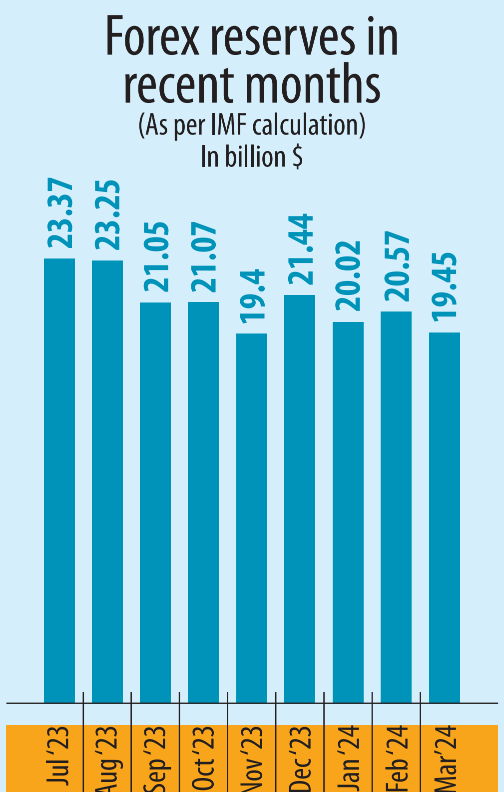
Star BUSINESS

Litchi growers in Dinajpur and other northern districts are expecting a good harvest of the juicy fruit this year

Story on B4

Forex reserves keep eroding despite currency swap



SOURCE: BANGLADESH BANK

KEY POINTS

- Forex reserves stood at $19.45b on March 27
- BB continues to pump dollars into banks
- BB took $1.17b from banks through currency swap deals
- Remittance inflow rising ahead of Eid
- ACU payment led to a reduction in reserves

MD MEHEDI HASAN

Bangladesh's foreign currency reserves are yet to reach a comfortable position despite introducing currency swap deals with commercial banks, growing remittance inflows ahead of Eid, falling imports and a spike in exports.

The reserves stood at $19.45 billion on Wednesday, down by a staggering $533.82 million in the span of a week due to the selling spree of the American greenback by the central bank to commercial banks.

Under the currency swap agreements introduced last month, the banking regulator took $1.17 billion from commercial banks and injected around Tk 20,000 crore in the form of local currencies into the banking system, according to several central bankers.

The inflow of remittance has been increasing since January and it is expected to receive a major boost this month and next month owing to Eid-ul-Fitr as remitters transfer a higher volume of funds to help their families and relatives at home celebrate the occasion with festivity.

Between March 1 and March 22, Bangladesh received $1.41 billion in remittances and this might cross $2 billion at the end of the month.

Imports fell 7.62 percent year-on-year to $5.45 billion in January, the latest for which the central bank data is available. Exports rose 12.04 percent to $5.19 billion in February.

Despite the positive developments, the forex reserves are still not out of the woods and it fell further owing to an elevated demand for the US dollars and the recent Asian Clearing Union (ACU) payments by the central bank.

The Union is a payment arrangement whereby the participating countries -- Bangladesh, Bhutan, India, Iran, the Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka -- settle payments for intra-regional transactions among themselves.

The reserves were $21.15 billion in the first week of March before slipping to $19 billion after the clearance of $1.35 billion in ACU payments, said a number of central bank officials.

The officials say the BB is now trying to keep the reserves within the limit set by the International Monetary Fund (IMF) with its $4.7 billion loan programme. However, it will be difficult to do so since the central bank has to supply US dollars from its reserves to help them settle import bills.

Currently, the net forex reserve stands at less than $18 billion. The country will have to ensure a minimum reserve of $19.27 billion by March and $20.11 billion by June to meet the conditions of the Washington-based lender.

The net international reserves are calculated as reserve assets minus predetermined net short-term foreign currency drains.

The banking watchdog needs to support state-run enterprises to clear import obligations.

