Star BUSINESS

BANKS FACING CAPITAL SHORTFALL

As of Sep 2022; SOURCE: BB

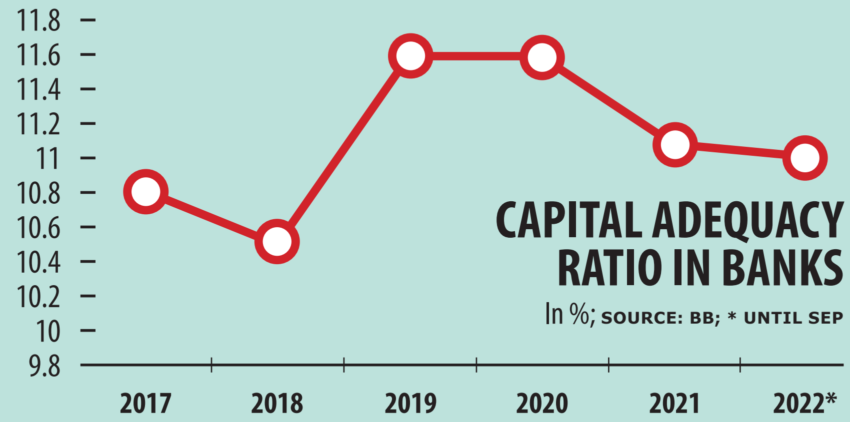
BKB	Tk 13,491cr
Agrani	Tk 2,851cr
Rupali	Tk 2,390cr
Janata	Tk 2,300cr
Sonali	Tk 2,273cr
RAKUB	Tk 2,244cr
BASIC	Tk 2,000cr
National	Tk 1,693cr
ICB Islamic	Tk 1,668cr
BCBL	Tk 1,271cr
Padma	Tk 425cr

WHAT LED TO CAPITAL SHORTFALL

- Financial scams
- High defaulted loans

IMPACT

- Banks' capacity to absorb shocks wanes
- Banks' reputation will be tarnished in global arena



CAPITAL ADEQUACY RATIO IN BANKS

In %; SOURCE: BB; * UNTIL SEP

"Lack of corporate governance is the main reason behind the capital shortfall.

Fahmida Khatun
Executive director of CPD

11 banks suffer capital shortfall

AKM ZAMIR UDDIN

Eleven banks in Bangladesh collectively faced a capital shortfall of Tk 32,606 crore in September, which highlighted their fragile health caused by years of irregularities.

The banks are Bangladesh Krishi Bank, Agrani Bank, Rupali, Janata, Sonali, Rajshahi Krishi Unnayan Bank, BASIC Bank, National Bank, ICB Islamic Bank, Bangladesh Commerce Bank, and Padma Bank.

Corruption perpetrated at the banks is mainly responsible for the large capital shortfall.

As of September, Bangladesh Krishi Bank had the highest amount of shortfall of Tk 13,491 crore among the 11 lenders, data from the Bangladesh Bank showed.

State-run Agrani's shortfall stood at Tk 2,851 crore. It was Tk 2,390 crore for state-run Rupali and Tk 2,300 crore for another government-owned Janata bank.

This led analysts to call on the central bank to take immediate measures to address the problem as such a situation sends a negative signal to the international community and local businesspeople that the banking sector is weakening.

Foreign banks usually look at the capital base of a lender before doing any business with it.

"The large capital shortfall gives a negative signal to foreign banks. So, the country's image is taking a hit," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

He blamed financial corruption and the higher ratio of classified loans for the shortfall.

The amount of default loans in the banking sector increased substantially in September, the latest for which the data is available, bringing a negative impact on the capital base in the sector.

Default loans at 60 banks operating in Bangladesh surged to a record Tk 134,396 crore in September, accounting for 9.36 per cent of the total outstanding loans of Tk 1,436,200 crore in the banking system. A year earlier, the ratio was 8.12 per cent.

Banks have to set aside a large amount of provisioning against the defaulted loans, hitting their capital base ultimately.

The capital base also eroded in September compared to December last year as the capital adequacy ratio (CAR) shrank to 11.01 per cent in contrast to 11.08 per cent.

The CAR, also known as the capital-to-risk-weighted assets ratio, measures a bank's financial strength by using its capital and assets. It is used to protect depositors and promote the stability and efficiency of financial systems around the world.

The capital base of the banking industry in Bangladesh is also weaker than its peer countries in South Asia, according to BB's Financial Stability Report.

In 2021, banks in Pakistan maintained a capital adequacy ratio of 18.7 per cent, while it was 16.5 per cent in Sri Lanka, and 16.6 per cent in India.

"If a bank faces a capital shortfall, its capacity to absorb shocks erodes," said Mansur, also a former official of the International Monetary Fund.

"The central bank should take immediate measures to strengthen the capital base of the banks."

Fahmida Khatun, executive director of the Centre for Policy Dialogue, pointed out that the central bank had earlier injected a large amount of capital into the banks, but the initiative did not work properly.

"A lack of corporate governance is the main problem for the capital shortfall. If scams continue unabated, the capital shortfall position will not improve," she said.

In order to strengthen the capital base, the BB took initiatives to implement the Basel III guidelines by 2019.

Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the global financial crisis of 2007-09 to improve regulations, supervision, and risk management within the banking sector.

As per a roadmap unveiled by the BB in 2014, banks were supposed to raise the minimum CAR to 12.5 per cent by December 2019 from 10 per cent then. But the sector has fallen short of hitting the goal.

