Dhaka Bank shapeshifting with pandemic

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Dhaka Bank initially started its journey with only one corresponding bank to do its foreign exchange related banking, but the number now stands at 450, in what can be viewed as the lender's growing acceptance across the globe.

"We are maintaining a credit line with 30 global banks and two multilateral organisations – International Finance Corporation and the Asian Development Bank.

They have provided a remarkable amount of guarantee and funded loans due to Dhaka Bank's strong brand image, said Huq, who was promoted to the post of MD in February from the previous position of additional managing director. He has been with Dhaka Bank for 23 years now.

The lender is now campaigning to popularising its online product namely "Dhaka Bank Go" such that clients do their banking smoothly including inter-bank fund transfer, utility bill payment, mobile phone recharge and pay tuition fee for educational purpose.

Banks must improve their digital and virtual banking as the pandemic has given a lesson that manual banking is not possible all the time.

"Improving the skill in manpower is our core target in the days ahead. And we will make tech-savvy manpower to keep up with the time," Huq said.

Quality human asset, technology-based advancement and good corporate governance have been the lender's focus since its inception.

The principles have already given several awards.

Dhaka Bank received 9th IFC Trade Award 2019 as a Best Issuing Bank in South Asia for best utilisation and performance of the Global Trade Finance Program limit maintained with IFC.

Besides, the bank has been awarded 'Bank of the Year-2018 in Bangladesh' as the industry standard for banking excellence from The Banker (UK) for its strong management, sound business model, banking innovations and prudent Risk approach.

He also touched upon the ongoing situation in the banking sector, saying lenders will have to give their all-out effort to revive the economy as the majority of the stimulus packages will have to be implemented by them.

So, banks will have to implement the stimulus packages quickly.

The central bank has allocated Tk 758 crore for Dhaka Bank to disburse to large borrowers in the service and industrial sectors under the stimulus package of Tk 30,000 crore.

"We have already taken an initiative to disburse the amount to 257 clients," said Huq, who started his banking career in 1986.

But it is not an easy task as client selection and their assessment are highly important and time-consuming too.

Of the amount for the large borrowers, the lender has already sought approval from the central bank to disburse Tk 200 crore immediately.

Besides, the BB has allocated Tk 256 crore to disburse small and medium enterprises under the stimulus package of Tk 20,000 crore.

Meanwhile, the bank has already taken approval from its board and already started giving out the fund to the SME sector.

Dhaka Bank will distribute the reported stimulus funds within mid-August if the approval is secured.

Huq feared that both banks and borrowers would fall into deep trouble if the stimulus fund could not be disbursed to the market in time.

Profit in banks has already declined alarmingly since the last week of March when the government had restricted movement to control the pandemic.

The country's exports and imports were hit hard both by the local and global lockdowns.

Lenders' profit from the foreign trade plunged almost into zero during the lockdown.

He, however, said foreign exchange business in Dhaka Bank had strongly rebounded in May when the government started to relax the shutdown.

But, imposing a 9 per cent cap on all lending products except credit card has dealt a big blow to banks as 80-85 per cent of profit comes from the interest income.

"Against the backdrop, we have taken several measures to keep the wheel of the profit moving by way of cutting operating and deposit costs."

Although all banks may not achieve their annual profit target at the end of the year, Dhaka Bank is somewhat confident.

But banks have to take a cautious stance to curb the upward trend of defaulted loans as the loan moratorium for businesses will end in September.

As per the central bank instruction, borrowers are considered as regular clients until September despite non-payment of their loans instalments from January.

The central bank should extend the moratorium period until December to tackle defaulted loans.

Huq expressed his gratitude to the central bank as it had taken lots of initiatives to help both banks and borrowers.

He, however, said that banks should not consider the timeframe of the moratorium and they will give all-out effort to recover the loans to stop the deterioration of their financial health.

Banks will have to strictly monitor their clients' businesses such that they could take time befitting decision.

If banks adopt a relaxed attitude to this end, the entire banking sector will face a crisis.

He went on to express a hope that the foreign exchange reserve, which has recently crossed $36 billion, will help the nation to pick up its economy when the global businesses will get a tempo.

He, however, said that many of the importers have got an extension to clear the import bills for the time being, which has also widened the volume of the reserve.

