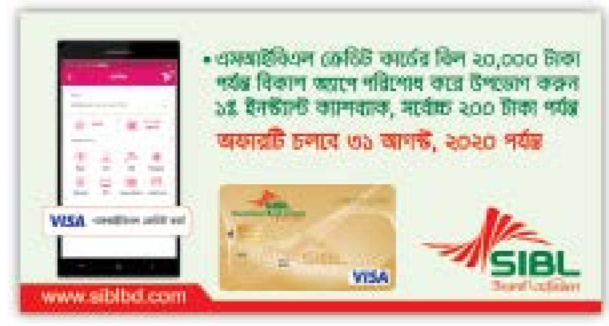
STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES				
DSEX	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI		USD	EUR	GBP	CNY
▲ 3.32%	▲ 3.57%	▼ $1,941.00 (per ounce)	▲ $44.80 (per barrel)	▼ 1.13%	▲ 0.17%	▼ 0.56%	▲ 1.19%	BUY TK	83.95	98.42	108.98	11.89
4,859.48	8,361.79			37,877.34	23,289.36	2,581.32	3,360.10	SELL TK	84.95	102.22	112.78	12.50

As of Friday · Friday Closings · STANDARD CHARTERED BANK



Star BUSINESS

DHAKA MONDAY AUGUST 17, 2020, BHADRA 2, 1427 BS ● starbusiness@thedailystar.net

Fiscal 2019-20's GDP figure stretches credulity

States CPD pointing out BBS attempt at painting a rosy picture

Star Business Report

The Centre for Policy Dialogue (CPD) yesterday raised questions over the economic growth figure of 5.24 per cent estimated by the Bangladesh Bureau of Statistics (BBS) in the just-concluded fiscal year.

The obvious repercussions of the pandemic on the economy were not adequately reflected in the provisional GDP growth estimate, released by the statistical agency last week, said the independent think-tank.

Questions arise regarding the accuracy as all the major indicators, except for remittance, had been in the negative, said CPD Executive Director Fahmida Khatun at a virtual press briefing.

Economic growth figures are used as a tool to gain leverage in politics, she said.

"An infatuation with growth has been created," she said, adding that the GDP growth has become "a political number" and the growth data being portrayed as a sign of the government's successes.

But GDP growth does not turn meaningful until it is inclusive and the benefits of growth are distributed among all, she said, citing unemployment, rising inequality and the sluggish pace of poverty reduction in the country in recent years.

In its review of BBS's data for fiscal 2019-20, CPD said private sector credit growth had been the lowest in a decade.

Industrial production, export-import of capital machinery, foreign direct investment and revenue collection also declined last fiscal year, resulting from a downturn in the global and domestic economy for the outbreak of the respiratory virus, it said.

"The effect of the Covid-19 is historic on economies including Bangladesh. The effects are unprecedented," Khatun said.

But this was not shown on the GDP growth data, she added.

CPD shared its view less than a week after the state-run BBS said the Bangladesh economy grew at the "respectable rate" they had calculated -- all the while large swathes of the global economy plunged into recession for the outbreak of coronavirus from Wuhan, China.

The BBS estimate beat forecasts by Washington-based multilateral lenders World Bank and International Monetary Fund that the economy would grow between 1.6 per cent and 3.8 per cent in fiscal 2019-20 for the pandemic-whiplash.

The Asian Development Bank said the Bangladesh economy would expand at 4.5 per cent while CPD projected that the GDP growth would be no more than 2.5 per cent.

In its briefing, the organisation did not revise its previous forecast; rather, it stated that the economy grew close to its previous projection of about 2.5 per cent in fiscal 2019-20.

All economic activities, from manufacturing, construction, hotels and restaurants, transport, storage and communication, community, social and personal services sectors, were hit the hardest during the coronavirus-induced shutdown for almost two months, CPD said.

The provisional GDP estimates could not capture the significant adverse impacts of the Covid-19 pandemic, said CPD Senior Research Fellow Towfiqul Islam Khan, presenting a paper at the event.

Many lost jobs while the income of a large section dropped.

