

2.1 The Banking System in Bangladesh:

The Financial sector of Bangladesh is dominated by the commercial bank. A number of national, private, foreign, specialized commercial bank and non-banking financial institutions having a network of correspondents and branches are operating all over the country and abroad to center to the people and business of the country.

After the reform program, the financial institutions are more systematic and borrowing and lending through formal markets is increasing. Apart from normal commercial banking, banks are now providing consumer credit scheme, and financing in industrial credit and development project. Electronic commerce gives the banking industry a real competitive edge.

The banking industry of our country has started its journey soon after the liberation war in 1971. The early 70's, immediately after liberation, banking industry started its journey without any participation of the private sector in a very restrictive financial system. In early 80's few private commercial banks were allowed to start functioning. Due to lack of experience and absence of supervisory as well as controlling environment, 1st generation private banks faced various problems in the next few years. During the late 80's and early 90's, with the passage of Financial Sector Reform program, Banking Regulation

Structure suggested by BIS and followed by developed countries began to start incorporation into the banking regulations of Bangladesh. The following table shows a few snap shots that indicates a brief history of the banking industry of Bangladesh.



Figure 2.1: Banking Industry Milestones in Bangladesh.

2.2 Current Structure of Banking Industry:

Banks in Bangladesh can be classified into the following categories:

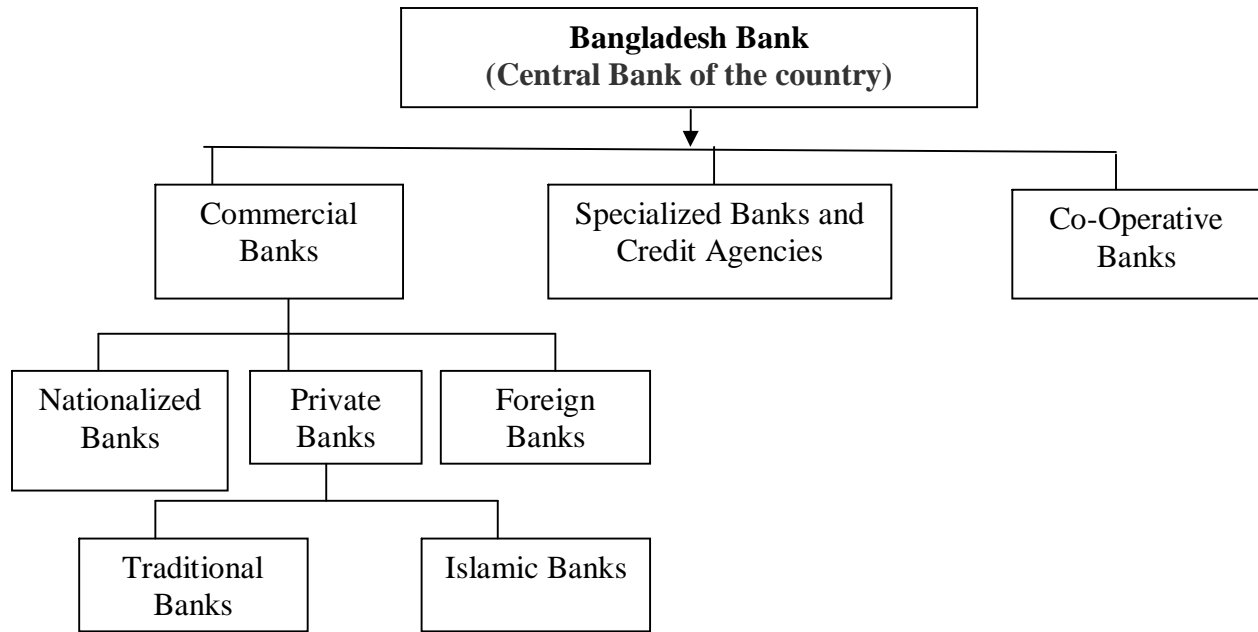


Figure 2.2: Structure of Banking Industry in Bangladesh.

► Central Bank and its Policies:

Bangladesh Bank is the central bank in Bangladesh. It was established on 16th December 1971 under the Bangladesh Bank (temporary) Order 1971. Bangladesh Bank (BB), as the central bank, has legal authority to supervise and regulate all the banks. It performs the traditional central banking roles of note issuance and of being banker to the government and banks. It formulates and implements monetary policy manages foreign exchange reserves and supervises banks and non-bank financial institutions. Its prudential regulations include: minimum capital requirements, limits on loan concentration and insider borrowing and guidelines for asset classification and income recognition. BB has the power to impose penalties for non-compliance and also to intervene in the management of a bank if serious problems arise. It also has the delegated authority of

issuing policy directives regarding the foreign exchange regime. The powers and functions of Bangladesh Bank are governed by Bangladesh Bank Order 1972 and Banking Companies Act 1991 to make provisions for streamlining the affair of banking companies to suite the present day's socio-economic needs of the country. The function of this bank may be classified into traditional and non traditional.

► **Bank Licensing:**

Bank Company Act, 1991, empowers BB to issue licenses to carry out banking business in Bangladesh. Pursuant to section 31 of the Act, before granting a license, BB needs to be satisfied that the following conditions are fulfilled:

"That the company is or will be in a position to pay its present or future depositor in full as their claims accrue; that the affairs of the company are not being or are not likely to be conducted in a manner detrimental to the interest of its present and future depositors; that, in the case of a company incorporated outside Bangladesh, the Government or law of the country in which it is incorporated provides the same facilities to banking companies registered in Bangladesh as the Government or law of Bangladesh grants to banking companies incorporated outside Bangladesh and that the company complies with all applicable provisions of Bank Companies Act, 1991."Licenses may be cancelled if the bank fails to comply with above provisions or ceases to carry on banking business in Bangladesh.

► **Private Commercial Bank:**

The commercial banking system dominates Bangladesh's financial sector with limited role of Non-Bank Financial Institutions and the capital market. The Banking sector alone accounts for a substantial share of assets of the financial system. Private Banks are the highest growth sector due to the dismal performances of government banks. They tend to offer better service and products. Currently there are around forty private commercial banks are working in Bangladesh.

► **Nationalized Commercial Bank:** The banking system of Bangladesh is dominated by the 4 Nationalized Commercial Banks, which together controlled more than 54% of deposits and operated 3388 branches (54% of the total) as of December 31, 2004.

► **Foreign Banks:** Apart from those banks there are eleven foreign multinational banks are working in Bangladesh presently including two Islamic Banks.

► **Specialized Banks:** Out of the 5 specialized banks, two (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) were created to meet the credit needs of the agricultural sector while the other two (Bangladesh Shilpa Bank (BSB) & Bangladesh Shilpa Rin Sangtha (BSRS) are for extending term loans to the industrial sector.