The Daily Star

FOUNDER EDITOR
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DHAKA WEDNESDAY JUNE 12, 2019, *JAISHTHA 29, 1426 BS*

Another ominous sign for the banking sector

Loan defaults breaking records left, right and centre

DEFAULTED loans soared to the highest ever in the country's history, totalling Tk 110,874 crore as of this March after another Tk 16,962 crore—also a new record—was added to the tally in the first quarter of this calendar year. Defaulted loans now account for 11.87 percent of total outstanding loans, up from 10.30 percent last December, which itself was alarming enough.

The unprecedented increase in defaulted loans occurred partly because of the government's decision to ease loan rescheduling facilities for defaulters which basic economic theory—the concept of moral hazard—and economists warned would happen from day one, exactly as it has materialised.

As per the government's new policy, defaulters would be allowed to reschedule their classified loans by providing only two percent down payment instead of the existing 10-50 percent. And interest rate levied on them would go down from 12-16 percent to nine percent with extended repayment time. With such favourable terms, why wouldn't borrowers increasingly default on loan repayments, especially when there already is a pervading culture of defaulting and of defaulters being let off scot-free nearly every single time?

That the government would grant such concessions in the first place is shocking, as every single concession it previously granted had similarly backfired. Thankfully, however, there is currently a stay order from the High Court preventing the implementation of the new policy, which we believe should be scrapped permanently.

The banking sector seems to be in serious trouble with banks suffering from liquidity crisis because of these loan problems. And what is even more concerning is that the situation is actually worse than what it seems on the surface because previous rescheduling policies—allowing accounting manipulations—have allowed a lot more bad loans to stay hidden.

All this is the result of repeated political interventions in the financial sector and of nepotism—as experts have also pointed out. But there is still time to rescue the banking sector. However, the government must act fast as time is quickly running out and things continue to only get worse.

Is it really that hard to make our roads safe?

142 lives lost in 11 days!

WORDS are not enough to describe our frustrations at the anarchy that is going on in our transport sector which leads to dangerous road accidents, claiming lives on a regular basis. And the number of deaths increases alarmingly during the Eid holidays every year. According to a non-government organisation, in the last 11 days during Eid rush, at least 142 people were killed and 324 injured in road accidents across the country. Although the government took some extra precautions to make the Eid journey smooth and safe for the home-goers, sadly, all these steps could not reduce the number of road crashes.

The situation can only change for the better if the Road Transport Act-2018 is brought into effect. Apparently, the law could not be enforced due to protests and pressure created by the transport workers and owners who were against some of the provisions in the law. While road safety campaigners have long been urging the government to increase the punishment to at least 10 years for causing death of a person by rash driving, the transport workers are demanding that the current provision that stipulates Tk 5 lakh fine for causing such accidents be revoked. The transport workers' other demands include making all accident-related cases bailable, and reducing the mandatory educational qualification from eighth grade to fifth grade for getting a driving licence.

If such illogical demands of the transport workers are met, it will surely create more chaos on the roads and the number of road accidents will also increase. Therefore, before making any "adjustments" to the Act, we hope the government holds serious discussions with all the stakeholders including the road safety campaigners. Too many lives are being lost on our roads every day, and it's time the government put all-out efforts to bring some order to the roads.

LETTERS TO THE EDITOR

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Skyrocketing loan defaults

With the announcement of a huge number of benefits for the loan defaulters at the beginning of the year, the defaulting loans of banks increased by Tk 16,962 crore in the first three months alone. Defaulted loans amounted to Tk 110,873 crore as of March—the highest ever recorded.

Finance Minister Mustafa Kamal, in a pre-budget discussion, remarked on how the country would malfunction if all businessmen were penalised for defaulted loans. According to the new policy, defaulters will be able to reschedule their classified loans and they can do so by providing only 2 percent down payment. The time for repayment has also been extended. So far, the repercussions of these changes are making the situation worse.

Bangladesh Bank officials say the amount of defaulting loans is actually higher than what the reports are claiming. Many banks are unable to recover larger loans, and those involved are not even identified as defaulters. The real picture of our banks is dubious at the moment and this is not a good sign for our economy.

SM Imranul Islam Rajon
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The emerging cracks in our external sector

MUSTAFIZUR RAHMAN

THE robust external sector performance has been a strong pillar on which Bangladesh's impressive macroeconomic stability and growth of recent years was founded. The strong performance was underwritten by several factors.

