

Bangladesh, which has spent tens of thousands of crore taka for ICT development in the last 15 years, lags behind its peer economies in a key ICT global index

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Can mergers heal banking sector's wounds?



THE WEEKLY VIEW

MD MEHEDI HASAN

The news that troubled commercial lender Padma Bank is going to merge with Shariah-based Exim Bank has taken the financial sector of Bangladesh by surprise.

Mergers and acquisitions are widely used practice in the global financial sector. Although it is not entirely new in Bangladesh, the instances are few and far between.

The merger comes as the central bank got down to bringing in much-needed governance to the financial sector, especially the banking industry, where irregularities are rife.

Approving loans under pressure from influential quarters, political influence, taking loans through fake names and companies, and influence on management by directors are some of the examples of excesses that have taken a toll on the banking system, all combining to send the non-performing loans (NPLs) to an unsustainable level.

As of December, the banking sector's defaulted loans stood at Tk 1,45,633 crore, which accounted for 9 percent of the credits disbursed, central bank data showed. However, the distressed assets, which are calculated considering the NPLs, outstanding rescheduled and write-off loans, amounted to Tk 3,77,922 crore as of 2022.

Of the 61 banks in Bangladesh, 10 to 20 banks have become weak due to the lack of governance and massive loan irregularities, hitting the confidence level of depositors.

After a meeting with the BB governor recently, Nazrul Islam Mazumder, chairman of the Bangladesh Bank Association, a platform of owners of banks, told reporters that around 90 percent of banks in the country are in good shape and the rest 10 percent are weak.

In order to address the governance

issue, the central bank in February unveiled its roadmap. As part of the strategy, as many as 10 weak banks could be absorbed into sound banks, and Padma Bank's merger is the first of the process.

Bringing governance through mergers is not an easy task and the success sometimes depends on which banks will be merged with what kind of lenders.

In 2009, Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha merged to form Bangladesh Development Bank Ltd (BDBL). The new entity is still creaking under the weight of bad loans.

The NPLs of BDBL stood at Tk 982 crore in December, which made up 42.46 percent of the disbursed loans. There have been successful examples as well.

TAKEAWAYS

- Despite merger in 2009, Bangladesh Development Bank still has high NPLs
- NPLs increased in the banking sector due to a lack of good governance
- Distressed assets of banks stood at Tk 377,922cr as of 2022
- Around 10 banks may be merged soon
- Padma Bank will get a bailout in the name of merger, insiders say

For instance, Standard Chartered Bank and ANZ Grindlays Bank merged to form StanChart Grindlays in 2000. It was later named Standard Chartered Bangladesh. Today, the multinational lender is the most profitable venture in Bangladesh.

In 2001, Bank Asia acquired the business operations of the Bank of Nova Scotia in Dhaka, the first of its kind in the banking history of Bangladesh. The bank also took over the country operations of Muslim Commercial Bank Ltd. Today, Bank Asia is one of the successful banks in the country.

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CPD prescribes 3-point recipe to fix economy

Economic stability, widening of fiscal space and optimum use of tax receipts should get priority, it says

Macroeconomy

(In Jul-Feb)

- General inflation remained over **9%**
- Exports grew **3.7%**
- Import payments fell **18%**
- Remittance rose **7.6%**
- Overall balance of payments in **\$4.6b** deficit

Instead of focusing on achieving a higher GDP growth rate, the budget should focus on restoring macroeconomic stability

Fahmida Khatun
Executive director of CPD

CPD's recommendations

- Tame inflation
- Strengthen social protection
- Increase subsidy for agriculture
- Allocate more for education and health
- Raise implementation of foreign-funded projects
- Get rid of projects with a 10% or less implementation rate
- Form a commission to examine costs of public infrastructure projects
- Take proper steps to end manipulation in commodity market
- Increase minimum wage for all industries
- Reduce tax for English medium schools
- Cut tax on import of materials needed for clean energy
- Raise tax rate for high-income people

CPD on budget implementation: FY24

- Revenue shortfall could reach Tk **82,000cr**
- In the first six months, budget utilisation was **25.5%**
- During Jul-Dec, budget deficit was Tk **7,885cr**



PROPOSALS ON BUDGET FOR FY25

STAR BUSINESS REPORT

The Centre for Policy Dialogue (CPD) has recommended the government restore macroeconomic stability, widen its fiscal space and ensure the best use of taxpayers' money through appropriate prioritisation in the budget for the upcoming fiscal year.

"The macro-budgetary framework for 2024-25 must focus on reducing inflation and stabilising the exchange rate," the think tank said, citing how inflationary pressure has eroded people's purchasing power over the years.

As such, the Minimum Wage Board should consider increasing the minimum wages across all industries so that workers in the wage bracket can at least afford basic food items, it said.

"Along with that, the volume of essential commodities sold through the open market system should be increased."

The think tank made these suggestions during a media briefing at its office in the capital's Dhanmondi yesterday.

Fahmida Khatun, executive director of the

CPD, said fiscal targets for the upcoming budget should be set in a realistic manner considering the emergent macroeconomic scenario at home and abroad.

"Therefore, instead of GDP growth, protecting the interests of vulnerable and disadvantaged groups should take centre stage."

She also said complementarity between the fiscal and monetary policies must be ensured by



the finance ministry and Bangladesh Bank.

