

Liquidity management to be a big challenge in post-pandemic period

IPDC Managing Director Mominul Islam says in an interview

AHSAN HABIB

Liquidity management in the banking sector will become a challenging task in the near future due to the coronavirus fallout, said Mominul Islam, managing director of IPDC Finance.

Besides, the non-bank financial institutions also struggled with funding for the past two years while the liquidation of the People's Leasing Financial Services company has only intensified the sector's woes.

Due to the current crisis, government borrowing from the banking sector will rise while deposits may drop along with loan repayment, Islam said during an interview with The Daily Star last week.

He shed light on the challenges and opportunities the financial sector may face in the upcoming days.

"Liquidity will not be a big problem right now thanks to steps taken by Bangladesh Bank," said the top official of IPDC Finance, the country's first private non-bank financial institution established in 1981.

One of the steps was a cut in the cash reserve ratio (CRR) and repo rate for financial institutions.

The banking regulator reduced the CRR for all financial institutions by 100 basis points to 4 per cent while the repo rate was shrunk by 50 basis points to 5.25 per cent.

In the upcoming days, private sector credit demand will rise alongside the public sector demand, he said.

Since revenue collection by the National Board of Revenue has not yet reached its target level, it will create more credit demand from



the government's side.

"So, the liquidity supply could deteriorate in the process," Islam added.

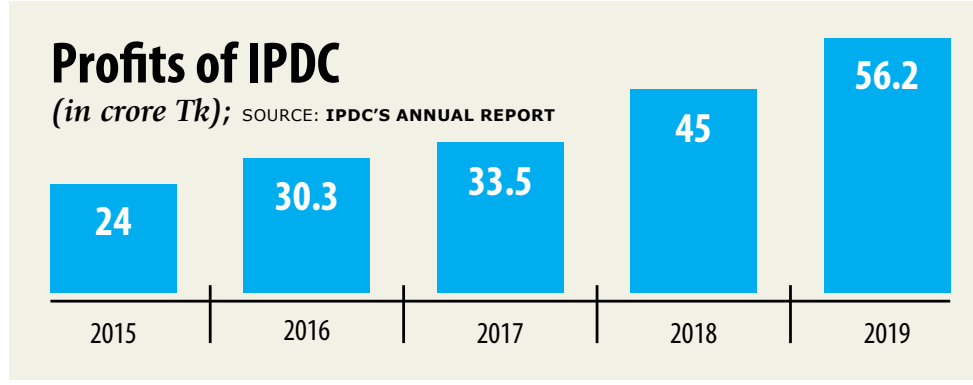
Considering the situation, the Bangladesh Leasing and Finance Companies Association (BLFCA) has asked the government to provide the sector with a special refinancing scheme of Tk 10,000 crore at bank rates for the next 10 years.

"If we get these funds, then our liquidity shortage will be solved," said Islam, who is also president of BLFCA.

The country's financial sector is also seriously lacking in other ways due to the absence of an effective bond market. If a proper bond market is not established, then it is impossible to save the industry from liquidity shortages in the long run.

"Now, lenders are financing term loans with short term deposits, which is not a sustainable option," the managing director said.

However, it brings hope that the finance minister and recently appointed chairman



of Bangladesh Securities and Exchange Commission have already emphasized on the need to develop a bond market.

However, there do not seem to be any such measures included in the proposed budget for fiscal 2020-21.

Although the government claimed to have reduced taxes in the new budget, there was no clause for advance income tax on bond owners, which was proposed this year.

"It will deter the bond market's development rather than help it go forward," said Islam.

Another step the government has taken is to make the tax applicable on commissions instead of transactions.

"This is a good initiative but the impact is very marginal," the managing director continued. "We expected the government to exempt tax for a time being or at least decrease the rate to help develop the market."

However, the government issued a new tax for individual and corporate investors on the

purchase of zero coupon bonds. This is a big blow to the development of the bond market, he added.

