European Journal of Business and Management www.iiste.org
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.14, No.22, 2022

# An Examination of Bangladesh's Current Situation with Regard to Non-Performing Loans (NPLs) and Its Effect on the Banking Sector

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**Abstract**
The purpose of this article is to investigate the extent of non-performing loans (also known as "NPLs") in Bangladesh's banking sector. Non-performing loans (NPLs) with systemic levels require a complex and expensive resolution process. In structurally weak financial systems, bank NPL issues typically appear following credit booms or extended periods of slow growth. New lending is stifled by NPLs, which harms banks' capacity to make money and stay solvent. The financial system ceases to operate regularly when high NPL levels affect a sufficient number of banks, and banks are unable to continue lending to the economy. Market dysfunction and bank coordination issues may prevent a quick recovery. Authorities typically intervene in such situations to take control of the crisis response. They can use a rangeof resolution tools for this purpose, but they normally demand a lot of resources and take some time to produce results. Non-performing loans are one of the primary issues that commercial banks are currently dealing with. What exactly is a non-performing loan? Financial assets known as nonperforming loans (or "NPLs") are those from which banks no longer receive interest or installment payments on time. Since the loan no longer "performs," or brings in money for the bank, it is known as non-performing (Choudhury at al .2002).
**Keywords:**Non-Performing Loans (NPLs), Commercial Bank, Financial System, Loan Recovery Measures, Bangladesh.
**DOI:** 10.7176/EJBM/14-22-01
**Publication date:** November 30th 2022

## Introduction
The number of nonperforming loans (NPLs) in Bangladesh's banking sector has more than quadrupled during the past ten years (2010–2019) (Ghosh. at al .2020).For a nation to prosper economically, the saving-investment cycle must run smoothly and efficiently. Bangladesh relies heavily on the intermediate functionof commercial banks to mobilize domestic savings and provide capital to the investor because it is a developing nation with an underdeveloped capital market. Therefore, the efficiency with which our financial system operates is crucial. Looking at our financial industry's performance over the past few years, we can see that our banking sector is highly burdened by a large rate of non-performing loans (NPLs). NPLsprevent recycling, hence reducing loanable funds. To make up for bad debt, banks must set aside a percentage of their income as loan loss reserves. If there is no provision, a bank with a large ratio of NPLs experiences capital loss (assume). The banking industry in Bangladesh is affected by all those negative effects of NPLs on banks' financial health, including low profitability and a low capital base. When compared to all banks, the percentage of non-performing loans to total loans had generally declined from its peak of 34.9% to 29.6% in December 2016. At the end of June 2017, the ratio reached a new high of 35.9%.

The classified-loan buildups in Bangladesh's banking system increased by more than 16%, or Tk 145.40 billion, in the past calendar year, under the shadows of current financial issues. Despite the central bank's efforts to support policy by postponing the repayment of non-performing loans, conducting write-offs, and other measures, such a decline still occurs. The latest numbers from the central bank, issued on Wednesday,show that the amount of non-performing loans, or NPLs, increased to Tk 1032.74 billion as of December 31 from Tk 887.34 billion a year earlier.

And if the amount of write-offs is included in the calculation, the quantity of categorized loans will skyrocket even further. At the end of September the previous year, there were 436.09 billion Tk worth of unpaid written-off credits. The Bangladesh Bank (BB) published guidelines for writing off categorized loans in 2003 with the goal of enhancing loan recovery and increasing the accountability and transparency of bank financial statements. The practice of canceling loans is widespread. However, it will depend on a bank's capacity to write down its bad loans (FE, 2022).

**The objective of the Study:**

I. The first goal of this essay is to evaluate the non-performing loan issue that currently exists in thebanking industry.
ii. To display the trend of Bangladesh's "loan default problem."

iii. To investigate the commercial banks' loan default situation.

iv. To talk about how to legally recoup loans from defaulters.

v. To determine the causes of non-performing loans and possible solutions.

vi. To bring up a few points and observations that require immediate attention in order to guarantee ahealthy banking industry.

**The limitations of the study are:**

The absence of pertinent data was the main issue encountered during the research and Time limitation.

**Literature Review:**

A nation's banking sector, economic expansion, and other development initiatives are all influenced by macroeconomic forces, which are seen as exogenous. The state of the economy has an impact on the loss rate of a diversified debt portfolio, and in this instance, the impact is deemed to be significant (Carey, 1998). According to certain research, the economy's share of non-performing loans rises when there is a recession,hence the total share of non-performing loans is dependent on the strength of a nation's economy. In other studies, it has been demonstrated that a nation's poor economic conditions have an impact on its banking sector's non-performing loans (NPLs). This kind of conclusion is primarily attributable to the fact that a nation's poor economic conditions have an impact on a bank's customers' income, causing them to postpone or even completely forgo interest and principal payments.

