

Turning Point

Bank Job Aid

Focus Writing Module – 8



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Turning Point

A Complete Preparatory Package for Bank Job Written Part

Session Content

1. State the default loan status of Bangladesh.
2. What are causes of loan default culture in Bangladesh?
3. What are impacts of default loan on an economy?
4. How money laundering and default loan culture eroding the stability of the economy?
5. Suggest the pathways that can be followed to defy the loan default culture in Bangladesh.

NPL Data of Banking Sector

Particulars	2013	2016	2019	2022	March, 23	June, 23
Amount of NPL (Billion Tk.)	405	622	943	1252	1316	1563
NPL Rate (overall)	8.9%	9.2%	9.3%	9.0%	8.80%	10.11%
NPL Rate for SCBs	20%	25%	24%	22%	19.87%	25.10%

Banking Sector Structure (June, 2022)

Bank Types	No of Banks	No of Branches	Total Asset (B.Tk)	Percent of industry asset	Total Deposit	Percent of industry deposit
SCBs	6	3812	5216	24	4050	26
SB	3	1519	471	2	441	3
PCBs	43	5567	14665	68	10633	67
FCBs	9	65	1194	6	661	4
Total	61	10963	21546	100	15785	100

Facts of Default loan

1. Bangladesh occupying the second-highest position in South Asia in terms of a bad loan ratio, just after Sri Lanka.
2. Total NPL size of Bangladesh is now 1563.90 Billion BDT/1.56 Trillion BDT (Tk. one lac fifty six thousand and thirty nine crore in June 30, 2023).
3. Total loan up to June, 2023 in Banking sector is 15,42,655 crore Tk. (Fifteen Lac forty two thousand six hundred fifty five crore taka).
4. In SCBs, the default loan amount is about BDT 74,450 crore, which almost 25% of total NPL Capital shortfall is approximately fifty thousand crore tk.
5. Capital shortfall against NPL in four SCBs is 10,690 crore and in PCBs is 11,270 crore Tk.

State the default loan status of Bangladesh.

Bangladesh occupied the second-highest position in South Asia in terms of bad loan ratio being 10.11%, in June, 2023. Bangladesh Bank greatly relaxed the definition of NPLs, making a bad loan seem like an excellent borrowing which portrays the failure of banking governance in Bangladesh. This has greatly eroded the future of our nation and if this trend not checked, is enough to damage the financial stability of our economy.

A 1563 billion Tk. NPL size after several steps of window dressing is now a matter of macroeconomic concern. Especially the State owned Commercial Banks (SCBs) are holding almost 75,000 thousand crore NPL, which made 25% of their asset as 'bad and loss' that has caused multidimensional hazards in our economy. SCBs share roughly 25% of the asset and liability of the banking sector against which 25% of bad loan exposes huge economic vulnerabilities. Alarming is that, the NPL rate (11.76% in June, 2023) among Private Commercial Banks is rising sharply.

Causes of loan default culture in Bangladesh

1) From 2020, due to the halting nature of the corona pandemic, the finance ministry started loosening the definition of default loans which resulted in an eruption of NPLs. This was a clear signal of mass impunity for financial wrongdoers, triggering moral hazards among new borrowers and let the default culture to be established.

2) The cap on the lending rate at 9 percent at the time of equal percentage of prevailing inflation rate made borrowing dirt-cheap, further stimulating the borrowing of big groups in business and industry. A major portion of this bank fund flights away where the bank defaulters and money launderers act as two sides of a same coin.

3) Political shelter and impunity made the culture to believe that defaulters have been and will always be excused. Both the military and democratic governments initiated and nurtured bank defaulters for cementing their power base. A myopic move by political regimes in turn gave long-term confidence to loan defaulters, as they seem untouchable by any regime and whitewashed bank default culture for an uncertain era.

4) Family dynasty in private sector banks has been institutionalized by allowing 4 members from a family as directors in Board of Directors. This has made the governance situation being deteriorated and engulfed the NPL in PCBs.

5) Monitoring and supervision in banking sector has been relaxed and established a culture of impunity by the regulators on the basis of political identity and influence. Bank looters were encouraged by the prevailing loan default culture and reluctant monitoring by the financial sector regulators.

