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BB's policy worsening banking ecosystem

In the long run, the sector will become more vulnerable

We are greatly disturbed by the Bangladesh Bank's decision to let banks count unrealised instalments of loans as income. As per the central bank's so-called "relaxed policy," banks were not allowed to treat borrowers as defaulters if they repaid only 15 percent of their total instalments payable, and were permitted to transfer the unrealised interests on the 85 percent of the loan instalments to their income—although the sums were not paid. In reality, there is no way that the entire amount of the unrealised interests will be paid to the banks. Therefore, by doing this, banks are painting an unrealistically positive picture, which is illusory.

Additionally, by showing the unrealised instalments of loans as income, banks are inflating their profits, thereby, increasing the dividends payable to its owners and shareholders. This will drain banks' assets on the one hand and could likely increase their share prices on the other—even though there are no tangible reasons for these to occur. So, the entire banking ecosystem is being spoiled as a result of the BB's decision. In the short run, this decision may seem like it is giving banks a victory, but that victory will be extremely short-lived, as banks are showing increased incomes by cooking the books—and not through any actual profit.

Last year, we saw the entire global banking sector struggle because of Covid-related shutdowns. Whereas we see central banks around the world working extra hard to increase the provisions held by banks in their countries, we are seeing the opposite happen here. Because of the Bangladesh Bank's policies, the provisions being held by banks could go down, making the sector even more vulnerable in the long run—while on paper, making it look like everything is all well and good.

When it is the job of the regulators to ensure that the banking sector is following strict accounting methods to give borrowers, depositors, investors and shareholders an accurate picture of how the sector is doing, we fail to understand why the Bangladesh Bank is doing the exact opposite, what it expects to achieve through such policies in the long run, and whether this is a result of external actors once again influencing the central bank, like they have done so often in the past.

Over the years, we have seen the central bank's independence deteriorate, it break its own rules and regulations as a result of that, discipline in the sector worsen, and the sector's stability become increasingly questionable. This latest policy adopted by the Bangladesh Bank does nothing but add to such instability. We cannot help but condemn such policies by the central bank, and urge it to make an immediate course correction for the long-term future of the sector—and the economy in general.

Will we ever take road crashes seriously?

Govt needs to enforce road transport act urgently

IT'S no surprise that one constant feature of the tumultuous year that 2021 has been was the upward trend in road crashes and casualties, caused mostly by faulty vehicles, reckless driving, and inadequate traffic systems. As per data from the Road Safety foundation (based on newspaper reports), at least 413 people were killed in road crashes in November, while the number rose to 418 in December. Such data is especially disheartening given that, after the Road Safety Movement of 2018, students were again forced to take to the streets to demand safer roads during these months, prompted by the killing of a college student on November 24 by a DSCC vehicle in Gulistan.

While there are some straightforward reasons as to why road accidents continue to occur, we cannot ignore some of the more complex and underlying causes of the rise in accidents. The most glaring of these is perhaps the government's apparent apathy towards these incidents, which is reflected in the sluggish progress in implementing the Road Transport Act 2018. Over the last three years, the Act has been kept in draft form while being amended as per the demands of transport owners and workers.

As recently as December 19, 2021, the road transport and bridges ministry issued a circular relaxing the experience requirements for obtaining driving licences for heavy and medium vehicles. This was something that transport workers had demanded while protesting the Act in 2019, and while the government had relaxed the experience requirement in August 2018, the tenure of this has been extended several times since. This is despite the fact that research has seen a growing involvement of heavy vehicles in road crashes in part due to this relaxation of regulations. This is but one example of how the government has bowed, again and again, to the whims and demands of transport owners, to the obvious detriment of ordinary passengers.

With deaths increasing on the roads at such rates, we would urge the authorities—as we have done repeatedly in this column—to prioritise the implementation of the Road Transport Act 2018 to improve road safety. Not only should the Act be amended in the right spirit, if amendment must be done, without any concessions given to the pressure groups, it should also be implemented rigorously if we are to see a decrease in deaths caused by road crashes.