Feasibility study initiated for trade deal with Japan

STAR BUSINESS REPORT

Bangladesh and Japan yesterday initiated a joint feasibility study on exploring the possibility of signing either a free trade agreement (FTA) or an economic partnership agreement (EPA) before the country becomes a developing nation in 2026.

Commerce Minister Tipu Munshi and Japanese Ambassador to Bangladesh ITO Naoki announced this at a joint press conference at the ministry in Dhaka. The cabinet division of Japan announced the same at a press conference in Tokyo.

Under the study, 13 sectors bearing potential will primarily be explored by teams from Bangladesh and Japan, said Munshi, adding that both countries agreed on signing the agreement to explore trade potentials.

Bangladesh has been negotiating with some major trading partners to sign preferential trade deals with countries like Japan, Indonesia, India, China, Nepal and Sri Lanka.

Under the study, 13 sectors bearing potential will primarily be explored by teams from Bangladesh and Japan

The aim is to retain duty benefits once the country graduates from its current United Nations-established status of a least developed country (LDC).

Japan is a country with a lot of potential for Bangladesh as both investment and exports are on the rise. As a result, businesspeople of both countries are also demanding signing the trade deal, Munshi said.

The local exporters may face 5.5 per cent to 18 per cent duty on merchandise shipment to Japan when the LDC duty preference for Bangladesh is withdrawn for the graduation, said the minister.

The growth of apparel shipments indicate that its amount will cross $4 billion to $5 billion within the next five years from the $1.1 billion attained last fiscal year, said Munshi.

The total value of exports from Bangladesh to Japan was $1.35 billion while imports $2.41

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FBCCI wants easy LCs, even at expense of reserve dollars

STAR BUSINESS REPORT

The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) yesterday urged the central bank to facilitate opening of letters of credit (LCs) by businesses to import essentials and other items ahead of Ramadan, even if it requires releasing foreign currency from the country's reserves.

The apex trade body also demanded that the Bangladesh Bank extend an existing relaxed loan repayment policy to June 30 next year from the end of December this year

It also sought steps for a unified exchange rate instead of the multiple rates that prevail at present.

A team of the federation placed the pleas at a meeting with central bank high-ups at its headquarters.

"The current situation is worse than the pandemic period. We can not bring raw materials for problems in opening LC," FBCCI President Md Jashim Uddin told journalists after the meeting.

"At the same time, we cannot run factories for low pressure of gas. If we can not run factories, import raw material by opening LCs, how can I pay loan instalments?" he asked.

The apex trade body also demanded that the Bangladesh Bank extend an existing relaxed loan repayment policy to June 30 next year from the end of December this year

Banks will become defaulters too if borrowers fail to repay loans. "It is not that we are doing fine financially. So, we want policy support," he said.

Referring to the issue of multiple exchange rates, the FBCCI president said exporters get Tk 101 for each US dollar while they have to count over Tk 105 to buy the greenback to clear import bills for raw materials.

He said backward linkage industries pay Tk 105 per dollar for importing raw materials but they get Tk 101 per dollar when they export their manufactured products.

"That is why we have urged them to make the dollar price unified in both import and export," he added.

The apex trade body also urged the BB to extend the loan repayment tenure of an export development fund to 270 days from 120 days.

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STOCKS

DSEX ▲	CASPI ▲
0.43%	0.47%
6,266.95	18,458.25

COMMODITIES

Gold ▲	Oil ▼
$1,797.23 (per ounce)	$70.66 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 0.08%	▼ 0.21%	▼ 0.19%	▼ 0.87%
62,130.57	27,842.33	3,239.66	3,179.04

Sugar prices show no signs of easing

Though refining normal as gas supply improves

SUKANTA HALDER

Sugar prices show no sign of falling in Bangladesh although refining activity is going on in full swing thanks to the improvement of gas supply to refiners to a large extent.

In July, the gas crunch hit factories after the government stopped purchasing liquefied natural gas from the international spot market amid a fast depletion of foreign currency reserves, fuelled by the escalated import bills.

In the subsequent months, the price of sugar skyrocketed because of the lower gas supply and lower pressure of the available

with one refiner saying in October that the production decreased by 60 per cent due to the gas crisis and warned that there would be a lot of problems in the sugar market if the energy situation does not improve.

At one point, the sugar price shot to Tk 125 a kg from Tk 90 two months ago. Retailers are now selling the item Tk 110-120 per kg.

Now, refiners say they are getting the required amount of gas.

"Our production has returned to normalcy and there has been no gas crisis for the last two weeks in our factories," SM Mujibur Rahman, head of accounts of Meghna Group of Industries, told The Daily Star.

Golam Rahman, secretary general of the Bangladesh Sugar Refiners Association, and managing director of

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Wholesalers and retailers in Dhaka and Chattogram say the sugar supply is still inadequate in many places. The photo was taken from the port city yesterday.

PHOTO: RAJIB RAIHAN

Rein in rumours about EDF

Textile millers urge all

STAR BUSINESS REPORT

Textile millers yesterday urged all concerned to avoid disseminating any wrong information about the Export Development Fund (EDF) of Bangladesh Bank as the soft loans it provides have helped the sector grow a lot.

There is no scope of taking money away from the EDF as the loans are disbursed only to exporters, who repay the funds from their export receipts with Bangladesh Bank, Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association (BTMA), told reporters at his office in Dhaka.

A section of people has been disseminating information that certain exporters are taking money away from the EDF even though it is not possible to do so, he added.

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