Window stays open to keep lending rates at low level

Sonali Bank's managing director says in an interview with The Daily Star

Md Afzal Karim

MD MEHEDI HASAN

There is a lot of talk over a recent hike in interest rates but there is still scope to keep lending rates at a low level, said Md Afzal Karim, managing director of Sonali Bank.

The state-run bank did not abruptly hike the lending rate in spite of a withdrawal of the cap on interest rates by the central bank. The highest lending rate charged by Sonali Bank is 12.90 percent, he said in an interview with The Daily Star recently.

Bangladesh Bank scrapped the SMART formula in May 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 was lifted.

Speaking on Sonali Bank's lending strategy, Karim said they were now focusing on enterprises which run small-scale operations.

It provides loans to entrepreneurs of cottage, micro, small and medium enterprises at an interest rate of 7 percent to 8 percent, he said.

"We are lending money to this priority sector at a low interest rate, even lower than the inflation rate," he said.

Sonali Bank provides finances at a 4 percent interest rate to a segment of the agriculture sector that produces import alternatives, said Karim.

Low interest loans are also available for projects encompassing clusters of enterprises, he added.

Since January, the lender started to build up a large portion of its loan portfolio catering to the sector comprising small-scale businesses, said Karim.

Two years ago, this sector accounted for around 7 percent of Sonali Bank's loan portfolio but now it stands at around 16 percent, he said.

Loans and advances of the lender stood at Tk 98,927 crore as of June this year while its total deposits stood at Tk 1,58,763 crore, as per data of the bank.

Informing of the bank's operating profits, meaning the money left after paying all business costs but before paying taxes and meeting provisioning requirements, he said it rose to Tk 2,252 crore in the first six months of this year.

It was Tk 1,679 crore at the end of the same period last year, he added.

"We recovered defaulted loans amounting to Tk 293 crore, there was a good credit growth and the bank's bad loans were kept at a tolerable level, which helped boost our operating profits," explained Karim.

Net interest income, meaning the difference between revenue generated from interest-bearing assets and expenses associated with paying interest-bearing liabilities, was now in the positive on hovering in the negative since 2021, he said.

The bank did not write off any loan in the last couple of years, he added.

Regarding digitalisation, he said mobile app Sonali e-Wallet had become very popular and won a "best innovation award" of the Financial Institutions Division of the Ministry of Finance.

"We launched 'Taka Pay debit card' with some private commercial banks, which has a lot of benefits for users," said Karim.

On steps taken to recoup from the Hallmark Group loan scam, one of the worst financial scandals perpetrated in the country, he said they were trying to recover the loans.

The state lender's Ruposhi Bangla Hotel branch had lent Hallmark Group and five other companies Tk 3,547 crore between 2010 and 2012 based on fake documents.

The businesses, in collusion with some bank officials, embezzled the whole amount belonging to depositors.

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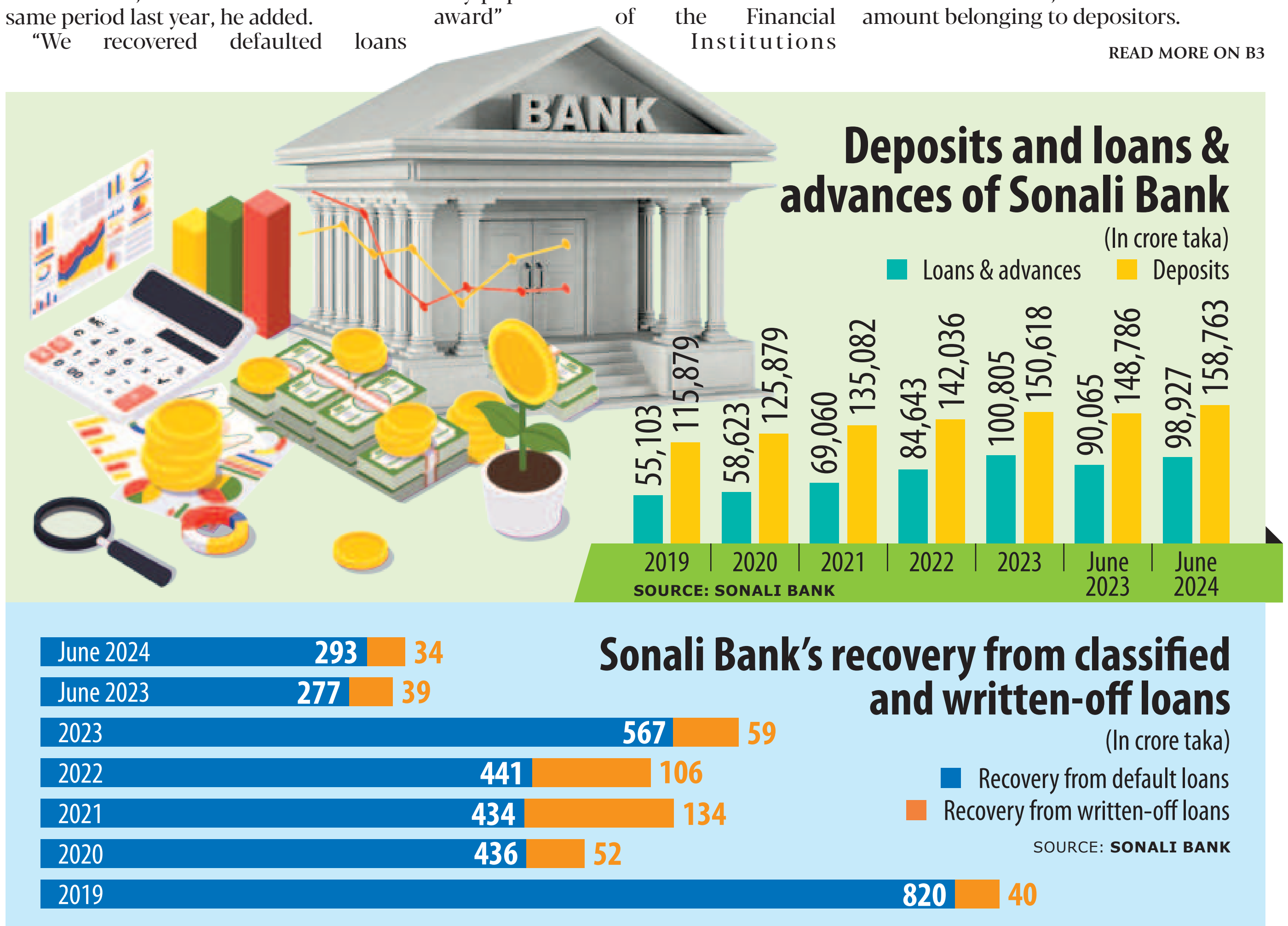


