

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES				
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY	
▲ 0.74%	▲ 0.37%	\$1,586.50 (per ounce)	\$99.60 (per barrel)	▲ 1.55%	▲ 1.22%	▲ 1.42%	▲ 0.18%	BUY TK	74.00	105.13	119.53	0.93
6,710.53	12,338.43			18,722.30	10,132.11	3,182.95	2,770.79	SELL TK	75.00	109.06	123.51	1.01

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DHAKA MONDAY JULY 25, 2011, e-mail: business@thedailystar.net

Muhith backs move to allow new banks

STAR BUSINESS REPORT

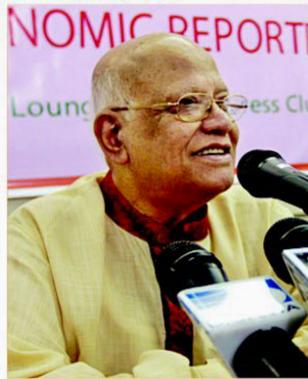
The finance minister yesterday backed the government's decision to give licences to new private banks, saying more banks will intensify competition in the industry which is yet to reach all the unbanked.

"We've sought comments from the Bangladesh Bank as the government wants to issue new licences for banks," AMA Muhith told a discussion on 'budget implementation and challenges' organised by the Economic Reporters' Forum (ERF) at the National Press Club in Dhaka.

Muhith said banks made hefty profits and new banks would create competition, which is good for the industry. He, however, declined to say when and how many new banks will be allowed.

The finance minister also talked about a wide variety of issues, such as balance of payments, exchange rate, capital market, revenue target, development budget, inflation and austerity measures, with the ERF members. But the issue of new bank licences was in the limelight.

Bangladesh's banking system is a web of various kinds of bank groups such as state-owned commercial banks, private commercial banks, state-owned specialised banks and foreign banks. Presently, there are 48 banks. There are also 29 non-bank finance companies regu-



AMA Muhith

lated by the BB.

When experts and regulator think it is a saturated market, the finance minister said the banking services are yet to reach the mass.

He said the banking industry has been making impressive business for years. Still vast segments of the population, especially the underprivileged sections of the society, have no access to formal banking services, the minister added.

"How many bank branches we have and how many areas our banks have covered so far," questioned the minister during the debate on providing licences for new banks.

The minister said banking supervision and inspection and money management have become vital in today's world and the BB has to

concentrate more on these areas.

He said the central bank did not adequately supervise the banking industry; otherwise the loan-deposit ratio could not exceed 85 percent.

"Some banks have invested far more than the limit. Some of the banks' loan-deposit ratio shot up to even 110 percent," said Muhith.

On the balance of payments situation, the minister said rapid import growth has created a pressure and if the trend continues, the situation would worsen further.

"We've been able to reduce the pressure by managing the exchange rate," he said.

He said the Securities and Exchange Commission has formulated a draft of guidelines to offload new shares, including those in the state-owned companies.

The reintroduction of book building system would take more time, but the SEC would not sit idle. "New shares will be offloaded in a fixed price method," he added.

The minister also warned the bureaucrats who oppose offloading shares of existing listed companies.

About inflation, Muhith said it is becoming a matter of concern and the government is trying to support the poor with subsidies.

"The government is aware of the pressure on expenditure. We're working on different austerity measures," the minister said.

BB suggests issue of bonds

The move aims to ease stress on balance of payments

REJAUL KARIM BYRON

The central bank has recommended the government issue bonds on the international market against major public-sector infrastructure projects, including the new Padma Bridge, to reduce pressure on balance of payments (BoP).

Bangladesh Bank last week put forward a set of recommendations to ease pressure on BoP, and its board held an exclusive meeting with Finance Minister AMA Muhith on the matter.

The finance minister while replying to a query from reporters at a meeting with Economic Reporters' Forum at the National Press Club yesterday said they have got such recommendations from the BB and "this has already been acted on".

He also said the government is trying to ease the conditions for taking loans from abroad which was approved by a government hard term loan committee headed by the central bank governor.

Finance ministry officials said the

BB in a report has analysed the external balance situation and observed that heavy import payment financed by domestic credit coupled with declining foreign financing has created pressure on the exchange rate of the taka.

The central bank also said, if foreign resource inflow does not improve to the expected level, the reserve will fall further and depreciation pressure on the taka may continue to worsen, with attendant increase in inflationary pressure.

Though the overall balance of the external sector remained surplus in recent times, there was a deficit of \$747 million in the July-May period of the last fiscal year. It was a \$2.66 billion surplus in the same period of the previous fiscal year.

The taka is continuously losing ground to the dollar. On July 19, it depreciated around 7 percent and the rate stood at Tk 74.58.

The BB said there may not be much scope of the government's targeting major further increase in foreign financing, the fiscal 2012 budget having already targeted dou-

bling of the fiscal 2011 borrowing from traditional external sources.

The central bank said issuing bond in the external market is a realistic option for easing borrowing pressure on the domestic banking system.

The BB also said, instead of continually adding on numerous new ADP project undertakings reliant solely on domestic financing, completion of the large number of donor supported projects in pipeline should be accorded priority.

This will help ease pressure on the limited foreign exchange liquidity in the domestic market, it said.

The BB and the domestic banking sector can facilitate term borrowing by entrepreneurs of private sector industrial projects for investment needs.

The large difference between borrowing interest rates in the taka and in foreign exchange is now large enough to cover exchange risks, making such borrowing viable for projects with taka income as well as export oriented ones, the BB said.

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