Problem loans and GDP are negatively correlated, and this type of relationship suggests that the number of problem loans increases under adverse economic conditions or economic downturn. This conclusion has been reached by Jimenez and Saurina (2006), Das and Ghosh (2007), and Warue (2008). (2013). Accordingto a study by Salas and Sourina (2002) on the factors that influence NPLs, changes in NPLs are highly influenced by the strength of banking industry policies, real exchange rates, GDP growth, and unemployment rates. The number of non-performing loans in the banking sector may increase or decrease due to a variety of macroeconomic and company-specific, industry-specific, and country-specific factors.

It has been demonstrated in certain research that there is a definite correlation between NPLs and bank-specific variables, hence it can be argued that a bank's level of non-performing loans is somewhat influencedby the efficiency of its workers, internal culture, and policy efficacy.

**Due to non-performing loans, financial institutions exhibit the traits listed below:**

- The interest rate will rise, which could cause inflation or deflation.
- The underwriting standard will be weakened;
- There will be an imbalance between assets and liabilities;
- Corporate governance will be in doubt;
- Internal monitoring standards won't be able to handle the issue.

From the discussion above, it is clear that no commercial bank has succeeded in putting effective functional level strategies into practice. They failed to improve their ability to respond to customers, their staff is notvery effective, and this raises their daily operational costs as well. Commercial banks failed to put functional level strategy into practice in the following three instances, which have been discussed.

- **Lack of responsiveness to customers**: According to Khasru (2014), all commercial banks operate by giving a particular demographic extra benefits. It thus leads to discrimination in the general provision of services.
- **Employee inefficiency**: One of the key causes of NPL is a commercial bank's lack of effective staff members (Lata, R, 2017). He claimed that commercial bank staffers miscalculated the collateral's worth. Itis consequently challenging for commercial banks to recoup their NPL losses.
- **Rising operational costs**: The bank's primary source of income is interest. As NPL rises daily, banks struggle to make money while maintaining the same costs (Faruk, N 2014). As a result, there is

a huge gapbetween a bank's expenses and profits.

- **Inaccurate Credit Rating**: Farmers Bank's credit rating is "Of A3," according to Bank CompareBd.Com.It indicates that the bank is sufficiently secure (Adequate capacity to meet financial commitments, many positive investment attributes but also elements susceptible to adverse effects of changes in economic conditions). But everyone is aware of how the "Farmers Bank" is now doing. Its "A3" credit rating is practically impossible. The same thing occurs in the case of "Basic Bank," too. BankCompareBd.Com gives Basic Bank a "A2" credit rating. It indicates that the bank is adequately safe. Unexpectedly, despite these two banks' scandals and liquidity issues, no Bangladeshi investors wish to create deposit accounts with them despite their good credit ratings. Soumik Saha (2017), a member of the Credit Rating Agency of Bangladesh, claims that there is constant pressure on them to give banks and other financial firms a high rating. Bank owners are strong and have easy access to influencing the credit rating system. As a result, it is nearly impossible for credit rating agencies to assign banks and other financial organizations a proper rating.

**Causes for Nonperforming Loans:**

**ENTREPRENEURS-RELATED (ER)**

ER1: Lack of experience causes entrepreneurs to lose money in their firms.

ER1: Lack of experience. Sometimes those without any prior business expertise wish to take action. It may happen that people seek to start a business unrelated to their experience after leaving government or private employment. They seek for financial finance in addition to their equity. Banks typically won't fund initiatives where the key employee lacks sufficient experience in the industry. However, it becomes problematic for the bank if, by chance, a new employee in the finance department decides to finance thoseprojects where the key individuals lack essential business experience. These initiatives typically have a higher chance of failing.

ER2: Do new business owners know less about the sector?

ER2: Lack of institutional and business training. Business background and experience are related. Background refers to experience in a family business. A person with a business background develops a business attitude. Although the family business plays a part in entrepreneurial mindset, there is no connection between business background and loan payback success. Although it is true that young people with business backgrounds are more comfortable with banking and business, this is not a prerequisite.

ER3: The government and other relevant authorities don't provide enough support for business owners.

ER3: Lack of Supporting Facilities. Businesses occasionally require assistance from other sources, such asgovernmental agencies. The project needs feeding when cash flow is tight and it is complete. Without additional nutrition, a business may get ill and suffer losses over time. Most businesses in our nation lack the necessary resources to endure the occasional chaos that affects their operations.

**BUSINESS-RELATED (BR)**

BR1: Due to inadequate management facilities, business owners experience losses.

BR1: Before authorizing a loan, banks investigate the issue of the company's management. The bank will only agree to finance if it believes the management is competent enough to successfully run the business and use bank financing. Even yet, banks occasionally impose restrictions, such as mandating that key employees remain with the company until the loan is repaid. Repaying the bank debt depends critically onmanagerial ability. The likelihood of a loan default decreases as management becomes more professional.

BR2: Due to intense industrial competition, the entrepreneur suffers losses.