Making matters worse is that non-performing loans (NPL) is another challenge faced by the financial sector, which is undergoing a transition period due to the ongoing coronavirus pandemic.

However, the level of NPLs in Bangladesh can be considered to be abnormally high.

The government has already relaxed the fines on late payments for loans until June but it may extend the deadline considering the deteriorating Covid-19 situation.

To address the situation, banks should hold discussions with their customers to analyse the best way to manage NPL issues.

"We have to keep our customers alive as well since they are the lifeblood of our business," Islam said.

In order to do so, financial institutions should keep high fund provisions so that they can

handle any liquidity issue in the coming days.

Banks will also have to be cautious when managing their expenditures as well so that unnecessary costs do not become a cause of capital erosion during such a time of crisis. Financial institutions will desperately need the money to regain their business after the pandemic comes to an end.

Investment in the country's healthcare industry could also increase as the coronavirus has proven that the sector is fragile and lacking funds. Likewise, the e-commerce sector will have an opportunity to grow as consumer behaviour has changed drastically in the past few months.

Digitization will also become another booming sector as many offices conduct all of their business-related activities online in an effort to keep their workers' safe from infection.

To help facilitate these opportunities, financial institutions need to keep an adequate supply of funds so that they do not need to ask for extra provisions in the coming years.

"At this time, we do not need to keep provisions thanks to policy support from the central bank. However, in the next few years, we will have to put an end to non-performing loans," Islam said.

So, if banks keep adequate provisions from now on, they will be able to help the economy recover fully after the end of the pandemic.

In response to a query, Islam said political influence or any other outside influences in money lending creates risk for the sector. This is because when a lender provides funds without conducting a proper assessment, it could lead to a default.

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Covid-19 to leave deep scars on LDCs, says ICC Bangladesh

STAR BUSINESS REPORT

The outbreak of Covid-19 will have devastating economic effects on least developed countries (LDCs) as economic activities have been slowed down significantly, said the International Chamber of Commerce-Bangladesh (ICC Bangladesh).

At the same time, as developed economies slip into recession, it will result in falling commodity prices and causing a double squeeze on export earnings of LDCs.

Countries all over the world, including Bangladesh, are racing to slow the spread of the virus through testing and treating patients, enforcing lockdowns, carrying out contact tracing, limiting travel, quarantining citizens and cancelling large gatherings.

Keep startups afloat, says platform of venture capital firms



STAR BUSINESS REPORT

Startup companies and an association of venture capital firms have urged for financial and policy support from the government to help them survive the coronavirus pandemic.

"Both our businesses and economy are facing an unprecedented challenge and so, start-ups, backed by venture

capital, have been struggling to survive the recent economic scenario," said Shameem Ahsan, chairman of the Venture Capital and Private Equity Association of Bangladesh.

Bangladeshi startups need support through tax exemptions, grants, soft loans and equity investments to pass this 'herculean' test, he said, adding that the government could form a fund of Tk 200 crore to provide soft loans for startups.

Ahsan made these remarks during his keynote presentation while chairing a roundtable session organised by the association in

partnership with Capital Market Journalist Forum yesterday.

Venture capital has been instrumental in the economic development of both developed and developing countries, said Ahsan, also a general partner at Pegasus Tech Ventures.

Governments in countries such as France, Singapore, Japan, and Malaysia are providing adequate financial and policy support to venture capital firms, helping startups survive, he added.

Planning Minister MA Mannan said the government would try to eradicate all problems being faced by startups.

The government is well focused on ensuring the wellbeing of startups because they are creating employment opportunities for educated youth, he said.

Bangladesh's economy is expanding as the people's purchasing power is soaring and the demand for IT-based products and services has surged.

"Therefore, there are a lot of opportunities for startups," said State Minister for ICT Zunaid Ahmed Palak.

If homegrown startups cannot meet demand then foreign companies will fill the void. Luckily though, local firms are

staying on target and generating employment for the youth, he added.