The central bank should closely take care of the reserve such that the large deferred payment will not put any adverse impact on the volume.

Can the massive forex reserves bankroll large projects?

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But the ballooning reserves are largely due to a slump in import payments because of the shutdown caused by the pandemic and the large disbursement in budget support from the Asian Development Bank (ADB), the International Monetary Fund (IMF), the World Bank (WB), the Asian Infrastructure Investment Bank and the Islamic Development Bank.

The country's import decreased 62 per cent year-on-year to $1.95 billion in April as industrial production has almost come to a halt due to the ongoing shutdown.

So, the idea has evoked caution.

The proposal to use foreign exchange reserves for investment in infrastructure must be examined with extreme care and caution, said Zahid Hussain, a former lead economist of the WB's Dhaka office.

"Reserve is a tool that is most useful in distressed circumstances such as the one the economy is currently going through."

The current account deficit has been widening since February primarily because of a sharp fall in exports and deceleration in remittance growth. These pressures are unlikely to subside in the near future.

The budget support from the multilateral organisations is not sustainable sources of reserve increase. However, the current account deficit is most likely to continue to increase.

It will, therefore, be important to make sure that the level of reserves is adequate to meet at least seven to eight months of imports of goods and services and not three months, Hussain said.

The three-month threshold is the minimum level of reserve adequacy in normal times.

"But these are not normal times. If there is any excess reserve over that required to meet seven to eight months of imports, that excess can be used, as a last resort, for high priority infrastructure projects that are in an advanced stage of completion," he added.

In June 2017, the IMF said given Bangladesh's slow export growth and decline in remittance inflows, the safe reserve limit should be equal to 9.6 months' import bill.

But the export scenarios are now horrendous: exports, the country's main foreign currency earner, plummeted 16.93 per cent to $33.67 billion in the just-concluded fiscal year and nobody can say with certainty when it would pick up given the messy situation around the coronavirus pandemic.

Remittance hit an all-time high of $18.20 billion in the last fiscal year, giving much-needed breathing space to the government to manage the macroeconomic state of affairs hit hard by the ongoing financial whiplash.

But the causes of the increase can't be explained properly as more and more migrant workers are returning home as the host countries themselves are struggling to contain the deadly virus and the outflow of migrant workers from Bangladesh has fallen.

The government had been thinking about using foreign currency reserves for a long time.

In 2015, the government had formed a seven-member team to evaluate the prospects of using reserves funds. The team submitted its report in December 2016.

Two years ago, the cabinet gave the go-ahead for the setting up of a fund with money from the foreign currency reserves, which would be used for government investment in long-term projects.

The funds to the tune of $10 billion were supposed to be used for investments in seven sectors, including power, energy and in large infrastructure projects.

The IMF approved $732 million, the ADB $500 million and the WB $250 million in budget support for Bangladesh, among other lenders.

Remodel business plans to revive exports: experts

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The export earnings in fiscal 2018-19 were recorded at $40.53 billion.

In June, the last month of the fiscal year, earnings were $2.71 billion, which is 31.15 per cent below the monthly export target of $3.94 billion.

The fall in export earnings was mainly because of a decline in garment shipment that contributes 84 per cent to the total national exports a year.

In fiscal 2019-20, garment exports fell 18.12 per cent year-on-year to $27.94 billion. Of the earnings from garment, $13.90 billion came from knitwear shipment and $14.04 billion from woven.

However, knitwear export dropped 17.65 per cent and woven 18.58 per cent last fiscal year, according to the EPB data.

The global economy is stumbling at best with reopening even in countries that have brought the spread of the virus somewhat under control, said Zahid Hussain, former lead economist of the World Bank's Dhaka office.

However, the virus keeps striking back even in those countries and it is quite clear now that the global economic recovery will be slow and protracted until efficacious vaccines and therapeutics are available, he said.

"This is true generally and particularly for the US and Europe, Bangladesh's largest markets for exports."

Under such circumstances, the best Bangladesh can do is damage control, that is, contain the loss of existing exports and take advantage of demand created by the virus for products like masks, PPEs, ventilators, various pharmaceutical products and digital services, Hussain added.

"Containing the loss of existing exports requires building confidence in our ability to deliver on time in these difficult times."

