

Banks and Regional Development in Bangladesh

by

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Banks play an important role in the process of economic development of a country. They are thought to be the supplier of lubricant in the form of financing different types of economic activities without which economic transactions would not have taken place. But, if these activities are not regulated in line with the objectives of the society, i.e., wider benefit to the large number of people, then these can do more harm than good to the society in the form of creating tensions/discriminations among different classes of people and between the regions of the country. The main purpose of this paper would, therefore, be to analyze a few aspects of region-wise banking in Bangladesh, like number of bank branches, deposits and advances etc. which are being evolved in the country over the years and their likely impact in the economy. The sample for this write-up covers the period from December 1990 to June 2013 and most of the data used in this paper have been taken from different publications of the Bangladesh Bank.

There is no denying the fact that there has been deep penetration of banking services in Bangladesh during the last three decades. The total number of bank branches in Bangladesh was 5539 in 1990 which increased to 6056 in 2000 and further to 7246 in 2010. The number stood at 8427 in June 2013. As a result, the number of persons served by a bank branch has gone down significantly in Bangladesh in recent years. It was 20400 in 2010 which declined to 18700 in 2013. This suggests that there has been a rapid growth of bank branches in the country relative to the growth of population. In India, the number of bank branches was 98341 at the end of June 2012 of which 63 percent were in rural and semi urban areas (37 percent in rural and 26 percent in semi urban areas) and the rest 37 percent were in the urban and the metropolis areas. Population per bank branch in India was lower than that in Bangladesh to stand at 12500 in 2012 suggesting that there is still scope for opening more bank branches in Bangladesh.

In the face of a significant increase in the number of bank branches in Bangladesh, its share in rural areas steadily declined over the years. As can be seen from Table-1 that almost two-thirds (66.02 percent) of bank branches in Bangladesh were in the rural areas in 1990 which gradually declined to 59.80 percent in 2000. It further declined to 57.36 percent in 2010 and remained more or less at this level in June 2013 suggesting that the Bangladesh

Bank has been successful in arresting further fall in the share of rural branches in recent years by taking appropriate policies.

Table-1: Distribution of Bank Branches in Bangladesh

(in % of total branches)

Division\ Year	1990		1995		2000		2005		2010		2013 (June '13)	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Dhaka	14.04	16.11	15.62	14.97	17.01	14.53	18.29	14.62	19.06	15.85	19.13	16.84
Chittagong	8.93	20.02	8.08	12.99	8.42	12.55	8.67	12.48	9.23	12.91	9.35	13.20
Rajshahi	5.46	16.63	6.36	15.52	6.60	15.15	6.22	14.42	4.01	7.57	3.83	7.18
Khulna	5.51	13.25	4.43	8.05	4.30	7.80	4.01	7.39	3.90	6.46	3.86	6.12
Sylhet	-	-	2.02	5.84	2.24	5.59	2.51	5.70	2.65	5.71	2.63	5.52
Barisal	-	-	1.79	4.32	1.63	2.56	1.50	4.19	1.49	3.68	1.57	3.54
Rangpur	-	-	-	-	-	-	-	-	2.30	5.17	2.35	4.89
Total	33.98	66.02	38.31	61.69	40.20	59.80	41.21	58.79	42.64	57.36	42.72	57.28

Source: Statistics Department, Bangladesh Bank. Note: Figures may not add up to total because of rounding.

If we analyze the opening trends of bank branches in Bangladesh we see that the share of rural branches in total branches gradually declined from 66 percent in 1990 to 57 percent in 2013 with corresponding increase in the share of urban branches. Another feature of bank branches in Bangladesh is that it remained more or less static at around 16 percent and 6 percent of total bank branches in Dhaka and Sylhet Divisions respectively during the last three decades. But, their share declined significantly in Chittagong Division from 20 percent in 1990 to 13 percent in 2010. This sharp declining trend was also witnessed in Rajshahi and Khulna Divisions. For example, the share of rural branches in Rajshahi Division gradually declined from 16.6 percent in 1990 to 14.4 percent in 2005. This share significantly declined to 7.6 percent in 2010. The share of rural branches in Dhaka and Chittagong Divisions, however, increased marginally in June 2013 compared to that in 2010 in contrast to the declines in all other Divisions (Table 1) during this period.

Data at Table-2 depicts that the share of rural deposits in total deposits has been showing a declining trend over the years under study till 2010. The share of rural deposits in total deposits which had stood at 21.17 percent in 1990 declined to 19.51 percent in 2000. It further declined at a faster rate to 13.18 percent in 2010. But, later on the trend was reversed and it significantly increased to 18 percent in June 2013.

