Banking industry in bangladesh: its contribution and performance

Business, Industries

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This article is brought to you by www. bdresearch. org Banking Sector in Bangladesh: Its Contribution and Performance Sharif Rayhan Siddique* A F M Mafizul Islam** Abstract: The paper attempted to highlight the prospects and opportunities of banking sector in Bangladesh. Like other economic sector in the country, Banking is one of major sectors which contribute to the national economy. The study tried to furnish the overview of the performances of banking sector and also find out the comparison among the various categories of banks withrespectto the Profitability.

Finally, the paper tried to establish the linear relationship among the various variables and net profit of the banking sector. 1. Introduction Banking sector of Bangladesh is one of the major sectors, which contributes significantly to the national economy. The sector comprises a number of banks in various categories. Considering ownership the sector can be classified in to four major categories - such as Nationalized Commercial Banks (NCBs), Specialized Banks (SPBs), Private Commercial Banks (PCBs), and Trans-National Banks (TNBs). The list of banks under different categories is furnished in the appendix - A.

The study has been initiated to analyze the contribution of this sector and its profitability. This paper attempts to provide an overview of the contribution of the sector in national economy. The paper also analyzes the profitability of different categories of banks. Finally a regression analysis has been done to examine the relationship between the profitability and other variables. 2. Contribution of the Banking sector in National Economy Economic development - of the country is executed by the contribution of various economic sectors. Like agriculture, industries, power, transport, rade service, etc. , banking sector also has a contribution to the economic growth. In mid 80s Banking and Insurance contributed 1. 69% of GDP and gradually the figure was increasing. The maximum contribution was 2. 09% of GDP in the year 1993 and it was 2. 00% in 1996-971 Average growth rate of this contribution was 1. 51% of GDP, which shows a positive trend. Again, the sector makes a positive impact on the economic development by generating employment. In the year 1980 total number of employees in this sector was 59, 235 but with in 15 years of time the figure shoot approximately double to 101, 444. The average growth rate of employment generation was 3. 76% (1980-1995). Countries like Bangladesh have a burden of its unemployment, where as banking sector still keep certain impact on employment generation.

Assistant Professor, Institute of Business Administration, University of Dhaka. ** Associate Professor, Institute of Business Administration, University of Dhaka.

1. Calculated from the data collected from Economic Trend, December 1997.

2. Ibid. 2 Banking Sector in Bangladesh: Its Contribution and Performance Branches of the banks were also growing significantly.

Increasing branches indicate a wide service provider to the population of Bangladesh. Overall growth rate of the bank branches was 2. 11% (1980-1995). But before 1990 the rate was 3. 00% and after 1990 it was 0. 92%. In early 80s for the first time Government of Bangladesh (GOB) allowed private sector to operate commercial banks. At that time number of bank branches was growing rapidly. In the early 90s this growth rate was reduced, which may be because of the saturation stage. Individuals and business organizations used to deposit their savings in the bank and borrowmoneyform it.

More the bank branches more people can be covered to avail them in banking services. Average population per branch was 19, 875 during the period from1984to 1995. Because of the higher population growth rate (2. 22%), 3 in spite of increasing branches, the population per branch was also increasing. Commercial banks are one of the profit making organizations, they are also making money by investing their deposits to the profitable venture through lending to the entrepreneurs. Commercial banks earn money from interest for loan and commissions and service charges for the services and it incurred expenditure as well.

Average profit per taka of expenditure was 0. 10. Before 1991 this figure was quite good, but after 1991 the ratio was negative up to 1993. Maximum figure was in the year 1982 that was 0. 23 and minimum was -0. 04 in the year 1991. Recently the ratio became 0. 07 in the year 1995. During 1991 to

1993 net profit was negative. i. e. commercial banks spent more than earning but again they improved the situation by reducing their expenditure compared to income. Banks' income generated by the positive efforts of their employees.

Efficient employees can earn more which observed a positive impact to profit generation. Income per employee can be one of the indicators of commercial banks' performance. Average income per employee from 1980 to 1995 was Tk. 227, 046, i. e. per employees' contribution to income was more than Tk. 2 lacs. The ratio was increasing significantly with the average growth rate of 12%, to Tk. 371, 297 in the year 1995. A country leads itself to the economic development by investing and producing more in the local area. Investment can be ensured through increased savings rate.