BR2: Strong competition does not immediately cause loans to go into default. When multiple companies enter a market where there are already too many competitors, there is fierce rivalry. Only effective players may prevail in fierce competition. Because of this, inefficient businesses find it challenging to turn a profitand market their goods. The business is expected to stop making a profit and stop making the bank loan installment payments

BR3: Entrepreneurs suffer losses as a result of the company's bad financial performance.

BR3: The primary reason for loan default is poor financial performance. A corporation is less likely to repay its loan after it is insolvent. The primary factor for the majority of loan defaults is poor financial performance. Poor financial results can result from the many other factors mentioned above.

**LENDING-RELATED (LR)**

R1: Non-performing loans develop as a result of inadequate bank supervision.

LR1: One of the most crucial elements for financial institutions is improper monitoring. Lenders learn whether or not their money is being used for the intended purpose through monitoring. Money that has been disbursed occasionally goes outside of its intended usage. The chance of the loan defaulting increases in the situation. Loans are approved by banks based on how feasible the idea is. Lender bank anticipates thatthe loan will be repaid using cash flow from that specific firm. But if credit is spent in other areas, the business might not generate the necessary amount of cash flow, and the risk of loan default increases. Therefore, banks keep an eye on the borrower's operations to determine whether the money is being used wisely and whether the company is bringing in adequate cash flow or not. For loan monitoring, banks utilize specialized formats. The bank evaluates the borrower's performance on a recurring basis and makes a decision regarding whether or not to extend the facilities. Portfolio evaluations, profitability analyses, and other techniques are utilized as monitoring tools. Banks have the ability to check an organization's credit rating. Banks can obtain data from Bangladesh Bank on borrowers. Banks can then determine how much money the investor will require and how much he will be investing.

LR2: Non-performing loans develop as a result of improper action against default loans.

LR2: Failure to take appropriate action follows loan monitoring. Monitoring is done to spot deviations or exceptional circumstances. Corrective action must be made if there is any deviation. If corrective steps areperformed promptly, the likelihood of a defaulted loan decreases. When a customer skips one payment, the bank's responsible officer must go to the consumer and figure out the issue. Loan default is less likely if the right steps are done. The borrowers become lax and cease making payments if no remedial action is done.At that point, a bank's liquidity crisis starts.

LR3: The banks typically don't adhere to the 5C's strategy when making loans to customers (Character, Capital, Capacity, Collateral, and Conditions).

LR3: Lenders assess potential borrowers' creditworthiness using a technique known as the "five C's of credit." The method attempts to evaluate the likelihood of default by weighing five borrower and loan terms.Character, capacity, capital, collateral, and conditions are the five C's of credit. Before the bank approves a loan, certain requirements must be fulfilled. Banks frequently fail to accomplish this. They offer loans depending on references. And the loan goes into default if the borrower's business is unsuccessful. The loan fails and banks have a liquidity crisis as a result of the 5Cs not being used to evaluate the loan's return.

LR4: An appropriate monitoring and valuation process is lacking when it comes to gathering and calculatingthe value of collateral.

LR4: When deciding the loan amount to be issued, collateral valuation is crucial. However, if this is not done properly and the loan defaults, the value of the collateral is insufficient to cover the debt. The amount borrowed and the amount received after selling the collateral are far off. The liquidity situation is additionally exacerbated by the typical failure to reclaim the entire loan.

**BANK RELATED**

BR1: Lack of risk management instruments by banks causes an increase in non-performing loans.

BR1: The loan sanction portion of banking lacks the features of banking risks and the primary evaluation techniques employed in practice. The most up-to-date data analysis techniques indicate potential paths for banking information system enhancement and recommend the feasibility of their implementation; bankingrisk management, artificial intelligence, banking hazards estimation, and data analysis are all necessary for evaluation.

BR2: The banking industry's lack of corporate governance and transparency is contributing to an increase in non-performing loans.

BR2: An efficient corporate governance system in banks will impose suitable conduct standards on management and control and monitoring procedures on banks to maximize prospects for legal profits subject to the best interests of depositors and shareholders. It stops bank managers from acting irresponsibly and at high risk, as well as from abusing their position of authority.

**MACROECONOMIC FACTORS**

MFR1: Is the nation's slower GDP growth to blame for the rise in non-performing loans?

MFR1: Low GDP Growth It is clear that businesses that deal with consumer goods are directly impacted by the GDP growth of the entire economy. Regular customers and defaulters have expressed the opinion that this macro indicator affects a company's cash flow and, consequently, the loan repayment.

MFR2: Non-performing loans rise as a result of rising crime and unstable political conditions.