If we analyze the Division-wise characteristics of rural deposits in total deposits we find that its share remained more or less at around 5-6 percent of total deposits in Dhaka Division during the last three decades up to 2010. Thereafter, its share significantly increased to 8.73 percent in June 2013. On the other hand, its share in Chittagong Division drastically declined from 8.73 percent in 1990 to 5.25 percent in 2000 and again to 3.78 percent in 2010. It marginally increased to 4.64 percent in June 2013. This same trend was also noticed in Rajshahi and Khulna Divisions.

Table-2: Distribution of Bank Deposits in Bangladesh

(in % of total deposits)

Division\ Year	1990		1995		2000		2005		2010		2013 (June '13)	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Dhaka	48.86	5.18	49.64	5.95	50.91	5.60	56.61	4.62	59.74	5.08	55.72	8.73
Chittagong	19.31	8.73	15.00	6.16	15.33	5.25	15.55	3.79	15.39	3.78	14.78	4.64
Rajshahi	4.82	3.94	4.81	3.87	5.04	2.96	4.61	1.97	2.95	0.90	2.91	0.95
Khulna	5.83	3.33	3.99	2.36	4.05	2.16	3.45	1.48	3.10	1.04	3.07	1.08
Sylhet	-	-	3.26	2.62	3.66	2.54	4.21	1.77	3.20	1.41	3.00	1.56
Barisal	-	-	1.22	1.13	1.50	1.00	1.30	0.63	1.17	0.46	1.21	0.54
Rangpur	-	-	-	-	-	-	-	-	1.26	0.51	1.31	0.50
Total	78.83	21.17	77.90	22.10	80.49	19.51	85.73	14.27	86.82	13.18	82.00	18.00

Source: Statistics Department, Bangladesh Bank.

Like deposits, the same declining trend was also witnessed in case of rural advances. Table-3 shows that the share of rural advances to total advances was 23.41 percent in 1990 and gradually declined to 14.62 percent in 2000 which again significantly declined to 7.84 percent in 2010. However, the latest data showed that it has increased to 10.24 percent in June 2013.

Table-3: Distribution of Bank Advances in Bangladesh

(in % of total advances)

Division\ Year	1990		1995		2000		2005		2010		2013 (June '13)	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Dhaka	52.46	7.23	53.41	6.37	60.18	5.10	63.66	3.62	63.28	3.27	62.40	4.68
Chittagong	13.48	4.77	15.57	2.81	13.88	2.20	15.70	1.47	18.58	1.34	17.81	2.12
Rajshahi	3.85	7.83	3.64	6.62	3.99	3.96	4.24	2.60	2.98	0.74	3.07	0.79
Khulna	6.81	3.58	6.18	2.12	5.55	1.68	4.50	1.18	4.12	0.79	3.21	1.06
Sylhet	-	-	0.76	0.96	0.86	0.84	1.18	0.57	1.22	0.46	1.06	0.43
Barisal	-	-	0.65	0.92	0.92	0.85	0.70	0.58	0.61	0.41	0.65	0.44
Rangpur	-	-	-	-	-	-	-	-	1.36	0.83	1.56	0.72
Total	76.59	23.41	80.20	19.80	85.38	14.62	89.98	10.02	92.16	7.84	89.76	10.24

Source: Statistics Department, Bangladesh Bank. Note: Figures may not add up to total because of rounding.

From our above discussions and the data given in the above tables one can see that the banking industry in Bangladesh is providing more and more banking services to the urban areas at the cost of rural areas where majority of our people live. It is interesting to note that in 1990, the share of rural advances in total advances was higher at 23.41 percent compared to 21.17 percent of rural deposits in total deposits implying injection of more financial resources into the rural areas over and above what they have collected in those areas. Thereafter, the situation has been gradually reversed under the successive democratic regimes.

The data available for December 2010 shows that the shares of rural deposits and rural advances in their respective total have declined significantly. That is to say, rural advances were only 7.84 percent of total advances (against 23.41 percent in 1990) whereas rural deposits stood at 13.18 percent of total deposits (against 21.17 percent in 1990). ***This implies that there is diversion of financial resources from the rural areas to the urban areas through the banking system which may give rise to social tensions and imbalances in society in the long run. This may also encourage migration of people from rural areas to the urban areas with all its adverse attendant consequences.*** This development also contradicts with the long cherished goal of “***financial inclusion***” of the Bangladesh Bank. But with the adoption of various “***pro-active***” and rural friendly initiatives by the central bank in recent time, the trend has been reversed and the shares of rural deposits and rural advances in their respective totals have increased significantly. For example, the latest available data shows that the rural deposits and rural advances which were 13.18 percent and 7.84 percent in December 2010 increased to 18.00 percent and 10.24 percent respectively in June 2013. The central bank may further think of advising the scheduled banks to provide loans and advances in the rural areas at a reduced interest rate to encourage economic activities and help increase demand in the rural areas.