Firstly, the growth and combined earnings of export and remittances contributed to a comfortable current account balance position.

Secondly, the forex reserves had been on a secular rise boosted by inflow of export earnings, remittance flows and inflows of short-, medium- and long-term (MLT) loans.

Thirdly, Bangladesh Bank was able to undertake sterilisation interventions on a regular basis to influence the exchange rate of Taka (BDT) in a way that arrested the slide of BDT at a time when the real effective exchange rate was on the rise.

Fourthly, the debt and debt-servicing liability remained comfortable in the backdrop of the low levels of foreign loans incurred and utilised, and the concessional nature of the loans.

The emerging cracks

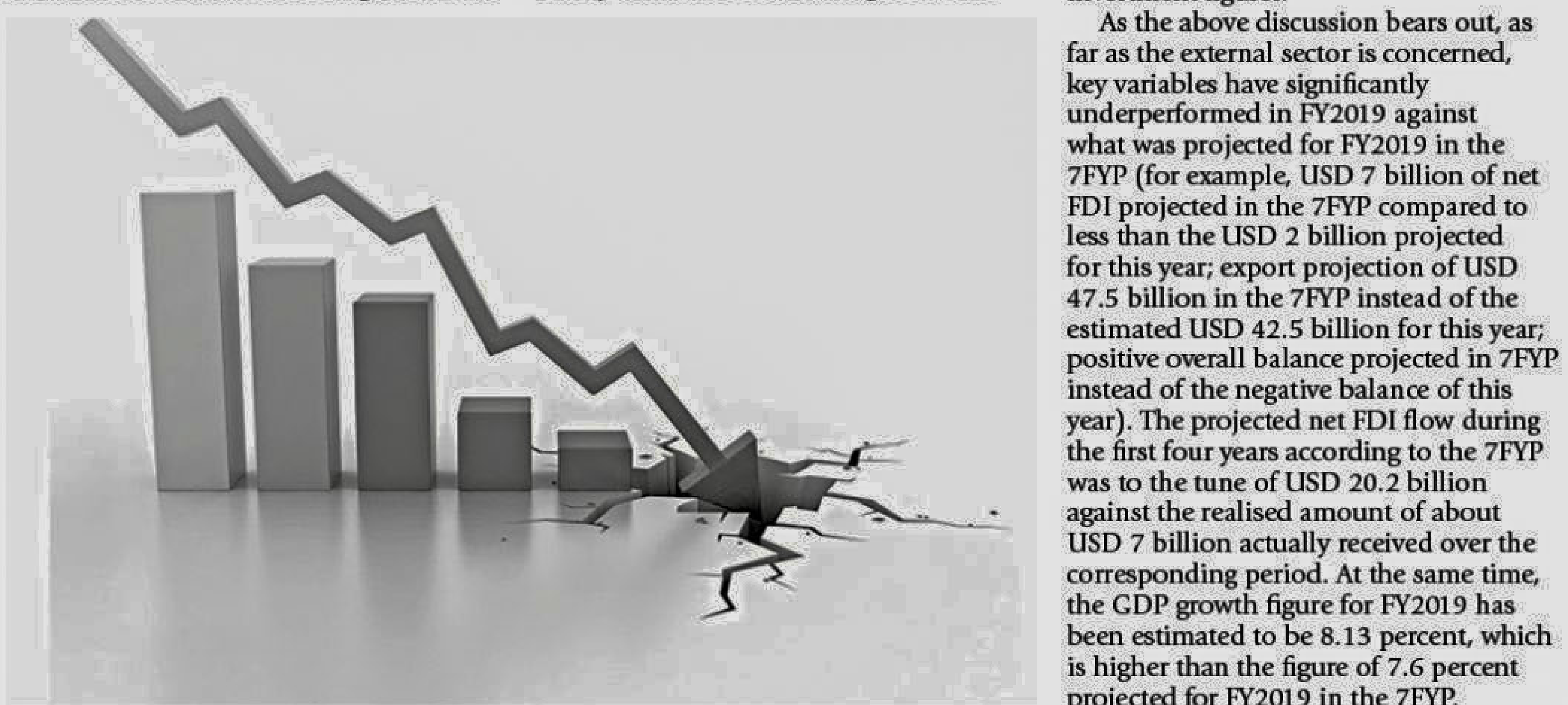
However, in the last couple of years, cracks have started to appear in the external balance which, if not addressed with the urgency the concern deserves, could not only undermine the external sector performance but also put overall macroeconomic stability and the growth narrative under threat.