MFR2: Rise in Crime. It has been made clear that rising crime rates have an impact on commercial operations for corporations. According to them, forced subscriptions might occasionally reduce a

company's profitability. Congressional Party Strikes Political unrest in the nation hinders the efficient manufacturing and distribution of goods, and it is one of the additional factors contributing to loan defaultin our nation.
MFR3: Increase in non-performing loans as a result of the Central Bank's frequent monetary policy changes?
MFR3: Frequent polity. According to the poll, changes made by the government are regarded as a minor reason for loan default because they have little effect on local sales and distribution of the companies' products. For instance, the government increased tax on mobile phones imported from other countries in this budget, which may prevent mobile phone importers from making the anticipated profits. Consequently, importers were unable to pay their interest. Therefore, they might be a defaulter. Without these, there are other factors, such as poor lending practices, a lack of business risk analysis, an inadequate valuation of the security or mortgage property, improper borrower pressure, outside pressure, loans made to governmentalorganizations, governmental policies for the distribution of credit, and a lack of legal action.

**Other reasons:**

We are all aware that this is one of the main causes of Bangladesh's dominant culture. It can occur in some circumstances, such as when the security-backed loan is weak. He usually falls back in those situation. People refuse to return debts in various situations, such as when the business's cash flow is weak. Additionally, Bangladeshi society encourages the abuse of authority and the use of the corrupt governmentto avoid repaying loans.

The main factor in loan default can occasionally be an unattractive sector. A higher likelihood of bad performance exists for businesses operating in unattractive industries. The company's cash flow suffers as a result of poor financial performance. Cash flow results in a decrease in the company's liquidity, which increases the risk of bank loans going into default. Not all businesses in the unappealing sector perform poorly, necessarily. Say, for instance, that the jute sector in Bangladesh is one of the least desirable. Any investor now wishing to make a loss in this industry may do so. So, this investor is unable to pay the interest.

Cash Flow Issues Poor financial performance is typically followed by poor cash flow. Company loan defaults are typically caused by insufficient cash flow. The company becomes unsteady and illiquid due toerratic financial flow. The company would thereafter be unable to pay its debts and interest on time. A business may go out of business even though it is lucrative due to financial flow. Sometimes a company will sell the majority of its final products on credit. It might therefore lack the cash necessary to pay off theloan and other debts. Therefore, a default can result.

Minimal Market Share although low market share might be a factor, not a single responder listed it as one of the causes of their loan default. Poor market share correlates with low sales, which in turn correlates with low profit, which leads to default. Operating in a specialized market and having a relatively small market share, a company can be successful enough to pay off its full loan balance and keep a sizeable profit. However, it is impossible to make money while selling a niche product in an unsuitable or underpopulatedmarket. Therefore, it is unable to pay its interest.

Delayed Loan Proposal Evaluation Banks occasionally wait in reviewing company loan offers. Due to the bank's delayed review, the company does not receive adequate funding when it desperately needs it. This causes a financial shortage in their business operations. They hardly have enough money to cover their daily company expenditures alone, let alone return the loans.

Long-term Fund Disbursement Banks delay making payments until all formalities related to security documents are finished, even after evaluating the proposal and making a judgment in favor of it. Business do not receive funds when they are needed as a result. The subsequent distributions were criticized by a few of the defaulters.

***Hypothesis:***

The table of assumptions below illustrates the relationship between the many parameters under consideration and the total quantity of non-performing loans in a certain nation:

| Factors (Entrepreneur Related) | Relationship Type with NPL |
|---|---|
| The relationship between entrepreneurs' inexperience | Positively Correlated |
| Entrepreneurs' knowledge of the industry | Negatively Correlated |
| Entrepreneurs' support received from the government and other related authorities | Negatively Correlated |
| Factors (Business Related) | |
| Poor management in business | Positively Correlated |
| Competition among businesses | Positively Correlated |

 

| | |
|---|---|
| Poor financial performance | Positively Correlated |
| Factors (Lending Related) | |
| Lacking proper monitoring from the banks | Positively Correlated |
| Not taking proper actions against the default loans | Positively Correlated |
| Not maintain 5C's strategy (Character, Capital, Capacity, Collateral, and Conditions) | Positively Correlated |
| Lack of proper monitoring and valuation process in case of collectingand measuring the value of the collateral | Positively Correlated |
| **Factors (Bank Related)** | |
| Lacking risk management tools used by banks | Positively Correlated |
| Lack of corporate governance and transparency in the banking sector | Positively Correlated |
| The incapability of the bank (loan recovery department) employees | Positively Correlated |
| Incompetency of asset-liability management committee | Positively Correlated |
| Role of credit rating agencies; their judgment capability | Negatively Correlated |
| **Factors (Macroeconomic Factors Related)** | |
| Lower GDP growth of the country | Positively Correlated |
| Increasing crimes and political instability | Positively Correlated |
| Changing monetary policy frequently by the Central bank | Positively Correlated |

Data Collection & Methodology

We have gathered both qualitative and quantitative data. Surveys were conducted at several commercial bank branches spread out over Dhaka as the primary approach for gathering data. We also had a brief Q&A session with a few of the bankers prior to this. There are both quantitative and qualitative data in this. Theemployees were given a questionnaire with a series of standard questions, which was subsequently employed in this study for statistical analysis and reported in the findings. 15 questionnaires made up the sample. The sample size for the employees is particular and random. The respondents in this study are only from particular parts of the city of Dhaka. The Motijheel is home to the vast majority of commercial and core enterprises. However, we have given local areas as much importance as the main areas through our survey, not only the core areas alone.

