religion, there was no banking system. In the 1970s, Islamic banking began its journey. To keep the banking industry in check, the central bank should step up its oversight of lenders. To avoid the 9 per cent and 6 per cent interest rate caps on lending and deposit, he expects traditional banks are transferring to Islamic banking.

According to him, "since Islamic lenders do not follow the interest rate module, the central bank's move could give them disproportionate advantages." The 9-6 per cent interest rate cap will also apply to Islamic lenders, according to a BB senior official. The central bank's assertion was brought to Khaled's attention, and he responded by saying that Islamic lenders would be excluded from such an embargo because of Shariah rules. Mansur agreed with Khaled's sentiments. "Concerns have been raised about the recent surge in conversions. To achieve this goal, the central bank should make prudent decisions "she said.

According to this famous saying, “Every cloud has a silver lining,” and Islami Bank appears to be reaping the benefits of the current coronavirus epidemic. Recently, the bank has achieved two significant milestones. As of June 30, deposits at the Islami Bank in Bangladesh has surpassed $1 trillion, which is a notable milestone for any Bangladeshi bank. The bank’s foreign remittance eclipsed all previous records, making it the bank’s most successful year ever. “These are undeniably significant milestones for our company. Because of the high level of confidence our customers have in us during these trying times, “Islami Bank’s MD, Md Mahbub-ul-Alam, spoke to The Daily Star yesterday. The bank’s fresh deposits totaled Tk 5,500 crore in the last six months, a new record for the country’s largest private sector lender.

A record-breaking number of deposits were received in the first half of any year in the history of our bank, “we never got that many deposits.” Deposits at Sonali Bank, the state-owned bank, currently total more than Tk 120,000 crore. Government funding accounts for a large share of that total. The vast majority of Islami Bank’s deposits come from everyday people. There are three key reasons why the bank has been able to secure deposits, according to the bank’s managing director. There is an influx of remittances that is not immediately withdrawn by the recipients, resulting in an increase in deposits of 30 to 40 percent of the total. The bank’s capacity to maintain uninterrupted customer service and develop its agent banking network are the other two variables. “Thousands of people waited in line at banks to withdraw money in the early days of the outbreak. At the time, I instructed my staff to never discourage customers from withdrawing money.” Although more people withdrew money, the minority who put money deposited more money. In addition, Alam claims that the bank’s customer base has grown dramatically since it changed hands.

Islami Bank received remittances totaling $461 million in May of this year. This is the first time the bank has received more than $400 million. In June, remittances totaled $575 million, an increase of 116 percent year-over-year. By expanding remittances through its banking channels, the bank is making considerable contributions to the national reserve (foreign exchange reserves), according to its MD. Islami Bank now has a 32% stake in the remittance collection market, up from 19-22% in April. Branches were allowed to open three days a week during the lockdown. “Our agent banking, on the other hand, was always handled by at least one employee at any given time. This allowed us to deliver the money donated by relatives to customers in a timely manner during the crisis." The bank's agent banking channels disperse about 40% of its remittances. Since its inception in 1996, it has grown to 1,200 agent locations nationwide. "In addition, we have good ties to two Saudi Arabian banks and 24 Dubai exchange houses. Because of our services, money transfer providers like MoneyGram and Western Union have a lot of faith in us."

"Islami Bank was recently congratulated by the head of MoneyGram's Asia Pacific area, Alam stated," he said. With 357 branches, 43 sub-branch locations, 660 in-branch ATMs, and about 11,000 shared CRM booths, Islami Bank is a major financial institution in the region. Because of contemporary information technology and genuine customer care, this bank has become a unique organization with public trust and confidence regardless of class, profession or religion. This year, the bank's customer base has risen dramatically. About 15 million people are currently customers of the bank. In 2017, Islami Bank began its agent banking activities in order to provide banking services to those who are otherwise unable to access them. More than 7 lakh consumers are currently served by the bank's agent banking outlets, and deposits made through the system total Tk 2,600 crore, making it the country's highest.

The Centre for NRB, a non-profit research organization for non-resident Bangladeshis, has awarded Islami Bank Bangladesh Ltd (IBBL) the Gold Award in the Remittance Award-2021 and 2022. AK Mohammed Monirul Moula, managing director of IBBL, received the award from Abdul Momen, Bangladesh's minister of foreign affairs, on Saturday, according to a news release. In attendance were Prime Minister Mashiur Rahman's economic adviser Mashiur Rahman; State Minister of Planning Shamsul Alam; Army Chief of Staff Gen. SM Shafiuddin Ahmed; Professor Emeritus ABM Abdullah; Ministry of Expatriate Welfare Additional Secretary Shahidul Alam; and Centre for NRB Chairperson MS Shekil Chowdhury.

