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Banks' toxic loans rise 20pc in six months

AKM ZAMIR UDDIN

Banks' nonperforming loans rose by 20.23 percent, or Tk 15,037 crore, in the six months to June this year owing to poor lending practices and absence of corporate governance.

The amount of the toxic loans hit Tk 89,340 crore in June, according to Bangladesh Bank data released yesterday.

Nearly 50 percent of the loans belong to half a dozen state-owned banks, according to the central bank data.

This chunk now accounts for 10.41 percent of the total loans given by the banking sector, up from 9.31 percent in December last year.

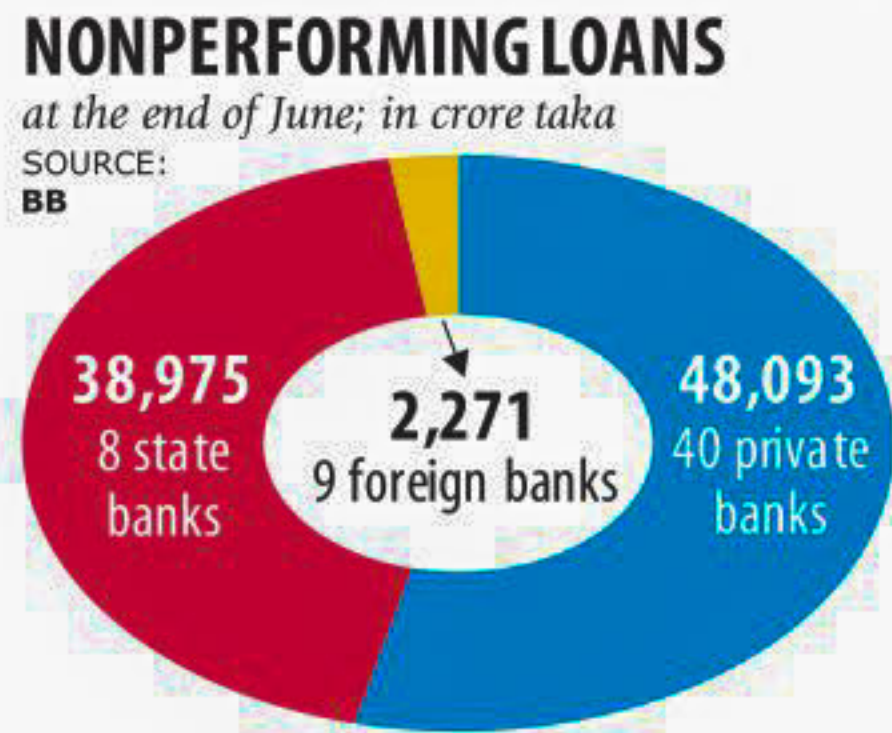
Khondker Ibrahim Khaled, a former deputy governor of the Bangladesh Bank, feared that the NPL would increase further in the next few quarters as some banks earlier lent large amount of loans violating banking norms.

"The asset quality of the banks has been deteriorating for the last one decade and many defaulters have frequently rescheduled their classified loans."

This frequent rescheduling of loans is helping the NPL amount look much lower than the actual figure, Khaled said.

The upward trend of default loans indicated that banks have sanctioned many loans breaching rules and regulations, he said.

Borrowers are allowed to reschedule their default loans for a maximum of three



times in line with the Bank Companies Act 1991. Khaled said some of the borrowers have already taken the full rescheduling facilities and the NPL would rise further as they can no longer use the scope.

Default loans also increased nearly 1 percent in the April-June quarter from the previous three months when NPL stood at Tk 88,589 crore.

The six state-banks' total default loans stood at Tk 42,852 crore, up 14.80 percent from six months ago.

Khaled said the state banks are mainly responsible for the scams that later spilled over into the entire banking sector.

The central bank does not have the power to remove a director of the state banks and the existing dual regulatory system along with the Bank Companies Act encourages corruption, he said.

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Source tax on export proceeds brought down

STAR BUSINESS REPORT

The National Board of Revenue (NBR) has reduced withholding tax on the total proceeds from exports for all items to 0.6 percent in the face of demands from entrepreneurs, particularly apparel makers.

Exporters, except jute goods makers, paid 0.7 percent withholding tax on their proceeds in fiscal 2017-18 ending on June 30.

