Liquidity position, credit-deposit ratios of scheduled banks as of 30-11-2008

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 30-11-2008

(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	127400 (18% of TDTL)	7385	35389	-2804	32585	9	179754	219733	92333
Private (othr than Islamic)	182880 (18% of TDTL)	14805	50800	151	50951	15389	154099	235244	52364
Private (Islamic)	33736 (10% of TDTL)	3874	16868	6972	23840	9198	14056	50968	17232
Foreign	38393 (18% of TDTL)	2706	10664	716	11380	23494	45254	82834	44441
Spl. dev. * **(BASIC Bank)**	6069 (18% of TDTL)	352	1685	-5	1680	514	5572	8118	2049
Total	**388478**	**29122**	**115406**	**5030**	**120436**	**48604**	**398735**	**596897**	**208419**

* **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 November 30, 2008, component wise and bank group wise. Cash in tills and the excess cash reserves with the BB (totaling around 7 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 30-11-2008

(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	720732	26191	505472	70.13%	127400	219733	92333	22919
Private (othr than Islamic)	1068103	101587	906826	84.90%	182880	235244	52364	28570
Private (Islamic)	350453	36798	345377	98.55%	33736	50968	17232	1576
Foreign	221435	38860	145659	65.78%	38393	82834	44441	1504
Spl. dev. @	132613	57615	145895	110.02%	6069	8118	2049	1001
Total	**2493336**	**261051**	**2049229**	**82.19%**	**388478**	**596897**	**208419**	**55570**

@ 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. 98314 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 local private and 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 and as such some portion of this fund may be lent out with relative ease compared to other banks.
