Liquidity position, credit-deposit ratios of scheduled banks as of 30-10-2008

A. Liquidity position: In terms of section 33(1) of the Bank Company Act 1991 the Statutory Liquidity Requirement (SLR) is the minimum (in percentage of total time and demand liabilities, *i.e.,* TDTL) that a scheduled bank has to maintain in liquid assets (cash in till, Taka and foreign currency balances with the BB, unencumbered approved securities). The SLR is currently 18 percent, but lower (10 percent) for Islamic banks because of insufficient availability of shariah based approved securities.

Table 1: Required liquidity (SLR) and actual liquidity of scheduled banks as of 30-10-2008

(in million Taka)

Bank group	Reqd. liquidity (SLR)	Actual liquidity							Excess Liquidity (9-2)
		Cash in tills + balance with Sonali Bank	Taka balances with BB			F.C. balances with BB	Unencumbered approved securities	Total Liquidity (3+6+7+8)	
			CRR	Excess reserves	Total				
1	2	3	4	5	6	7	8	9	10
State owned	125585 (18% of TDTL)	8194	34884	1663	36547	50	170985	215776	90191
Private (othr than Islamic)	180108 (18% of TDTL)	13470	50030	2187	52217	22502	150990	239179	59071
Private (Islamic)	32788 (10% of TDTL)	3705	16394	5539	21933	9601	14126	49365	16577
Foreign	36921 (18% of TDTL)	2922	10255	725	10980	23014	38446	75362	38441
Spl. dev. * (BASIC Bank)	5795 (18% of TDTL)	204	1609	-3	1606	564	7680	10054	4259
Total	**381197**	**28495**	**113172**	**10111**	**123283**	**55731**	**382227**	**589736**	**208539**

*** SLR does not apply to other Specialized banks (BSB, BKB, RAKUB and BSRS) as exempted by the Government.**

NB: Excess reserves in Column-5 show figure calculated straightforward CRR @5% of TDTL as of report date only. Actually there was no shortfall of CRR on bi-weekly average basis as maintained by the scheduled banks.

Table-1 above shows the overall liquidity position of the scheduled banks as of October 30, 2008, component wise and bank group wise. Cash in tills and the excess cash reserves with the BB (totaling around 6.5 percent of total liquidity) are held by banks to meet immediate cash withdrawal needs of customers. The Cash Reserve Requirement (CRR) component of the Taka balances with BB is mandatory deposit not divertible to other uses. Foreign currency balances in clearing accounts with the BB are held for settlement of external transactions (in case of foreign banks also as mandatory capital deposits). The liquidity in excess of SLR, about one third of total liquidity are held in approved securities, which are zero risk rated, being issued or guaranteed by the Govt. These securities are earning assets, excess liquidity held in these assets are therefore not 'idle funds' as sometimes wrongly perceived by many people and sometimes reported in the media. It is to mention here that Bangladesh Govt. has issued BPC bond against the liabilities of Bangladesh Petroleum Corporation with Sonali and Janata bank ltd. This amount (Tk. 73225.40 million) was declared later on as non-marketable SLR eligible securities since September 2008, and it is reported in Col.8,9,10 of Table 1.

Holding excess liquidity in approved securities instead of using the funds for customer lending represents a conscious choice in risk adjusted return. Approved securities are zero risk rated, while loans to customers carry risk of repayment default. So long as the yields on risk free approved securities are no worse than the risk adjusted returns on customer lending bearing higher interest rates but also carrying default risks, banks tend to hold excess liquidity in approved securities; drawing this down as and when private sector investment activities present new opportunities of lending to viable creditworthy projects.

B. Credit deposit ratio: For scheduled banks deposits are the main source of investment funds, capital, reserves and debt constituting only a small portion thereof. Also, they invest mainly in loans and advances, other outlays in securities, equities etc. being much smaller. The credit deposit ratio (loans and advances to deposits) is therefore a useful indicator of a scheduled bank's investment activities.

Table 2: Sources and uses of funds, Credit deposit ratios of scheduled banks as of 30-10-2008

(in million Taka)

Bank group	Total deposit (excluding inter bank deposits)	Capital, reserve & debt**	Total credit	Credit deposit ratio (4/2) %	Liquid assets			Other investments
					Reqd.	Actual	Excess (7-6)	
1	2	3	4	5	6	7	8	9
State owned	716327	26177	514881	71.88%	125585	215776	90191	24338
Private (othr than Islamic)	1056650	101449	892923	84.51%	180108	239179	59071	24263
Private (Islamic)	352685	36698	344948	97.81%	32788	49365	16577	1667
Foreign	218477	38924	150206	68.75%	36921	75362	38441	1605
Spl. dev. @	132729	57647	144893	109.16%	5795	10054	4259	997
Total	**2476868**	**260895**	**2047851**	**82.68%**	**381197**	**589736**	**208539**	**52870**

@ Liquid assets of specialized banks refer Basic bank only, whereas col-2, 3, 4, 5& 9 includes five specialized banks.
** Amount of Capital in col-3 refer to figures as of 31-12-2007(due to half yearly update) and debt as of 30-4-2008.
NB:Figures of total deposit, total credit and other investments are provisional.

From Table 2 above it is seen that with the highest credit deposit ratio, local private banks were the most active in extending credit, followed by the foreign, state owned bank groups. The excess of liquid assets over SLR i.e., Tk. 208539 million (Col.8, Table 2) are the potential loanable funds that scheduled banks could use for further expanding credit to private sector. As mentioned in the preceding paragraph, these potential loanable funds held in approved securities are not 'idle' in its entirety and over Tk. 73225.40 million is held in non-marketable BPC bond.

The foreign bank groups are seen to have the widest room for further expanding loans and advances by drawing down their substantial pools of excess liquidity. The credit deposit ratio for the specialized development banks group is seen to exceed 100% (Col. 5, Table 2), because the agricultural lending by BKB and RAKUB exceeded their deposits, capital and reserves; borrowings by way of refinance from BB covering the difference. The private Islamic banks' excess liquidity (col. 8, Table 2) can not be held in all approved securities (limited to Islamic bond investment only) and as such some portion of this fund may be lent out with relative ease compared to other banks.
