

CHALLENGES AND PROSPECTS OF BANGLADESHI BANKING INDUSTRY IN THE YEAR 2023

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Just when the world was recovering from the Pandemic, Russian invasion of Ukraine has created more than a headache worldwide. Worldwide economy has slowed down quite a lot. All the developed and developing countries of the world have struggled with the rising inflation. Bangladesh has also not been spared. Thankfully, the country has been able to cope with the scenario better than most other countries under the leadership of Honorable Prime minister Sheikh Hasina. It is true that 2022 has been one of the toughest years for our country especially in the banking sector; but everyone is looking forward to 2023. Here are the summary of Challenges and prospects the Banking industry of Bangladesh are likely to face in the upcoming year.

Aspiring to be an upper middle-income country by 2031, Bangladesh is a spectacular success story of accelerated growth and development. Over the past decades of infrastructural improvement, ready-made garment exports, robust remittance inflows and resilient demographic dividend have created such unprecedented shifting to the economic development of the country. Bangladesh is ranked fifth out of 121 countries worldwide as per Nikkei's COVID-19 Recovery Index as of April 30, 2022, which is quite remarkable and shows how well the country has fared in this sector. It is clear

that recovery from COVID-19 continued in 2022. Bangladesh is experiencing a good comeback after pandemic alongside with current international uncertainty. Increase of external economic activities like export and import will open more investment opportunities. Economic resiliency of the last two years will be able to convince more foreign investment toward Bangladesh. Economy will boost further development.

The country is navigating some short-term tumults with rest of the world stemming largely from the global economic crisis as a result of the ongoing consequences of the COVID-19 pandemic, long lasting Russia-Ukraine war, international political power struggles and the volatility in the international energy market. Furthermore, until the 12th national parliamentary election, uncertainty among political group may arise. Despite the situation, this year might bring forth a lot of optimism for Bangladesh if it can grab all of the opportunities and utilize in the medium and long term prospect. In 2023, Stars will align for Bangladesh for a better year and the country may triumph over all challenges to bring the welfare of the people.

The world is expected to head for a recession. High inflation rate is likely to torment the lower and lower-middle

income population. They are going to lose a big segment of their savings due to less purchasing power. But fortunately, Bangladesh is in different situation from many facets. The readymade garment and textile sector of Bangladesh will see a year of possibilities in 2023. The external debt to gross domestic product (GDP) ratio for Bangladesh is not so high compared to other comparable economies. This is a positive indication for our economy.

Export of the Country has grown throughout 2022. The EPB data showed that in January to November 2022, total exports of Bangladesh grew 29.20% to \$41b. Soaring demand of ready-made garment items contribute export growth. In November 2022, export volume was more than \$5 billion which is the highest ever in a month.

First-ever metro rail was inaugurated in capital Dhaka on December 28, 2022 setting a milestone in the transportation history of Bangladesh. Prime Minister Sheikh Hasina said another feather was added to the crown of Bangladeshi pride and development with the opening of its first ever metro rail. New infrastructures bring new scope and opportunities and the country should take the advantage of it.

Covid pandemic has accelerated digital banking transformation that is taking place in the banking industry worldwide. It is an overall ecosystem, which includes digitalized ecosystem for augmentation in overall experience, speed, accuracy, and effortlessness for the front-end and back-end. Nowadays, service providing through the digital channels to all types of customers is much higher.

At the end of December 2022, some banks registered a 10-25% year-on-year increase in operating profits while some posted a decrease. Bank deposit in the country was increased by 6.68 percent in November 2022 over November 2021. On the other hand, bank credit was increased by 10.93 percent for the same period. To

enhance the banks' financial strength and shock absorbing capacity, recently the Bangladesh Bank has allowed banks to show the unrealized interests against the relaxed repayments of term loans in their profits.

According to the Financial Stability Report 2021, the banks and FIs of the country would remain moderately resilient to different shock scenarios. The statement shows that the stress test results indicate that loan concentration to top large borrowers and considerable level of NPLs in some banks could concern the overall financial stability. Proper corporate practice in following the guideline on large loan/single-borrower exposure would be helpful to reducing the risks on banks' exposure to large corporate or to speci-fic group, sector or region.

A full scale resumption of economy is positive indicator for banking industry to convey hope and opportunities for good business. However, the only uncertainty is how borrowers will behave in phasing out from the loan moratorium facility. But, Bangladesh Bank shows the glimmer of hope towards this industry through becoming supportive by relaxed monetary policy.

The Bangladesh economy has entered in 2023 with lot of macroeconomic challenges which are not encountered in recent decades. Depreciation of taka and softening of some commodity prices could improve terms of trade in the medium-term. Global ratings agency Moody's expects the energy crisis to exacerbate balance of payments and liquidity risks in the near-term. But we have our own internal assessments. The most important thing is to see the indications that the country is going to address its internal challenges and then move forward in order to achieve a higher sustained growth path. We need to be more strategic instead of worrying about the situations and choose to play the card wisely.

Political stability is an essential factor in economic development. The country set to hold general elections in January 2024, apprehensive investors will be cautious about making any moves at this time. To have a complete economic recovery, stable political situation should be ensured.

Exchange rates play a vital role in a country's level of trade, which is critical to most every free market economy in the world. Second half of 2022 has seen great volatility in the taka value against the US dollar, high informal market transactions and rates put 'Hundi' in command and resultantly, inward remittance dropped significantly. This year we expect govt. will take appropriate measures to keep foreign exchange market stable.

For the last few years, Bangladesh Bank's interest rates have been kept low to increase money flow towards the economy. But lower interest rate also exacerbates unhealthy competition among weak banks and financial institutions, further confusing the semi-educated depositors aspiring for inflation-adjusted earnings on savings tools. To attract the depositors, central bank should keep deposit interest rate in reasonable range.

Governance is something that is an issue in many countries across the board. For instance, in the financial system, it's important to make sure that there is legal predictability. Stable legal environment is essential to make sure the increase of both domestic and foreign investments inflow.

But any kind of crisis can be good, as it works like a wakeup call. Crises and deadlocks when they occur have at least this advantage that they force us to think. And crisis may also be an opportunity to resolve deep-seated issues, which under less difficult conditions may remain unsolved for a long time. Above all, Bangladesh has now the opportunity, in the context of both domestically and

internationally to move forward and advance on a number of things.

Bangladesh has a very significant opportunity to get more benefit from the international diversification of global supply chains due to cost advantages, location advantages and the US-China trade tensions and broader geopolitical issues in the region. The country ought to continue to diversify the economy and export sources and build important infrastructure, not only physical, but also digital. And in terms of the building of human capital, Bangladesh must address the short-term challenges of macroeconomic stabilization.

In order to moving forward the higher-income status, Bangladesh must keep improving the ease of doing business, employment creation, building a skilled labor force, strengthening economic governance, institutions and rule of law, continuing diversification of the economy and export sources and building both important physical and digital infrastructures and human capital. To achieve the vision, development priorities should include export diversification beyond the RMG sector, deepening the financial sector and strengthening public institutions to generate more domestic revenue.

For building resilience against future shocks, Bangladesh has to address its vulnerability to climate change and natural disasters. We have to achieve green growth to bring sustainable development for the next generation. We also require policy stability and for the government to continuously strive towards moving the entire ecosystem forward to create suitable business environment. Ultimately, it is the people who make the change by overcoming all obstacles and bring positive output. With all positive indicators, it is obvious that Bangladesh has the potential to become one of the stars in Asia.