HOW THE PROXY INDICATORS FARED IN FY20

	CHANGE
Industrial production index (Apr'20)	-24.50%
Export (Q4 of FY20)	-51.20%
Capital machinery import in 2020	-33.80%
Net Foreign Direct Investment (FY2020)	-42.50%
Private sector credit growth (Jun'20)	8.60%
Rural credit (July-May of FY20)	-12%
SME loan (Jul-Mar of FY20)	1.30%
Term loan (Jul-Mar of FY20)	-4.60%
Revenue collection (Apr'20)	-34.60%

"Indeed, more than half of the provisional GDP estimates are not based on credible real-time data," he said, adding that overall growth of the economy would drop from the provisional estimate if updated data were used to do the calculations.

CPD cited data on the rise of private investment used by BBS in the GDP estimate, stating that the rise was indeed unexpected when the entrepreneurs have been struggling to keep their existing production capacity fully operational.

BBS estimated that public investment as a share of GDP also increased in fiscal 2019-20. Overall, investment as a share of GDP increased to 31.75 per cent in fiscal 2019-20 from 31.57 per cent the previous year, CPD said citing the data from the state-run statistical agency.

The GDP growth estimate did not reflect the reality as proxy indicators told a different story, said CPD Distinguished Fellow Mustafizur Rahman.

If the estimations are correct, the nominal GDP growth rate should be about 11 per cent in fiscal 2019-20, he said.

Then the question arises on why the revenue collection performance is such, he said citing declining receipts.

The economy did not grow in the fourth quarter of the year owing to the countrywide general shutdown. The growth was negative.

"We think that the assumption that we made, projecting a 2.5 per cent growth of the economy, is correct."

A wrong signal would go to the policymaking level unless the estimates were carried out properly. And this will not help in the framing of proper policies, Rahman added.

The shutdown affected the services sector, said CPD Research Director Khondaker Golam Moazzem.

The government expanded social safety nets and announced more than Tk 100,000 crore as a stimulus to reinvigorate the economy from the wreckage of the global pandemic.

If the economy grew at this pace, there would have been no need for the measures to revive the economy, he said.

CPD demanded public release of the background data used in calculating the national income to clear the ambiguities and questions regarding the estimation process.

It also urged the government to let the statistical agency to enjoy more independence and form an independent commission to ensure reliability and integrity of data.

As the growth data has become a political number, the independence of people engaged in data collection has been affected, Khatun said.

Moazzem pointed out that South Africa had an independent statistical commission.

Rahman said the government should ensure the integrity of data for its enlightened self-interest.

Record 8pc jump by a third of DSE stocks

Star Business Report

A third of the stocks listed in the Dhaka Stock Exchange (DSE) yesterday made a whopping leap of more than 8 per cent, a rise market analysts termed unprecedented for a single day.

Including these 110, stocks of a total of 354 companies were traded yesterday with around 90 very near to the circuit breaker, according to the DSE data.

The circuit breaker limits a day's movement of stock to 10 per cent. However, there is no limit on the movement on the day after the corporate declaration and the five days after getting listed for the first time.

Investors' mindsets are buoyant about the stock market as a newly appointed commission of the stock market regulator has taken several steps to boost confidence, said a top official of a merchant bank.

Appointed in May, the new commission fined many gamblers and manipulators for breaching the securities rules. It also took steps to bring about a vibrant bond market.

The commission also planned to reform junk stocks so that they can either perform well or be punished for wrongdoings.

Along with these, the Bangladesh Bank's expansionary monetary policy is giving a boost to the buoyancy, for which the stock index is going up.

DSEX, the benchmark index of the DSE, surged 156 points, or 3.3 per cent to 4,859 yesterday.

Several stocks rose to a high value in a historic moment in mid-2010. But they did not soar at the rate witnessed at present, said the bank official.

"As most of the stocks were traded at their 2 to 3 year low, the rise is not too risky," he said, adding that some of the stocks that had risen by an abnormally high margin might turn out to be risky.

Yesterday, mutual funds, banks, financial institutions and textile sectors experienced a higher jump in the DSE compared with the previous day, while jute and life insurance sectors saw some corrections.

The companies lagging in the race, like mutual funds, were now in the spotlight, said a top official of an asset management company.

As the stock index is rising, so is mutual funds' earnings, for which people are buying their units, he said.

The asset manager also stated that he had not witnessed a rise of more than 8 per cent by one-third of listed companies in his 25 year-long career.

Turnover, one of the major indicators of the stock market, was up by about 12 per cent to Tk 1,351 crore.

Beximco Pharmaceuticals topped the turnover list, with its trade amounting to Tk 104 crore, followed by Beximco, Brac Bank, Square Pharmaceuticals and Sonar Bangla Insurance.