Firstly, as evidence bears out, since 2011, for the first time, the overall balance was in the red in FY2018, when it was USD (-) 0.8 billion. This negative position has continued in the first three quarters of FY2019. The negative would have been much higher had the growth of imports not come down significantly, from the high of 25.2 percent in FY2018 to 5.1 percent during July-March of FY2019. If imports post higher growth in FY2020, the deficit in trade and current account will rise further. Much will also depend on commodity price movements.

Secondly, the yawning current account gap is at present being financed through large inflows in the financial account where the overwhelming share is accounted for not by foreign direct investment (FDI) or portfolio investment, but by the inflow of short and MLT loans. This is corroborated by the fast rising loans in the pipeline which increased from USD 18.1 billion in FY2016 to USD 22.1 billion in FY2017 to USD 35.8 billion in FY2018. One will need to keep in mind that since 2015, because of (lower) middle-income graduation, the cost of Bangladesh's borrowings has been on the rise significantly. Thus, accumulated debt and the debt-servicing liability will rise sharply.

Thirdly, with rising import payments, capacity of forex reserves to underwrite imports has been falling sharply, from eight months' equivalent in FY2017 to only about 5.3 months in March FY2019. At the same time, buyers' credit from the private sector has been on the rise, from USD 3.85 billion in December 2015 to USD 10.2 billion in December 2018. In this backdrop, the capacity of the central bank to continue to undertake sterilisation interventions in the foreign exchange market, at least on the scale seen in recent past years, may be rather limited.

The cumulative impact of the external sector trends is clearly depicted by the distance between the 7FYP targets and the actual on-the-ground performance. The overall balance in 7FYP was envisaged to be a positive of USD 5.45 billion in FY2019 instead of the negative estimated for this year based on trends so far (for July-March FY2019, the overall balance stood at (-) USD 0.33 billion). Net FDI was projected to be USD 7.4 billion for FY2019 (and about USD 10 billion in FY2020) as against actual figures averaging around less than USD 2 billion annually.



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Addressing the emerging tensions

It will not be easy for Bangladesh's policymakers to deal with these cracks. A lot will depend on Bangladesh's capacity to enhance forex earnings from exports and remittances. In a welcome development, export growth rate in FY2019, at about 11.6 percent in FY2019 (July-April), surpassed the target of 6.4 percent. Remittances have also posted an impressive growth of 10 percent over the corresponding period, although the number of workers going abroad in this period has come down by more than 11 percent. This will likely have a lagged response and slow down future growth.

From a medium-term perspective, the urgency of a push towards export diversification, move up the value chain to more value-added products and skills upgradation towards higher competitiveness cannot be overemphasised. However, in the short-term, the expected deficit in the current account may be brought down by containing imports. As was noted earlier, import growth has come down sharply in FY2019. Fiscal measures are an option. The import tariffs on rice have been raised significantly in recent times to discourage imports. The government may also consider raising import duties on selected luxury items and consumer goods. The other option to discourage imports is to go for raising LC margins for imports. Indeed, the Bangladesh Bank has already been resorting to this measure selectively.

As was pointed out, capacity to deploy sterilisation interventions by the Bangladesh Bank has weakened in the face of depleting reserves. Bangladesh's export competitors have gone for significant depreciation of respective currencies over the recent years. Since sharp depreciation will have adverse implications for import payments, inflation and consumer prices and interest payments, a gradual depreciation of the BDT would be the preferred option. Indeed, this has been the strategy pursued by the central bank which needs to be continued. However, debt-servicing liabilities will keep on rising in view of the rising aid flows noted earlier. The apprehension is that if the pressure on the reserves keeps on rising, undertaking sterilisation may become increasingly difficult. Realising the aspirations of 7FYP—to bring in more FDI in the range of USD 7-9 billion annually—must be given top priority to enhance exports and improve the overall balance situation.

There is no easy solution in dealing with the emerging cracks that are weakening Bangladesh's external sector position and performance. How the 7FYP GDP growth targets are being achieved—and even being exceeded—in spite of the disquieting external sector scenario remains a disturbing question though. In recent times, many experts have questioned the GDP growth rate figures on the ground that they do not correspond with key variables contributing to macroeconomic and sectoral performance of the Bangladesh economy, more particularly the investment figures.

