

## Liquidity position, credit-deposit ratios of scheduled banks as of 31-12-2007 (Revised)

**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 demand and time 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 31-12-2007

(in million Taka)

Bank group	Reqd. liquidity (SLR)	Actual liquidity						Excess Liquidity (9-2)	
		Cash in till	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	117852 (18% of TDTL)	3753	32737	3468	36205	1783	93400	135141	17289
Private (othr than Islamic)	146522 (18% of TDTL)	19703	40701	2834	43535	13142	123022	199402	52880
Private (Islamic)	28346 (10% of TDTL)	4780	14173	3340	17513	5662	23870	51825	23479
Foreign	31528 (18% of TDTL)	2803	8758	695	9453	20208	17669	50133	18605
Spl. dev. * (BASIC Bank)	5493 (18% of TDTL)	237	1526	181	1707	206	5271	7421	1928
<b>Total</b>	<b>329741</b>	<b>31276</b>	<b>97895</b>	<b>10518</b>	<b>108413</b>	<b>41001</b>	<b>263232</b>	<b>443922</b>	<b>114181</b>

\* SLR does not apply to other Specialized banks (BSB, BKB, RAKUB and BSRS) as exempted by the Government. On the other hand Oriental bank is exempted from maintaining SLR till 30/6/2008.

NB: Excess reserves in Column-5 shows approximate figure calculated straightforward @5% of TDTL where actually CRR is maintained on bi-weekly average basis and can not be ascertained as on specific date.

Table 1 above shows the overall liquidity position of the scheduled banks as of December 31, 2007, component wise and bank group wise. Cash in tills and the excess cash reserves with the BB (totaling around 10 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 a quarter of total liquidity (around seven percent of total investible funds) 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.

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 31-12-2007

( 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	699714	-28972	479153	68.48%	117852	135141	17289	63516
Private (othr than Islamic)	861618	84237	712731	82.72%	146522	199402	52880	30976
Private (Islamic)	288584	26628	267689	92.76%	28346	51825	23479	590
Foreign	183364	34510	135471	73.88%	31528	50133	18605	378
Spl. dev. @	115637	80265	129216	111.74%	5493	7421	1928	590
<b>Total</b>	<b>2148917</b>	<b>196669</b>	<b>1724260</b>	<b>80.24%</b>	<b>329741</b>	<b>443922</b>	<b>114181</b>	<b>96050</b>

@ 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 and specialized bank groups. The excess of liquid assets over SLR i.e., Tk. 114181 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.

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.