Jute goods makers have been paying 0.6 percent advance income tax and the benefit is scheduled to expire on June 30 next year.

The latest cut on source tax will also expire on June 30, 2019, according to a notification of the NBR issued at the end of last week.

With a view to raising revenue collection, the source tax for clothes manufacturers and exporters of other products including leather goods, frozen and packed foods and vegetables was increased to 1 percent in the budget for fiscal 2018-19.

"We have reduced the withholding tax rate on exports in line with their demand and considering the garment sector's contribution to employment generation," said Kanon Kumar Roy, NBR member for tax policy.

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Germany's Cube teams up with Meghna to make high-end bicycles

Exports may rise five-fold to \$500m in five years

SAJJADUR RAHMAN

Cube, the biggest bicycle manufacturer in Europe, has teamed up with Meghna Group to produce high-quality cycles in Bangladesh.

In June, the two companies formed a joint venture company named Hana System Ltd with about Tk 100 crore in investments.

Germany's Cube owns 70 percent stake and Meghna 30 percent in the new entity, which is likely to begin exporting from early next year.

"Cube is famous for making high-quality bicycles and the entry of the company into Bangladesh will attract a lot of foreign buyers," said Mizanur Rahman, chairman of Meghna Group, which manufactures and exports bicycles.

Industry people say with the entry of Cube, Bangladesh's export to the European Union will jump manifold after hovering around \$100 million a year for nearly a decade.

High anti-dumping duty, standing at 48.5 percent, imposed by the EU against China and duty-free export benefits have created a bright prospect for Bangladesh to boost the shipment to European countries.

Presently, Bangladesh produces low-end bikes that are sold at \$60 to \$150 a piece in the export destinations. But the bikes that will be produced at the joint venture company will be sold at a minimum \$231 (200 euros), according to Rahman.



In phases, carbon and electric bikes will be produced at the factory and will be priced \$1,500 and \$1,000 a unit respectively, he said.

Bangladesh has long been trying to diversify its export basket in order to cut the country's overreliance on the apparel sector and the success has been limited largely because of its inability to produce value-added items.

The country shipped goods worth \$36.66 billion in 2017-18, of which garment exports accounted for more than 80 percent, data from the Export Promotion Bureau showed.

Bicycle exports fetched nearly \$86 million last fiscal year, down from \$126 million in 2014-15. The government has set a target to earn \$91 million by exporting the item in the current fiscal year.

Bicycle exports will reach \$500 million in the next five years, said Rahman.

Meghna Group, the leading bicycle exporter of Bangladesh, sent 400,000 units to the 28-nation bloc last year. Alita and Pran-RFL are the other two exporters.

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CLOSED-END MUTUAL FUND Tenure extension to dent investor confidence: experts

AHSAN HABIB

Experts have opposed the government's plan to extend the tenure of closed-end mutual funds by 10 years as the move may erode investors' confidence in the stock market.

Closed-end mutual funds are investment funds that gather a fixed amount of money normally for a decade from a number of investors and re-invest them into stocks, bonds and other assets.

The finance ministry has recently instructed Bangladesh Securities and Exchange Commission (BSEC) to rethink about extending the time for the funds that are going to be liquidated in the coming years.

Stockmarket analysts said the move will lower the investors' confidence on mutual funds further at a time when 33 out of 37 mutual funds are being traded below face value.

The existing discount rate—the price of a unit compared to its net asset value—of 37.9 percent for the closed-end mutual fund sector has also failed to bring in new investors, experts said.

"The extension will deepen the confidence crisis among investors. So, the extension should not be given," said Mostaque Ahmed Sadeque, president of the DSE Brokers' Association.

He said fund managers are calling for the extension only to receive annual fee, but the regulator should think about the general investors.

Abu Ahmed, a stock market analyst, said unsuccessful asset managers are lobbying with the government to have the tenure extended.

The extension, if approved, will affect the investors as well as the mutual fund sector, he said.

Ahmed, also a former chairman of the economics department of Dhaka University, said the regulator should think about the investors, not the bad performers.

Sadeque said he bought mutual fund units with the hope of getting the money back along with profits after a certain period.

"Why will I have to wait for another 10 years?"

Proponents of the extension say if the funds are liquidated, the market may fall because of selling pressure.

Market analysts have come up with proposals against the extension demand.