This in turn requires easing regulatory hassles that cause inordinate delays in time to import and export. The efficiency of the trade logistics system needs considerable enhancement.

"The existing production system in garments and pharmaceuticals may need to be reconfigured to take advantage of the opportunities created by the need to combat the virus," Hussain told The Daily Star.

There is growing demand for masks, sanitisers, PPEs and so on, while demand for digital services is also rising. It is not easy to start a new product line or a new business in Bangladesh because of regulatory complexities and bureaucratic red tape. These need urgent attention, he said.

The government should do everything it can to make sure that the duty-free and quota-free access of 97 per cent of Bangladeshi products to the Chinese market crosses the finish line.

"Not just that. We should expedite the building of the special economic zone dedicated for Chinese investors in Chattogram."

Joint ventures with the Chinese will be critical for exploiting the opportunities opened by the duty- and quota-free access, Hussain said.

"Most important of all, we have to deploy everything needed to control the spread of the virus. Without success on this front, it will be hard to restart the engine of the economy in both the domestic and external markets."

The conduct of business will continue to be disrupted as long as the spread of the virus is out of control, as is the situation currently in Bangladesh, Hussain said.

Ahsan H Mansur, executive director of the Policy Research Institute (PRI), echoed the views of Hussain.

Mansur also said the devaluation of local currency against the greenback can be an important factor for a quick rebound of export as peer countries like Vietnam are taking this advantage.

He also called for producing garment items with manmade fibre and reducing lead time.

"We need to redesign and remodel our business plans as everything is depending on demand from customers," he said.

The country manager of a renowned European buyer of apparel items said he has been placing increased volume of work orders in Bangladesh now as almost all of his company's outlets in Europe and the US have already reopened.

"I have placed more than $400 million worth of new work orders after the lockdown in Bangladesh. I have placed work orders in our every supplying factories," said the European buyer asking not to be named.

Arshad Jamal Dipu, chairman of Tusuka Fashions Ltd, a leading garment exporter, said he saw a silver lining in work orders in from October onwards as buyers are coming back.

Moreover, Bangladesh can receive a good quantity of work orders being shifted from China, he said.

But the government needs to ease the conditions in receiving loans from bailout packages and offer incentives so that small and medium enterprises can cope up with the fallouts of the Covid-19, Dipu said.

Commerce Minister Tipu Munshi said the government has set a target to grab new markets for PPEs and masks.

"We are trying to import PPE fabrics from India quickly as the demand for this item soared worldwide and Bangladesh is turning into a major manufacturer and supplier globally," Munshi told The Daily Star over the phone.

"We are closely observing the market demand so that we can take quick decisions," he said.

Rubana Huq, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said the decline in garment export during last fiscal year in actual amount is $6.18 billion, which is around one-fifth of the total export.

"A closer look reveals that out of the $6.18 billion lost exports, $1.06 billion was lost in the first half of the year and the remaining $5.12 billion in the latter half. We lost $4.33 billion just in three months. This shows the severity of the pandemic's impact on the industry," Huq said.

Leather goods, footwear producers downhearted by decline in sales

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Of the country's total exports, leather footwear earned $779 million while other leather goods accounted for $221 million and rawhide sales $98.31 million.

According to the manufacturers, the leather goods industry has been severely impacted by the slump in sales at home and abroad brought on by the coronavirus pandemic.

Countries that have been hit hard by coronavirus opted for nationwide lockdowns or placed restrictions on public movement in a bid to curb the spread of the deadly pathogen. This is especially true for a number of Bangladesh's major export destinations, such as the US, Italy, Spain, UK and Germany.

The government has set a target to earn $5 billion in 2021 through the export of leather goods even though last year's receipts totalled only $998 million.

In light of the situation, the Leather Goods and Footwear Manufacturer & Exporter's Association of Bangladesh (LFMEAB) has urged the EPB to withdraw source tax on export subsidy to help the industry recover amid the coronavirus fallout.

"We urged the EPB to ensure equal rights for all export sectors by removing inconsistencies among the industries so that they can recoup the losses incurred due to this pandemic," said LFMEAB President Mohammad Saiful Islam.

The government gives preferential treatment to major export sectors such as garment, he said.

