

# 8 state banks still account for a disproportionate share of classified loans

REJAUL KARIM BYRON

Classified loans in the banking sector rose 3.9 per cent quarter-to-quarter to Tk 96,117 crore in June largely because of a higher volume of risky assets at private and state-run specialised lenders.

June's figure accounted for 9.2 per cent of the total outstanding loans, data from the central bank showed.

In March, Tk 92,510 crore was classified, which was 9 per cent of the outstanding loans at the time.

A classified loan is a loan that is in danger of default. Classified loans have an unpaid interest and principal outstanding but don't necessarily need to be past due. As such, it is unclear whether banks will be able to recoup them.

As a result, banks need to set aside funds from their income to minimise net classified loans under a loan-loss provision, a system that guarantees a bank's solvency and capitalisation if and when the defaults occur.

The system accounts for future losses on loan defaults as banks assume a certain percentage of loans will turn sour or become

slow-paying.

Poor lending practices, a lack of corporate governance and the government's interference in banks were the main reasons behind the rise in risky loans in recent times.

The coronavirus pandemic, which arrived on the shores of the country in March, made the situation worse as economic and business activities came to a standstill in April and May and coronavirus-induced disruptions to domestic and export demand deteriorated lenders' credit profiles.

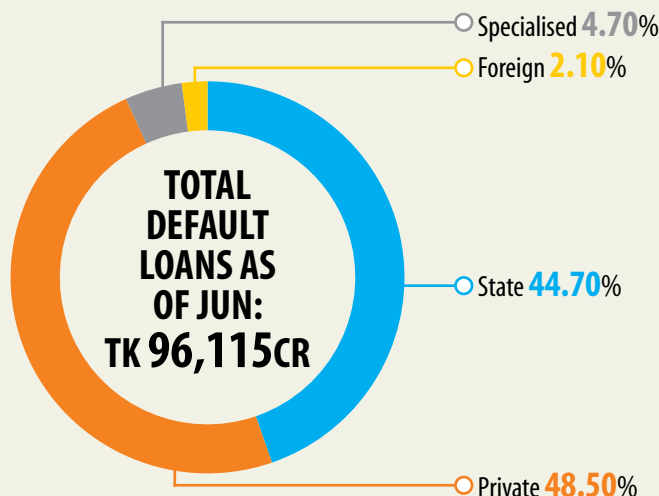
Private sector banks saw the sharpest increase in the classified loans in the second quarter of the year. They had a combined classified loan of Tk 46,592 crore in June, up 7.2 per cent from a quarter earlier.

The risky loans at state-owned specialised lenders rose 11.5 per cent to Tk 4,521 crore, which accounted for 15.9 per cent of the outstanding loans.

In March, they were sitting on Tk 4,054 crore in classified loans, which were 15.1 per cent of the outstanding loans, BB data showed.

## STATE BANKS CONTINUED TO TOWER ABOVE OTHERS WHEN IT CAME TO DEFAULT LOANS

SOURCE: BB



Classified loans at state-owned banks nudged up marginally to Tk 42,939 crore at the end of June, against Tk 42,873 crore in March.

Foreign banks, however, saw a 0.7 per cent decrease in classified

loans to Tk 2,063 crore in June, which was Tk 2,077 crore a quarter earlier.

As a result, the share of the risky loans in their outstanding loans came down to 5.5 per cent from 5.6 per cent earlier.

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## Transparent financial reporting boosts investors' confidence in capital market

Analysts say at ICAB event

STAR BUSINESS DESK

Transparent and high-quality financial reporting will reduce the cost of doing business and enhance investors' confidence in the capital and bond markets, which would ultimately help attract local and foreign investment, analysts said.

They spoke at the virtual members' conference on 'Financial Reporting Act 2015 - Roles and Responsibilities of Professional Accountants' organised by the Institute of Chartered Accountants of Bangladesh (ICAB) on Sunday.