Banks asked to hike USD rate for inward remittance

STAR BUSINESS REPORT

Bangladesh Bank yesterday verbally instructed some banks to offer a higher exchange rate for US dollars to lure remitters into sending their income through formal channels, according to a central bank official.

The move comes in a bid to bolster remittance inflow as the total value received this month will likely be less than what was collected in June, the official said.

This is because the recent five-day internet blackout affected remittance collection through banks and mobile financial services (MFS) in the country, which has been suffering from a forex crisis for more than two years now.

So, Bangladesh Bank verbally instructed about a dozen banks that receive a major portion of inward remittances to offer higher rates to migrant workers and non-resident Bangladeshis, the official added.

Central bank data shows Bangladesh received around $978 million in remittances as of July 13 while the overall inflow amounted to $2.54 billion in June, indicating lower collection.

Bangladesh Bank had introduced the crawling-peg system to determine foreign currency exchange rates in May, fixing the middle rate for US dollars at Tk 117 per greenback as prescribed by the International Monetary Fund (IMF).

As per the new exchange rate system, the banks could offer a maximum of Tk 118 per US dollar.

Now though, a good number of them immediately started offering rates of Tk 118.50 to Tk 118.70 per greenback upon receiving the instructions from the central bank.

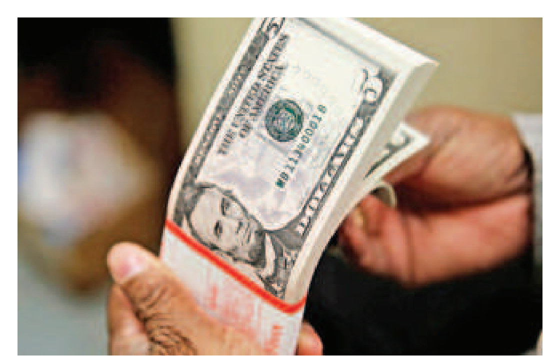
A chief executive of a leading private commercial bank said his bank has already hiked the US dollar rate for inward remittance as the inflow in July did not reach expected levels likely due to the almost week-long internet outage.

He also said his bank is now trying to boost forex collection through inward remittance and export earnings as the US dollar rate will likely increase in the coming days.

Contacted, Bangladesh Bank Executive Director and Spokesperson Md Mezbaul Haque said he has no information regarding the central bank's instruction to hike the US dollar rate.

However, he did say remittance collection remains disrupted as the country's internet access is still not fully restored.

Against this backdrop, he pointed out that MFS clients were unable to operate their accounts amid the internet blackout, which was a major obstacle for sending remittance.



Officials of banks and MFS providers said their remittance collection remained suspended from midnight on July 18, when the internet outage began, until broadband services partially resumed on July 23.

Still, overall remittance mobilisation by banks and MFS providers remains lower than normal, with inward remittance having reached up to $100 million daily during regular times, they added.

Selim RF Hussain, managing director of BRAC Bank and chairman of the Association of Bankers Bangladesh, told this newspaper last week that overall remittance collection in July will likely be low due to the overall situation.

