Customers' confidence and trust are our capital

Says Citizens Bank Managing Director Mohammad Masoom

AM JAHID

The timing of Citizens Bank's launch on July 3, 2022, could not be worse: Bangladesh was reeling from the twin crises of the coronavirus pandemic and the Russia-Ukraine war, and people's confidence in the banking industry eroded owing to loan scams and irregularities.

The 61st commercial bank of Bangladesh not only stood the test of time but also successfully expanded its footprint and has kept growing.

"Since the very beginning, we experienced problems in almost every step," said Mohammad Masoom, the founding managing director and chief executive officer of Citizens Bank, during an interview with The Daily Star recently.

He said the pandemic and the war had already hurt the economy. Besides, people's trust in the banking industry has weakened centring loan irregularities in some banks, and the interest rate cap on loans affected the flow of deposits.

"It was challenging for the new bank to increase profitability when both lending and deposit rates were capped," he said.

In April 2020, the central bank introduced the 9 percent lending rate ceiling and the 6 percent deposit rate cap.

Masoom said the macroeconomic crisis and an unprecedented level of inflation, fueled largely by the pandemic-induced challenges, the war, and the foreign exchange reserve crisis, have also had a lot of impacts.

AT A GLANCE

- Citizens Bank started commercial journey on July 3, 2022
- Number of branches: **12**
- Total deposit: Tk **1,300**cr
- Amount of lending: Tk **875**cr
- Number of accounts: **11,000**
- The bank plans to open more branches and sub-branches in next **2-3** months

"Amid the challenges, we started our commercial journey with a few people and six branches. However, we dealt with the challenges well and we have increased the number of branches."

"We have growth momentum. We are in the expansion mode," he said, adding that the bank is planning to open more branches and sub-branches in the next three months.

The first thing the bank did was to build a deposit base because the noted banker believes: "Deposits are the bedrock of a bank. The biggest success is that we have around 11,000 clients."

Citizens Bank has a loan portfolio of more than Tk 850 crore. It has a deposit of about Tk 1,300 crore.

He said the most important thing is that the bank has been able to raise capital and the biggest strength has been to maintain compliance thanks to good corporate governance.

"We learned from the mistakes and problems of other banks. We believed in consistent and considerate growth."

Masoom was appointed in January 2021 as the first managing director and CEO of the bank after it obtained the licence from the central bank in December 2020.

As the first CEO, he wanted to put in place a solid foundation. The bank has generated revenues and ensured cost and time efficiency.

"We have also gained the trust of consumers from the very beginning. Their confidence and trust are our biggest capital. If we can maintain this foundation, the bank will prosper."

He said even though the environment is challenging, the bank will have to navigate it with professionalism.

In order to attract savers in the challenging environment, Citizens Bank offered a maximum of 8 percent interest for term deposits. It, however, managed to keep the overall cost of deposits at less than 6 percent.

"This has been a major achievement for a new bank," Masoom said.

The bank is currently focusing on micro, small and medium enterprises (MSMEs) since they are the driver of the economy and generate jobs.

The CEO said there are few willful defaulters in the segment, in a country where intentional defaulting is prevalent, threatening the health of the financial sector.

"MSMEs always try heart and soul to establish themselves thanks to their entrepreneurial zeal, and they try to pay back loans on time."

The bank is also funding the supply chain and is lending to the corporate supply chain, backwards and forward linkage industries.

Masoom, who has been working in the banking sector for more than three decades, also talked about the new market-based lending rate system.

It came on May 8 when the central bank scrapped the Treasury-linked interest rate-setting mechanism known as SMART (Six-months Moving Average Rate of Treasury bill) as it has continued to struggle to contain inflation, put the reserves in a good shape and restore the economic stability.

Between April 2020 and June 2023, the central bank maintained the lending rate cap.

Masoom said the introduction of the market-based lending rate is a good step. "If it works, it will benefit everyone. Now, demand and supply will determine the cost of funds."

Talking about the non-performing loans (NPL), he said NPLs have been the biggest drag on growth in the banking industry. "We are concerned about the banking sector."

"Our balance sheet is clean. We don't have any non-performing loans. I think Citizens Bank will be one of the finest banks in Bangladesh and play an important role in building public confidence."

Masoom is also aware of banks' role in ensuring the welfare of clients. "Clients may face financial debacle, or their financial health may weaken for not having any congenial climate. If we are convinced that our clients are sincere, we have a moral obligation to support them during their rainy days too."