## Findings

The survey's primary objective is to learn respondents' opinions on non-performing loans. There are 5 categories into which the data is divided. These elements include those related to business, lending, banks, and macroeconomic variables as well as entrepreneurs and business. 60 respondents from 5 different bankscontributed to the outcome.

### Entrepreneurs & Business Related:

Three factors are highlighted in the section on entrepreneurs (Figure: Entrepreneurs & Business Related Factors): entrepreneurs make losses in their businesses due to a lack of experience; young entrepreneurs have less knowledge of the industry; and entrepreneurs don't receive enough support from the government and other related authorities. The vast majority of responders concurred with these factors. Of the 60 respondents, 35, or 58.33%, agreed that entrepreneurs lack experience. 24 respondents, or 40% of all respondents, agreed that business owners knew less about the industry. 35 respondents, or 55%, agreed thatthe government provides less assistance to entrepreneurs.

### Lending & Banking Related

In the lending area, 35% of respondents gave a neutral answer to the statement that non-performing loans result from insufficient supervision by the bank and 30% of respondents agreed with the statement. 25% agreed with the statement that non-performing loans result from improper action against default loans, and46.66% responded in a neutral manner. 30% of respondents concurred that when banks provide loans to customers, they frequently depart from the 5C strategy (Character, Capital, Capacity, Collateral, and Conditions). 41.66% of respondents concurred that insufficient monitoring and valuation procedures existwhen collecting and calculating the value of collateral.

### Macroeconomic Factors Related

 

From the section devoted to macroeconomic factors (Figure: Macroeconomic Factors Related) in response to the lower GDP growth of the country aspect, 41.66% of respondents were neutral, and 35% agreed with that statement. 45% of respondents believed that rising crime and political unrest are to blame for the rise in non-performing loans. Furthermore, due to the Central Banks frequent changes in monetary policy, 51.66% of respondents were ambivalent on the rise in non-performing loans.

**Data description**

Some theories have been created regarding the GDP growth rate, the lack of knowledge and experience among entrepreneurs, the incapacity of the asset-liability management committee, the incapacity of bank workers, and the inverse relationship between a bank's NPL and its performance efficiency. The indicators have been chosen after carefully reading and analyzing the literature, and the dependent and independent variables are given below:

| Variables | Expected signs |
|---|---|
| Growth of non-performing loans | Dependent variable |
| GDP growth rate | Independent variable |
| Poor business management | Independent variable |
| Lack of proper monitoring | Independent variable |
| Lack of entrepreneur's experience & knowledge | Independent variable |
| The incompetency of the asset liability management committee | Independent variable |

**Statistical Data**

For conducting the study on non-performing loans, the data have been selected from 60 respondents from 5 commercial banks. The table below shows the statistical data of Mean, Median, Standard Deviation, Min, and Max. The data shows that the mean value of 'Due to lack of entrepreneurs knowledge & experience' is 3.75, Due to the poor Business management = 3.70, lack of proper monitoring and valuation process = 3.23, the incompetency of the asset liability management committee = 3.43 and Lower GDP growth of the country = 3.05. All the values fall between 3 and 4 which indicates all the values have a positive attitude toward respond.

**Table 1:**
**Statistical data**

| Variables | Due to a lack of entrepreneur's knowledge & experience | Due to the poor Business management | lack of proper monitoring and valuation process | The incompetency of the asset liability management committee | Lower GDP growth of the country |
|---|---|---|---|---|---|
| N Valid | 60 | 60 | 60 | 60 | 60 |
| Missing | 0 | 0 | 0 | 0 | 0 |
| Mean | 3.75 | 3.70 | 3.23 | 3.43 | 3.05 |
| Median | 4.00 | 4.00 | 3.00 | 3.00 | 3.00 |
| Std. Deviation | .968 | .696 | .871 | .745 | 1.016 |
| Minimum | 1 | 1 | 2 | 2 | 1 |
| Maximum | 5 | 5 | 5 | 5 | 5 |

**Correlation**

The pairwise correlations for the selected variable are supposed to have relationships with the non-performing loans of the selected commercial bank in the Bangladeshi banking industry. From the following chart, it is clarified that there is a significant relationship between poor business management and lack of knowledge and experience variables. The poor Business management and the incompetency of the asset liability management committee have also a significant relationship.