"This can be considered as discrimination against the leather sector," Islam added.

On October 30, 2019, Prime Minister Sheikh Hasina said that financial incentives for the leather goods industry would continue for at least the next five years so that the country can achieve its export targets from the sector.

However, the sector only enjoys a 15 per cent cash incentive on shipments.

"So, we want the same facilities granted to the garment sector gets. This includes tax breaks on exports, imports, VAT, bonded warehouses and so forth," said Nasir Khan, chairman and managing director of Jennys Shoes, a local pioneer in the manufacture and export of leather footwear.

The leather sector shows promise as it could possibly help diversify Bangladesh's export basket, he said.

Although leather goods manufacturers do more value-addition in comparison to their counterparts in the garment industry, apparel producers have been given better facilities over the years.

Vietnam entered the global market for leather footwear just a decade ago but in that time, the Southeast Asian nation's export has grown to about $20 billion annually, said Khan, also the general secretary of LFMEAB.

Meanwhile, Bangladesh made its first foray into the international arena for leather goods three decades ago. However, shipments have hovered around the $1 billion-mark even though the country is ripe with raw materials and human resources.

One could blame the lack of backward linkage industries, inconsistent policies, lengthy customs procedures and harassment faced by business owners when trying to secure a bonded warehouse or import raw materials as the main reasons behind Bangladesh's slow exports in the leather sector.

"It would not be a tough job for the leather goods sector to expand its exports to $10 billion by 2025 if the authorities, including the National Board of Revenue, EPB, port authority and banks cooperate with exporters," Khan said.

Other than rawhide, all other materials needed in the production of leather goods are imported. Besides, customs officials do not allow manufacturers to import enough raw materials for the entire year in a single shipment.

This forces leather goods companies to import their necessities in phases, leading to delays in production and subsequently, exports, he added.

There are about 60 local firms, including Apex Footwear, Jennys Shoes and Bay Footwear, that export various leather goods to mainly Japan, the EU and to some extent, the US.

However, if the approximately 165 footwear and leather factories currently operating in Bangladesh were compliant and used modern technology, they could fetch up to $5 billion in export receipts, according to the LFMEAB.

Bangladesh's leather goods and footwear sector is failing to make it big internationally even though the country has an abundance of rawhide and a skilled workforce.

Of the country's total production, only 30 per cent of the finished leather is consumed locally while the remaining 70 per cent is exported, mostly to China.

The global leather footwear market was valued at $246 billion in 2017 and is expected to reach $320 billion by 2021.

"Therefore, there is huge potential for growth among new entrepreneurs," Khan said, adding that Tk 20 crore is enough capital to open a factory with the capacity to produce 1,000 pairs of shoes daily.

Mohammed Nazmul Hassan, managing director of Leatherex Footwear Industries, said that his company is in an uncertain situation due to the drastic fall of domestic sales fell amid the coronavirus outbreak.

The global impact of the virus has continued to harm the leather sector.

According to a recent survey by the World Footwear Business Condition, the consumption of leather footwear products could experience a 22.5 per cent decline by the end of 2020.

A whooping 46 lakh mobile connections vanished amid pandemic

FROM PAGE 1

Though the number of active SIMs has fallen, internet connections have increased both in mobile and broadband segments during the pandemic.

At the beginning of March, active internet connections were a few thousand less than 10 crore and at the end of May, the number crossed 10.21 crore. Market insiders said people are using more internet than before but the use of voice call, which is still the main revenue spinner for the carriers, has declined.

A good number of users are now depending on various communication apps and they are avoiding voice calls, while low-income people do not have enough earnings to spend on services like telecom.

All three private carriers have been impacted though the state-owned operator's number has remained almost the same, according to the BTRC data.

Grameenphone suffered a severe blow of losing 23 lakh of their active users between January and May; their subscriber base is now 7.43 crore.

Apart from the impact of the pandemic, the market leader has been facing some regulatory challenges since the beginning of the year centring an audit claim by the regulator.

The top player, however, declined to comment on what has taken a toll on their subscriber base.

Robi, the second-largest carrier, witnessed a negative impact on their customer base only in the last couple of months and had 4.80 crore users at the end of May.

