DHAKA WEDNESDAY FEBRUARY 1, 2023, MAGH 18, 1429 BS ● starbusiness@thedailystar.net

Star BUSINESS

Belal Ahmed now SIBL's acting chairman

STAR BUSINESS REPORT

Social Islami Bank Ltd (SIBL) has appointed Belal Ahmed as the acting chairman of its board of directors after Md Mahbub Ul Alam resigned.

Previously, he served the bank's board as vice-chairman.

Ahmed is the son-in-law of Mohammed Saiful Alam, the chairman of Chattogram-based S Alam Group. He represents Unitex Steel Mills Ltd to the board of SIBL.

He is the managing director of Unitex Spinning, Unitex Composite Mills, Unitex LP Gas, Unitex Petroleum, Unitex Cement and Unitex Steel Mills, according to the bank's annual report for 2021.

Ahmed is the son-in-law of Mohammed Saiful Alam, the chairman of Chattogram-based S Alam Group

Belal Ahmed

Along with Mahbub Ul Alam, the bank's Additional Managing Director Abu Reza Md Yeahia submitted his resignation on January 26.

Both resigned for personal reasons, Zafar Alam, managing director of the bank, told The Daily Star.

Mahbub Ul Alam went to the United States after submitting his resignation letter to spend time with his family members, he said.

SIBL has recently faced a wide range of scams, which have eroded the depositor's confidence in the bank.

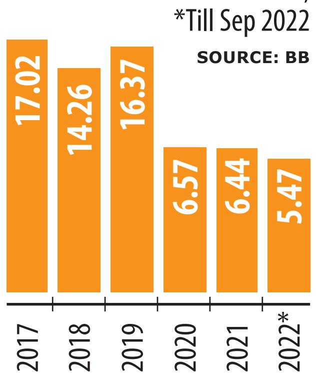
The central bank has recently extended cash support to the bank by using its various windows so that it could meet the depositors' demands.

S Alam Group took over the bank in 2017. Since then, the financial health of the lender has deteriorated.

CASH RECOVERY OF DEFAULT LOAN

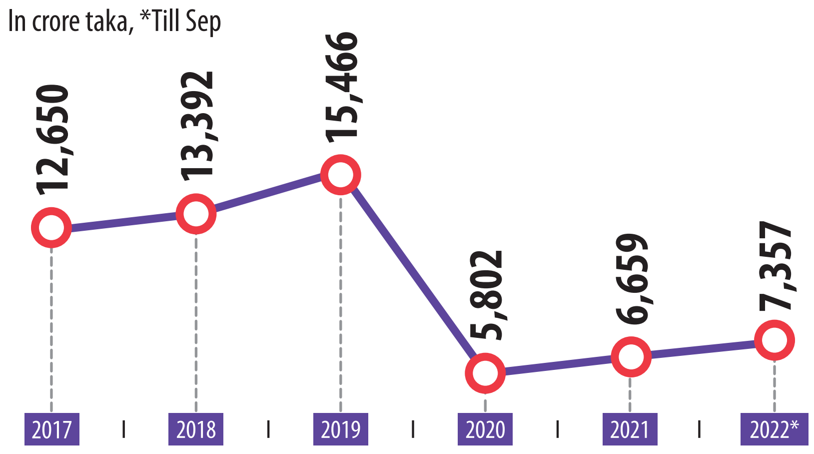
In % of total classified loans; *Till Sep 2022

SOURCE: BB



CASH RECOVERY FROM DEFAULT LOANS

In crore taka, *Till Sep



EFFECTS OF FEEBLE RECOVERY

- Reduction of profit
- Erosion of capital base
- Deterioration of financial health

WHY LOAN RECOVERY DECLINES

- Rising scams
- Business slowdown amid global crises
- Relaxed loan repayment rules

Relaxed rules failed to speed up default loan recovery

AKM ZAMIR UDDIN

The recovery of default loans is still weak in Bangladesh despite offering relaxed repayment policies for three consecutive years to 2022 as delinquent borrowers are not paying back funds on time, hitting banks' income and cash flow.

Although the recovery increased a bit between January and September of 2022, the trend is quite unsatisfactory given the recent escalation of bad loans in the banking sector, said experts.

Between January and September, banks retrieved Tk 7,357 crore, which accounted for 5.47 per cent of the outstanding default loans of Tk 134,396 crore, data from Bangladesh Bank showed.

Lenders recovered Tk 4,195 crore in the first nine months of 2021, or 4.14 per cent of the total classified loans.

The recovery is much lower than pre-pandemic levels, which hampered banks' smooth operation as their lending capacity has been squeezed.

Banks recouped Tk 5,802 crore from their cumulative non-performing loans in 2020 in contrast to Tk 15,466 crore the year before.

Although the central bank followed relaxed loan classification policies in the three years to 2022, the recovery did not pick up.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, thinks growing scams and weak corporate governance have put an adverse impact on the recovery programme of banks.

Some shariah-based banks, including Islami Bank Bangladesh Ltd, have recently faced a wide range of scams, which will increase default loans in the days to come, he said.

"It is usually difficult to recover the funds that are embezzled.".

In May 2019, the central bank permitted defaulters to have their classified loans regularised by making a down payment of 2 per cent instead of 10-50 per cent. Besides, they were given a repayment period of 10 years with a grace period of one year.

The grace period of the rescheduled loans ended and the funds are now turning into bad again. As a result, the amount of soured loans would pile up in the coming days, Mansur said.