 

**Table 2: Correlation between variables**

| | | Due to a lack of entrepreneur's knowledge & experience | Due to the poor Business management | lack of proper monitoring and valuation process | The incompetency of the assetliability management committee | Lower GDP growth of the country |
|---|---|---|---|---|---|---|
| Due to a lack of entrepreneur's knowledge & experience | Pearson Correlation | 1 | | | | |
| | Sig. | | | | | |
| | N | 60 | | | | |
| Due to the poor Business management | Pearson Correlation | .365** | 1 | | | |
| | Sig. | .004 | | | | |
| | N | 60 | 60 | | | |
| lack of proper monitoring and valuation process | Pearson Correlation | .010 | -.050 | 1 | | |
| | Sig. | .939 | .703 | | | |
| | N | 60 | 60 | 60 | | |
| The incompetency of the asset liability management committee | Pearson Correlation | .129 | .190 | .416** | 1 | |
| | Sig. | .325 | .147 | .001 | | |
| | N | 60 | 60 | 60 | 60 | |
| Lower GDP growth of the country | Pearson Correlation | -.246 | -.146 | -.224 | -.208 | 1 |
| | Sig. | .058 | .265 | .085 | .110 | |
| | N | 60 | 60 | 60 | 60 | 60 |

***Regression analysis***

Here, R= .434 indicates the positive relationship between dependent and independent variables. Adjusted R Square is .113 which means 11.3% variation in the dependent variable can be explained by the variations in the selected independent variables.

**Table 3: Regression analysis**

| Model | R | R Square | Adjusted R Square | Std. An error inthe Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .434[a] | .188 | .113 | .721 | 2.081 |

| **Predictors** | **Coefficients** | **Sig. Values** | **Status** |
|---|---|---|---|
| Due to a lack ofentrepreneur's knowledge &experience | .039 | .716 | Insignificant |
| Due to the poor Business management | -.119 | .426 | Insignificant |
| lack of proper monitoring and valuation process | -.145 | .239 | Insignificant |
| The incompetency of the asset liability management committee | .282 | .044 | Significant |
| Lower GDP growth ofthe country | -.252 | .013 | Significant |

From the above table, it can be seen that 'The incompetency of asset liability management committee' and 'Lower GDP growth of the country are very significant which means their explanatory power to explain the growth of non-performing loans is very high.

 

Policy Recommendations

One of the most crucial financial institutions for supplying a business institution's financial demands is a bank. They make money through managing the assets and liabilities of their depositors and customers. When the bank's liquidity crisis is mostly due to a non-permanent loan, liquidity may increase due to the mishandling of depositors' assets. However, a bank can resolve this issue by heeding the advice provided below:

- Finding sensitive, high-risk borrowers in the credit portfolio. Before making loans, banks should gather information about their customers. To gather data and carefully review financial statements from reputable sources and identify dangerous borrowers, banks could resort to Bangladesh Bank.
- When a bank assesses a credit application, it must decide whether to demand collateral to support the loans in the event that the borrower defaults or is unable to make payments. It guarantees that in the event that a borrower defaults on the loan, the bank will accept the collateral as loan repayment. For instance, if a business requests a loan to buy land or machinery, the land or machinery will be used as collateral.
- Redesign the corporate loan operating model by creating a workflow management tool to streamline communication between the credit and commercial units. A 50% improvement in the payback rate can result from improved cooperation and integration between units.
- Officers and managers in the recovery department are improving their capacity. Banks ought to provide their staff with the appropriate training. They can therefore effectively manage loans. In the event that the recovery department is lacking experienced personnel, the bank should hire experienced personnel.
- Institutions may be able to prevent these loan defaults if they have a strong risk management cultureand "well-articulated" risk management policy.
- A strategy for potential NPLs. Banks should have procedures in place to recover NPL loans. Banksshould ultimately contact Artha Rin Adalat.

**Conclusion**

The significance of this study to understand the causes of the bank's non-performing loan liquidity crisis cannot be overstated. This study demonstrates the shortcomings of banks in loan agreements. This analysis may assist the bank in identifying appropriate remedies and enabling them to create enough development for the non-performing loans as non-performing loans are becoming more prevalent in the Bangladeshi banking sector.

From the business-related factors, it can be inferred that most respondents thought that entrepreneurs fail because they lack knowledge, skill, and government support. The majority of respondents agreed that the business failure was caused by reasons relating to business, including poor management, difficult completion, and insufficient financial help. The majority of lending-related issues softened respondents' criticism. The majority of survey respondents concurred that the bank management, corporate governance, and asset liability management committee were all inadequate. Finally, the majority of the proposals did away with worries about GDP and monetary policy as macroeconomic issues. The majority of respondents claimed that political turmoil and growing crime rates are to blame for non-performing loans. **(**ADHIKARY.B.K. **2021).**

**Notes:**

1. The Hallmark Scam in Sonali Bank, Bangladesh, involved fraudulent loans obtained by the Hallmark Group, T and Brothers, Paragon Group, Nakshi Knit, DN Sports, and Khanjahan Ali from the Intercontin ental Hotel (formerly Ruposhi Bangla Hotel) Branch in Dhaka. The fraudulent loans totaled BDT 26,861.4 million, BDT 6,096.9 million, BDT 1,466.0 million, and BDT 49.6 million (The Daily Star, 2012).