Impacts of default loan on economy

1. Rising default loan demands rising provision of capital which squeezes the profitability of the banks and thus eroding their liquidity strength.
2. Rising default loan results in rising capital shortfall which demands rising amount of government subsidy. Subsidy squeezes fiscal space; instigate fiscal authority to borrow more from internal and external sectors. Government's borrowing results in atrophy of national reserve indeed.
3. Rising default loan shrink loanable fund and simultaneous government borrowing from the banking sector makes the loanable fund competitive for the private sector borrowers. As the private sector investment compromised, it cuts the growth opportunity and causes unemployment in turn.
4. A major portion of default loans flights away while the bank defaulters and money launderers act as two sides of a same coin. Bad asset thus aggravate the banks' health and deplete the national reserve indeed.
5. Default loan is a culture that is initiated and nurtured by the political regimes to cement their power base. This culture is triggering moral hazards among new borrowers and resulting in a chain of effects. This portrays the failure of banking governance in each regime; displaying default loan culture that is engulfing the financial architecture of the economy in a cancerous fashion.

Money laundering and default loan culture eroding the stability of the economy

Money launderers and bank looters are said to be the 'opposite sides of a same coin' which reminds the straight relation between default loan and money laundering. Money laundering depletes national reserve directly whereas default loan instigate pressure on reserve in many ways too. How much growth a country achieving per year matters a little if it depletes internally through money laundering powered by bank loan.

Defaulted bank loan caused by business failure is an acceptable credit risk in banking literature. However the recent phenomenon of banking sector Indiscipline mounting non-business bank loan which is routing overseas to find a safe keeping for the financial wrongdoers.

As the banks suffer from liquidity shortage and regulatory reserve requirements due to mounting defaulted loan, they tend to limit their loanable fund in turn to become conservative. This means a compromise with the growth opportunities of the country.

Simultaneously if the bank fund finds its way out of the territory, either banks or government are to bear the loss by provisioning from national budget. It's almost stands as a fiscal culture of Bangladesh in recent decades. Ultimately the hole in the economy created by the bad debt or money laundering is subsidized by foreign debt and debilitating our economy.

Default Loan: A Vicious Culture

The news of Bangladesh occupying the second-highest position in South Asia in terms of a bad loan ratio is no surprise. No country in South Asia redefined bad loans as **leniently** as Bangladesh did. Bangladesh Bank greatly relaxed the definition of NPLs, making a bad loan seem like an excellent borrowing. This **portrays** the failure of banking governance in Bangladesh. And it has greatly **eroded** the future of our nation. This trend, if not checked, is enough to damage the financial **stability** of an economy.

Our NPL situation was almost **stagnant** from 2012 to 2015. From 2016, it began rising and this trend continued until 2019. From 2020, due to the **halting** nature of the **pandemic**, the finance ministry started **loosening** the definition of default loans. This practice encouraged further **eruption** of NPLs. Any default loan was allowed to be a regular loan if the defaulter adjusted as low as five percent of the total liability. This was **imprudent** and a clear signal of mass **impunity** for financial **wrongdoers**, **triggering** moral **hazards** among new borrowers. The cap on the lending rate at 9 percent made borrowing **dirt-cheap**, further **stimulating** the borrowing of big groups in business and industry.

There are mainly four reasons why the default culture in Bangladesh became **emboldened**: 1) The regulator's defective redefinition of default loans; 2) Signaling by authorities that defaulters have been and will always be excused 3) Defaulter-friendly leadership and culture; and 4) The lending rate cap that introduced a money-for-cheap-policy for the super-rich, even at a time of high inflation. Additionally, the culture of favoring looters or not punishing any of them for financial **turpitude** has **accelerated** the **renaissance** of default loans. And this explains how Bangladesh's default loans have **engulfed** the financial architecture of the economy in a **cancerous** fashion.

There are currently three great threats facing our economy: 1) Increasing fiscal weakness; 2) Increasing default loans; and 3) **Unstoppable** money laundering. Empowered politicians may seem to be **unsympathetic** towards money launderers. Policymakers understand how much damage this mafia-like group is incurring by **dwindling** our foreign exchange reserves.

Herein lays the political economy of the un-**abating** default culture, which the military governments initiated and nurtured for **cementing their power base**. Subsequently, the democratic governments continued the practice by providing the **same wine in a different bottle**, just to cultivate support and favor for them. The loan default culture seems to be an **inevitable** reward for the super-rich. One cannot help but wonder if this is why the government found it more **pragmatic** to sweeten the definition of bad loans, rather than punishing willful looters. A **myopic** move by regimes in turn gave long-term confidence to loan defaulters. Now, they seem **untouchable** by any regime.