State-run banks are particularly securing US dollars from the BB for settling import payments of the Bangladesh Petroleum Corporation, the Bangladesh Agricultural Development Corporation, and the Bangladesh Chemical Industries Corporation, among other government agencies.

In July-December of the current financial year, the BB sold $5.68 billion to banks, BB data showed. The BB has pumped more than $28 billion into the banking sector from its reserves in just two years, a development that caused the reserves to halve.

The chief executive of a private commercial bank told The Daily Star that the currency swap arrangement is not helping the central bank to improve its net reserve situation because it is a liability.

He, however, acknowledges that the deals are boosting the gross reserves.

Banks are buying US dollars at Tk 119 to Tk 122 from remitters but they have to sell them at Tk 110 per dollar to the central bank.

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Bad loans a big threat to financial sector: BB

STAR BUSINESS REPORT

The higher amount of non-performing loans (NPLs) is a 'big threat' to the advancement of the country's financial sector, Bangladesh Bank (BB) said in a report yesterday.

The observation came at a time when the banking sector was burdened with a huge amount of bad loans largely because of lending irregularities, presence of wilful defaulters and lax enforcement of rules by the regulator.

At the end of December 2023, Bangladesh's banking sector had Tk 145,600 crore as NPLs -- 9 percent of the total outstanding loans -- which analysts said is affecting the stability and profitability of banks, eroding confidence of people and blocking the flow of funds that would otherwise be used for economic growth of the country.

At the end of 2023, the banking sector had Tk 145,600 crore in NPLs, which is 9 percent of the total outstanding loans

The amount of NPLs was Tk 120,650 crore or 8.23 percent of total outstanding loans at the end of December 2022, according to BB data.

The bad loans in banks piled up further in the three quarters to September 2023.

The amount dropped in the fourth quarter of last year although it remained higher year-on-year.

"High NPL requires banks to increase provisioning against the bad loans. This is mainly responsible for capital shortfall in banks," said the BB in its quarterly review on money and exchange rate.

Without a reduction in NPLs, there will be no improvement in capital adequacy in the banking system, it said.

The central bank said state-owned banks have been failing to maintain a minimum capital adequacy

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FTA with China may cost Bangladesh Tk 15,000cr a year

It may also boost Chinese investment here: study

STAR BUSINESS REPORT

Bangladesh may lose nearly Tk 15,000 crore per year in revenues from import duties if a proposed free trade agreement (FTA) is signed with China, according to a new study.

However, at the same time, Bangladesh stands to gain billions of dollars if Chinese investors come here with investment proposals under the FTA, the study also said.

These are the preliminary findings of a joint feasibility study conducted by Bangladesh and China as they look to begin negotiations for the FTA, said a senior official of the commerce ministry, asking not to be named.

The countries signed a memorandum of understanding in October 2016 to conduct the joint feasibility study. In June 2018, the countries began conducting a preliminary study on the proposed FTA, the senior official also said.

Two different studies were conducted, he added. Bangladesh conducted a study on trade in services while China conducted a study on trade in goods.

Senior Commerce Secretary Tapan Kanti Ghosh and Chinese Ambassador to Bangladesh Yao Wen exchanged the documents of the preliminary studies at a press conference held at the commerce ministry office in Dhaka yesterday.

In the preliminary study, there is no exact figure of how much either country may benefit, added the official.

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STOCKS

DSEX ▲	CASPI ▼
0.27%	0.15%
5,778.32	16,553.44

COMMODITIES

Gold ▲	Oil ▲
$2,193.32 (per ounce)	$81.84 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 1.32%	▼ 1.46%	▼ 0.5%	▲ 0.59%
73,960.74	40,168.07	3,235.52	3,010.66

Stocks return to black, but turnover drops to 3-month low

STAR BUSINESS REPORT

The key index of Dhaka Stock Exchange (DSE) bounced back yesterday after suffering a major decline on the preceding day.

The stock market has been going through a bear run for the last two months although national elections-linked uncertainties have dissipated, signalling that worries over macroeconomic challenges are far from over.

