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Editorial Notes

Non-performing Loans (NPLs) of the banks have gone up and are on the rise both in volume and share-per cent and becomes a concern of all. Banks' NPL rise by more than 18 per cent to Tk. 1.1 trillion in the first quarter (Q1) of 2019 from Tk. 939.11 billion in the preceding quarter, defying the close monitoring and surveillance of the Bangladesh Bank. The share of gross NPLs in the total outstanding loans of the banks also rose to 11.87 per cent from 10.3 per cent in 2018 and 9.3 per cent a year back in 2017 and even taking into account of the amount of written off loans of around Tk. 0.5 trillion so far, the gross NPL ratio is more than 16.1 per cent of the loans. These rising NPLs of banks entail more credit risk and make the banking system vulnerable to the risk of failure unless it is systematically addressed by Bangladesh Bank and banks' management through extending risk-based supervision and bank risk management respectively. Despite restructuring and rescheduling of some of them with laxity, required provisions have to be maintained causing profitability of the banks in 2018 in terms of EPS to fall much more than that of last year. In other words, a large amount of NPLs increase a bank's provision requirement, reduce profitability, and eventually erode capital base leading to bank insolvency, which may trigger system-wide instability in the financial sector. On the other hand, higher non-performing assets along with rescheduled and restructured loans pushed up the overall stressed assets ratio as a percentage of total loans and advances outstanding in 2018. According to Financial Stability Report, 2018, the stressed assets ratio rose to 20.5 per cent at the end of December 2018 which was the highest in the past three years. This ultimately affects bank's ability to lend and banks facing liquidity problems as evident from higher advance-to-deposit (ADR) and rising call money borrowing rate.

The first article of this issue focuses on the policy analysis through estimating the central bank's reaction function to stochastic shocks, productivity, monetary policy and term of trade, using Dynamic Stochastic General Equilibrium (DSGE) model for Bangladesh and Sri Lankan economy. This article also analyses the behavior and sources of fluctuations of the three macroeconomic variables: GDP growth, inflation and policy rate. The empirically estimated central bank's reaction function suggests that both central banks of Bangladesh and Sri Lanka place more emphasis on inflation stabilization or price stability. The finding that productivity shock is more volatile than monetary policy shock in Bangladesh is also true for Sri Lanka. Output is also affected by the monetary policy shock. The main lesson derived from the exercise is that the approach to controlling inflation and increased GDP monetary transmission channel could be used because monetary policy shock affects both output and inflation.

The second article investigates empirically the sources of exchange rate movements of real and nominal exchange rates of US dollars against the domestic currency of Bangladesh, India, Sri Lanka and Pakistan by employing structural VAR model. In other words, this article examines the dynamic effects of real (resource endowments, technological advancement, and preferences) and nominal (money supply) shocks on exchange rate movements. The empirical analysis shows that the effect of a real shock on the real and nominal exchange rates is of a persistent nature for all countries, resulting in a long-run real appreciation. On the contrary, the effect of a nominal shock on nominal exchange rates demonstrate that nominal shock takes few months for decreasing response (depreciation) in nominal exchange rates in all countries. Moreover, real shock dominates nominal shock in real exchange rates series in all these countries and in nominal exchange rates in all countries except Sri Lanka. The findings of the paper suggests that the objective of monetary and exchange rate policies be to make an effort in offsetting the effect of real shock through sterilization of foreign exchange reserve outflow or raise interest rate for the purpose of economic stabilization in all these countries.

The third article examines the association between Remittances and Food Prices in Bangladesh by employing co-integration and VECM techniques. The results indicate that remittance inflows are positively associated with food inflation in Bangladesh. The article provides empirical evidence showing that remittances can induce food inflation of the recipient economies. It implies that remittances are more guided towards food consumption of recipient households. As inflation may have some welfare costs, policies should be designed to guide remittances from consumption motives to investment in productive sectors that causes real economic growth.

The last and final paper deals with examining the present status of training need assessment (TNA) in Banks and the readiness of banks about the implementation of TNA in the banking sector of Bangladesh. The survey-based study finds that commercial banks in Bangladesh need to put more efforts to either introduce or improve TNA, such as introduction of certificate program, manual based training, more on the job training, technology based training or e-learning, separate TNA form introduction etc., in order to derive maximum benefits from it.

30 May, 2019

Mahmood Osman Imam
Editor