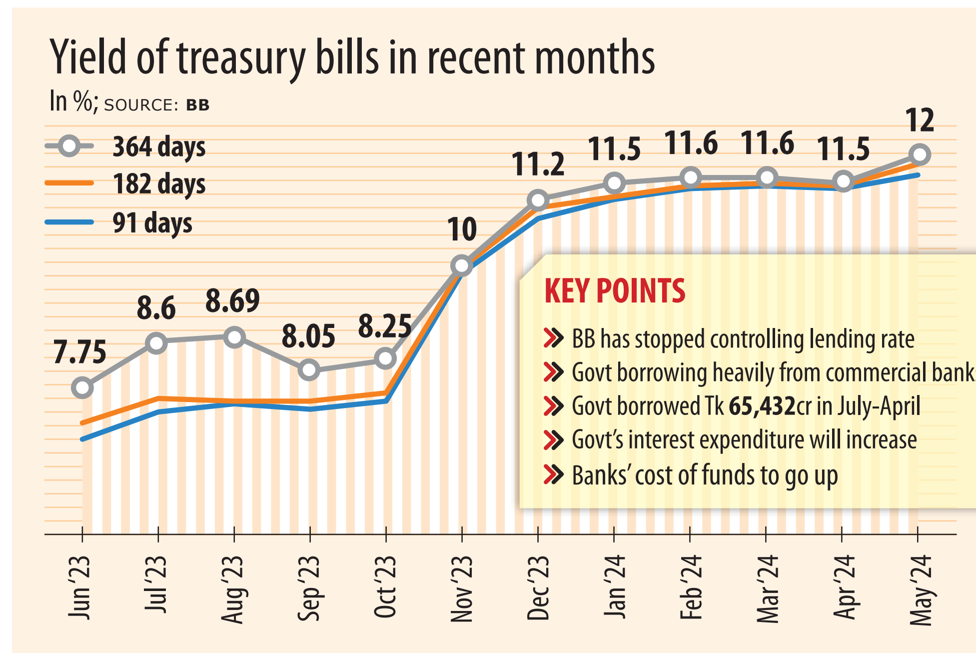
Star BUSINESS

Steel consumption in Bangladesh is projected to rise by 25 percent to around 1.06 crore tonnes in 2027 from 85 lakh tonnes in 2024

Story on B4

Yield on treasury bills climbs to record 12% as govt borrowing intensifies

MD MEHEDI HASAN



The interest rate of treasury bills has jumped to a record high of 12 percent days after the central bank reinstated the market-based lending rate, an indication that funds will become costlier in the months ahead.

Known as the yield, the interest rate of treasury bills now ranges from 11.60 percent to 12 percent whereas it was 6.75 percent to 7.75 percent in June last year, Bangladesh Bank data showed.

The spike came during the auctions for the securities on Monday when the yield was quoted 12 percent, said a senior official of the central bank.

On Wednesday, the BB scrapped the SMART (Six-month Moving Average Rate of Treasury bills) formula, which had been used by banks since July last year to set the interest rate of loans.

The cost of funds for banks has increased after the announcement of the market-based lending rate system. As a result, they have been forced to quote the higher yield, the official pointed out.

Currently, the government is borrowing heavily from commercial banks using the tool as the central bank has suspended injecting fresh money into the economy to avoid fuelling inflation, which has stayed above 9 percent for the past 20 months.

From July last year to April 22 this year, the government's borrowing from the banking sector amounted to Tk 65,432 crore, according to the BB. It was Tk 5,334 crore in the identical 10 months of the last financial year. Finally, it shot to Tk 98,000 crore at the end of 2022-23.

Separate auctions were also held on Monday for treasury bills that mature in 91 days, 182 days, and 364 days. The yield of the three bills was 11.60 percent, 11.80 percent, and 12 percent, respectively.

The government raised Tk 3,038 crore through the sales of the treasury bills on the day.

Mohammed Nurul Amin, a former chairman of the Association of Bankers Bangladesh, a platform of the chief executives of banks in the country, said the money market is facing pressure owing to the government's tight fiscal situation.

Since the country's revenue earnings are not growing in line with the expenditure, it has become fully dependent on the banking system for funds in order to meet the budget deficit, he said.

"The higher bank borrowing at an elevated interest rate will increase the interest expenditure of the government."

The government had set a borrowing target of Tk 132,395 crore from the banking sector for 2023-24. It also aims to mobilise Tk 23,000 crore from the non-banking sector.

The CEO of a private commercial bank told this newspaper that a record increase in the yields of treasury bills and bonds has encouraged banks to invest in the securities instead of lending to the private sector.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, said recently that he didn't consider the government's increased borrowing from commercial banks instead of the central bank as bad.

"Had the government continued to borrow from the central bank, inflation would have been fuelled further."

He said the borrowing from banks would accelerate in the remaining two months of the fiscal year because the government's expenses usually go up in May and June.

"The interest payments of the government will also increase," he said, adding that the higher bank borrowing will crowd out the private sector.

Businesses spend six times more than official fees to obtain licences

Says CPD's Golam Moazzem

STAR BUSINESS REPORT

Entrepreneurs in Bangladesh need to spend six times more than the official rates to obtain licences and other permits from government offices to do business, an economist said yesterday.