Monetization ratio indicates a positive impact to the economic growth. This ratio is Broad Money to GDP. Average monetization ratio was 28% of GDP, and it was growing significantly from 17% in the year 1981 to 35% in the year 1995. 4 Commercial banks, as a whole, performing well and contributing to the economicdevelopment of the country. The average profitability of all banks collectively was 0. 09% during 1980 to 1995, which means profit Tk. 0. 09 earned by utilizing assets of Tk. 100. In every aspect of profit, banking sector contributes to national economy as well as to the individual organization.

Despite overall growth of the banking sector was positive, but the performances of different categories of banks were not equally attractive. Following section would compare analytically the performances of various

categories of banks. Calculated from the data collected from Statistical Yearbook, 1996. Ibid. Journal of Business Research, Vol. 3, 2001 3 3. Profitability of the Different Categories of Banks: A Comparative Analysis Main focus of this comparison on net profit earned by the banks.

Profit ratio, profit per taka of expenditure, profit per employee, profit per branch, profit per advance account, profit per taka of investment, profit per taka of deposit (savings), and per capita profit earned by the banks will be the variables for this analysis. Various groups of banks have different performances in terms of profit. Average measures were calculated for different categories of banks over the period from 1980 to 1995.

Profit Ratio In case of profitability, i. e. amount of profit per Tk. 100 of asset. The ratio indicates the effective utilization of assets.

Performance of the organization can be expressed by this ratio. Average profitability ratios for the various categories of banks during 1980 to 1995 were exhibited in the table below: Table 1: Profit Ratio for Various Banks Banks Profit Ratio (%) NCBs 0. 08 SPBs -0. 32 PCBs 0. 13 TNBs 0. 71 Over all 0. 09 Source: Adopted from data in Appendix - B. The table indicated the performances in terms of utilization of assets in generating profit TNBs were the best. Specialized Banks had a very worst situation in utilizing of their assets, by showing negative average net profit.

Though as of 1990 net profits were increasing positively, but from 1991 to 1995 these net profit were gradually decreased to negative because of their declining income. On the other hand TNBs performance was excellent as

compared to overall banks performance. Average growth rate of net profit for TNBs was 39%, which was extremely good.

Profit per Taka of Expenditure Banks earned profit by incurring expenditure for their operations. Effective usage of financial resources led to a commendable profit situation. " How much profit earned by spending one taka" is the measure of efficiency of an organization.

Following table shows net profit per taka of expenditure for the different banks Table 2 : Profit per Taka of Expenditure for Various Banks Banks Profit per taka of expenditure (Tk.) NCBs 0. 029 SPBs -0. 092 PCBs 0. 033 TNBs 0. 307 Overall 0. 10 Source: Adopted from data in Appendix - B. 4 Banking Sector in Bangladesh: Its Contribution and Performance Over all average profit was Tk. 0. 1 by incurring expenditure of Tk. 1. i. e. average return on expenditure was 10%. But in case of individual performance SPBs had negative average return on expenditure (-9. %), on the other hand TNBs performance (30. 7%) was above the industry average. Other than these two NCBs and PCBs both had vulnerable situation.

Profit per Employee Effective utilization of human resources produces higher return. Earned more profit by few numbers of employee indicates commendable performance of the banks and human efficiency. Since the nature of the industry is service oriented, so human efficiency depends on intellectual abilities of the employees. Following table shows the comparison among various banks Table 3 : Profit per Employee for Various Banks

Banks Profit per employee (Tk.) NCBs 4, 538 SPBs -34, 216 PCBs 9, 659 TNBs 285, 659 Over all 12, 88 Source: Adopted from data in Appendix - B.

Over all profit per employee was Tk. 12, 880, i. e. each employee's average contribution to the net profit was Tk. 12, 880 in a year. TNBs as compared with overall, the figure was extremely good (Tk. 285, 659). There are two indications for this picture, one is TNBs had highly efficient employees, and other is less number of employees. On the other hand except SPBs (which had negative figure), NCBs average profit per employee was Tk. , 538, which was far below from TNBs, even below from overall performance, which shows un-utilized human resources.