Sunlife Insurance gained the most at 14.61 per cent followed by PHP Mutual Fund, AB Bank, First Mutual Fund, Islami Insurance and Al-haj Textile.

Loan write-offs touch down to a three-year low

AKM Zamir Uddin

Loans written off by banks plummeted to a three-year low in the first quarter of 2020 as lenders' capacity to keep 100 per cent provisioning against their delinquent assets has decreased because of the fall in profit.

Usually, loans are written off when they are entirely provisioned and there is no realistic prospect of recovering them. These loans are shifted to off-balance sheet records.

Between January and March, loans amounting to Tk 33.5 crore were written off, down 96.5 per cent from a quarter earlier and 94 per cent from a year earlier, according to data from the central bank.

This is the lowest write-off amount since the first quarter of 2017 when banks removed Tk 24.74 crore from their balance sheets.

The downward trend of the write-off loans is not a good indicator for the financial sector as it gives lenders the leeway to not set aside funds against the defaulted loans.

The central bank gave a regulatory forbearance to banks on 19 March, allowing them to not consider businesspeople as defaulters if they fail to repay instalments until 30 June.

The deadline has been extended to September to help businesses tide over the economic hardships brought on by the global coronavirus pandemic.

"This is responsible for the incredulous indicator for the banking sector," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, a think-tank.

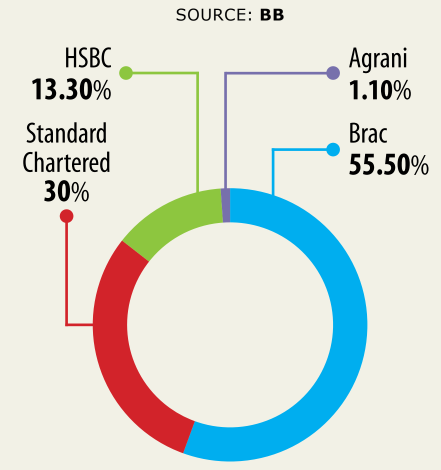
The regulatory forbearance, a policy that permits banks and financial institutions to continue operating even when their capital is fully depleted, has reined in the upward trend of the defaulted loans and did not give the lenders the scope to clean up their balance sheets by using the write-off module.

At the end of March, default loans stood at Tk 92,510 crore, which was 9 per cent of the total outstanding loans in the banking sector.

As per Bangladesh Bank regulations, banks have to keep provisioning of 0.25 per cent to 5 per cent for unclassified loans, 20 per cent for default loans of sub-standard category, 50 per cent for the doubtful category and 100 per cent for bad or loss category.

Only four banks wrote off loans in the first quarter of 2020

SOURCE: BB



The central bank has long followed a practice that permits lenders not to preserve the required provisioning against both unclassified and default loans.

For instance, 11 banks suffered a provision shortfall of Tk 8,632 crore as of March and all of them had taken permissions from the central bank to keep provisioning in phases.

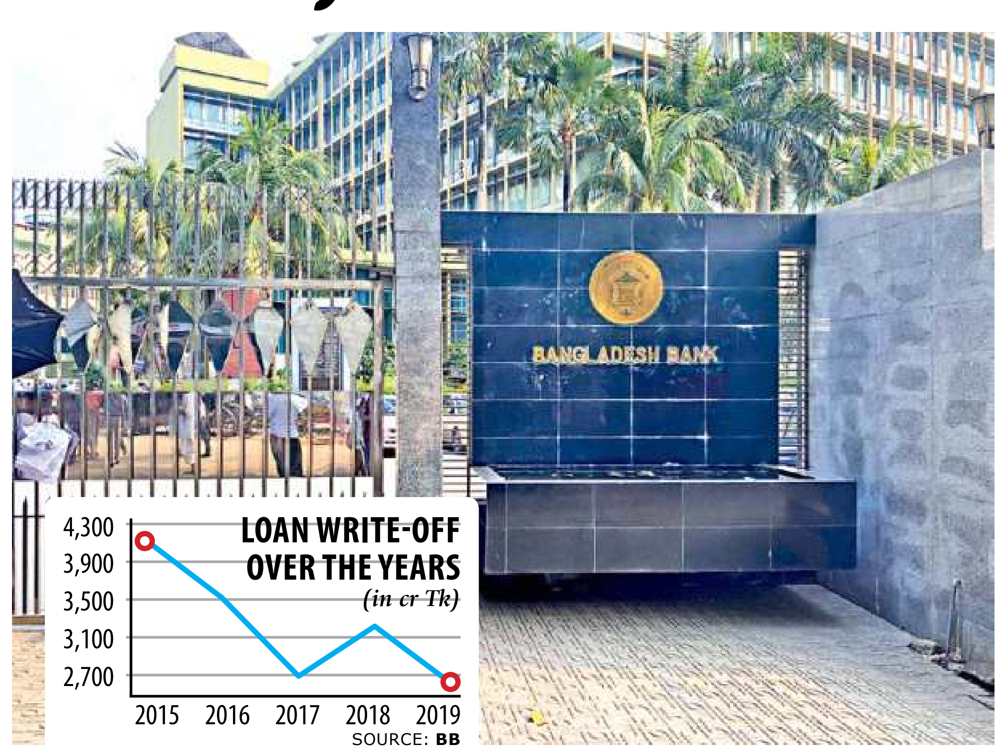
But such forbearance is not applicable for the write-off loans.