"We hope we will be able to lend a fund of around Tk 100 crore to the startups in the upcoming year while maintaining due diligence," Palak said, requesting all startups to get registered with the government.

The government can exempt registered startups from paying corporate tax till 2024, he said, urging the planning minister to take an initiative on financing startups through the provident fund of government officials.

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ICCB's OBSERVATIONS

- » COVID-19 is the most uncertain threat to the world economy
- » LDCs to be affected the most
- » Commodity prices will fall
- » Countries' export earnings will face severe blow
- » Longer-term consequences may arise from unemployment
- » Tourism and aviation to be hit hard
- » World leaders must agree on spending more on healthcare
- » Actual ramification will depend on the extent of the spread of coronavirus

Withdraw SD on ceramic sanitary ware: manufacturers



JAGARAN CHAKMA

Ceramics makers have demanded withdrawal of the proposed supplementary duty (SD) on sanitary ceramic products to help protect the local industry amid the Covid-19 outbreak.

The proposed national budget recommended imposing a 10 per cent SD on ceramic sink, basin pedestal, commode, toilet pan and fittings of bathroom and fixtures.

"We will fail to keep up with the foreign products if the supplementary duty is imposed now," said Irfan Uddin, general secretary of Bangladesh Ceramic Manufacturers and Exporters Association (BCMEA).

The new SD will create pressure on the industry at a time when it is struggling to survive, said Irfan, also the managing director of FARR Ceramics Ltd.

The trade body placed its demands to the National Board of Revenue on June 16. Bangladesh has 68 ceramic manufacturers, of whom 61 are currently active in production. Twenty of them produce tableware, 25 tiles and 16 sanitary wares, Irfan said.

But still the country has to import some raw materials such as zirconium silicate, cover coat, printing ink, lavatory seats and covers, flushing equipment, tank fitting and concealed water tank, he said.



CERAMICS INDUSTRY AT A GLANCE

Budget imposed supplementary duty of 10% on sanitary ware	Demand for all ceramics rises 20% on average every year	Market size: Tk 35,000cr	The sector meets 80% of local demand	Bangladesh meets 0.14% of global demand	Active factory: 61	Total investment: Tk 9,000cr
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"The customs duty on these products hovers between 15 and 25 per cent, which is too much for us now as we could not sell a single product in the last three months due to the nationwide shutdown."

So, the association also called for reducing the customs duty

on import of the products by 20 percentage points to 5 per cent.

The local industry produced over 25 crore pieces of tableware, nearly 20 crore square metres of tiles and over 83 lakh pieces of sanitary ware in fiscal 2017-18, according to BCMEA.

Bangladeshi manufacturers meet 80 per cent of the local demand for ceramics products and the demand has been increasing at 20 per cent on an average for the last few years, Irfan said.

But the demand came to a halt when the government imposed

the nationwide closure to control the spread of coronavirus, said Shirajul Islam Mollah, president of BCMEA.

"It would take at least six months to return to normalcy and it will be a long-term challenge for the sector as consumers will focus on purchasing luxury items only after recovering from the coronavirus crisis."

Around Tk 35,000 crore worth of ceramic products were sold in Bangladesh in 2019 and it has experienced a 200 per cent growth in production in the last 10 years, according to the association.

In 2018-19, local ceramic makers exported \$68.97 million worth of products, posting a 32.79 per cent year-on-year rise, according to the Export Promotion Bureau.

Bangladesh now holds 0.14 per cent of the global ceramic market and ships its products to 50 countries, including the USA, the UK, Canada and Europe and Latin America.

Businesses have so far invested Tk 9,000 crore in the local ceramics industry and provided jobs to five lakh workers, of whom 40 per cent are women, Irfan said.

"Fifteen new entities are planning to enter Bangladesh market and five of them will soon start investing here."

The sector is yet to become export-oriented and still it has a huge potential, he said.

The ceramics sector was completely import dependent just 15 years ago, but now local manufacturers have gained trust of the domestic and global consumers, he said.

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