

Hartals disrupt New Year's celebrations in Cox's Bazar

MUHAMMAD ALI ZINNAT, Cox's Bazar

The tourism industry in Cox's Bazar, which attracts thousands of tourists on each New Year's Eve, suffered a blow from the hartal called by Jamaat-e-Islami for Wednesday and Thursday.

Industry insiders spoke of feared losses, just like the ones caused by political instability last year, ahead of the January 5 national elections.

They said thousands of tourists that had come or were planning to come to Cox's Bazar to celebrate the New Year, cancelled their plans fearing violence during the hartals.

"Around 50 percent of rooms booked for December 30 to January 1, in more than 100 hotels, have been cancelled," said Mohammad Omar Sultan, president of the Cox's Bazar Hotel, Motel and Guest House Owners Association.

Businesses in Cox's Bazar consider the period from November to March as the peak

season, and made considerable investment ahead of expected good earnings.

Many hotel operators said thousands of tourists left Cox's Bazar on Tuesday night, curtailing their tour schedule ahead of the hartals.

There was a rush of tourists here last week but the markets became vacant suddenly as they left Cox's Bazar after the call for hartal, said Aung Aung Ching, president of the Burmese Market Owners Association.

"We had to go through a very hard time last year, and were hoping to recover some of the losses this year. But the sudden hartal has created some anxiety over possibilities of renewed political instability," said Habibur Rahman, a businessman of Laboni Jhinuk Market.

Abdul Kashem Sikder, general secretary of Cox's Bazar Hotel, Motel and Guest House Owners Association, spoke for all the tourist cities, when he urged the political parties to keep Cox's Bazar free from hartal.

Satellite slot purchase from Russian firm approved

STAR BUSINESS REPORT

A Russian company yesterday won the contract to sell an orbital slot to Bangladesh to launch its maiden satellite.

The government will procure the orbital slot from Russia's Intersputnik for Tk 218.96 crore or \$28 million, according to a decision by the cabinet committee on public purchase led by Finance Minister AMA Muhith.

The slot was rated the best option for the Bangabandhu satellite by the project's consultant, Space Partnership International, a US company, as per proposal from the post and telecommunications division.

There is scope to launch three satellites in a row from the slot and not only that, it will be possible to provide many planned quality services to Bangladesh and other countries in the region through it.

At present, the country's demand for a satellite is met by renting bandwidth from different satellite operators, which costs around \$14 million a year, with the amount increasing progressively, the official said.

Once the satellite is launched, the foreign currency will remain in the country, the division added. The entire project will cost Tk 2,967 crore.

Also at yesterday's meeting, the committee gave the nod to a proposal to import 50,000 tonnes of wheat for \$280.87 a tonne. Dhaka-based Impex Consultants will supply the wheat to the government through Netherlands-based Glencore Grain.



Hafizur Rahman Babu, director of South Bangla Agriculture and Commerce Bank, and Dilwar Hossain Bhuiyan, deputy managing director, hand over blankets to Prime Minister Sheikh Hasina as donation to the relief and welfare fund of the premier at Gano Bhaban in Dhaka recently.

BSEC offers share netting facility to boost market

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The BSEC also gave a green light to the Tk 200-crore Non-convertible Subordinate Bond of Standard Bank and Tk 250-crore Mudaraba Subordinate Bond of EXIM Bank.

Both the banks will issue the bonds to fulfil the Basel-II requirements to boost their capital base. Stockbrokers and merchant banks will get time up to December 31, 2015 to provision unrealised losses counted in their own and clients' portfolios as on December 31, 2014.

The merchant banks and stockbrokers have also been facilitated to complete such provisioning through five instalments

instead of one. "The regulator has extended the deadline for provisioning of unrealised losses following the proposals of Bangladesh Merchant Bankers Association and the premier bourse," the BSEC said in a statement.

The securities regulator also fined MP Spinning Mills Tk 10 lakh for breaching securities rules by issuing shares beyond the existing shareholders. First Securities Services, which worked as the manager to the MP Spinning Mills issue, will also have to pay a penalty of Tk 5 lakh. Earlier, the regulator scrapped the initial public offering proposal of MP Spinning Mills.



Major General Md Mahfuzur Rahman, adjutant general of Bangladesh Army and vice chairman of Trust Bank, opens a branch of the bank in Kakrail, Dhaka on Tuesday. Ishtiaque Ahmed Chowdhury, managing director, was also present.

IMF pressed to cancel debts of Ebola-hit countries

AFP, Washington

The International Monetary Fund is under mounting pressure to cancel the debts of the three poor West African countries hit hardest by Ebola, as their economies stall under the fallout from the disease.

The calls for a debt alleviation for Guinea, Liberia and Sierra Leone are coming not only from anti-poverty organizations.

In mid-December, a UN commission also urged serious consideration for eliminating at least some of the debts of the three countries.