As the above discussion bears out, as far as the external sector is concerned, key variables have significantly underperformed in FY2019 against what was projected for FY2019 in the 7FYP (for example, USD 7 billion of net FDI projected in the 7FYP compared to less than the USD 2 billion projected for this year; export projection of USD 47.5 billion in the 7FYP instead of the estimated USD 42.5 billion for this year; positive overall balance projected in 7FYP instead of the negative balance of this year). The projected net FDI flow during the first four years according to the 7FYP was to the tune of USD 20.2 billion against the realised amount of about USD 7 billion actually received over the corresponding period. At the same time, the GDP growth figure for FY2019 has been estimated to be 8.13 percent, which is higher than the figure of 7.6 percent projected for FY2019 in the 7FYP.

Has there been an exceptional growth in capital productivity to sustain such high growth? There is indeed a clear case to revisit the GDP growth estimates.

Policymakers should be concerned about the external sector challenges which come at a time when Bangladesh needs to take adequate preparations to face the implications of the country's dual graduation, with the anticipated rising competitive pressure on export performance because of preference erosion (emanating from the LDC graduation), and the escalating cost and more stringent conditionalities associated with foreign borrowing (originating from the middle-income graduation).

Against this backdrop, concrete initiatives to raise export competitiveness, ensure appropriate use of foreign funds and improve the quality of external sector management cannot be overemphasised.

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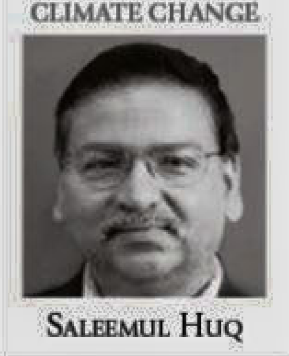
Time to ramp up investment in adaptation to climate change

POLITICS OF CLIMATE CHANGE



SALEEMUL HUQ

2019 is proving to be a game-changing year with regard to the issue of global climate change in a number of ways.

First, we are seeing the unequivocal attribution of incidents starting from hurricanes, wildfires, floods—such as in the mid-Western states in the US—to human-induced climate change repercussions. From now onwards, it is fairly safe to say that the severity of such climate-related events is enhanced due to the global temperature rise of over one degree centigrade which has already happened due to human emissions of greenhouse gases.

The second important development is the recognition that the climate change problem has indeed become a matter of urgency due to our inaction in the past. This message is reverberating amongst both the young and old generations around the world—especially among the citizens of the developed countries who are demanding more proactive action from their leaders.

Thirdly, the responsibility towards tackling this global emergency is shifting (albeit slowly) from the developed world to the developing world with China and India both concentrating on investing in renewable energy.

At the same time, there is a growing realisation that the adverse impacts of climate change will affect everyone sooner than we had estimated, and hence investment in adaptation must be prioritised urgently around the globe.

There are two upcoming parallel but connected processes and events that offer an opportunity for ramping up investment in adaptation globally.

The first is the climate change summit called by the secretary general of the United Nations to be held in New York in September, where Prime Minister Sheikh Hasina of Bangladesh is one of the key invitees on the resilience and adaptation track of the summit. This track is being led by the UK and Egypt and also includes Bangladesh together with Malawi and the Netherlands. The UNSG has asked leaders to come with "plans not speeches" and this will be a great opportunity for Bangladesh to speak not only for itself but also for the Least Developed Countries (LDCs) which have asked Bangladesh to speak on their behalf.

Vapour is released into the sky at a refinery in Wilmington, California. PHOTO: REUTERS/BRET HARTMAN

The second process is the Global Commission on Adaptation (GCA) which has three high-level commissioners (namely Ban Ki-moon, Bill Gates and Kristalina Georgieva of the World Bank) and around 20 others. The GCA will produce a flagship report on global adaptation for the summit and then continue to support the action tracks from the report for another year after the summit is over.

The GCA is currently drafting its flagship report and action tracks and holding meetings to finalise them. I have had the privilege of being part of the drafting team for the local-level adaptation track of the GCA.

The government of Bangladesh—which is a co-sponsor of the GCA—will be hosting the next meeting of the GCA in Dhaka on the 9th and 10th of July and the prime minister is expected to welcome some of the high-level commissioners to the meeting. It will be an opportunity for Bangladesh to showcase itself as a global leader on adaptation at both the national and local levels.

This is a great opportunity for Bangladesh to demonstrate its own strategies to adapt to climate change, build resilience as well as offer to share our knowledge and experience with others.

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