POST-LDC ERA

Need to diversify products, markets: MCCI

STAR BUSINESS REPORT

Bangladesh needs to diversify its export basket and seek out new markets in order to prevent potential losses after graduating from the list of least developed countries (LDC), according to Saiful Islam, president of the Metropolitan Chamber of Commerce and Industry (MCCI).

With Bangladesh set to graduate from an LDC in 2026, the country will have to overcome the challenges that come with the loss of preferential access to most export markets, he said.

Islam made these remarks when a delegation of the Country Road Group (CRG), one of Australia's largest fashion retailers, visited the MCCI office in Dhaka yesterday.

During the meeting, Islam praised Australia's decision to allow preferential access for Bangladeshi goods even after LDC graduation.

"As facilitators of trade and commerce, the MCCI would always pursue improving trade between the two countries," he said.

Leading the delegation, Rachid Maliki, general manager of global supply chain and sourcing, said since Bangladesh's share in CRG's sourcing is very low, it has much room to improve.

Maliki then praised Bangladesh's newest factories and how they were built underscoring safety, security, and green transition.

He also highlighted the local entrepreneur's positive change in mentality, which he thought could ultimately help CRG decide to source more from Bangladesh.

Jeremy Bruer, Australia's high commissioner to Bangladesh, said as both countries produce complementary products, tapping into those could push up bilateral trade.

Australian liquefied natural gas and wool could be useful for Bangladesh while Australia could find Bangladesh's agricultural products useful, he added.

The high commissioner also affirmed that Australia is ready to facilitate bilateral trade at the government level.

Sri Lanka expects $5b more in loans

REUTERS, *Colombo*

Sri Lanka is expecting as much as $5 billion in loans next year from multilateral agencies besides an IMF deal, while the government is aiming to raise up to $3 billion via restructuring of state assets, its foreign minister told Reuters on Wednesday.

The island nation's worst economic crisis in more than seven decades has resulted in widespread unrest due to shortages of food and fuel. Its then-president Gotabaya Rajapaksa was ousted in July.

Additional funds are critical for the country that is already saddled with a public external debt of $40.6 billion, of which it owes 22 per cent to Chinese creditors.

In September, the country of 22 million reached an agreement with the IMF for a loan of $2.9 billion, which could be approved for disbursal next year.

"Apart from what we get from the IMF, we are looking at all others, the multilaterals put together another $4-$5 billion ....," Ali Sabry said in an interview.

"The president is interested in restructuring some of the (state) institutions, so through that if we can raise $2-$3 billion, our treasury and reserves become strengthened."

Sri Lanka was expecting to seek IMF board approval for the loan in December but that has likely been pushed to January, the minister said, as the government works to lock in financing assurances from countries including China, Japan and India, as well as private creditors.

Sabry said Sri Lanka was still waiting for "letters of assurance" for debt restructuring from its largest bilateral creditor China, as well as India.

The two countries have backed the restructuring efforts and Sri Lanka has shared documents and data with them, he said.

"We have made it very clear to the IMF, to our multilateral partners and to our bilateral friends that patience is running out and it is urgent for the sake of

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AT A GLANCE

- Akij Biax Films set up packaging films plant in 2018
- It produces three types of films: biaxially-oriented polypropylene, biaxially oriented polyethylene terephthalate and cast polypropylene
- The films are used in food and garments packaging, labels for beverages, lamination on paper, wrappers, tobacco product packaging and in many other applications
- Akij is the lone player in the industry
- The company has the capacity to meet all demand

BY THE NUMBERS

- Akij invested over Tk **1,000**cr so far in the plant
- The factory in Trishal employs **700** people
- Current annual local demand for packaging films stands at **70,000** to **80,000** tonnes
- Akij currently meets less than **30**pc of local demand

MAKING PACKAGING MATERIALS

Akij Group's Tk 1,000cr investment at risk

MD blames misuse of bonded warehouse facility and lack of tax protection

MAHMUDUL HASAN

With the aim of catering to the growing local market and diversifying the country's export basket, Akij Group invested more than Tk 1,000 crore in setting up a plant to produce films for packages.