Profit per Branch All categories of banks have numbers of branches covering wide range of the population of the country. To provide service to the wide range of people, banks have to establish multiple branches. Contribution to the total profit of different branches was varied, depending on the amount of deposits and advances. Table below expresses average profit contribution by the branches. Table 4 : Profit per Branch for Various Banks Banks Profit per branch (Tk.) NCBs 6, 205 SPBs -491, 827 PCBs 181, 548 TNBs 13, 171, 737 Over all 210, 481 Source: Adopted from data in Appendix - B. 5 Banking Sector in Bangladesh: Its Contribution and Performance Considering all commercial banks in Bangladesh, these were earned on an average Tk. 0. 064 from investing one taka. The average Return on Investment (ROI) was not inadequate (6. 4%) as compared to any business. In case of TNBs this rate was very attractive (12. 7%), but except SPBs, both NCBs and PCBs had 1. 2% and 2. 5% respectively.

Per Capita Profit Commercial banks are operating countrywide by offering services.

Accumulating funds and distributing them to entrepreneur was the main function of commercial banks. Wider area coverage makes the commercial bank more comfortable in terms of operation. Per capita profit earned by the commercial bank would indicate overall economic strength of banking system. Average profit gained per head can be expressed in the table below: Table 7 : Per Capita Profit for Various Banks Banks Per Capita Profit (Tk.) NCBs 2. 53 SPBs -5. 25 PCBs 1. 46 TNBs 2. 51 Over all 10. 66 Source: Adopted from data in Appendix - B. Average profit per individual in the country for all banks was Tk. 0. 66, i. e. banking sector earns over Tk. 10 per head. But using same coverage for different categories of banks, the picture would be different. In case of NCBs operation they gained on an average Tk. 2. 53 per individual, where as TNBs earned Tk. 2. 51 per head. Apparently these two figures were same but considering the coverage in terms of number of branches, NCBs have 170 time more branches than TNBs. 3. 8 Overall Situation Considering all variables regarding profit, TNBs were doing extraordinarily good operation in this sector. Because of the policies and managements TNBs performance was better.

Keeping TNBs aside, PCBs performance comparatively better. As far as the ownership was concerned both NCBs and SPBs were same. PCBs started their operations in 1982, before the Government of Bangladesh controlled that total financial sector. But after allowing private sectors to operate commercial banks, PCBs were gradually capturing the market share. Surprisingly SPBs had negative performances in every aspect because of their negative net profit. 4. Relationship of Profit With Other Variables In the

above section comparison of profitability among various groups of banks has been discussed.

But it was desired to know about the sensitivity of profit on various variables. Journal of Business Research, Vol. 3, 2001 6 Multiple regression analysis has been done to analyze the relationship between net profit as dependent variable and asset, expenditure, number of employees, number of branches, number of advance accounts, investment, time deposit are as independent variables. In this paper it was assumed that the relationship among the variables was linear, which is ? = A + B? + C? + D? + E? + F? + G? + H? where, ? is net profit ? is number of employees ? is amount of expenditure ? is number of branches ? is amount of investment ? is amount of asset ? is amount of time deposit ? is number of advance accounts A is constant The following section expressed the determination of coefficient of the independent variables, which indicate the degree of influences on net profit by corresponding variables. 4. 1 Regression Result Based on data provided in appendix - C, the values of coefficients and constant were calculated and also found the relationship among them.

Multiple linear regression equation is expressed in equation (ii). ? = -68459+0. 002 ? -0. 186 ? +0. 159? -0. 084? +0. 003? +0. 133 ? -1. 03x10-6?....... (ii) Above linear equation shows that some of the independent variables have positive relationship and others have negative. Amount of expenditure, amount of investment and number of advance accounts all have negative relationship with net profit. On the other hand amount of

asset, number of employees, number of branches and amount of time deposit have positive relationship with net profit.

Further, the strength of the relationship among the variables measured by the coefficient of determination (r2). The value was calculated as 0. 89, indicating very strong relationship. Therefore, the independent variables collectively may play important role on earning net profit in the banking sector as a whole.