He said in that case, the bank looks at it from a human point of view.

"This is also part of our philosophy. This is why the bank has assumed the name Citizens Bank. Our corporate slogan -- Today, Tomorrow, Together -- says a lot about our mission. Today, we are here; we will be there in the future as well."

He said the informal market has to be curbed to accelerate remittance flows with a view to ending the reserve crisis.

Inflation, which has stayed over 9 percent for more than two years, affects everything, he said. "It affects our competitiveness and people in the lower-income group."

Citizens Bank is working on expanding its footprint through digital banking since the country plans to become a cashless society.

"We are working with information technology companies to make our service cost-efficient. We have introduced the mobile app with all kinds of services. We have cashless cards as well."

"We know there is a need for a cashless society. It has a positive impact on the economy. We are focusing on that."

Still, apart from a digital presence, a bank should have a physical existence, Masoom believes.

"A bank should not only have a materialistic transaction; it should have a human side. We want to stay connected with clients. We want to have a relationship with clients."

BB cuts fees for CMSME credit guarantee facility

STAR BUSINESS REPORT

The Bangladesh Bank has reduced fees payable against credit guarantee facility for entrepreneurs in cottage, micro, small and medium enterprises (CMSMEs) and financial inclusion sectors.

The central bank issued a circular to this end on Monday.

Banks or financial institutions partaking in the scheme are required to pay a guarantee fee at the rate of 0.50 percent for the first year of the loan.

However, after the end of the first year and subject to the validity of the guarantee, the fee payable for the following years has been reduced to 0.25 percent from the previous 0.75 percent per year.

The central bank has taken this decision to address the need to make credit guarantee facilities more cost-effective and accessible to entrepreneurs, according to the circular.

On November 8 last year, the BB fixed the 0.75 percent fee from subsequent years after the first year.

The central bank highlighted the positive aspects of the CMSME sector such as contributing to economic growth, reducing rich-poor and regional disparities, and ensuring inclusive development including women's empowerment.

US manufacturing contraction deepens in June

AFP, *Washington*

US manufacturing activity edged lower in June, deepening a recent slump on continued weak demand, according to industry survey data published Monday.

The Institute for Supply Management's (ISM) manufacturing index came in at 48.5 percent last month, down 0.2 percentage points from May.

The June data came in below market expectations of 49.1 percent, according to Briefing.com, and marked the third consecutive month where the reading was below the 50-point mark separating expansion from contraction.

"US manufacturing activity continued in contraction at the close of the second quarter," ISM survey chief Timothy Fiore said in a statement.

"Demand remains subdued, as companies demonstrate an unwillingness to invest in capital and inventory due to current monetary policy and other conditions," he continued, referring to the US Federal Reserve's ongoing battle against rising prices.

Inflation has fallen sharply since the Fed began hiking interest rates in 2022, but remains stuck above its long-term target of two percent -- keeping borrowing costs high for both consumers and producers.

"Production execution was down compared to the previous month, likely causing revenue declines, putting pressure on profitability," Fiore said.

Eurozone inflation eases slightly in June

AFP, *Brussels*

Eurozone inflation cooled in June, official data showed Tuesday but experts say it will not be enough to convince the European Central Bank to accelerate its rate-cutting cycle despite sluggish economic growth.

Consumer prices have remained stubbornly above the ECB's two-percent target, although the return to easing inflation will no doubt be welcomed by officials.

Consumer price inflation in the single currency area came in at 2.5 percent in June, down from a 2.6-percent rate in May, the EU's statistics agency said.

The May reading had been higher than expected, ticking above the 2.4 percent rate registered in April.

Economists surveyed by FactSet and Bloomberg had forecast that June inflation would ease to 2.5 percent.

Core inflation, which strips out volatile energy, food, alcohol and tobacco prices and is a key indicator for the bank, was flat at 2.9 percent in June. Experts had expected it to cool to 2.8 percent.

Inflation has slowly fallen since reaching a 10.6-percent peak in October 2022 following the outbreak of war in Ukraine, which forced the ECB to launch an unprecedented streak of interest rate hikes.

The ECB cut rates for the first time since 2019 on June 6, but officials have tried to temper expectations of another cut to borrowing costs at their July meeting.

"Our work is not done, and we need to remain vigilant," warned ECB president Christine Lagarde on Monday.