The sponsors of these approved banks have already received letters of intent (LoIs). Many substantial economic changes have occurred in Bangladesh between 2000-2001, according to the central bank's explanation for providing licenses to new banks. Although the country's economy has expanded and its banking system has become more competitive, a sizable portion of the population remains unbanked. Only 45% of the approximately 9000 households surveyed by the Institute of Microfinance (IoF) had access to banks or microfinance institutions (MFIs) for loans, according to recent estimates.

Based on IoF's statement that the population per branch is 21065, and the number of loan accounts per 1000 adults is 42, Bangladesh's outreach to the formal financial sector is lower than that of India (14485) and Pakistan (20340). Bangladesh Bank believes that the introduction of new banks will assist improve banking services by enhancing competition in the sector. – As a result, they will be able to meet the needs of the private sector, which has increased in tandem with the economy's rapid expansion.

It was stated by the central bank that for new banks, the ratio of rural and urban branch openings will be 1:1, which will aid in the expansion of bank branches in rural regions and boost financial inclusion. However, the reality is that no bank can grow in rural areas before focusing on urban areas and making money. Previously, the question of giving additional bank licenses sparked a lot of debate. Authentic experts, bankers, and even members of the central bank's board of directors questioned the prudence of permitting new banks to operate in a sector that had long struggled with liquidity shortages. There are already 47 commercial banks in the banking industry. At this point in the country's history, it made little sense to allow new banks to open. Banking services will be subject to an unsustainable level of competition, which will undermine sector stability and reduce the profitability of the industry's current players. Existing banks will be forced to post Tk 36.00 billion in paid-up capital against new entrants as a result of more banks entering the market, thus worsening the already precarious situation in the banking sector.

The same thing will happen to high-quality bank personnel. This will lead to a bigger mismatch in their credit and deposit ratio and an acute scarcity of qualified bankers. Due to an already saturated market, banks will have no choice but to take on riskier investments. Because of this, it will have a significant impact on the whole banking industry.

In both urban and rural locations, banks are meant to facilitate all kinds of economic operations and provide financing for a wide range of other purposes. Overcrowding the banking sector, however, is not a good idea because it will only make things worse for the banking industry as a whole, especially for those who already work in it. It's possible that this will have a negative effect on the most important parts of the economy.

This information was almost certainly known to the Bangladesh Bank board. However, in light of the government's steadfastness in allowing new banks, they had to pick the best candidates. As has been often noted, the opening of new banks on political considerations may have a negative impact on the confidence of customers in banks and on the overall quality of the banking system. In the meantime, some speculators claim that the deposits of existing banks will be heavily pressured as soon as new banks begin operating. The latter are expected to lose deposits, but their current loan liabilities, including NPLs, will remain the same. This could lead to a discrepancy between their deposits and the amount of credit or loans they have available. In light of the central bank's approval of new banks and the issuance of LoIs, it would be a waste of time to suggest otherwise. Instead, it's time to figure out how to keep all of these institutions running smoothly. In this regard, it is possible to implement the following measures:

To make the government's choice more impactful, the new banks should offer innovative services and expand their product offerings. As a result, it is impossible to dispute that the quality of the bank's sponsors has a significant impact on the bank's performance. As a result, the central bank will need to thoroughly scrutinize the sponsors' track records and will not be able to succumb to any political pressure on this matter. All bank directors should be of the highest caliber.

Central banks may focus their attention on the prospective directors who will be investing as the paid-up capital, rather than the color of their money. By approving a larger maximum than the current amount, the central bank must act as a watchdog in cases when new banks shop their investment clientele to established banks. When it comes to new banks' investment clientele, the central bank has to be on the lookout for individuals who may have to be rescheduled. For the time being, the sick customers of existing banks are able to perform extremely well in new banks because of the emergence of new banks in the market. Among other things, the central bank should demand that new banks assess the quality of their ownership before being granted permission to operate. Better banking coverage for rural areas should be a top priority for both the central bank and the government. It is possible that the new banks will be requested to serve rural areas substantially.

Finally, both the central bank and the government must ensure that stronger firms enter the banking arena and maintain a careful eye on the entire banking industry's impacts from such an entry. Bangladesh Bank and Bangladesh Institute of Bank Management (BIBM) must train bankers in advance of establishing the banks. As soon as the new banks begin operations, the market will be overcrowded. Consequently. It is possible that the banker of Bangladesh's banks will see the precipitation from the banks. The time has come to consider the prospect of merging weaker institutions.