Aiming for a strong economic recovery in 2022

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THE Covid-19 situation is now shrouded in uncertainty. Just when we were about to relax over the receding pandemic cases, it is once again time to worry. With Omicron cases surging, the economy is likely to suffer a hit, since countries across the world are taking precautionary measures to contain the new variant's spread. Hence, the performance of Bangladesh's economy in 2022 will be determined by how well the new coronavirus variant is managed. Despite a relatively better performance in terms of economic growth, Bangladesh economy has faced a number of challenges in the first few months of the ongoing fiscal year (FY2021-22). In the coming months, policymakers will have to stay vigilant in view of a few challenging signs for the economy.

First, during the July-October period of FY22, revenue mobilisation by the National Board of Revenue (NBR) grew by 16.6 percent when compared to the same period of FY21. The major impetus came from indirect tax collection through imports and exports. However, revenue growth is far below the target of the NBR which is set at 27 percent for FY2022. Fulfilment of this target will require the revenue mobilisation effort to grow by 30.7 percent during the next eight months of FY2022.

Second, the public expenditure trend during July-November of FY2022 is also below the target level of 18.6 percent and needs faster speed. Of course, the share of expenditure under the Annual Development Programme (ADP) during these five months is better than that of FY2021. This is, however, lower than the same time span of the pre-pandemic period. One visible feature of the ADP expenditure is that the Health Services Division, of its total allocation—which is only 5.8 percent of the total ADP—could spend only 6.4 percent of the fund so far. This is unfortunate, since there is a need for higher spending on health services during the pandemic.

Third, inflationary pressure has become a major concern—particularly for the low-income consumers. Several people have lost employment during the pandemic. With economic activities opening up, many have regained their jobs, but at a lower salary. Higher prices at the international market due to recovery of demand, high shipping prices, and supply constraints have caused commodity prices to rise domestically. According to the Bangladesh Bureau of Statistics (BBS), point-to-point inflation rose to 5.98 percent in November 2021 from 5.7 percent in October 2021.

While creeping inflationary pressure is worrisome for the recovery from the pandemic, the official inflation numbers do not reflect the reality, since the actual pressure of prices felt by the common people is much stronger than the existing inflation rates. There is a need for changing the commodity basket for estimating inflation. These should be based on actual consumption pattern of the majority of the people. Higher inflationary pressure has also been a concern for the small savers, as the real interest rate from savings with the commercial banks, has declined at a time when the pandemic has hit people's income.

ILLUSTRATION: STAR

> **The increase in credit growth to the private sector may be due to the resumption of economic activities and increased demand for imports and exports.**

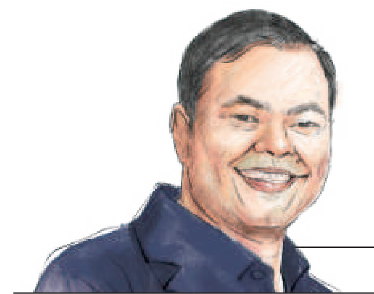
Fourth, one of the key drivers of growth and employment, the private sector, may also find it difficult to recover fully in FY22, though credit to the private sector grew at a higher rate in October 2021 (9.8 percent) compared to June 2021 (8.3 percent), but much lower than the target of 14.8 percent for this fiscal year. The increase in credit growth to the private sector may be due to the resumption of economic activities and increased demand for imports and exports. For boosting private investment, there is a need for a competitive and level playing field for all investors, reduction of cost of doing business, better infrastructure, and skilled human resources.

Fifth, the external sector has seen some positive signs driven by higher export incomes, import payments and remittances. During July-November of FY22, export income grew by 24.3 percent. Import payments also increased by 51.4 percent during the July-October period. Though remittance inflow declined by (-) 21 percent during July-November of FY22, compared to the unprecedented increase in FY21, this is still higher than the same period during the pre-pandemic period. Another good sign is the rise in overseas migration after a high number of returnees following the outbreak of the pandemic.

But the increasing trade deficit is a cause for concern, which has led to a negative current account balance during the July-October period of this fiscal year. The other worry is that higher exports of ready-made garments (RMG) is volume driven rather than value driven. Despite price hikes of raw materials, the unit prices of RMG have not increased, which may put the entrepreneurs in a disadvantageous situation to remain competitive.