2. The Basic Bank of Bangladesh was defrauded of BDT 45,000 million.

From 2009 through 2013, the board of directors approved loans for 95% of this total.Over 14 crooks, including 8 businessmen, 1 surveyor, and 5 higher-ranking Basic Bank officials, were involved in this fraudulent conduct (Uddin, 2018).

3. The politically approved and founded Farmers Bank of Bangladesh suffered a loss of BDT 30700 million as a result of loan fraud.

This bank distributed loans for BDT 53100 million while holding BDT 46730 million in deposits.Up to 58 percent of the total allocated loans were in default (Alo, 2018).

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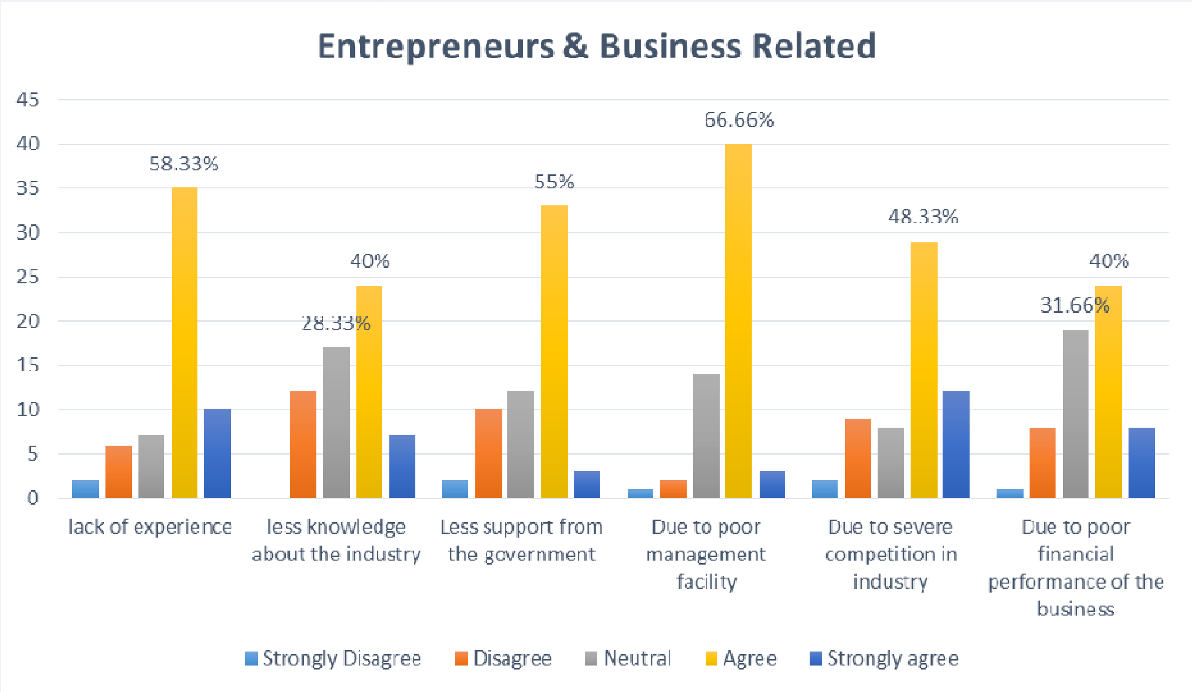
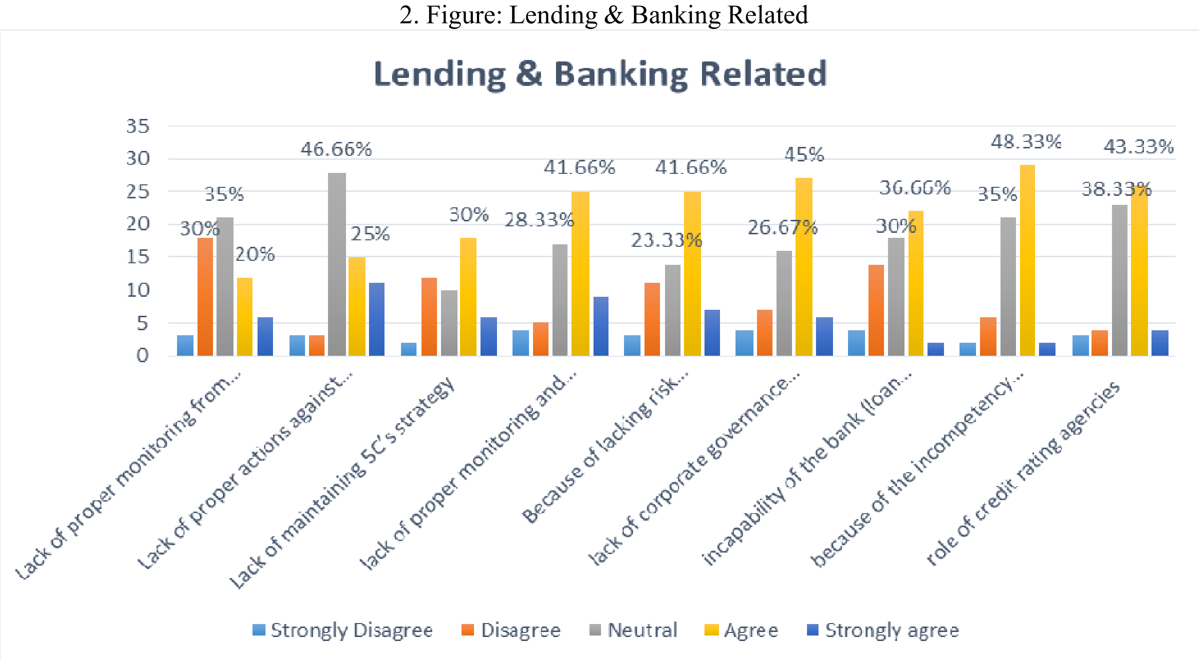
**APPENDIX**