But the conglomerate has landed in hot water as it is incurring losses due to what SK Bashir Uddin, managing director of Akij Group said the misuse of the bonded warehouse facility and a lack of tax protection.

Through Akij Biax Films Ltd (ABFL), the group produces films for both single-layer unprinted flexible packaging and multilayer printed flexible packaging.

These films are used in food and garments packaging, labels for beverages, lamination on paper, wrappers, tobacco product packaging and in many other applications.

"Now we are trying to sustain the business somehow. But it has resulted in negative financials for us. This is very sad for local investors," said Bashir Uddin.

Akij Group is one of the largest business groups in Bangladesh with diverse interests in textiles, cement, ceramics, printing, packaging, pharmaceuticals, tobacco, food, beverage and consumer products.

According to Bashir, the local annual demand for biaxially-oriented polypropylene (BOPP), biaxially-oriented polyethylene terephthalate (BOPET) and cast polypropylene (CPP) -- all produced by Akij Group—stands at 70,000 tonnes to 80,000 tonnes.

Although it has the capacity to meet the entire domestic demand, the conglomerate currently manufactures about 25,000 tonnes. Of the volume, it exports about 10,000 tonnes and the rest is supplied to the domestic market.

"We have the capacity to meet the total demand in the local market, but it is highly dominated by imports due to a lack of proper tax protection and the illegal use of the bonded facility," Bashir said.

He said the local market is now flooded with films that have been brought into Bangladesh for the export-oriented industry. But, a section of importers supplies them to the local market illegally.

Besides, printing businesses that are the customers of ABFL have to pay only 15 per cent taxes to import the films that the Akij Group's subsidiary can produce.

"But if you import printed materials, you will have to pay about 70 per cent tax to support local printing businesses. Thus, the country is protecting printing businesses, not the local film producer," the entrepreneur said.

"The difference is disproportionate. For a local and new industry to survive after investing more than Tk 1,000 crore with only 15 per cent tax protection is simply not possible."

In the industry, there are giant players in India and China and they are certainly 15 per cent more efficient than Bangladesh, he pointed out.

"We are a new company. But we have a high-interest rate and a higher depreciation. So, we are unable to compete. We are being beaten by the misuse of the bonded warehouse facility and tax regulations."

"Now, the survival of our company is at great risk."

"We are the first company to have introduced the product. But we don't need 70 per cent protection, but we can demand a 25 per cent protection."

In Bangladesh, flexible packaging started in the late 1980s, mostly for powdered milk packaging and the demand was met by imports.

Soon, the demand started to boom with snacks, food and biscuits packaging beginning with

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Non-banks facing uphill battle

MESBAH UDDIN AHMED

What started with lease financing, progressively diversified into term lending, working capital financing, corporate advisory, housing finance, merchant banking, equity financing and finally took the name of today's non-banking financial institution (NBFI).

With an effort to strengthen the economy through long term financing, in 1983 the government permitted NBFIs to offer lease financing.

Regulations such as the Financial Institutions Act of 1993 developed with time, enabling NBFIs to broaden their products and provide the greatest possible convenience to borrowers.

Today, NBFI is playing a vital role in the financial system, acting as a noteworthy bridge between households and businesses. Even though NBFI has been able to infiltrate the financial system, it faces tremendous competition from local and international banks in respect to both asset and liability.

Yet, the zeal for developing innovative long-term solutions for clients has created competitive advantage for the top performing NBFIs.

Currently, there are around 35 NBFIs in Bangladesh. Even though some are successful in sustaining good asset quality, most are struggling with a high degree of non-performing loans (NPLs).

The Covid-19 pandemic, Russia-Ukraine war and subsequent inflation have negatively impacted the economy and thus can be blamed for increasing NPLs in the overall banking sector.

However, inadequate governance and several news on loan scams and fraudulence have degenerated the condition for NBFIs.