The DSEX, the benchmark index of the prime bourse of Bangladesh, went up by 15.64 points, 0.27 percent, from that on the day before to close at 5,778.

The index plunged 71.71 points, or 1.22 percent, on Wednesday.

The DSES, the index that represents Shariah-compliant firms, rose 0.17 percent to 1,254.54 yesterday.

However, the DS30, which comprises blue-chip stocks, shed 0.04 percent to 2,011.

Turnover, which indicates the volume of shares traded during the session, slumped 23.70 percent to Tk 411 crore, the lowest in three months.

Of the issues that were traded on the DSE, 221 made gains, 120 declined, and 54 did not see any price swing.

IPDC Finance topped the gainers' chart with a rise of 9.79 percent, followed

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Dollar crunch dampens multinationals' mood for eye-popping dividends

AHSAN HABIB

Although the listed multinational companies in Bangladesh posted healthy profits in 2023, the dividend payout dropped for most of them since they struggled to repatriate funds to their foreign owners owing to the US dollar crunch.

Twelve MNCs are listed with the Dhaka Stock Exchange (DSE). Of them, nine announced dividends for the financial year that ended on December 31, with seven announcing rewards for shareholders that were lower than the previous year.

The combined profits of the multinationals rose 10 percent year-on-year to Tk 7,029 crore last year and they paid Tk 5,060 crore as dividends, representing 72 percent of the total earnings.

In 2022, the multinational companies gave out Tk 6,346 crore in dividends, which accounted for 95 percent of the profits.

The drastic decline in dividend payout comes as Bangladesh has been experiencing a US dollar crisis for the past two years owing to a fast depletion of the foreign currency reserves. In order to stop the further fall, the central bank has limited non-essential and luxury imports.

Reasons behind lower dividend payout

- Sufferings caused by dollar shortage
- Keeping reserve for challenging period ahead

Impact of low dividend payout

- Stock investors are getting disappointed
- Share prices of the companies dropped to two-year low

MNCs' DIVIDEND PAYMENT in %

Company	2019	2020	2021	2022	2023
Marico	101	113	91	71	61
British American Tobacco	78	99	99	60	30
Unilever Consumer Care	65	100	100	40	60
Berger Paints	57	56	65	64	62
GP	51	100	99	99	51
LafargeHolcim	67	49	75	125	111
Robi	N/A	N/A	145	201	162
RAK Ceramics	85	135	58	62	68
Singer	73	37	115	135	66

BY THE NUMBERS

- Combined profits of nine listed MNCs rose **10**% to Tk **7,029**cr in 2023
- In 2023, they paid Tk **5,060**cr or **72**% of the profit as dividend
- In 2022, MNCs paid Tk **6,346**cr or **95**% of their profits as dividend

The reserves stood at $19.45 billion on Wednesday, down from $40.7 billion in August 2021, data from the BB showed. The country had reserves of $31.20 billion at the end of the fiscal year of 2022-23 and $33.4 billion in 2021-22.

The American greenback scarcity has hurt importers, students who plan to study abroad, and foreign companies that need to transfer profit shares to their owners, among others.

The lower dividend awards by the multinational companies, which are among the best firms listed in Bangladesh, prompted investors to sell off the stocks of the firms, driving down their prices and bringing about a bear run in the entire market.

Executives working for MNCs blame the lower reserves for their disappointing dividend payout.

A top official of a multinational company said the board normally does not share the factors that prompt the governing body to come up with a higher or lower dividend.

"However, I think the directors are well aware that our company is facing some challenges in repatriating dividend payments to the foreign shareholders because of the US dollar shortage."

"Therefore, the directors don't want to endure any trouble that may stem from declaring higher dividends because ultimately it will be tough to transfer the funds to their accounts."

The executive said his company wanted to keep some money in the reserves owing to the challenging macroeconomic situation in Bangladesh and an overall tight liquidity scenario.

"We may need extra funds in the coming months."

Another senior official of a multinational company added the board may compensate the shareholders by announcing fatter dividends when the dollar availability returns to normalcy.

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