As a growing carrier, Robi went very close to five crore subscribers and had taken preparations to celebrate the landmark but lost 17 lakh users in April and May, said Shahed Alam, its chief corporate and regulatory officer.

Like all the other industries, coronavirus has dealt a tremendous blow to the telecom sector.

"This crisis is also widening the digital divide in the country as people have to cut down on mobile phone use or completely stop using phones in many cases."

On top of that, Alam fears the hike in supplementary duty from 10 per cent to 15 per cent will only exacerbate the situation.

The third carrier Banglalink has been stuck with about three-and-a-half crore users for long.

They have started March with 3.58 crore active connections but after three months 15 lakh users left the network.

"We believe that many potential subscribers could not take our service and many of our current customers had faced difficulties in recharging over the last few months due to the long nationwide lockdown and movement restrictions," said Taimur Rahman, chief corporate and regulatory affairs officer of Banglalink.

This is the key reason Rahman believes their customer-base has shrunk, he added.

According to the rules set by the regulator, if a SIM is not used for 90 days, it is counted as inactive and if it remains so for consecutive 15 months, the operator can resell it.

BSEC gets tough on minimum shareholding by directors

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The argument is based on the fact that such directives are not usually seen in the global stock market arena.

"If sponsors are efficient, then they are chosen to run the company based on their merits and not because of their ownership rights," he said, adding that this is a good move for the local stock market nonetheless.

When a company's sponsor holds a majority stake, then that company performs better while dividends are also very lucrative.

On the other hand, when a company is drowned in junk stocks, it is usually seen that the firm's sponsor has a very minimum shareholding. Considering the facts, it seems that high shareholding among directors is a good sign for any company, the broker said.

The companies whose directors do not hold a minimum 2 per cent stake in their own firms are: Continental Insurance, Purabi General Insurance, Mercantile Insurance, Prime Islami Life Insurance, Meghna Life Insurance, Asia Insurance, Bangladesh General Insurance, Dulamia Cotton, Eastern Insurance, Exim Bank, Imam Button, Intech Bd, Karnaphuli Insurance, Kay & Que, Progressive Life Insurance, Provati Insurance, United Airways, Fu-Wang Ceramic, Standard Insurance, Wata Chemicals, Bangaldesh National Insurance and Paramount Insurance.

Inflation overshoots target last fiscal year

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In rural areas, inflation crept up to 6.02 per cent, which was 5.38 per cent in June last year, up 64 basis points.

Food inflation advanced to 6.47 per cent from 5.58 per cent and non-food inflation increased by 17 basis points to 5.18 per cent, BBS data showed.

Urban inflation was 6.03 per cent last month, 25 basis points higher than in the same month a year earlier.

Food inflation rose sharply to 6.72 per cent from 5.01 per cent in June, while non-food inflation fell significantly to 5.27 per cent from 6.64 per cent.

The prices of rice, eggs, broiler chicken, vegetables such as potato, eggplants, lady's finger, bitter gourd, tomatoes, carrots, long beans and papayas and spices such as red chillies, ginger and garlic rose in June from May, said the BBS in a press release. Inflation target for the new fiscal year is 5.4 per cent.

The impact of economic disruptions both on the demand and supply sides is clearly visible in these inflationary trends, said Zahid Hussain, a former lead economist of the World Bank Dhaka office.

The supply chain remained disrupted because of the countrywide shutdown enforced to tame the raging coronavirus even though mobility restrictions were withdrawn on May 31. Cyclone Amphan and floods did not help. On the other hand, Ramadan followed by Eid in June boosted the demand for food.

"These together increased food prices."

However, demand for non-food items, except health care, remained depressed because of weak consumer confidence, income losses and increase in unemployment.

This led to a decrease in non-food inflation in June relative to the previous month as well as June 2019.

Increased food inflation is terrible news for all population groups, but particularly for the poor and the middle-class, Hussain said.

"It is exacerbating their economic distress. The government needs to ensure that the food supply chains remain functional, the large operators in the wholesale and retail food markets do not take advantage of the situation by engaging in price gouging and make it easier for newcomers to compete with existing operators in the food supply chain."

The Bangladesh Bank will need to strengthen inflation surveillance and keep monetary growth in line with price stability as it finalises its monetary programme for fiscal 2019-20, he said.