1. Figure: Entrepreneurs & Business Related Factors



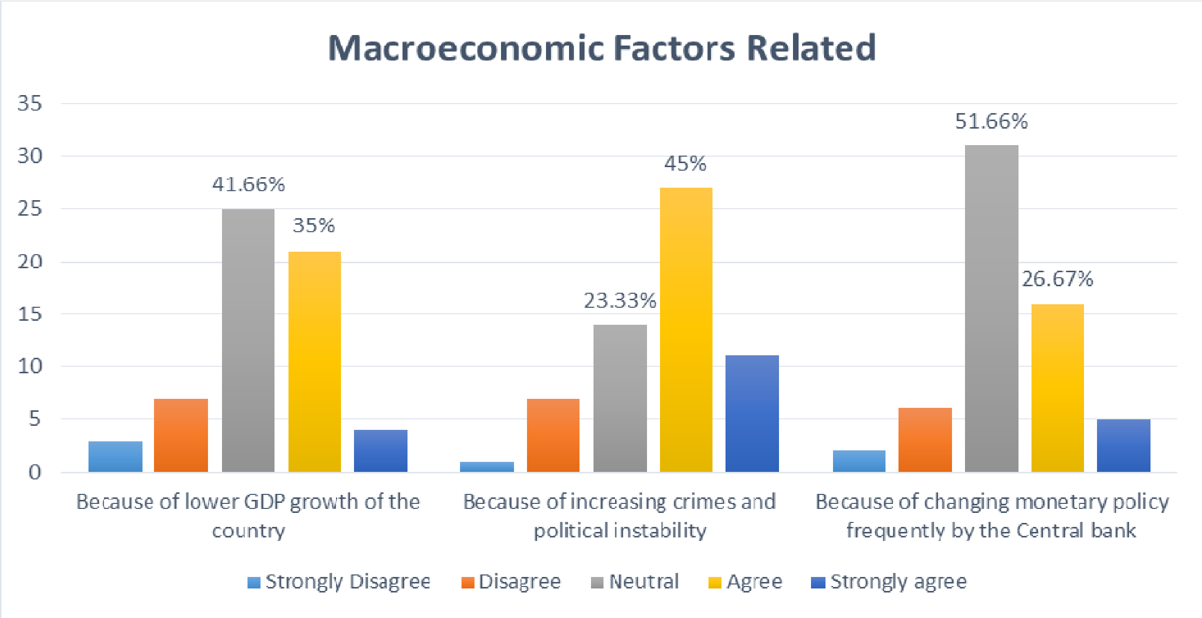

From the business-related section 40 respondents or 66.66%, respondents agreed that business fails due to poor management facility. 29 respondents or 48.33% respondents agreed that entrepreneurs make losses due to severe competition in the industry. And 24 respondents or 40% agreed that Entrepreneurs make losses due to the poor financial performance of the business.

2. Figure: Lending & Banking Related




From the Banking related section (Figure: Lending & Banking Related) 41.66% agreed that Non-performing loan increases because of lacking risk management tools used by banks. 45% agreed that Non-performing loan increases, as there is a lack of corporate governance and transparency in the banking sector. 36.66% agreed that Non-performing loan increases due to the incapability of the bank (loan recovery department) employees. 48.33% agreed that Non-performing loans increase because of the incompetency of the asset liability management committee. Moreover, 43.33% agreed with the fact that there is a role ofcredit rating agencies in the case of increasing nonperforming loans.

3. Figure: Macroeconomic Factors Related




- Non-performing loan increases because of lower GDP growth in the country
- Non-performing loan increases because of increasing crimes and political instability
- Non-performing loan increases because of changing monetary policy frequently by the Centralbank