The auditors should know the Financial Reporting Act (FRA) minutely to provide better professional services, said CQK Mustaq Ahmed, former chairman of the Financial Reporting Council (FRC) and chief guest of the event.

If the FRC finds someone guilty, before taking any decision, the matter is discussed in the council for making proper judgment, he said.

If someone is penalised, there is an opportunity for the aggrieved person or firm to take remedy in the external appellate court as per the provision of section 54 of FRA, Ahmed said.

The FRC is a council consisting of 11 members with different backgrounds whose responsibility is to discuss the gravity and nature of an offence and to ensure justice to the affected stakeholders, he added.

The government has enacted the FRA for the purpose of professional development of the chartered accountants and to add value to the profession, he said.



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# Revenue collection, exports disappoint while reserves, remittance shine last fiscal year

REJAUL KARIM BYRON

Record remittance earnings and foreign currency reserves are among a few positive takeaways for the government in an otherwise painful fiscal year as the devastating coronavirus pandemic pushed revenue collection to an unprecedented fall and exports to collapse.

Bangladesh's tax collection dropped as much as 25.4 per cent year-on-year to Tk 168,677 crore in the just-concluded fiscal year as the coronavirus pandemic brought the economy to a standstill.

Non-tax revenue, however, rose 21.8 per cent to Tk 31,571 crore, according to the annual report on government activities for fiscal 2019-20.

Overall, revenue collection dipped 20.5 per cent to Tk 200,248 crore. This is first-ever negative growth in Bangladesh's history.

The two-and-half-month-long countrywide general shutdown introduced on 26 March dented the state's coffers as economic activities saw massive disruption in the last quarter of the fiscal year

ending in June.

Foreign currency reserves grew 10.2 per cent year-on-year to \$36 billion in fiscal 2019-20, which was \$32.7 billion a year earlier, on the back of a higher-than-expected remittance flow, a fall in imports and budget support from the development lenders.

Money sent home by Bangladesh's more than 1 crore migrant workers stood at \$18.2 billion, up 10.9 per cent year-on-year.

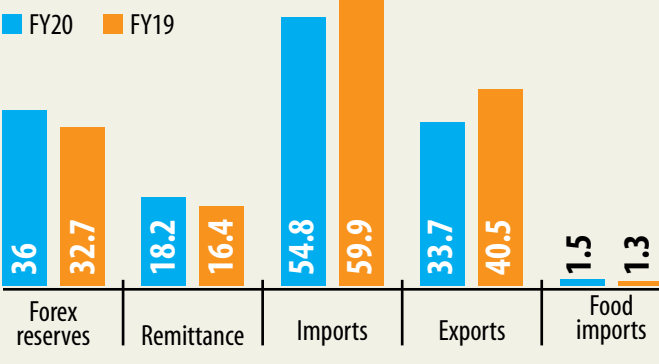
In the just-concluded fiscal year, Bangladesh received \$500 million from the Asian Development Bank, \$250 million each from the World Bank and the Asian Infrastructure Investment Bank and \$732 million from the International Monetary Fund to help the people and pull the economy out of the crisis.

Imports fell 8.6 per cent year-on-year to \$54.8 billion, as demand dropped drastically in the country after the deadly virus arrived at the shores of Bangladesh in March.

Similarly, exports plummeted 16.9 per cent to \$33.7 billion as Western countries were devastated by the pestilence.

## Major economic indicators (in \$b)

SOURCE: FINANCE MINISTRY



Opening of letters of credit for importing rice and wheat increased 15.3 per cent to \$1.5 billion, which was \$1.3 billion a year earlier.

The stock of food grains fell 29 per cent to 11.9 lakh tonnes, which was 16.7 lakh tonnes in fiscal 2018-19. This is because of the distribution of grains as relief among the people suddenly rendered jobless and poor by the pandemic.

More than 80.2 crore

individuals, families and organisations received a combined Tk 74,367 crore in social safety net allowances last fiscal year, up from 76.3 lakh beneficiaries involving Tk 64,177 crore a year earlier.