Even yet, we have high hopes. There will be a total of USD150.00 million in paid-up capital for non-resident Bangladeshis from the recently licensed three Bangladeshi commercial banks: NRB Commercial Bank Ltd, NRB Bank Ltd and NRB Bank Ltd. (NRBs). Six PCBs, including Union Bank, Modhumoti Bank Limited, the Farmers Bank Limited, Meghna Bank Limited, Midland Bank Limited, and South Bangla Agriculture and Commerce Bank Limited, have been approved. The nation is now enthralled by the functions of the new banks, with a glimmer of optimism for the future development of people from all socioeconomic strata.

Since the beginning of the 1990s, the banking system has actually adopted a strategy of true financial liberalization, particularly with the adoption of FSRP. For this reason, the financial sector has undergone numerous legislative changes since the beginning of the process of reform. As a result of these new laws, a stable and orderly financial market is now supported by a legal framework that permits the licensing, organization, operation, and oversight of a wide spectrum of financial services firms.. As a result, the central bank has issued prudential regulations to all of the country's depository institutions, bringing them all under its regulatory supervision.

Bangladesh's financial sector is now more efficient and stable as a result of the reform efforts. One can find a variety of banks and other finance organizations offering a wide range of financial products. The financial sector's institutional network and volume of operations have grown and become more diverse. There are now 47 scheduled banks, up from 11 in 1980. Non-traditional banking activities and the increased profits from them have helped to improve the banking sector's profitability, cost efficiency, and earnings efficiency. Securities and foreign exchange transactions, brokerage and trading activities, and other fee-based business were all permitted for banks.

Net interest income from advances has decreased, but banks have expanded their business to compensate. The order in which financial liberalization is implemented will be affected by this. On the other hand, the number of non-bank financial institutions has expanded as well. The adoption of a regulatory framework, as well as the institutionalization of savings and the creation of new financial instruments and services, all contributed to economic progress. Banks' current capital adequacy is comparable to that of other countries. The percentage of gross non-performing assets (NPAs) to gross loans for the banking sector has decreased from 41.1 percent in 1999 to 7.1 percent in 2011. As a result of the reform efforts, bank profitability has also improved as a result. Since 2000, the banks' Return on Assets (ROA) has increased from 0% to 1.3 %. Despite the fact that FCBs and PCBs generally fared better than SCBs and DFIs in terms of profitability and cost efficiency in their first stage, SCBs have progressively improved their cost efficiency (measured by expenditure income ratio) since 2008. As a result, the banking sector reforms implemented since 1990 have exerted a moderate impact on the performance of SCBs and a small impact on DFIs.

This does not mean that the reforms have been completely successful, however, for the following reasons.

First, even in the post-reform period, the banking system remains geographically fragmented, skewed, and uncompetitive. Since the financial crisis of 2008, public sector banks (SCBs and DFIs) have dominated the banking sector. Even still, 32.9% of deposits and 34.6 percent of advances in Bangladesh's banking system are held by SCBs and DFIs. The profitability of SCBs has been low, while that of DFIs has been much worse (negative) during the entire time, at less than 1.0 percent. Due to weak management skills, over-branching, and overstaffing, public sector banks have continued to struggle. Although their NPLs ratios have been steadily decreasing, the ratios have remained high despite this trend.

Due to a lack of capital, a number of public sector banks (mostly DFIs) have called for additional capital infusions. Third, because SCBs and DFIs have a nationwide branch network, they have scale benefits (especially compared with PCBs and FCBs, which tend to compete in the retail market). The current strategy of boosting their performance without rationalizing them may not offer further and meaningful benefits for the banking sector.. 30 years have passed since the reforms began, allowing for the government to take another step toward improving the quality of bank managements and assets while also closing down unprofitable branches that have come under the scrutiny of the new regulatory environment and pressures.

Fourth, the financial system's problem is "systemic," not just banking-related. SCB reforms alone, while excluding DFIs and NBFIs, may not achieve the desired outcomes. That is why it is necessary to broaden the scope of financial system changes in order to strengthen and stabilize it. Additionally, steps must be done to solve the issues of sick banks and to improve the performance of SCBs and DFIs by using effective risk management procedures and conducting efficient credit portfolio monitoring. To this purpose, the government should place a high value on reforming DFIs and NBFIs and liberalizing the entire commercial banking sector, taking into account the numerous factors listed above while formulating the next reform agenda. Due to increasing competition as well as agency issues between management, owners, and other stakeholders, banks must constantly push the boundaries of risk management compulsions. Financial institutions should explore for new ways to increase revenue while reducing expenses. A country like Bangladesh at this stage of socioeconomic development can expect that governance and financial inclusion will also be key challenges in the future of banking, notwithstanding the importance of consolidation, competition, and risk management.