The central bank allowed borrowers to avoid the default zone in 2020 even if they did not pay any instalment of their loans throughout the year.

In addition, borrowers enjoyed the relaxed repayment facility until last year as the central bank allowed them to evade being classified as a defaulter if they cleared 50 per cent of the instalments payable in the final quarter of 2022.

"The relaxed facility has disrupted the loan recovery programme," said Mansur, a former official of the International Monetary Fund.

Usually, the profit of banks decreases and the capital base erodes when the default loan recovery loses steam.

"The weak recovery has already brought a negative impact on the banking sector," said Syed Mahbubur Rahman, managing director of Mutual Trust Bank.

He said a majority of banks could not recoup default loans as per their expectation amid the current business slowdown caused by various macroeconomic challenges.

In Bangladesh, many companies closed during the peak of the coronavirus pandemic, dealing a blow to the financial health of banks, he said.

A Bangladesh Bank official says the feeble loan recovery along with a higher default loan usually forces banks to raise the interest rate on loans. But they can't do so owing to the central bank's interest rate cap of 9 per cent.

"Under such circumstances, banks are trying to cut the interest rates on deposits to ensure profits," he said, adding that banks should strengthen corporate governance to reduce default loans.

Six state-run banks – Sonali, Janata, Agrani, Rupali, BASIC, and Bangladesh Development Bank Ltd – recovered Tk 1,421 crore from the NPLs in the first

READ MORE ON B3

IMF explains its latest loan

STAR BUSINESS REPORT

With the approval of a $4.7 billion loan by the International Monetary Fund (IMF) for Bangladesh easing much of the concerns regarding its economy, IMF Mission Chief to Bangladesh Rahul Anand answers some questions about the arrangement.

What was the rationale for the IMF to consider and approve the financing?

In light of the sustained risks that confront the global economy, Bangladesh has requested an IMF-supported programme to restore macroeconomic stability. And even as Bangladesh tackles these immediate challenges, it also recognises the need to undertake some long-due structural reforms, such as raising more tax revenues, which is critical to increase public investments to support the poor and vulnerable.

The IMF always recommends countries to come early. The authorities made the right decision to come to the IMF—and most importantly, to come to the IMF early. Turning to the IMF when countries are already in crisis could make the adjustments particularly hard on people.

What is the IMF's assessment on Bangladesh's near-term economic outlook?

Bangladesh is not in crisis. Just like countries around the world, Bangladesh is dealing with the impact of global shocks – first from the pandemic and then from the ongoing war in Ukraine. Bangladesh's robust economic recovery from the COVID-19 pandemic was interrupted by Russia's war in Ukraine.

Near-term growth is projected to slow to 5.5 per cent in fiscal year (FY) 2022-23 and 6.5 per cent in FY24, compared to the pre-war growth projections at above 7 per cent.

Rising global commodity prices, supply disruptions, and slowdown in external demand have led to high inflation, a sharp widening of the current account deficit, depreciation of the taka and the rapid decline of foreign exchange reserves. Nevertheless, Bangladesh's overall risk of debt distress remains low.

How does the IMF assess Bangladesh's policy response to recent global shocks?

The authorities took the necessary steps to navigate these challenges, including tightening of the monetary stance, allowing for a more flexible exchange rate, imposing temporary restrictions on non-essential and energy-related imports, and adopting measures to reduce electricity demand.

READ MORE ON B3

STOCKS

DSEX ▼	CASPI ▼
0.18%	0.10%
6,267.05	18,513.66

COMMODITIES

Gold ▼	Oil ▼
$1,904.74 (per ounce)	$76.75 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.08%	▼ 0.39%	▼ 0.37%	▼ 0.42%
59,549.90	27,327.11	3,365.67	3,255.67

With the prices of power having been increased twice over the span of just one month, small businesses such as these in the light engineering sector are struggling to keep up with the rising production costs. As a result, they have to adjust their product prices, which ultimately impact consumers.

PHOTO: STAR/FILE

IMPACT OF POWER TARIFF HIKE

Small industries up the creek

JAGARAN CHAKMA

The government's decision to increase the power tariff twice last month has created undue pressure on small industries that are unable to keep up with rapidly rising production costs, according to various businesspeople.

Customers will now end up bearing the brunt of the higher costs of goods sold, they said.

Small companies usually lack the additional investment capacity needed to face the burden of higher input costs and subsequently become less competitive.

On January 12, it was announced that the retail price of electricity would be increased by 5 per cent effective from January 1.

Just 19 days after the announcement, the retail price of electricity was yesterday hiked by another 5 per cent effective from today.

Along with this, wholesale electricity prices have also been increased by 8 per cent.

Abdur Razzak, president of the Bangladesh Engineering Industry Owners Association (BEIOA), said frequent price hikes for power create a burden for small capital-based businesses, such as those in the light engineering sector.

"Unlike corporate houses, we do not have capacity to tackle the situation when utility charges suddenly increase," he added.

As such, he considers the notification issued by the power division last night as an unprecedented and sad development for the light engineering sector.

Small companies usually lack the additional investment capacity needed to face the burden of higher input costs and subsequently become less competitive

According to the BEIOA chief, some investors in the light engineering sector are leaving the business as they do not have the capacity to survive amid the increasing cost of doing business.

"It is really a big pressure for the light engineering sector to operate amid the continuous increase of utility tariffs along with US dollar price hike that led to higher raw material costs," he said, adding that even a 5 per cent increase in power tariff puts tremendous pressure on their shoulders.

READ MORE ON B3