The government has rolled out online salary bill submission across the country and more than 1.5 lakh officers are submitting salary bills electronically at the moment.

The government is set to get

rid of paper-based salary bill submission from this fiscal year, the finance ministry report said.

All ministries and divisions and head offices of most of the departments have introduced online salary bill submission and disbursement of salaries through the electronic fund transfer (EFT) for non-gazetted officials. The scheme would be expanded all over the country in the current fiscal year.

The government has formulated a pension database of pensioners and information about 8.2 lakh of them are now included in it. The pensioners receive monthly payment through the EFT.

The government has set up the central pension providing office. All pensioners would come under the EFT system this fiscal year.

Besides, an online database of about 11.5 lakh government employees has been established.

The government is providing allowances to more than 50 lakh people through EFT under its various social safety net programmes. It is now working to pay out the allowances directly using the Integration Budget and Accounting System.

"An auditor has enormous power and has a big role at the same time. Through his audit, a company can be destroyed. And again for any mistake an audit firm can be destroyed."

In the global business context, a local company has to survive through stringent competition with a foreign company, said Muhammad Farooq, ICAB president.

Professional accountants look into the matters related to the financial strength of a company, prepare strategic goals by analysing financial data and present them to the stakeholders, he said.

"On the other hand, professional accountants also carry out statutory audit of the financial statement of a company. In these aspects, the role of CAs is very crucial. All the stakeholders and the regulator should play an active role to make the FRA more effective."

Executive directors of FRC stressed the need to prepare a fair audit report. They urged the auditors to prepare quality audit reports.

The conference was largely participated by the members of ICAB. Sabbir Ahmed, vice president and chairman of Technical and Research Committee of ICAB, made the opening remarks while the ICAB president delivered the welcome speech.

Mahbub Ahmed Siddique, director (technical) of ICAB, presented the keynote paper.

The Institute of Chartered Accountants of Bangladesh (ICAB) is the national professional accounting body, established for the purpose of regulating the profession of accountants.

ICAB members hold a widely respected professional accounting qualification which supports enterprise, corporate governance and sustainable growth in the business environment.

The association works to promote and regulate high quality financial reporting and auditing, develop and maintain the competence of professional accountants and enhance the reputation of the accounting profession in all sectors of the economy.

# Pre-shipment credit refinance relaxed for exporters

STAR BUSINESS REPORT

The Bangladesh Bank yesterday relaxed rules for availing pre-shipment credit refinance aiming at helping local exporters continue shipping products amid the coronavirus outbreak.



foreign countries.

On April 5, Prime Minister Sheikh Hasina announced that the Bangladesh Bank will introduce a new loan facility titled pre-shipment credit refinance scheme involving Tk 5,000 crore for local exporters.

The revolving fund will have a tenure of three years, the guideline said.

Banks will borrow money from the fund at 3 per cent interest rate and can charge borrowers a maximum 6 per cent.

A maximum of 10 per cent of the commercial invoice value of exported consignment will be eligible for the scheme.

A single client may use the facility multiple times but they have to be availed in a single year.

Recently, the Bangladesh Bank has widened its export development fund from \$3.5 billion to \$5 billion. Banks will have to disburse the lion's share of the stimulus package from their own sources.

It also introduced international factoring, a development that can be viewed as a mode of accelerating the country's exports and reduce exporters' risk of collecting their products' worth.

This new method is a form of payment guarantee for exporters, according to a central bank notice.

Banks dedicatedly running foreign exchange related businesses will be allowed to let exporters ship goods on sales contracts under open account credit terms within the statutory period, if otherwise not extended, from the date of shipment.



Members of the civil society and workers under the banner of Paatkol Rokkhay Sommilito Nagorik Parishad stage a sit-in blocking the BICD road near the Notun Rasta intersection in Khulna city yesterday demanding modernising and reopening of the state-run 25 jute mills shuttered in July instead of running those through private entities or under public private partnerships.

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