# Chapter Five: Conclusion

Bangladesh's banking sector has been plagued by two key issues over the years, according to analysts. We have too many banks, owned by a small group of powerful individuals, and this is the first problem. They have routinely granted loans to subsidiaries owned by other bank owners or people linked with them, who are among the country's most frequent loan defaulters. It linked this to the second issue, which is the tremendous rise in the banking industry in terms of non-performing loans (NPLs). In both cases, our regulators have either implemented or failed to implement rules that have led to them. For the first time in more than a decade, the Bangladesh Bank has agreed to allow banks to treat borrowers as defaulters if they pay only 15 percent (or more) of their total loan payments. They also made it possible for banks to record the unpaid interest on 85 percent (or less) of their loans in their income books, an increase from 75 percent a year earlier. As a result of this liberal regulation, borrowers who paid only 15% of their loan balances each year were able to avoid default. With lower provisioning requirements, the operating profitability of most banks in 2021 went up.

In the eyes of analysts, the banks' high operational profit figure does not accurately reflect the true amount, which is a bad thing for banks. The most obvious issue here is that banks will never be able to collect the full amount they are owed—some of which they have already included in their operating earnings for 2021. Simply put, that is not how any banking system works. There is also a terrible track record of recouping such monies in Bangladesh, which worsened during the pandemic. Consequently, the balance statements of the banks are becoming more and more devoid of truth. As a second benefit, banks who artificially boost their incomes are able to pay out bigger dividends to their owners and shareholders since they appear to be earning more money. One wonders whether the central bank or commercial banks will actually follow through with this directive, considering their dismal track record of adhering to their own set of laws, despite the central bank's claim.

It’s all about statistics: Banks are driving up their stock values by boosting their profits and allowing them to pay out more dividends, not by improving their efficiency or productivity, but by manipulating the numbers. Although it is their responsibility to stop such accounting swindles, authorities are cheering them on. As a result, the market will be distorted. Prices are meant to be fixed in a free market by the market, which means that the market should decide how much something is really worth. Allowing such accounting modifications, policymakers are preventing the market from operating, eliminating its power to set prices. This type of market distortion is particularly hazardous for the banking industry. A few hours after a meeting with some of the country’s most powerful business leaders, the Bangladesh Bank issued the aforementioned directive, even though we are not aware of the central bank undertaking any studies to evaluate its decision’s impact on overall economic growth.

There have been other instances where banks were “bailed out” by the government at the urging of special interest groups, such as when habitual defaulters and their banker friends were left unpunished and the state instead chose to “bail out” banks using taxpayer money. Even though banks were clearly comfortable with, if not complicit in, the “corruption” that had wrecked their balance sheets, this occurred. As a result of wilful defaulters causing losses, the state opted to utilize taxpayers’ money to bail out the banks. It’s impossible to have a sound banking system with these kinds of activities in place. To put it another way, these actions are clearly in no one’s best interest. As long as the Bangladesh Bank is enabling banks to appear that they are doing well, they are actually becoming more susceptible.

To ensure that firms can recover from pandemic-induced difficulties, according to the central bank, this measure was necessary. In order to get the economy back on track, the government should embrace policies that are beneficial to business. Such policies have our support. However, the Bangladesh Bank’s policy could allow cronies and wilful defaulters to grow, and do little to help real businessmen to operate lawfully. Weakened by the past actions of regulators and their inability to stop one scam after another, our banking system could be at risk in the long run.

Ultimately, the government should assist enterprises that generate money by delivering value to the public, rather than those that make money by lobbying the government for subsidies. How does the central bank plan to ensure that this is not the case, considering what has happened in the banking industry over the last many years in terms of its most recent policy?  Governments around the world are helping businesses recover from losses they sustained during the pandemic. But at the same time, virtually every central bank in the globe is attempting to convince the commercial banks in their countries to enhance provisions in order to counter the risks posed by the pandemic. The reverse seems to be happening. However, despite the Bangladesh Bank's request that banks keep an additional three percent (on top of the one percent) provisions, easing banking discipline and allowing habitual defaulters to potentially have more access to bank credits is problematic, and may lead to further increase of NPLs. This decision was made by the Bangladesh Bank on what grounds? How did you come to this conclusion? The public has a right to know the answer to this question from the central bank.