Meanwhile, to reduce the cost of capital, the central bank and banking association have set a maximum interest rate of 9 per cent on all bank loans and 6 per cent on deposits.

Subsequently, in the wake of rising commodity prices, banks were allowed to keep deposit rates higher than the rate of inflation. On the other hand, the central bank imposed an interest rate cap of 11 per cent on loans and 7 per cent on deposits for the NBFI sector to bring a resemblance with banks from July this year.

For a long time, the banking industry has been a victim of NPLs. Furthermore, recent rumours regarding liquidity shortfall amid media reports on large scams in the banking sector have created unwanted misperception and confusion among depositors.

As both banks and NBFIs operate in the same customer segments, where the major source of funds for NBFIs is term deposits, NBFIs are dealing with additional liquidity stress.

The rationality behind the difference of 2 per cent between banks and NBFIs in case of the lending cap was justified considering the high cost of funds for NBFIs.

Previously, NBFIs would offer 1-2 per cent more than banks on deposit and maintained the spread on the lending accordingly.

However, in case of deposits, the new regulation failed to maintain the same rationality as the bank's deposit rate cap had a provision of adjustment with inflation that was absent in NBFIs'.

This has made it difficult for NBFIs to survive. As the country's inflation jumped to 9.5 per cent in July, banks accordingly adjusted their deposit rate for staying competitive. Whereas, NBFI failed to surpass the cap of 7 per cent deposit.

As a result, the NBFIs are having a difficult time maintaining their market positions.

And for this reason, depositors are more willing to transfer their money from NBFIs to banks. Evidence is there that total deposit of NBFIs has already reduced to Tk 420 billion as of June this year from Tk 426 billion as of June 2021.

If the same scenario continues, the NBFI sector would witness a severe crisis that would further deter the economy's growth. Hence, it is high time regulators looked into the issue and mitigate the price disparity between banks and NBFIs.

The author is a banker and analyst

ADB cuts developing Asia growth forecast

The lender takes the stance on China slowdown

AFP, *Manila*

The Asian Development Bank trimmed its economic growth forecast for developing Asia on Wednesday, with China's pandemic lockdowns, slowing global demand and the Russian invasion of Ukraine seen as limiting the region's prospects.

The Philippines-based lender cut its 2022 forecast to 4.2 percent, down marginally from a 4.3 percent projection made in September.

Prospects for 2023 also grew dimmer, it said in a report, which lowered the region's growth forecast to 4.6 percent from 4.9 percent.

"Recovery in developing Asia is expected to continue but lose some steam," the ADB said, referring to the 46 developing member economies that as a whole grew 7.0 percent last year.

Chinese lockdowns, the Ukraine war and slowing demand from developed economies for manufactured goods were the main causes, it said.

"Multiple risks abound as the three main headwinds could worsen, along with geopolitical risks and climate change," it added.

Surging consumer prices in the United States and other advanced economies could prompt central banks to further tighten interest rates, while the Ukraine conflict could further stoke inflation, it added.

With its tough Covid restrictions and unstable property market, China, Asia's largest economy, is now forecast to grow 3.0 percent this year and 4.3 percent in 2023, compared with 3.3 and 4.5 percent, respectively, in the bank's September forecasts.

This assumes a gradual easing of the country's zero-Covid policy.

Beijing announced last week a nationwide loosening of its coronavirus restrictions, allowing home quarantine for confirmed cases and ending large-scale lockdowns.

On a positive note, developing Asia will grow faster this year and next than the rest of the world, while suffering the least from spiking inflation, the report said.

The bank revised downward its inflation forecast for the region to 4.4 this year from 4.5 percent in its September report but upgraded it for 2023 to 4.2 percent from 4.0 percent.

This aerial photo shows cranes and shipping containers at a port in Lianyungang in China's eastern Jiangsu province. China, Asia's largest economy, is now forecast to grow 3 per cent this year and 4.3 per cent in 2023, compared to 3.3 and 4.5 per cent respectively in the ADB's September forecasts.

PHOTO: AFP