

star BUSINESS

Banks go slow in raising interest rates

MD MEHEDI HASAN

Bangladesh restored a market-driven interest rate regime after a gap of four years on Wednesday, allowing banks to price loans in line with demand.

However, most of the banks plan to adopt a go-slow strategy when it comes to revising the lending rates upwards and will continue to offer funds under the current rates.

The interest rates on consumer loans, forced loans and overdue loans are likely to go up rapidly in the upcoming months, however.

Forced loans are created when customers fail to make their LC (letter of credit) payments on maturity, and yet banks have to honour their obligations to foreign banks.

When borrowers fail to clear instalments on time, the loan is categorised as overdue.

Last week, the Bangladesh Bank scrapped the SMART formula to make interest rates fully market-based, less than a year after the Six-month Moving Average Rate of Treasury bills (SMART) was introduced and the 9 percent lending rate cap lifted.

Even before the SMART formula was abolished, the maximum lending rate was 13.55 percent, much higher than the ceiling that existed for more than three years.

Thus, most of the banks want to continue the current lending rates and plan to revise them after assessing the situation since a sharp rise in the cost of funds may make existing borrowers unable to pay back while the demand for fresh loans may fall.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, told The Daily Star that his bank would not hike the interest rates abruptly.

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Uncertain bets: bad stocks rule the roost

AHSAN HABIB

If investors hold the stocks of well-performing companies, they are usually awarded better returns since firms with strong fundamentals fare well and pay healthy dividends and their market value rises. The standard appeared to be the opposite in Bangladesh between January and April.

Investors who owned the stocks of good companies that provided at least 50 percent dividend in their last financial year incurred losses in the first four months of 2024. On the other hand, people who bet on low-performing companies, which declared less than 15 percent dividends, saw their portfolio inflate.

It came as the stocks of United Power, Walton, ACI, Renata, British American Tobacco, and Bangladesh Submarine Cables plummeted more than 30 percent in the four-month period. Grameenphone shares shed 17 percent.

In contrast, Bangladesh Monospool Paper Manufacturing, Taufika Foods and Lovello Ice-Cream, Paper Processing, Khan Brothers PP Woven Bag, and Beach Hatchery surged more than 50 percent, handing an unusual return to their holders in a market struggling to retain investors.

The disappointing stock market performance of good companies has left Nur Mohammad, a banker and a trader, upset since his portfolio, which includes shares of BATBC, Walton and Square Pharmaceuticals, did not yield the level of returns he had expected.

Analysts always say if you invest in good stocks, you will never lose money. I always listen to their advice and I have invested in good companies, but the value of my portfolio has fallen by 20 percent."

He alleged that some of his friends purchased the stocks of Lovello after a rumour went around that manipulators would drive up its price. The rumour turned out to be true and the share soared 30 percent.

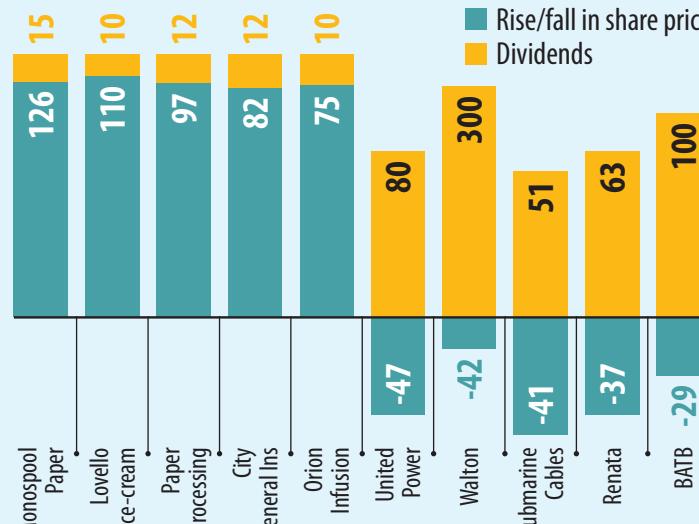
"How will a good investor stay in such a manipulation-driven market? It is not a market for good investors," Nur Mohammad added.

