Bond licence rules need to be relaxed

Says author of new book on RMG

STAR BUSINESS REPORT

Bond licence rules need to be eased for the expansion of businesses as 4,187 bond licences became inactivate over the past 14 years and only 1,558 new ones were issued, according to a new study made public yesterday.

Reactivating bond licences is also very cumbersome as it involves many bureaucratic processes, said author Mohammad Hasan in his book, titled "Bangladesh RMG and Sustainable Development".

However, the bond licence is one of the major pillars behind the growth of the garment sector in Bangladesh, said Hasan at a book-launching ceremony at the Economic Reporters' Forum (ERF) office in Dhaka.

Calling for simplifying the process for availing the bond facility, he said there were also other major challenges in the garment sector.

These include a gas crisis, a lack of ease in doing business, bureaucratic tangles and exporters not being well informed about export credit guaranteed scheme, he said.

He also suggested for regional minimum wage structures for garment workers instead of a central one as the cost of living and expenses varies from one area to another.

Bangladesh's share in global garment trade is below 7 percent, which indicates ample opportunities for growth, said Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Vietnam has grown its garment businesses with foreign direct investment but in case of Bangladesh, over 95 percent of the investment is made by locals, he said.

Hassan expects Bangladesh's share in the global garment business to be much higher than the World Trade Organization estimate of 2023, citing that China was losing its market share.

The BGMEA chief, however, said dependence on a single product for export earnings was not good for the economy and that it needed to diversify to other sectors.

Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said Bangladesh Bank should issue a circular

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A booth featuring fire extinguishers and information about various fire safety products is seen at the 9th International Fire, Safety and Security Expo-2024 at the Bangabandhu International Conference Centre in Dhaka. Around 85 companies are showcasing their products at the three-day expo.

PHOTO: RASHED SHUMON

Growing market for fire safety items creates opportunity for local manufacturing

STAR BUSINESS REPORT

The domestic market for fire safety and security equipment is growing, creating opportunities for local manufacturing and, eventually, exports, business stakeholders said yesterday.

Bangladesh has an annual market of around Tk 14,000 crore-Tk 15,000 crore for fire safety and security-related items, but has to import such items from the United Kingdom, the US, UAE, Germany, Turkey, and Japan, said Md Niaz Ali Chisty, president of the Electronics Safety and Security Association of Bangladesh (ESSAB).

Recently, two local firms have started making fire-resistant doors, he said after the opening of the 9th International Fire, Safety and Security Expo-2024, organised by ESSAB at the Bangabandhu International Conference Centre in Dhaka.

"We want to become a manufacturing-based sector. We need policy support," he said at the inauguration of the three-day expo, where around 85 companies are showcasing their products.

Chisty said the market started expanding after the deadly blaze at Tazreen Fashions in 2012 and the Rana Plaza collapse, which highlighted the need to improve fire and building safety.

"There was previously a lack of compliance and awareness regarding fire safety," he said, adding the market had grown by 5 percent annually over the past five years.

"The market will expand in line with the establishment of factories and development of infrastructure," he said, urging the government to allocate land for establishing factories.

Chisty said they wanted to start with assembling CKD (Completely Knocked Down)

units of machines.

"We want to go for making components later. It is possible if the government exempts import duty for CKD. The government will not make a loss if it provides us with duty benefits. Our products will save lives and property," he added.

During the inauguration, Salman F Rahman, private industry and investment adviser to the prime minister, said: "Those who are importing can invest to make the items here. It may be done through joint ventures with foreign companies. Domestic manufacturing will provide the scope to market locally and export."

Rahman, citing the local manufacturing of electronics such as televisions, said locally-made electronics were exported to over 100 countries.

He also called on foreign investors to invest and cater to the growing domestic market.

"All kinds of support will be provided by the government," he added.

Rahman said they inspected a number of small and medium factories to monitor fire safety compliance and found that fires mainly occurred due to short circuits or structural problems.