At least 20 licences are required to establish a garment factory in Bangladesh, which eats away at time and money, said Khondaker Golam Moazzem, research director of the Centre for Policy Dialogue (CPD).

"Similarly, entrepreneurs are facing difficulties in obtaining loans at competitive rates due to the presence of a massive amount of defaulted loans in the banking sector, owing to which banks are charging higher interest rates."

Also, they face a cumbersome process while trying to obtain loans from banks, Moazzem said while presenting a paper on "Business Related Barriers and Possible Way Out" at the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) in Dhaka.

The FBCCI, in collaboration with the CPD and German development agency GIZ, organised the discussion, which was attended by ministers, diplomats, businesspeople and bureaucrats. FBCCI President Mahbubul Alam chaired the discussion.

Moazzem said Bangladesh needs to find ways to do away with the need for businesses to repeatedly submit documents to collect and renew licences.

OBSERVATIONS

- Entrepreneurs spend six times their regular fees for obtaining licences
- Garment entrepreneurs need to collect 20 licences for setting up factories
- Trade barriers need to be removed
- Licences' tenure should be extended to five years
- Exports should be diversified
- Repetitive submission of documents needs to be removed
- New markets like Germany and India need to be explored

He suggested introducing digital document verification systems.

Heavy reliance on the single biggest export item, garments, has led to little growth in other sectors, according to the economist.

Foreign investors are

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BRAC Bank to get $50m from UK investor

STAR BUSINESS DESK

BRAC Bank will get a loan of $50 million from British International Investment (BII), a development finance institution and impact investor of the UK.

An agreement to this effect was signed at the bank's head office in Dhaka on May 13, BRAC Bank said in a press release.

With this loan, BRAC Bank will support 3,500 micro, small and medium enterprises (MSMEs) and women-led businesses in Bangladesh via its extensive network.

Sarah Cooke, the British high commissioner to Bangladesh, said: "This will enable small businesses and female entrepreneurs in Bangladesh to take up more economic opportunities and create more jobs."

"This investment reinforces the UK's commitment to support inclusive and sustainable development in Bangladesh and is a great demonstration of the UK's modern economic partnership with Bangladesh," she added.

With this loan, BRAC Bank will support 3,500 MSMEs and women-led businesses

Rehan Rashid, country director for Bangladesh at the BII, said: "We are proud to work with BRAC Bank again with a bigger mandate to support small businesses and women entrepreneurs in Bangladesh."

"Since we made our first investment in BRAC Bank in 2019, we have been looking to increase lending

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Bar non-compliant banks from giving new loans

PRI vice-chairman Sadiq Ahmed says

STAR BUSINESS REPORT

Non-compliant banks should be barred by the central bank from providing new loans until they ensure compliance, according to a top economist.

Sadiq Ahmed, vice-chairman of the Policy Research Institute, also said that Bangladesh Bank's action plans for non-performing loans (NPLs) are inadequate.

"The best way to reduce the NPL ratio and lower the risk to the banking sector would be to restrict these non-compliant banks from new lending until such a time that they are able to restore compliance with the Basel 3 capital adequacy norm and reduce the NPL to below 10 percent," Ahmed said.

He was speaking at a discussion titled "Stabilising the Macroeconomy of Bangladesh: Issues and Challenges" organised by the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) at its office in Gulshan yesterday.

Ahmed added that the central bank's action plans to improve governance in the banking sector fall short in a major way because there is little discussion of how the governance structure of state-owned commercial banks (SoCBs) will be reformed to avoid the future growth of NPLs.

The only sustainable way to reduce NPLs and rescheduled loans in SoCBs is for these banks to be converted into profit-making enterprises with a professional board and management, he said.

Citing BB data, he said there were 16 banks where the NPL ratio exceeded 10 percent and 9 banks where the NPL ratio exceeded 20 percent as of June 2023.

"They must be fully supervised by BB and subject to full regulatory and prudential norms with compliance within a reasonable but strict timeline.

"There can be no political interference in lending decisions or loan repayment terms. BB needs to think through carefully whether the SoCBs governance reform challenge has been adequately addressed by the action plan," Ahmed said.

He added that a high and growing share of NPLs is a signal that the concerned banks are not managed well.

Sadiq Ahmed

Recommendations

- Non-compliant banks should be barred from new lending
- Governance reforms needed for state-owned banks
- Supervision and compliance essential for NPL reduction
- BB intervention necessary for poorly managed banks

So, BB intervention is needed.

The main macroeconomic concerns can be summarised in four parts, according to him.

Firstly, owing to global inflation, imports surged by an unprecedented 18 percent in FY2022, leading to a large trade and current account deficit.

Secondly, even with the imposition of import controls and tariff escalation, the government could not stem the loss of foreign exchange reserves and was forced to let some of the adjustment happen through the exchange rate.

Thirdly, the annualised rate of inflation surged from 5.9 percent in January 2022 to 9.9 percent in August 2023.

Fourthly, domestic revenue growth was adversely affected by external shocks, but no serious effort has been made to reverse the effects of these shocks and increase the tax-to-GDP ratio for a long time.

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