

# NPLs in Bangladesh's Banking Sector - What has State Intervention Achieved?

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Views expressed in this presentation are personal and do not necessarily reflect the opinions of RBI or RBI staff.

The paper:

- Analyzes determinants of non-performing loans in Bangladesh
- Focuses on role of country-level governance and its relationship with bank performance
- Establishes that poor governance overrides other determinants of NPLs like credit growth or interest rates.

**Claim:** State intervention schemes have failed due to poor governance (more later)

- Constructs a novel index of country-level governance using principal component analysis to establish its impact on bank NPL levels
  - thereby reducing the number of variables into single one
  - first component has reasonable explanatory power (but may be improved)
- **Prior:** Bank governance and supervision are (technically) with Bangladesh Bank, but government interferes with board member appointment and management.

3 comments

Would help to have a clearer identification strategy for establishing state intervention

- Direct state interventions like bank recapitalization could be studied in an event study to see impact on NPL performance
- Impact of country-level governance on bank performance - overlooks bank-level governance
- Country-level governance could be picked up in macroeconomic controls
- Add controls for bank-specific characteristics and alternate determinants of NPLs

## Comment 2 - Bank-level governance index

Bank-level governance index is critical for establishing link with bank performance

- Bank-level indices are more complex could capture bidding delays, voting rights, director protection, takeover defenses, state laws etc.(Gompers et al (2003))
- Board size, board independence, CEO duality, majority ownership as well as the directors and executive officers' ownership (Tarchouna et al. (2017))
- These papers also discuss link between governance and bank-characteristics
- Bhagat Bolton (2008): Looks into endogeneity issues of CGI with firm performance
- Acharya, Myers Rajan (2010): Relation between internal and external governance

Robustness checks to evaluate what drives bank asset quality:

- Link between bank performance and country-level governance, bank-level governance and bank balance-sheet/profitability characteristics (Beltratti-Stulz (2009)).
- Show how impact of governance compares with alternative determinants of NPLs in banking sector - ownership, leverage etc



- Choice of language used in text could be based on the target audience (academic or editorial)
- Concerns with regard to central bank independence may be used for motivating the paper
- No mention of sample size in the text
- Could include specific-policy responses as well

## Concluding remarks

- Interesting paper
- Cleaner identification strategy
- Include bank-level governance impact
- More robustness
- Event study around recapitalisation announcements and its impact on NPLs

Thank you