However, he also said they would likely get a better understanding on the situation this week.

Mitsubishi to join Honda-Nissan alliance

REUTERS, *Tokyo*

Japan's Mitsubishi Motors is set to join an alliance between Honda Motor and Nissan Motor, creating a tie-up between automakers with combined sales of more than 8 million vehicles, the Nikkei newspaper said on Sunday.

Mitsubishi Motors, which is 34 percent owned by Nissan, will work with Honda and Nissan to finalise the details of their strategic partnership, Nikkei said, adding the three firms intend to standardise in-vehicle software that controls cars.

Mitsubishi Motors declined to comment on the report, while a Nissan spokesperson would only say the report was not based on something either of the companies had announced. Spokespeople for Honda did not respond to a request for comment.

The push comes as Nissan, Japan's third biggest automaker, has been steadily losing market share in its two largest markets, the United States and China, which together accounted for half of its global sales in the year to March.

On Thursday, the company slashed its annual outlook after heavy discounting in the US almost completely wiped out its first-quarter profit.

Nissan and Honda said in March they were considering a strategic partnership to collaborate on producing electric vehicle components and artificial intelligence in automotive software platforms.

Mitsubishi Motors is already part of a long-standing alliance with Nissan and France's Renault that the three automakers last year agreed to restructure, aiming for a downsized but more pragmatic and agile partnership.

India wants to be China's gateway to the West

REUTERS, *Mumbai*

India is warming up to its northern neighbour. The South Asian country's annual economic report recommends courting investment from China rather than integrating into the country's supply chains. That lays out a way for companies from Shein to BYD to keep selling in Western markets despite rising suspicion towards the People's Republic. Much depends on how the Sino-American trade war plays out.

In the survey for the year ended March released on Monday, India's Chief Economic Adviser V. Anantha Nageswaran laid out the two options for the country to benefit from companies shifting supply chains out of China. He argues that it is more effective to encourage manufacturers from the People's Republic to set up factories in India and export to Western markets than to import China-made parts for assembly and re-export.

Betting on investments rather than low-value imports would help cut New Delhi's $85 billion annual trade deficit with its neighbour. It would also shield India against any future moves by Beijing to restrict exports of critical material.

Ideas floated in the survey do not necessarily translate into policy action. But the push for Chinese direct investment found an advocate in Finance Minister Nirmala Sitharaman on Tuesday, the first member of Prime Minister Narendra Modi's cabinet to back the idea. That statement is significant, coming four years after India stepped up scrutiny of investment from its neighbours following a skirmish with Chinese troops. Signs of a thaw are visible elsewhere, too.

Fast-fashion giant Shein, which is gearing up for an initial public offering in London, is partnering with $242 billion Reliance Industries to source merchandise from the world's fifth-largest economy. China's SAIC Motor formed a joint venture with JSW Group in March to build and sell electric cars in India.

Those are still exceptions, though. As of March 2023, 54 foreign direct investment proposals from entities based in China and Hong Kong were awaiting official approval. It's a reminder that parts of the Indian establishment are uncomfortable with opening the floodgates to Chinese capital. Beijing's level of comfort with companies investing in India, especially in strategic industries with potential for technology transfer, is unclear too.

More importantly, the US-China trade war is still in flux, and the upcoming presidential election in November adds to the uncertainty. At the very least, India's economic ambitions might offer a handy blueprint for the road ahead.

Gold price rises

REUTERS

Gold prices rose 1 percent on Friday as US Treasury yields fell on optimism for an interest rate cut by the Federal Reserve in September after data showed US prices rose modestly in June.

Spot gold rose 0.8 percent to $2,382.98 per ounce by 1741 GMT, after hitting its lowest since July 9 on Thursday. US gold futures for August delivery settled 1.2 percent higher at $2,381.

"Today's mixed-to-weaker US data suggests inflationary pressures and economic activity are waning, paving the way for the Fed to cut rates twice this year," said Fawad Razaqzada, market analyst at Forex.com.

Fed policymakers on Friday got fresh evidence of progress on their battle against inflation, fueling expectations they will use their meeting next week to signal interest rate cuts starting in September.

Lower rates reduce the opportunity cost of holding non-yielding bullion.

The personal consumption expenditures (PCE) price index nudged up 0.1 percent last month after being unchanged in May, the US Commerce Department's Bureau of Economic Analysis said.

Following the data, benchmark 10-year note yields fell to a one-week low.

Meanwhile, physical demand in India, the second-largest consumer, received a boost as the country slashed import duties on gold and silver earlier this week. Gold premiums in India jumped to their highest level in a decade this week as well.

"Any uptick that we see from India or China tends to have an outside effect on overall demand. ... I think the move to reduce the duty (in India) can only have a positive effect on demand," said Everett Millman, chief market analyst with Gainesville Coins.

A merchant displays gold jewellery at his shop in Dubai Gold Souk in the Gulf emirate.

PHOTO: AFP/FILE