Star BUSINESS

The ongoing unrest and curfew have raised apprehensions over Bangladesh's future exports on the back of data corrections by the BB.

Story on B4

Reserves fall by $1.3b in a month

STAR BUSINESS REPORT

Bangladesh's foreign currency reserves declined by $1.3 billion over the past month as inflow was lower than the outflow for payments, including imports, which reflect increasing pressure on the country's external account.

The reserves stood at $20.48 billion on July 31, down from $21.78 billion the month prior, according to data published by the central bank.

The depletion in forex reserves comes after S&P Global downgraded Bangladesh's rating amid persistent pressure on the country's external accounts and deadly government job quota reform protests.

The US-based credit ratings agency lowered its long-term sovereign ratings on Bangladesh to B+ from BB-.

It said external pressure particularly stemmed from the continued decline in foreign exchange reserves.

This has occurred despite import compression measures enacted by the central bank and a smaller current account deficit.

S&P said the gross reserves, measured on an IMF formula, were $21.8 billion at the end of June 2024, down 35 percent from June 2022.

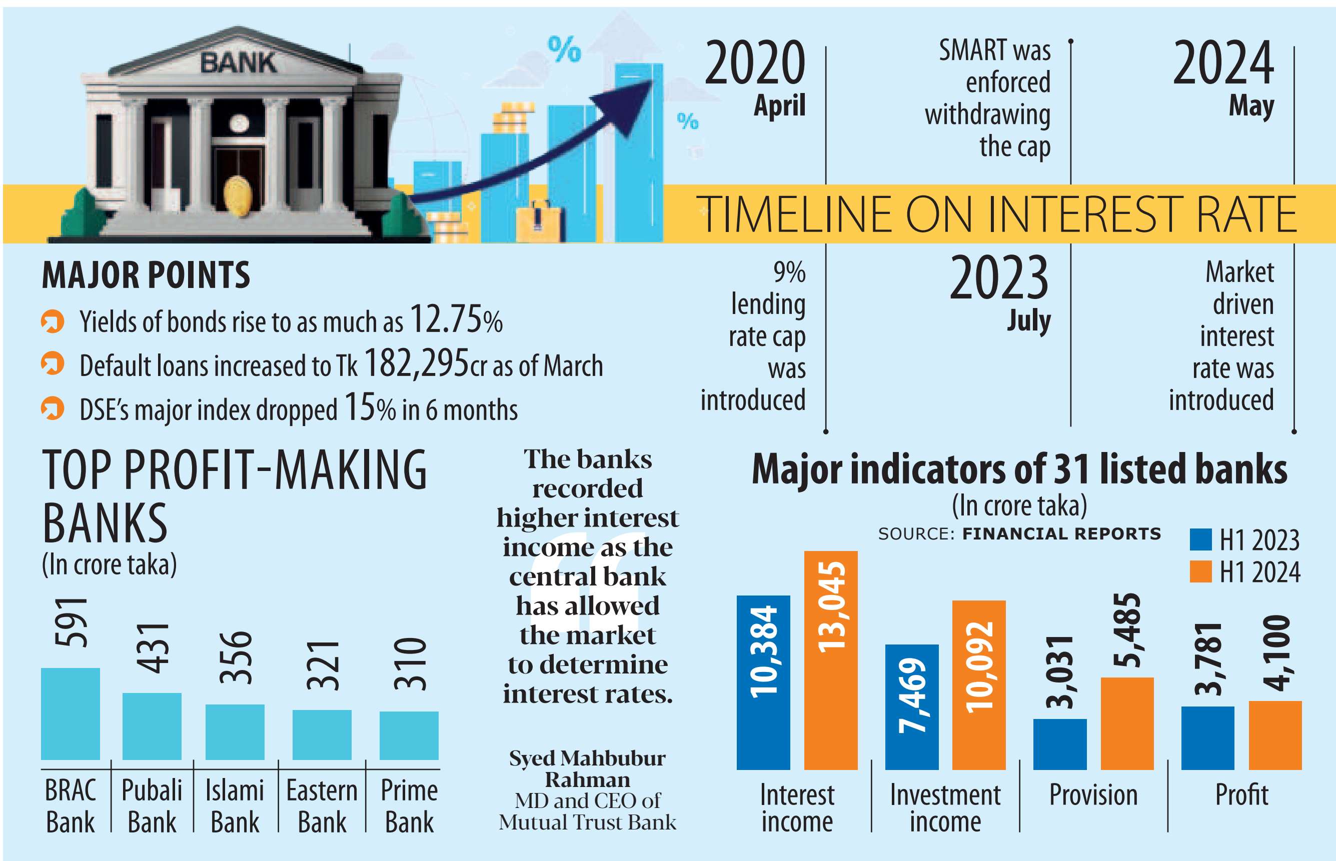
The July 31 forex reserves would cover 3.7 months of the country's import bills.

The latest data on foreign exchange reserves came just two days after S&P Global downgraded Bangladesh's rating amid persistent pressure on the country's external accounts and deadly protests.

The country's average monthly import bill is $5.52 billion.

Since July 12 last year, Bangladesh Bank has been publishing data on the foreign exchange reserves in line with the IMF's formula.

Between July 12 last year and July 31 this year, the overall reserves, as the IMF method, declined 13 percent or $3.08 billion, according to the central bank.