Finally, the government will have to map out an exit strategy for Covid-related financial policies in the second half of FY22 and the first part of FY23. High non-performing loans have been a major worry in the banking sector for long. The moratorium on bank loan recovery and classification by the central bank on stimulus packages should be discontinued, and the recovery of the bank loans will have to be followed up seriously. It is also time to make some of the tax incentives provided by the government to certain sectors time-bound—particularly when there is a need for fiscal space. The government will have to pursue expansionary fiscal and accommodative monetary policies for some time to support the poor and small enterprises in a more focused manner, and make required public investment in the next six months of FY22.

Time for unity between RMG buyers and suppliers



RMG NOTES
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ONE of the lessons that we learnt during Covid-19 is that suppliers and buyers need to collaborate more, moving away from adversarial relations. But how can we make the shift towards collaboration? And what are the barriers to such an approach to business?

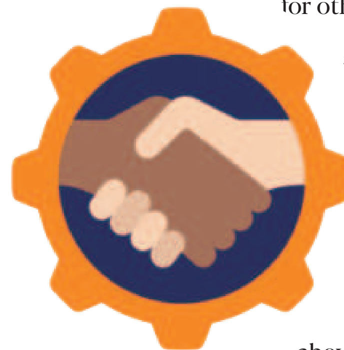
Perhaps it makes sense to begin with the latter, and consider what is preventing closer relationships with customers. I'd say three factors have a prominent role to play here.

The first is the basic issue of trust, and that swings both ways. Many RMG manufacturers are naturally cautious about fashion brands and retailers. They may have had their fingers burnt in the past, perhaps during the cancelled order crisis in 2020, which damaged buyer-supplier relationships generally.

Likewise, buyers can be overwhelmed by the sheer number of vendors and the aggressive sales tactics that many see necessary to adopt in an over-crowded market. This can lead to reticence and caution on both sides.

The second factor is the ongoing disconnect between sustainability and purchasing departments at major fashion brands. I have no doubt that sustainability teams at most major brands recognise the need for more cordial relations with suppliers, as they understand that poor relations and purchasing practices can impact the well-being of RMG workers.

Is this message getting through to purchasing managers and buying teams? From my perspective, the answer is "occasionally." Some purchasing teams are better than others; some understand the need to incorporate sustainability metrics into their decision-making, while for others, it is all about the price.



The final barrier is broader and cultural: adversarial buyer-supplier relations have become the norm in our industry. That's why turning the tide on this issue has proven difficult so far, although there are some signs that things are improving—albeit very slowly.

So how can we address the above issues and forge better buyer-supplier relationships?

> **When there are grey areas, this leads to uncertainty, mistrust (which we discussed above) and poor working relationships.**

For a start, I believe we need broad industry alignment and a "vision" of what it means to do business in our industry in the post-pandemic world. We need to act now and stop making the same mistakes as in the past.

Perhaps an industry charter for collaborative working could be devised? In such a document, buyers and suppliers could both agree on and lay down their expectations when entering business transactions. Besides agreeing to the usual legal issues and terms and conditions, such a charter could also seek to reach broad consensus around pricing, negotiation, deadlines (and the need to allow reasonable deadlines), delivery, samples (whether they are free or paid for), and so on. At the moment, there is a lack of standardisation; industry actors make things up as they go along.

When there are grey areas, they lead to uncertainty, mistrust and poor working relationships. We are all losers in such a scenario—buyers and suppliers alike.

There is also an argument for having an industry steering group, comprising representatives from buyers, suppliers and independent stakeholders, to oversee such a charter and arbitrate when a buyer or supplier has stepped out of line. Such a steering group could also mediate on disagreements between buyers and suppliers over contracts and working relationships.

I am not sure that we need more regulations in the industry, as buyers and suppliers alike would argue that this would lead to more red tape and, if anything, make relationships worse. I am naturally cautious about "voluntary" industry initiatives as, in my experience, their impact in the past has been negligible. In an area like this, however, I think a voluntary approach is the best way forward and could have real impact, if the case could be made that all parties would benefit. In any case, something legally binding would be highly unlikely to get off the ground.

What we could aspire to, then, is a pact that the whole industry enters into with the spirit of cooperation and mutual benefit—an agreement to draw a line under the disagreements and arguments of the past, and which sets out a clear pathway for a future in which buyers and suppliers work for—and not against—each other.