And the United States, the IMF's largest shareholder, has taken a stand on the issue as well, exhorting the crisis lender to wipe out around

a fifth of the \$480 million in debt owed by the trio.

Such a move would free resources to restart economic activities in the countries where the disease has taken more than 7,800 lives, US Treasury Secretary Jacob Lew said.

Meeting in Australia in mid-November, the heads of the G20 group of leading economies stepped up the pressure when they said that the IMF's promise of \$300 million to help fight the epidemic should include debt alleviation.

The calls for the IMF, which lends money to economies most in need, but usually with attached requirements for reforms and financial discipline, have spurred the institution into intense reflection, and it could come

up with an initiative in January.

"Staff are looking at further options to provide support to the Ebola-hit countries, through reform of an existing facility," a Fund spokesman told AFP.

Traditionally bound to a narrow, orthodox mission of financial support and loans to governments that it expects to be repaid, the IMF in reality needs to expand its tools for aiding troubled economies.

After the earthquake disaster in Haiti of 2010, the Fund did create a mechanism for dealing with natural catastrophes that hit its borrowers.

That made way for the IMF to eliminate \$268 million that the Haitian government owed to the fund.

But the mechanism is too restric-

tive to be applied to the Ebola epidemic: it is limited to "devastating" natural disasters.

According to advocates of the move, even if the loans come with zero interest rates, they constitute a constant burden that can financially strangle the governments of Ebola-hit countries.

"A broad criticism of using loans to help very poor countries is that, formally, no matter how bad their situation gets, they must repay every penny," said David Roodman, an independent expert on economic development.

Sierra Leone and Guinea both have had to make loan repayments this year to the IMF despite the Ebola crisis, according to Fund data.

The curious case of rising defaults

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Loan defaults rose by Tk 7,589 crore in the first quarter, Tk 3,172 crore in the second quarter and Tk 5,946 crore in the third quarter of the year.

The pandemic affected more or less all banks, from scam-hit to well-run ones.

For instance, BASIC Bank, which has been plagued by financial irregularities for the past few years, saw its default loans balloon 319 percent to Tk 6,148 crore in the nine months to September.

On the other hand, bad loans at Islami Bank, a well-regulated bank, soared 110 percent to Tk 2,868 crore during the period.

Between January and September, the state-owned banks saw their default loans increase by Tk 4,191 crore, the private banks by Tk 7,878 crore, the foreign lenders by Tk 335 crore and the specialised ones by Tk 4,304 crore.

The stability of the banking system in Bangladesh remained stressed throughout 2014, reflecting the lingering impact of a series of financial scams and resultant loan defaults in state-owned commercial banks, Zahid Hussain, lead economist of the World Bank's Dhaka office, said.

The top management of the banks collaborated with some unscrupulous borrowers to swindle large amounts of money under different instruments.

"Neither the management nor the boards of these banks have been held accountable in most cases for these largescale frauds."

Consequently, the banks which, in a large measure, are outside the control of BB are now technically insolvent in terms of financial prudence criteria.

The state banks have struggled to overcome insolvency, yet they continue to function because of their privileged access to government accounts and surplus balances of state-owned corporations, authorities and agencies, Hussain said.

Moreover, people feel assured that their deposits are safe because of their state ownership, he said.

Private banks are not immune from governance failures either, he said, adding that their loan portfolios need to be closely monitored as well.

There are allegations that the board members of some private banks pressure the managing directors to extend loans to their favourite companies and individuals. MDs are fired or made to resign if they do not listen, according to the WB economist.

"Overall, the financial sector remained shaky in 2014 because of limited actions to improve corporate governance and accountability," Hussain said, adding that the sector remains vulnerable to potential term shocks and economic slowdown.

Meanwhile, Huda said it is not necessary to sound the alarm bells every time the default loans rise. "If it is an acceptable level, there is nothing to be worried about."

He cited the case in the 1990s when default loans rose to 34 percent, but was later brought down to 7 percent through reforms and governance.

At that time, the banks' capital base was very weak, he said. "But now, it is much stronger - their shock absorbing capacity is much higher." What is more worrying is that many of the

banks do not give accurate information of loan situation, Huda said, while urging the central bank to look into this matter seriously.

Furthermore, 'insider lending' and lending under 'sweet-heart arrangement' have increased much in recent times, according to the former central banker.

As per banking rules, bank directors are not allowed to take out loans from their own institutions.

To circumvent it, many unscrupulous directors use their family members' names or come up with fake ones and take out loans from their own banks. This is called insider lending.

A sweet heart arrangement is one in which bank directors from two banks make an arrangement to take out loans from each other's banks.

Huda went on to urge the central bank to crack down on such forms of lending. "Otherwise, it will become a huge headache for them."

Meanwhile, private bank officials blamed the billowing default loans on Chittagong-based commodity traders.