United Power Generation, a blue-chip company that paid 80 percent cash dividend in its last financial year, dropped 47 percent in January-April while electronics giant Walton, which provided a 300 percent cash dividend, dipped 42 percent.

Stocks of ACI, a well-known company that owns several popular brands and provided 40 percent cash dividend, gave up

GAINERS AND LOSERS IN DSE

In Jan-Apr; Rise and fall of stock prices and dividends in %



REASONS BEHIND IRRATIONAL PRICE RISE/FALL

Stocks with weak fundamentals being manipulated	Many investors shifting funds to treasury bonds	Cautious investors not buying stocks
Regulator hardly takes steps to rein in irregularities	Institutional investors staying away for a lack of funds	Foreign investors are selling stocks with strong fundamentals

46 percent. Renata, one of the top pharmaceutical companies in Bangladesh, gave a 62.5 percent cash dividend in its last financial year and its shares fell 37 percent.

The shares of British American Tobacco, a top multinational company, went down by 30 percent. It provided a 100 percent cash dividend last financial year.

Overall, the DS30, the index that shows the ups and downs of blue-chip stocks on the Dhaka Stock Exchange, dropped 8 percent to 1,995 between January and April.

On the other hand, Bangladesh Monospool Paper Manufacturing, a low-paid capital-based company that provided a 15 percent dividend, topped the gainers' list in the four months rocketing 126 percent.

Since the market is not functioning as per the rules, good investors are selling their shares and leaving the market. Thus, even though good companies posted higher profits in their last quarter, their shares fell.

"The investors are trying to leave the market by any means," Ahmed said.

Data from Central Depository Bangladesh Limited (CDBL) showed that the number of beneficiary owners' accounts dropped by 20 lakh, or around 14 percent, in the last two years.

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Reserves fall below \$19b

STAR BUSINESS REPORT

Bangladesh's foreign exchange reserves fell below the \$19 billion mark yesterday, the first time in the current fiscal year.

The reserves came down to \$18.26 billion after the central bank settled \$1.63 billion worth of import bills of two months through the Asian Clearing Union (ACU), Bangladesh Bank Spokesperson Md Mezbaur Haque told The Daily Star.

The country's gross foreign exchange reserves were \$19.82 billion on May 8, as per the calculation method of the International Monetary Fund.



Deal for second satellite in three months

STAR BUSINESS REPORT

The government will finalise a deal in three months for the construction of the country's second satellite and it will be launched in the next two to three years, said Shahjahan Mahmood, chairman of Bangladesh Satellite Company.

The satellite, Bangabandhu-2, will be an earth observatory satellite and be used for various purposes, including monitoring of natural disasters, managing agricultural resources and assessing environmental changes, he said.

He made the comments at a programme organised by Bangladesh Satellite Company at Dhaka Club yesterday marking the sixth anniversary of the launch of Bangabandhu-1, the country's first communication satellite.

Bangabandhu-1 was launched in May 2018 under a Tk 2,765.66 crore project.

Some 40 Bangladeshi and 26 foreign television stations now air programmes using Bangabandhu-1 and the satellite has also started providing television rating point services recently.

In September last year, a letter of intent on cooperation was signed related to Bangabandhu-2 Earth Observation Satellite System between Bangladesh Satellite Company and Airbus Defence and Space SAS of France.

The documents were inked in the presence of Prime Minister Sheikh Hasina and President of France Emmanuel Macron at the Prime Minister's Office in Dhaka.

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Says a former official of World Bank citing a report

STAR BUSINESS REPORT

More than 70 percent of all public projects in Bangladesh are not completed on time due to poor management and implementation, according to an expert.

"And due to the time overrun, the contract price increases manifold and it hinders development efforts," said Zafrul Islam, a former lead procurement specialist at the World Bank, citing the latest World Bank report on Bangladesh's public procurement system.

Islam was speaking at a seminar on "Governance and Competitiveness in Public Procurement Practices: Bangladesh context", organised by the International Business Forum of Bangladesh (IBFB) in Dhaka yesterday.

"Time is money is almost a lost concept in Bangladesh's public sector," he added.