Short circuits happen due to substandard cables, he said, adding that building safety issues would be ensured after the establishment of an authority to enforce the Bangladesh Building Code.

The building code must be followed, said Mahbubul Alam, president of the Federation of Bangladesh Chambers of Commerce and Industry.

"As Bangladesh aims to become an advanced country, we have to modernise our factories," he said, also calling upon businesses to shun the import of low-quality equipment.

The capacity of Bangladesh Standards and Testing Institution (BSTI) also needs to be enhanced, Alam added.

Brigadier General Md Main Uddin, director general of Fire Service and Civil Defence, Bangladesh, called upon the people to invest in fire prevention.

"I urge everyone to spend two percent of your construction cost (on safety measures). That will make your building safe," he said.

Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association, also suggested local manufacturing of fire safety-related items.

"This will reduce our wait time in getting delivery," he added.

ESSAB Secretary General Zakir Uddin Ahmed stressed the need to ensure the quality of fire safety equipment. "At present, there is no standard for fire safety items although other countries have such standards," he said.

He said in order to make such items in Bangladesh, they needed loans on easy terms.

"Making fire safety equipment is not rocket science. We can manufacture it here. Please give us policy support."

How can we curb loan defaults?

MAMUN RASHID

Bangladesh Bank has announced a new plan to reduce non-performing loans (NPL) to less than 8 percent by June 2026. The central bank aims to bring down the NPL of state-owned commercial banks to 10 percent and private banks below 5 percent. As we know, many such initiatives have been introduced earlier and they failed to show desired results.

The regulators felt the step to relax the loan write-off policy is expected to contribute to a significant reduction in NPLs of Tk 43,300 crore, or 2.76 percent, by 30 June 2026. However, this may not translate into an effective recovery of the loans. Rather, this only helps clear the banks' balance sheet.

When you allow banks to speed up the process of write-off loans from three years to two years, you are just making it easier for them to show less NPL. When you do this, you allow the disease to persist while erasing the symptoms.

Our banking sector's gross NPL ratio was 9.93 percent at the end of September 2023. The NPL ratio of state-owned banks was 21.7 percent, while it stood at 7.04 percent for private banks.

Getting it down to 10 percent and 5 percent within two years is a humongous task, and given the past track record, skepticism persists. Perhaps the most worrying would be whether the central bank can enforce its decisions on all banks.

Historically, Bangladesh has had a good record of NPL management.

After increasing steadily from 26.09 percent in 1990 to a peak of 41.11 percent in 1999, the ratio fell to 31.49 percent in 2000, 22.1 percent in 2003 and 13.55 percent in 2005.

The ratio hit a record low of 6.1 percent in 2011, but not for the best reasons. This happened mostly due to written-off loans, provisioning and a sharp decline in new bad debt. It rose again in 2012 when it increased to 10 percent.

As the economy began recovering from Covid-19 shocks, NPLs saw a new surge.

Having 100 percent provisions to write off loans will have two-fold problems. Firstly, most banks do not have 100 percent provision. Even if the central bank instructs banks to do it, they will need excess capital, whereas most banks actually have a capital shortage.

Another obstacle is the fact that if banks have to make 100 percent provision for the write-offs, this will significantly reduce their profits, and the shareholders may not be supportive.

Aligned with the guidelines put up in the International Monetary Fund's first review report on the $4.7 billion loan package, Bangladesh Bank's roadmap encompasses the establishment of an asset management company in the private sector. Though the government was thinking of some steps towards that, an asset management company can't operate in isolation. It has to be part of an ecosystem, which includes the creation of laws, institutions, regulations, systems and processes.

We have been successful in reducing NPL because the policies were taken and implemented. However, in the last 10-15 years, the problems were not addressed at all, and now they have accumulated and brought the crisis to an unmanageable level.