As of September 2013, their total loans against trust receipts stood at Tk 48,312 crore. Of the amount, Tk 9,352 crore turned into term loans or default loans as those were not paid timely, according to a BB study.

Price fluctuations of commodities in local and global markets, ill competition among banks and lack of best practices in granting loans were the reasons for the large defaults of LTR loans in the Chittagong area, the study found.

A private bank MD cited the case of a group of traders who took loans to import sugar as an exam-

ple. Now, they are struggling to sell-off the stock and pay the bank.

Another MD said banks have huge amounts of loans stuck in the shipbuilding industry, which is going through choppy waters after many foreign buyers cancelled orders.

For instance, Islami Bank saw a large portion of its loans turn bad for the shipbuilding industry's change of fortunes, he added.

MA Mannan, MD of Islami Bank, said besides shipbuilding, the bank's default loans are on the rise for commodity loans against imports and the housing sector.

Meanwhile, the central bank's new loan classification policy also did not help matters, bank officials said.

"In the middle of 2014, we witnessed a one-time jump of default loans, which happened because of various reasons including new best practice of classification and provisioning rules as well as political instability," the BB said in a statement on Tuesday.

The central bank has brought down the net default loans to a moderate level through improved supervision and close monitoring, it said.

The banks which were held responsible for default loans had to take the hit in their balance sheets by way of higher provisioning requirements.

"Bangladesh Bank will not be lenient in this regard in the coming days as well - banks must embrace the culture of disbursing quality loans."

"Bangladesh Bank may extend some facilities to the credible borrowers now in trouble, but it will never hesitate to take stern measures against the bad borrowers," the BB added.

Garment exporters look to a buoyant year

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"Business will definitely increase in Bangladesh in the coming year. We have a lot of work orders from retailers," said David Hasanat, chairman of Viyellatex Group, a leading garment exporter.

However, the price per unit for garment items is not increasing, even falling in some cases, on different pretexts, Hasanat added.

"The year 2015 will be amazing for our company as five of our new projects will begin operations. Two additional projects are set to start production in early 2016," said MA Jabbar, managing director of DBL Group, another leading apparel company.

The company earned \$175 million in 2014, and it will cross the \$225 million mark in 2015, with additional business from the new projects, he said. DBL has 19 garment units now in operation.

"We completed a lot of preparatory work for the new ventures in the past year. We have a good relationship with our buyers and they are bringing in a higher volume of orders, especially after the inspections by Accord and Alliance," he said.

"But we need continued political stability for sustained business growth."

"We plan to further expand business in the near future, to keep up with increased work orders," he said.

Mondol Group's exports are set to cross \$300 million in 2015 rising from \$250 million a year ago, as the company expanded operations with facility modernisation, said Momin Mondol, managing director.

Recently, with higher demand from buyers, Mondol automated its sweater unit to achieve higher production.

"The company has been maintaining 20 percent year-on-year export growth over the last four years and the trend will hold next year too."

Despite last year's stability, challenges like an inadequate supply of gas and power to the industrial units and poor infrastructure still hold back the sector.

"If the sector wants to achieve the targeted \$50 billion in garment exports by the end of 2021, the government must deal with these challenges as soon as possible," he said.

Orders that were lost to competition in India, Cambodia and Vietnam due to the stretched-out political tension of 2013 and early 2014 are coming back to the country with restoration of normalcy, Mondol said.

Apparel exports in the first six months of the new year might be a little slow, but it will pick up significantly from mid-2015 as buyers are showing positive signs, said Abdus Salam Murshedy, managing director of Envoy Group.

Slow business in the first half can be attributed to relocation of many factory units from Dhaka to other places, as well as some remedial measures being undertaken as per suggestions by Accord and Alliance, he said.

"But by the end of 2015, our garment exports will rebound significantly," said Murshedy, also former president of Bangladesh Garment Manufacturers and Exporters Association.

Bangladesh exported \$22.26 billion of garment products between January and November, according to data from Export Promotion Bureau.



Md Ahsan-uz Zaman, managing director of Midland Bank, opens a branch of the bank in Gulshan-2, Dhaka on Tuesday. Khondoker Nayeemul Kabir, deputy managing director, was also present.

Profits rise at most banks

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For the first time in recent years, Islami Bank's profits fell, 12.5 percent year-on-year to Tk 1,598 crore, in 2013.

The bank accounts for 10 percent of the total credit in 54 banks in Bangladesh.

Among other private banks, Mutual Trust, Al-Arafah Islami, UCB, Prime, AB, and National saw good profits.

The operating profits are based on primary data collected from different banks. Bank officials said their profits would have been higher had loan defaults not risen much.

In the first nine months of 2014, bad loans shot up around 41 percent to Tk 57,290 crore.



Shafiqul Alam, managing director of Jamuna Bank, attends the launch of the bank's mobile financial services, at its head office in Motijheel, Dhaka on Monday. Mosleh Uddin Ahmed, additional managing director, was also present.