If we analyze the division-wise operations of banks particularly in terms of deposit mobilization and providing loans and advances for the last three decades, ***we see that there was also some transfer/diversion of financial resources not only from rural areas to the urban areas but also from one administrative division to another.*** The following table (Table 4) depicts a summarized picture of banking operations in different Divisions of the country.

Table-4: Share of Bank Branches, Deposits and Advances (in %) as of June 2013

Divisions	Bank branches	Deposits	Advances	ADR	Per capita deposits*	Per capita advances*
Dhaka	35.97	64.48	67.08	0.7727	78988	61036
Chittagong	22.95	19.42	19.94	0.7616	39547	30118
Rajshahi	11.01	3.85	3.86	0.7433	12063	8967
Khulna	9.98	4.15	4.28	0.7638	15213	11620
Sylhet	8.15	4.52	1.49	0.2448	26399	6461
Barisal	5.10	1.76	1.07	0.4571	12255	5670
Rangpur	7.24	1.91	2.28	0.9326	6608	6163
Total	100.00	100.00	100.00	0.7425	40205	29853

Source: Calculated from Bangladesh Bank Data. ADR= Advance deposit ratio.* Population data relates to 2011. Note: Figures may differ marginally from other tables because of rounding.

It is seen from the above table that the shares of deposits and advances of the first four Divisions were more or less in line with Bangladesh Bank's regulatory requirement after adjusting for CRR and SLR. One thing that should be made clear at this point is that there is no division-wise requirement for ADR in Bangladesh. The highest ADR of 0.9326 was observed in Rangpur Division meaning that Tk.93 was given as loans and advances for every Tk.100 of deposits in that Division. At the same time, it is also evident from table-4 that ADR for Sylhet Division had stood only at 0.2448 in June 2013 meaning that only a quarter of deposits in that division was given as loans and advances.

The similar trend has also been observed in case of Barisal Division where ADR had stood more or less at around 0.4571 in June 2013. The share of deposits of Sylhet Division in total deposits was higher at 4.52 percent compared to those in Rajshahi, Khulna, Barisal and Rangpur Divisions. But, the share of Sylhet Division in advances was the lowest among these Divisions (except Barisal Division). ***This situation highlights the fact that the banks are reluctant/ unwilling to give loans and advances in these divisions particularly in Sylhet and Barisal Divisions because of limited avenues of investment opportunities there.***

Now, what are the ways to come out of this situation? The following issues deserve due consideration by the policy makers in the banking sector to ameliorate the problems cited above. These are:

(i) The Bangladesh Bank may form a committee headed by its General Manager in Sylhet and in Barisal to look into the whole gamut of the prospective avenues of loans and advances in these Divisions. The local Chambers of Commerce and Industry may also be associated with the proposed committee.

(ii) The Bangladesh Bank may advise the banks to give loans and advances in the sectors and areas identified by the proposed committee at a reduced rate of interest in Sylhet and Barisal Divisions. At the same time, the central bank may also think of providing refinance facilities to the banks in the identified sectors and areas in these Divisions.

(iii) The authorities may think of fixing up targets for disbursement of loans and advances in the Divisions/regions and for the prospective sectors of the economy in line with the growth in deposits for maintaining social harmony.

(iv) The government may help establishing necessary infrastructural facilities like electricity, gas, telephone services, constructing roads and highways, bridges in these two divisions to facilitate and for smooth operations of business/economic activities there.

(v) A minimum of, say five marks out of a total of hundred, may be earmarked for the officials of the banks who have working experience in the rural areas in different grades at the time of their promotion up to a certain level, say for example, up to the level of Senior Principal Officers or equivalent positions. In addition, an extra allowance for the officials of the banks who will be posted in the rural branches also deserves consideration by the authorities.

(vi) The banks should focus more in financing labor intensive, environment friendly (green banking) and small and medium sized industries and other “*off farm*” activities particularly in the rural areas. This will generate employment opportunities and income in the regions which may also discourage exodus of people from rural to urban areas in the long run.