"We will not rest until the match is won and inflation is back at two percent," she added in a speech in Portugal.

Experts said Tuesday's data would bolster the ECB's cautious approach.

"It already seemed unlikely that the ECB would cut interest rates at its meeting in July, and June's inflation data will reinforce policymakers' inclination to move very cautiously," said Jack Allen-Reynolds of London-based consulting firm Capital Economics.

There are however growing expectations that it could lower rates later this year.

But "stubbornly high" services inflation "will cause headaches" for the ECB, according to Riccardo Marcelli Fabiani at Oxford Economics.

Eurostat data showed services prices rose by 4.1 percent in June, stable compared with May.

But energy price rises slowed to a rate of 0.2 percent in June, down from 0.3 percent in May.

Food, alcohol and tobacco price increases also eased to 2.5 percent last month, a slight drop from 2.6 percent in May, according to Eurostat.

Sri Lanka to save $5b from bilateral debt deal

A vendor, *right*, selling clothes waits for customers at a market in Colombo. The island nation defaulted on its foreign borrowings in 2022 during an unprecedented economic crisis.

PHOTO: AFP/FILE

AFP, *Colombo*

Sri Lanka will save $5 billion following the restructure of its bilateral debt, much of which is owed to China, through slashed interest rates and longer repayment schedules, the president said Tuesday.

The island nation defaulted on its foreign borrowings in 2022 during an unprecedented economic crisis that precipitated months of food, fuel and medicine shortages.

President Ranil Wickremesinghe said a deal struck last week had secured a moratorium on debt payments until 2028, extending the tenure of loans by eight years and cutting interest rates to an average of 2.1 percent.

Wickremesinghe said bilateral lenders led by China, the government's largest single creditor, did not agree to take a haircut on their loans, but the terms agreed would nonetheless help Sri Lanka.

"With the restructure measures we have agreed, we will make a saving of $5.0 billion," Wickremesinghe told parliament in his first address to the legislature since the debt deal.

Some of Sri Lanka's loans from China are at high interest rates, going up to nearly 8.0 percent compared to borrowings from Japan, the second largest lender, at less than 1.0 percent.

Sri Lanka struck separate deals with China and the rest of the bilateral creditors, including Japan, France and India.

Bilateral creditors account for 28.5 percent of Sri Lanka's outstanding foreign debt of $37 billion, according to treasury data from March. This excludes government-guaranteed external loans.

China accounts for $4.66 billion of the $10.58 billion that Sri Lanka has borrowed from other countries.

Wickremesinghe said he expected to complete shortly the restructure of a further $14.7 billion in external commercial loans, including $2.18 billion from the China Development Bank.

Sri Lanka's 2022 crisis sparked months of public protests that eventually forced the resignation of then-president Gotabaya Rajapaksa after an angry mob stormed his compound.

Wickremesinghe said the nation was bankrupt when he took over and he hoped the $2.9 billion International Monetary Fund bailout he secured last year would be the island's last.

Colombo had gone to the IMF, the international lender of last resort, on 16 previous occasions and the debt restructuring is a condition of the IMF bailout.

Gold slips

REUTERS, *London*

Gold prices fell on Tuesday under pressure from elevated US treasury yields and a stronger dollar while investors awaited comments from Federal Reserve Chair Jerome Powell for further clues about the interest rate path.

Spot gold was down 0.3 percent at $2,325.3 per ounce by 0952 GMT.

The benchmark 10-year Treasury yield hit a one-month high on Monday and held elevated on Tuesday, making non-yielding bullion less attractive, amid bets on the possibility of a second Donald Trump presidency.

Gold is down 5 percent from a record high of $2,449.89 per ounce it touched on May 20, a rally caused by safe-haven demand driven by geopolitical and economic uncertainty as well as persistent central bank buying, a crucial category of demand.

"We see no major change in the reason for owning precious metals, and with the prospect of US rate cuts during the second half inviting back ETF investors, a net selling group since 2022, we see higher prices at year-end," Saxo Bank said in a note.

Saxo Bank expects gold and silver to hit $2,500 and $35 per ounce, respectively, by the end of 2024. ETFs - global physically backed gold exchange-traded funds - attracted their first inflows in a year in May.

There are, however, signs that central banks are slowing down gold purchases amid this year's high prices, though their demand remains above the pre-2022 level.