"Besides, the government will need to focus on deep-rooted structural issues since the improvement in macroeconomic performance is contingent upon the solution of these issues. Thus, some hard choices will have to be made regarding reforms on the part of the policymakers."

Fahmida thinks for a political government, the first year of the five-year tenure can be the best time to make some unpopular but

necessary decisions.

The CPD said budgetary allocation for the health sector has been less than 1 percent of the GDP for the past 20 years, indicating that healthcare has never been a priority for the government.

In Bangladesh, out-of-pocket expenditure as a percentage of current health expenditure was 74 percent in 2020, showing an increasing trend for the past two decades.

"It is necessary to increase the budget allocation for the sector and use it."

Also, the implementation of fiscal measures is crucial for improving public health, which, in turn, can maximise social welfare, it added.

Bangladesh's education budget was 1.76 percent of the GDP in FY24, the fifth-lowest among the 41 least-developed countries.

Against the backdrop, the CPD recommended raising the allocation and utilisation.

The think tank said the 5 percent value-added tax on English medium schools should be cut as it puts an additional burden on the parents of middle-income households.

English medium schools follow the international curriculum and their students are assigned to study imported books, which face a tax incidence of 73.96 percent.

Considering how this inflates education

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Production at API Industrial Park to begin next month

JAGARAN CHAKMA

Production of active pharmaceutical ingredients (APIs) at the API Industrial Park in Gazaria of Munshiganj will begin next month, with ACME Laboratories set to commission its manufacturing unit despite the lack of gas supply.

"Our factory is almost ready for operation," said Sheikh Maksudur Rahman, director of ACME Laboratories.

The Bangladesh Small and Cottage Industries Corporation (BSCIC) has established the park on 200 acres of land and allocated 42 plots for 21 industrial facilities.

So far, four local manufacturers – ACME Laboratories, Healthcare Pharmaceuticals, Ibn Sina Pharmaceuticals and Unimed-UniHealth Fine Chemicals – have set up factories at the estate.

At present, Bangladesh depends on imports to meet around 85 percent of its requirement for both biological and non-biological small molecule APIs, costing the country about \$1.3 billion each year.

Local companies cater to the remaining demand with at least six companies, including Square Pharmaceuticals and Incepta Pharmaceuticals, producing APIs worth more than Tk 2,000 crore annually.

API INDUSTRIAL PARK

- The park will be operational in April
- BSCIC set up the park on over **200** acres of land in Munshiganj
- BSCIC allocated a total of **42** plots to **21** companies



FIRST FACTORY

- ACME Laboratories will be the maiden factory in the API park
- The company invested Tk **500cr**
- It will have a capacity to manufacture API worth Tk **600cr** per year

INDUSTRY at a glance

- Bangladesh depends on imports to meet around **85%** demand for API
- Bangladesh imports \$**1.3b** worth of API per year

Industry people say at least 50 percent of the country's demand for APIs could be met through local production if more big companies invest in the industry.

This means the remaining 50 percent would still need to be imported since it is now possible to manufacture only non-biological small molecule APIs locally.

Still, it is a venture worth making as the domestic market for non-biological small molecule APIs is currently worth around Tk 6,500 crore, according to Rahman.

He said regulatory bodies, including the Directorate General of Drug Administration, the Department

of Inspection for Factories and Establishments and the Department of Narcotics Control, have already inspected their unit twice.

"Our investment in the facility has reached around Tk 500 crore as we imported sophisticated machinery from the US, Germany, Japan and India to ensure API production of global standard."

Rahman believes the unit will be able to produce APIs worth Tk 600 crore annually.

SM Shafiuzzaman, secretary general of the Bangladesh Association of

Pharmaceutical Industries, which represents 265 local drug makers, said most of their members have not set up factories at the API park due to the long delay in getting gas connections.

He also said many companies in the pharmaceutical sector are currently under financial pressure. "So, they are taking time."

Monjurul Alam, chief executive officer of Beacon Medicare, said the pharmaceutical sector needs more research and development in regards to API manufacturing.

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WEEKLY INTERVIEW

'Bearish market resulted from floor price'

AKANDA MUHAMMAD JAHID

The long-term imposition of the floor price has had a negative impact on the stock market, leading to the current bearish trend, according to Md Ashequr Rahman, managing director of Midway Securities.

Besides, the regulators' constant policy changes have also contributed to the current state of the market, he said in an interview with The Daily Star yesterday.

The Bangladesh Securities and Exchange Commission (BSEC) had first imposed the floor price, which is the lowest price at which a stock can be traded, during the pandemic period and then for a second time in July 2022.

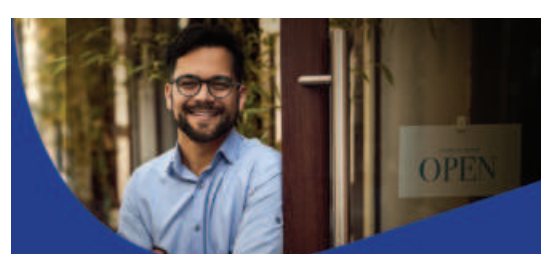
The aim was to halt the freefall of the indices amid uncertainties brought on by the lingering fallout of the coronavirus pandemic and Russia-Ukraine war.

Last January, it started gradually withdrawing the floor price and after an initial period of recovery, the market has been falling almost continuously.



Md Ashequr Rahman

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