So, banks should give an all-out effort to strengthen their provisioning base to tackle the ongoing financial recession, one of the worst in history, said an analyst.

Global lenders have paid heed to the issue and put aside funds in the form of provisioning to fight against any unexpected shock.

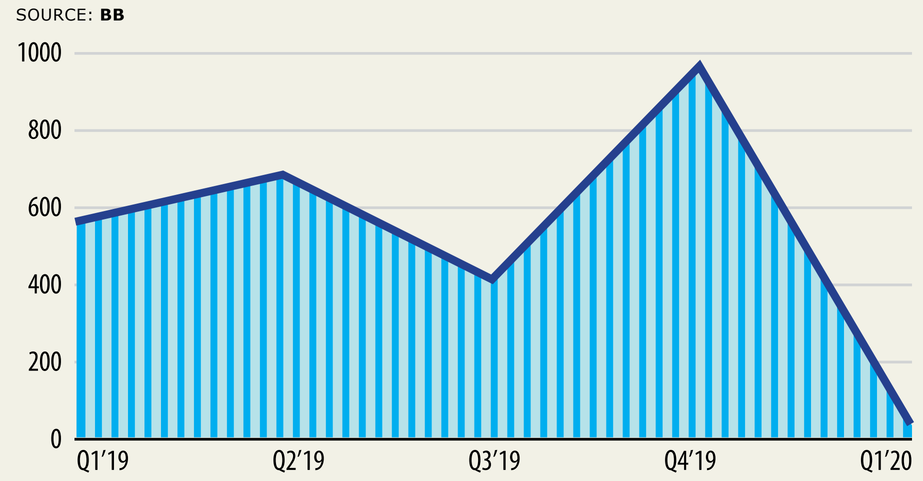
Four American lenders -- JPMorgan Chase, Wells Fargo, Bank of America and Citigroup -- together took loan loss charges of $33 billion from April to June.

But such practices in Bangladesh's banking sector are absent. Rather, most banks try to dodge the provisioning.



Loan write-offs nosedived this year (in Tk cr)

SOURCE: BB



Between January and March, loans amounting to Tk 33.49 crore were written off

Profits of most of the banks have dropped off 30 per cent and 40 per cent due to the economic slowdown, said Emranul Huq, managing director of Dhaka Bank.

"So, it is tough for lenders to keep any additional provisioning by writing off loans," he said.

Besides, the 9 per cent lending cap, introduced in April, has dealt another blow to banks as it has caused the profit to shrivel.

The central bank's move that orders banks not to classify businesspeople as defaulters until September has encouraged lenders to ignore the loan write-off.

But Mansur said that banks would have to keep the provisioning aggressively to protect their financial health from any shock.

Last year, the central bank gave another regulatory forbearance to banks that permitted them to reschedule default loans with a 10-year repayment tenure and 2 per cent down payment.

Defaulted loans amounting to Tk 52,770 crore were regularised in 2019 -- the highest in a single year -- riding on the relaxed loan rescheduling rules.

This also made the practice of loan write-off less attractive, a development that further weakened the financial strength of the banking sector.

Default loans amounting to Tk 2,597 crore were removed from the balance sheets last year, down 19.03 per cent year-on-year.

A total of Tk 55,553 crore has been written off since the facility was introduced in January 2003.

Of the amount, 77 per cent has remained outstanding to date.