Scope to Improve of Profit

In the equation (ii), it was evident that some of the independent variables have positive impact on net profit, though the degree of influences was very low. Net profit may increases by increasing values, which have positive relations.

From equation (ii), it was 7 Banking Sector in Bangladesh: Its Contribution and Performance clear that number of employee, number of branches, amount of asset and amount of time deposit have positive relations with net profit. From above relationship, it can be explained that if number of employee increased by one, the net profit will increase by Tk. 0. 002 crores, i. e. every 1, 000 employees can contribute Tk. 2 crores to net profit. This indicated that there might be still opportunities to generate employment in this sector and can contribute to the national economy.

Again number of branches has also positive impact on net profit. Equation (ii) reflects that increase in one branch may increase net profit by the amount of Tk. 0. 159 crores, which also testifies that there was still scope to increase branches. In Bangladesh there were opportunities to establish branches in

the rural areas where lots of business potentials were looking for the banking service. Another variable the amount of asset has positive relationship with net profit. Even it has very little influences on profit; every Tk. 1, 000 crores of assets would increase net profit by the amount of Tk. 3 crores.

Therefore, it was apparent that there was still room to increase the amount of asset to earn more profit. Finally, the amount of time deposit was other variable, which has positive influences on net profit. Coefficient of this variable in equation (ii) was 0. 133, this indicated that every Tk. 1, 000 crores increase in time deposit would increase profit by the amount of Tk. 133 crores. Analyzing above relationship, time deposit has stronger influences on net profit. Therefore, banking sector as a whole may increase their contribution to national economy if the amount of time deposit was increased.

Analyzing the regression equation it was clear that some of the independent variables have positive control over the generation of net profit, and also might increase the contribution of the banking sector to national economy by increasing the values of those variables.

Conclusion

The performance of the banking sector in terms of net profit varies in various groups of bank. The study revealed that in every aspect, TNBs had a commendable performance. But comparing among other groups of banks (NCBs, SPBs, and PCBs), PCBs had preferred achievement aiming profit. On the other hand Specialized Banks in Bangladesh had a very poor performance.

This meager activity affected the overall banking sector's performance. The comparison among various categories of banks has been done on the basis of the profit with respect to some other variables. The study also revealed the relationship among the dependent variable and independent variables. The equation (ii) shows the weights of the independent variables that influences net profit of the banking sector. Finally, the paper intended to identify the scopes and opportunities of the factors by which over all net profit might increase, and contribute to the national economy.

Journal of Business Research, Vol. 3, 2001 8

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Banking Sector in Bangladesh: Its Contribution and Performance Appendix - A List of Banks: [a] Nationalized Commercial Banks (NCBs) Agrani Bank Janata Bank Sonali Bank Rupali Bank Ltd. [b] Specialized Banks (SPBs) Bangladesh Krishi Bank Bangladesh Shilpa Bank Rajshahi Krishi Unnayan Bank [c] Private Commercial Banks (PCBs) Arab Bangladesh Bank Ltd. Islami Bank Bangladesh Ltd. National Bank Ltd. The City Bank Ltd. IFIC Bank Ltd. United Commercial Bank Ltd. Pubali Bank Ltd. Uttara Bank Ltd. Al-Baraka Bank Bangladesh Ltd. BSIC Bangladesh Ltd. Eastern Bank Ltd. National Credit and Commerce Bank Ltd.

Prime Bank Ltd. Southeast Bank Ltd. Dhaka Bank Ltd. Al-Arafah Islami Bank Ltd. Social Investment Bank Ltd. Dutch-Bangla Bank Ltd. [d] TNBs Hanil Bank Hongkong Bank Society General Bank American Express Bank Ltd. ANZ

Grindlays Bank Plc. S tandard Chartered Bank State Bank of India Habib Bank Ltd. Citi Bank N A Banque Indosuez National Bank of Pakistan Muslim Commercial Bank Ltd. J ournal of Business Research, Vol. 3, 2001 10 Appendix - B Various Data for PCBs Year 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 Advance Assets Net Profit Expenditure Employees Branches