One of the proposals, Ahmed said, is to allow floatation of new mutual funds, which will create demand and thus minimise the impact of the selling pressure of the old funds.

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Policy gets nod to promote locally made motorcycles



Motorcycle manufacturing is set to get a boost for a cabinet nod to a development policy yesterday. The photo was taken from Bijoy Sarani in the capital recently.

STAR BUSINESS REPORT

The cabinet yesterday gave the go-ahead to a policy to facilitate the motorcycle manufacturing industry's development which would lead to the diversification of the apparel-dominated export basket.

The government aims to increase the sector's contribution to the GDP from the present 0.5 percent to 2.5 percent and expand the industry's capacity, now dominated by assembling of imported components.

"The policy is being formulated to facilitate a world class motorcycle industry instead of the existing assembling plants," Cabinet Secretary Mohammad Shafiq Alam told reporters after a meeting chaired by Prime Minister Sheikh Hasina.

He said the Motorcycle Industry

Development Policy 2018 aims at creating a lot of employment by saving hard-earned foreign currency.

On average about 1,000 units of two-wheelers are sold every day in the country as the demand is spiralling for the mobility it provides in the congestion-ridden urban life. Industry operators say five years ago the number was around 550.

Businesses have long been demanding the plan to get a clear idea of the government's position towards the sector before going for large investments.

Manufacturers and assemblers were demanding the policy so that they could get a consistent and predictable environment, particularly centring taxes and duty rates, instead of fluctuations every year.

The industries ministry drafted

the policy at the start of this year.

Meanwhile the National Board of Revenue (NBR) has been offering reduced supplementary duty on import of components to encourage expansion of manufacturing units.

The incentive resulted in nearly a dozen firms lining up to make motorcycles and components. Runner Automobiles is already making the two-wheelers and exporting to neighbouring Nepal.

In addition to the draft policy nod, Bangladesh Bank yesterday issued a circular offering a 10 percent cash incentive on motorcycle export.

Cabinet Secretary Alam said the government would give tax benefit to build up the motorcycle industry. The NBR will later frame a relevant policy.

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ADB lending to cross \$2b this year

STAR BUSINESS REPORT

Asian Development Bank's lending to Bangladesh is likely to exceed \$2 billion this year, said a top official yesterday.

The ADB has already approved over \$1.6 billion, of which \$1,535 million is sovereign, \$60 million non-sovereign and \$8.7 million technical assistance.

"More projects worth over \$600 million are likely to be approved by year-end," said Manmohan Parkash, country director of the ADB.

He said \$988 million was approved for different projects since January, of which \$586 million has been disbursed as of yesterday -- the amount being 46 percent higher compared to that in the same period in 2017.

Parkash was addressing a ceremony at Economic Relations Division (ERD) in the capital's Sher-e-Bangla Nagar on the ADB and the ERD signing loan agreements.

The deals comprised \$350 million in loan and \$7.5 million in grant for a project to develop two power lines.

Kazi Shofiqul Azam, secretary of the ERD, and Parkash signed the agreements representing their respective sides.

According to the ADB, the project will get another \$7 million as grant from the Japan Fund for the Joint Crediting Mechanism to finance new high-technology energy efficient conductors.

Another \$0.5 million grant from South Korea's e-Asia and Knowledge Partnership Fund will promote socially inclusive growth with gender equality.

"Bangladesh's power sector has rapidly grown in recent years, but more investments are needed to meet the rising electricity demand in a fast-growing economy," said Parkash.

The ADB assistance aims to underpin the current impressive pace of growth and development by making power generation, transmission and distribution systems more efficient, reliable, and environmentally friendly.

"The project will promote business expansion, and create employment opportunities for local communities, including poor and socially disadvantaged people in southern and western zones of Bangladesh," he added.

Azam said there was no crisis of foreign funds for development work in Bangladesh.

He, however, emphasised expediting project implementation to reduce cost overruns due to implementation delays.

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Stock regulator's silver jubilee celebration starts tomorrow

STAR BUSINESS REPORT

The Bangladesh Securities and Exchange Commission (BSEC) plans to organise a weeklong event to celebrate its silver jubilee.

Saifur Rahman, executive director of the stockmarket regulator, announced the programme schedule at a press meet at the BSEC office in Dhaka yesterday.

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RANGS TOSHIBA

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