Islam also said conflict of interest is a major concern in the local public procurement process.

"It arises out of possible informal or undisclosed relationships between public officials and the contracting or consulting industry," he added.

For example, there are instances where public officials or their family members operate businesses that participate in the procurement process of their assigned project.

As per the World Bank's report on corruption in South Asian countries, almost 71 percent of the firms in Bangladesh are expected to give gifts to get an import licence, 42.5 percent to get a construction permit and

42 percent to get government contracts.

The country's annual procurement cost currently stands at \$27 billion, or 34 percent of its annual budget and 6 percent of its GDP.

Regarding the open tendering method, Islam said the government should remove the offered tender price cap of 10 percent above or below the estimated cost, which is not disclosed in tender documents.

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KEY FINDING

Over 70% of contracts for govt projects in Bangladesh fail to meet deadline

Procurement situation in 2023

- Total procurement: \$72b
- Procurement-budget ratio: 34%
- Procurement-GDP ratio: 6%

Experts suggest

- Remove restriction of offered tender price cap
- Enhance analytical and research function of Bangladesh Public Procurement Authority
- Avoid conflict of interest
- Reduce administrative review time
- Adjust rate schedule every three months



"The use of a price cap has contributed to reducing competition among bidders, increasing the volume of single tenders from 20 percent to 50 percent," Islam said.

He also suggested adjusting the rate schedule every three months to reduce discrepancies between the actual price of inputs compared to the contract price.

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The telecom regulator will spend Tk 12 crore to purchase equipment for measuring the levels of radiation emanating from mobile phone towers

Story on B4



NBR may take host of measures to boost collection

STAR BUSINESS REPORT

The National Board of Revenue (NBR) plans to take a host of measures to augment tax collection in fiscal 2024-25 and meet an increased portion of public expenditure through taxes, finance ministry officials said yesterday.

The measures include keeping the tax-exempt income threshold unchanged at Tk 3.5 lakh, a move that is expected to increase revenue receipts and bring more people under the tax net.

To boost direct tax collection further, the NBR may restore the highest rate to 30 percent, which existed until fiscal 2019-20.

The lifting of that rate drew criticism from many quarters, particularly from the Centre for Policy Dialogue (CPD).

Possible tax measures in FY2024-25

- Tax-free income ceiling unlikely to change
- Highest tax rate may be restored to 30%
- Corporate taxpayers may know the tax rates on a prospective basis
- Some sub-sectors of IT industry may enjoy tax exemption
- Assessment power of tax officials may go
- List of VAT exempted items may decline

The independent think-tank said reducing the highest tax rate was against the cause of promoting tax justice and proposed that it be restored to the previous level.

Besides, the tax authority is considering the continuation of tax exemptions for the IT and IT Enabled Services (ITES) sector in fiscal 2024-25.

However, entrepreneurs of some sub-sectors of the IT and ITES industry may not see the extension of tax benefits, which will expire on June 30, said officials.

"We are considering rationalisation of tax expenditure, such as exemption and rebates, to increase revenue collection," a senior official said after a meeting with Finance Minister Abul Hassan

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Use alternative dispute resolution to reduce NPLs

BB asks banks

STAR BUSINESS REPORT

The Bangladesh Bank (BB) yesterday asked banks to adopt alternative dispute resolution (ADR) to reduce their non-performing loans (NPLs).

The ADR is a process of resolving disputes within the shortest possible time beyond the regular course of business and without a trial.

Common ADR processes include mediation, arbitration, and neutral evaluation. These processes are generally confidential, less formal, and less stressful than traditional court proceedings.

The central bank issued a notice in this regard saying that the Money Loan Court Act 2003 emphasised the importance of ADR for speedy recovery of defaulted loans.

The central bank asked banks to fix a minimum of 1 percent cash recovery target of their defaulted loans by using ADR within June 30, 2026.

The notice reflects a government target to reduce bad loans of state-run banks to 10 percent and that of private commercial banks to 5 percent by 2026 in line with International Monetary Fund's prescriptions centring a \$4.7 billion loan.

At the end of December, bad loans in the banking sector stood at Tk 145,633

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