Hence, a comprehensive approach needs to be taken to find out the financial, legal and institutional issues and resolve them systemically. The central bank should also focus on preventing new bad debts and ensure banks abide by regulations and the roadmap.

The author is an economic analyst

India's small exporters reel as Red Sea crisis helps rivals nab business

REUTERS, *New Delhi*

Atul Jhunjhunwala, an exporter in the Indian eastern city of Kolkata, is tearing his hair out, having just lost another order due to the Red Sea crisis that has jacked up his shipping costs and times.

"Last week, I lost a big order to a Polish competitor who does not need to pay increased freight rates," said Jhunjhunwala, head of Binayak Hi Tech Engineering which ships about 700 containers of machinery tools, industrial castings, and railway shed materials per year.

Turkish exporters were also benefiting at the expense of Indian companies, he said, adding that he has also sent some orders on to buyers at a loss after absorbing increased costs.

"No one can afford to lose buyers with whom we have worked for over decades," he said.

Missile and drone attacks in the Red Sea by Yemen's Houthi militants, who say they are acting in solidarity with Palestinians in the Gaza war, have forced many ocean freight firms to re-route vessels away from the Suez Canal to around the Cape of Good Hope on the southern tip of Africa.

The crisis has begun to upend global supply chains, with Chinese exporters also stumbling in pain. Many suppliers sign export deals on a cost, insurance and freight basis, making them responsible for any increases in freight and insurance costs.

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Japan loses a big title, and perhaps its way

REUTERS, *Mumbai*

Japan's journey back to normality has just taken an unwelcome turn. The world's third-largest economy in US dollar terms ceded the title to Germany on Thursday after unexpectedly slipping, into a technical recession. More unnerving is a slew of weak data making it harder for the Bank of Japan to justify hiking rates and officially ending its era of ultra-easy monetary policy.

The timing is awkward. The country's GDP contracted at an annualised rate of 0.4 percent in the last three months of 2023 due to sluggish domestic demand and falling public investment. There were a few bright spots but they didn't outshine the bleak picture: exports were resilient, defying a soft global economy, but those were propped up by the weak yen.

The unexpected shrinking landed days after the International Monetary Fund's First Deputy Managing Director Gita Gopinath confidently declared Japan's economy was starting to grow at its full potential and urged the BOJ to get a move on. That call suddenly looks premature.

The GDP weakness could prompt the central bank to wait before tweaking its policies. Governor Kazuo Ueda was widely expected to remove "yield curve control" and end a long period of negative interest rates in upcoming central bank meetings in March and April. Under the yield curve control policy, the BOJ pilots yields on 10-year government bonds to around 1 percent. These actions would signal an official victory in the decades-long fight to reflate the economy.

True, the economy doesn't need to grow at full potential to determine whether inflation is sustainably hitting

Pedestrians walk past an electronic board showing the closing numbers of the Tokyo Stock Exchange along a street in Tokyo on February 15.

PHOTO: AFP

the central bank's all-important 2 percent target. Prices are the primary factor, but these are slipping in places too. Core inflation, which excludes fresh food but includes fuel, in Tokyo rose 1.6 percent in January from a year earlier, its slowest rate in nearly two years.

All eyes will be on Japan Inc to divine the outcome of annual wage negotiations. Company CEOs are sitting on piles of cash but may not want to boost wages much if price increases and economic growth are not sustainably forthcoming.

The yen is also reflecting markets' uncertainty over the direction of interest rates. Instead of rallying against the US dollar on the back of the BOJ's expected rate rises and expected cuts by the US Federal Reserve, the currency has been weakening this year. Meanwhile stocks are acting out. They generally fall when interest rates rise but the Nikkei 225, a key benchmark, is at a 34-year high and within a whisker of the record reached in 1989 before the country's asset bubble burst.

Japan pioneered new monetary policy tools in its long and tortuous journey to boost domestic demand and inflation. It is almost at its destination but the final stretch back to normalcy is looking increasingly complicated.