

NPL: Non-performing loan

Grace period in credit:

	Classification	Non-performing tenure	Provisioning rate (changes over time)
Unclassified	Standard loan		1%
	Special Mentioned Account	90 days or more	5%
Classified	Sub standard	6 months – less than 9 months	20%
	Doubtful	9 months – less than 12 months	50%
	Bad and loss	More than 12 months	100%

Reasons for high NPL in BD-

1. Political pressure for sanctioning loan
2. Weak governance in the banking industry
3. Weak client selection at the time of loan sanction
4. High interest rate and high installments
5. Weak business and industry analysis, mismatched cash flow forecast and wrong evaluation of payment behavior
6. Lack of security coverage of the loan amount
7. Weak regulatory framework to sanction and recover loan

Impact of NPL -

1. Impact on profitability: higher the NPL, higher the provision. Higher the provision, lower the profit.
2. Impact on liquidity: higher the NPL, lower the inflow of loan installment. Lower the inflow from loan installment, lower the cash in hand and lower the liquidity.
3. Impact on capital adequacy: CRAR (Capital to Risk – weighted asset ratio) (%). Higher the NPL, higher the risk. Higher the risk ,higher the capital requirement.
4. Reputational hazard

Key measures to handle or mitigate NPL problem-

1. Strengthening of corporate governance and ensuring due diligence in credit worthiness evaluation
2. Strengthening and properly implementing the Bankruptcy Act, 1997.
3. Govt and central bank need to ensure the rigorous implementation of banking rules and regulations
4. Consolidation, merging, divesting, restructuring or privatization of state owned commercial banks or any bank that is financially too weak to continue on its own
5. Awareness creation among all stakeholders about proper financing and repayment and overall credit process

1. Current NPL rate in the banking sector
2. NPL in south asia and world
3. Ranking of the commercial banks in terms of credit performance
4. Capital short fall and provisioning amount

Write an essay on NPL in the banking sector of BD

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NPL in the Banking Sector of Bangladesh

Non-performing loan (NPL), not paid by the individual or institution who takes loan from bank. The rate is accelerated in Bangladesh's banking sector which is the power of an economy.

Many causes remain behind the NPL in Bangladesh that's some of them - we overlook

(i) Lack of awareness of banking governance in the time of sanctioning loan to the individual or institution.

(ii) Individual or institution fails to access their purpose for what they took loan from bank.

(iii) Lack of awareness about monitoring CIB. or data about loan holders from private or public bank both.

~~Impact~~

~~Causes of NPL~~, some impacts occurred that is showed as following -

(i) Higher the NPL, higher the provision rate.

(ii) Higher rate of NPL, higher lowers the profit.

~~To~~ We takes some measures to mitigate NPL

(i)

NPL in the banking sector of Bangladesh

Rising NPL (Non-Performing Loan) in the banking sector of Bangladesh has created anarchy recently.

The clients of NPL are increasing in society. This problem is not only a national problem but also a global problem.

The clients keep silent to pay their loans.

There are many reasons behind NPL. They are:

- ① Political villainy
- ② weakness in selection of clients
- ③ Absence of good governance
- ④ ~~Non~~ Not enforcing properly
- banking laws of 1997

Impacts of NPL: NPL directly influences the development and the economy of a country. It lowers the liquidity. Besides it is a ~~factor~~ barrier and blockage for GDP.

NPL of what?

Bangladesh is a poor financial country. Our financial condition is more than poor than our neighbouring country. The most reason our banking sector is not perfect. Now a days our banking sector has ruined cause of NPL. It's increasing day by day. But our government hasn't any control. doesn't have

- Reason for high NPL in Bangladesh
- ① Political pressure for sanctioning loan
 - ② Weak governance in the banking industry
 - ③ Weak client selection, at the time of loan sanctioning.
 - ④ High Interest rate

⑤ Lack of security

* Impact of NPL:

- ① Impact on profitability: If more impact on profitability. When higher the NPL then higher the provision. for the reason why lower the profit
- ② Impact on liquidity: Higher the NPL lower the inflow of loan installment. Lower the inflow from loan installment lower the cash in hand
- ③ Impact on capital adequacy
- ④ Reputational Hazards.

Key measures:

1. Strengthening of corporate governance
2. Properly implementing

NPL in the banking sector of BD

Non-performing loan is a loan that is close to being defaulted. When a loan has turned default, bank fails to procure the payments from the borrower.

Several reasons lie behind the non-performing loan. Some of them are political political influence on taking loans, weak governance, government reluctance to take proper steps to strictly implement the law, etc.

NPL affects both lender and borrower [→] servitor of financial institutions [→] and that's why people aren't interested to deposit money. Profitability of banks is severely affected by NPL. NPL ~~is~~ also creates a shortage of liquidity.

NPL in the banking sector of BD

Loan on investment is the lifeline of a bank. But this lifeline of bank is frequently polluted by a germ called non-performing loan. NPL is one of the burning problems of the banking sector in Bangladesh for last few decades. The NPL percentages in Bangladesh are 5 to 6 times higher than the standard which is alarming for the sector.

Causes for Non-performing loans:

Lack of business experience:

People without prior business ideas sometimes ~~start~~ start a business. Hence, these people sometimes fail and not being able to repay the loans.

Unwillingness to pay:

There are a certain group of people, who are the least interested to returning the money.

Poor management capability:

Banks usually check the management body ~~of~~ before sanctioning a loan. If the management committee is strong the loan sanction is success.

Account / Grants

Lack of proper monitoring:

Monitoring the loan that has been sanctioned is a very important task. The bank needs to make ensure that the loan has been used for the exact reason. If the loan has been use for some other reason, it might lead to a default loan.

Effects of NPL

NPL impacts mostly on the profit of bank. It's damage the reputation of the bank. NPL puts hindrance on the liquidity of a bank.

Recommendation:

The system for recovering from NPL management system of a bank should be strong. Also the mass awareness raising of the client can be a fruitful way. new act can be developed formed for