● Transport in Dacca, one of th e world's more crowded capitals

Banks shift credit to the rural villages

THE BANKING mechanism has assumed the vital role in the economic growth of developing countries. But the strategy of planned economic development has produced controversy over how the banking and the financial system should be developed to maximise its contribution to the growth potential.

Banking suffered heavily from the ravages of the war of liberation. Commercial banks were functioning in Bangladesh before independence though almost all had their head offices in Pakistan. Following the independence, the banking system was reorganised.

But the present structure is more or less the same as it was during the pre-independence days. Structurally, it comprises the central bank, the Bangladesh Bank and the commerical banks, development financial institutions, and other non-scheduled and cooperative banks.

At independence, the system started operations from the position of disequilibrium and imbalances in assets and liabilities. The Bangladesh Bank had to take the liability for Pakistani currency circulating in Bangladesh without any corresponding assets either in gold, foreign exchange, or in approved securities. The liability for the assumed and freshly issued currency had to be covered gradually by building up foreign reserves and acquiring other domestic assets.

Immediately after taking over the responsibility of the central bank, the Bangladesh Bank was confronted with a host of problems. These included re-organisation of the existing structure of the bank to undertake full-fledged central banking functions. Because Bangladesh came into being through armed struggle, there was no settlement of assets and liabilities of the erstwhile State Bank of Pakistan between Bangladesh and Pakistan. There were also issues involved with fixation of parity of Bangladesh taka and reorganisation of the commercial banking system to meet the urgent credit requirements of trade, industry, commerce, and agriculture.

There are at present 12 commercial banks of which six are foreign banks located only in the capital and in the port cities. There are three specialised development financial institutions of which one is an agricultural bank (Bangladesh Krishi Bank) and the remaining two are industrial finance institutions (Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha).

There are also cooperative banks and postal savings banks in the country.

One of the spectacular features of banking in Bangladesh has been the nationalisation of commercial banks. In the wake of independence, the owners and the top management of the Pakistani banks left the country. The two local banks were riddled with problems. Moreover, in financing foreign trade there arose legal complications.

For these reasons it became imperative to reorganise these banks into distinct new banks. The predominant consideration of ensuring equitable distribution of wealth and economic power and opportunities in the country called for the change in the ownership pattern of the commercial banks.

The various banks were of different sizes and strengths. The Government, therefore, decided to nationalise all the commercial banks (excepting foreign banks) and restructure them so that small and inefficient units were merged with the established ones. The new banks thus constituted would not be unfairly placed viz-a-viz one another

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but would be expected to compete in fair and equitable terms among themselves from the position of equal strength.

The Commercial banks have traditionally been urban-orientated catering to the short-term and medium-term financial needs of trade and industry. However, in recent years the need for remoulding the structure and policies to conform to the national objectives has been increasingly felt. To extend the activities of commercial banks to the priority sector and the neglected regions banks have been asked to open branches to tap the financial resources of the rural masses.

Deposit mobilisation is the prime condition for economic growth in the developing countries. In this field the commercial banks have made great strides.

Another important factor which enabled the commercial banks to attract more deposits from the public was the rationalisation of interest rate policy, which came into effect from July 1, 1974.

For the smooth functioning of the economy, price stability is the essential condition. To this end, the Bangladesh Bank has taken several measures. The restructuring of interest rate policy had far-reaching consequences to minimise the inflationary pressures and to mobilise deposits. The extent of revision of the rates was not drastic in view of the high rates of inflation then prevailing. But this step signalled a beginning in the right direction.

There were all kinds of price distortions, manipulations, and attendant evils in the economy. After long deliberations, therefore, the Government took two important steps: the demonetisation of 100-taka currency notes carried from April, 1975; and adjustment of taka exchange rates introduced in May, 1975. As a result of these measures some price relief was felt in the economy.

The steady increase in the commercial banks' advances to public sector agencies contributed to the intensification of the inflationary pressures. So, the monetary and credit policy pursued by the Bangladesh Bank were aimed at directing and ensuring the flow of available credit to the priority and essential sectors of the economy; to check the use of bank credit for hoarding and speculative purposes.

With this end in view, the bank rate as well as the deposits and lending rates were raised with effect from June 21, 1974 and July 1, 1974 respectively. In order to restore the damaged economy the scheduled banks were liberally extending small loans to private individuals, shop keepers, and small traders affected during the liberation war.

The jute trade and industry were allocated the lion's share.

The commercial banks did not participate in agricultural finance in the initial years, but now the rural areas in general and the agricultural sector in particular have received top priority to get institutional credit.

The Government has decided to give taka 100 crores this year to finance agriculture.

Foreign exchange is one of the important factors which determine the rate of economic growth in the underdeveloped countries. The Bangladesh Government from its inception has tried to earn as much foreign exchange as possible from exports. For this reason bank credit against export commodities has increased from Tk.86.37 crores on December 17, 1971 to Tk.332.21 crores in December, 1976.

The banking system is now in a position to lead the country to the era of prosperity and development. But banks must go a long way to achieve this objective.