31 listed banks see a surge in interest income

AHSAN HABIB

Banks listed in the stock market logged Tk 2,700 crore higher interest income in the first half of this calendar year as lending rates rose after Bangladesh Bank eased its grip on the sector.

Besides, increasing yields from treasury bonds helped the banks post more profit even though they had to keep hefty provisions against investments in stocks and default loans.

Default loans in the banking sector have hit an all-time high of Tk 182,000 crore, according to the central bank.

As per the recently published financial statements of 31 out of 36 listed lenders in the country, their combined interest income soared 26 percent year-on-year to Tk 13,045 crore in the January-June period.

Of this amount, their income from investments, mostly in government bills and bonds, jumped 35 percent year-on-year to Tk 10,092 crore.

"The banks recorded higher interest income as the central bank has allowed the market to determine interest rates," said Syed Mahbubur Rahman, managing director and CEO of Mutual Trust Bank.

In May earlier this year, Bangladesh Bank returned to the market-driven interest rate regime after a gap of about four years by scrapping the Six-month Moving Average Rate of Treasury Bills (SMART).

In July last year, the central bank withdrew the 9 percent cap on lending and introduced the SMART formula as prescribed by the International Monetary Fund for securing a $4.7 billion loan.

Now though, it is going for a more market-based system to determine interest rates, effectively removing the caps imposed since April 2020.

However, private sector demand for credit slowed as the cost of borrowing rose. Against this backdrop, many banks chose to invest in treasury bonds and bills to reap the benefits of rising yields amid the government's continued borrowing.

"This enabled us to post higher returns from investment," added Rahman.

On the other hand, the banks are seeing sluggish profit growth as they had to maintain higher provisions against loans. The banks' combined profits grew 8 percent year-on-year to Tk 4,100 crore in the January-June period.

The banks' provisioning surged 81 percent year-on-year to Tk 5,485 crore at the time, their financial statements showed.

Regarding the higher provisioning, Rahman said they had to do it as default loans were rising and they suffered losses from investments in stocks.

"But if the banks keep higher provisions, it will be helpful for them in the future," added Rahman, also a former chairman of the Association of Bankers, Bangladesh.

Default loans in the banking sector amounted to 11.10 percent of the total outstanding loans by the end of March this year.

Meanwhile, the DSEX, the benchmark index of Dhaka Stock Exchange, lost 14 percent to reach 5,328 points by the end of June this year.

Another top official of a leading bank said several banks shifted their focus to treasury bonds instead of lending as the yields were comparatively more lucrative.

"It is a smart decision [to invest in treasury bonds] as these are safe and offer high income," he said while citing how such investments carry no risk of default and therefore do not require provisioning.

"On the other hand, banks have to take the risk of default if they lend to any sector. So, banks need to keep a minimum provision on unclassified loans too," he added.

The annual yield from treasury bills of different tenures currently ranges from

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EU halts Dhaka talks. Is it a bad omen?

REFAYET ULLAH MIRDHA

The European Union's (EU) postponement of the first round of negotiations with Bangladesh on a new agreement will impact trade, investment and development cooperation with the country's largest trading partner.

"In light of the prevailing situation, the first round of negotiations on the Partnership and Cooperation Agreement envisaged for September has been postponed with no later date fixed as yet," Nabila Massrali, EU spokesperson for Foreign Affairs and Security Policy, told The Daily Star in a message on July 31.

The decision comes after EU High Representative and Foreign Policy Chief Josep Borrell on Tuesday issued a statement condemning a "shoot-on-sight policy" announced by Awami League general secretary centring the quota reform protest.

In the statement, Borrell also expressed grave concern over unlawful killings perpetrated in recent days by the authorities in Bangladesh. He called for thoroughly investigating the killings and bringing those responsible to justice.

Many important issues are pending for negotiations with the EU.

This includes negotiations for obtaining lower tariffs on exports to the EU under a Generalised Scheme of Preferences (GSP) Plus scheme.

Bangladesh's eligibility for a current GSP will expire once it makes the United Nations country status graduation from a least developed to a developing nation in November 2026.

Moreover, issues over trade and development cooperation policies, investment, Rules of Origin (RoO) or the criteria for determining the national source of products and business climate and dialogues are pending with the largest trade bloc of the world.

"The relationship of Bangladesh with the EU is multifaceted," said Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue.

A negative impact on economic cooperation may come about if the current situation is not improved and negotiations initiated soon, said Rahman, also a noted economist and trade analyst.

Bangladesh must take into consideration the EU's concern over the country's current situation because the EU is the main export destination of the country, he said.

Bangladesh exported more than $24 billion worth of goods to the EU in 2023. This is 58 percent of Bangladesh's total export, according to the Export Promotion Bureau.

The postponement sends a negative signal to Bangladesh because the EU has been a very good friendly development partner since the country gained independence, said Rahman.

The next important issue is the negotiations on being eligible for the GSP Plus scheme. However, the negotiations will be delayed if the EU is not satisfied with the current situation of the country, he said.

Obtaining concessional loans and determining the RoO for Bangladesh will also be affected because of the postponement, he added.

Bangladesh has been enjoying duty-free trade benefits since 1975 under the EU's generous Everything but Arms (EBA) scheme.

Enjoying such preferential trade benefits, Bangladesh has eventually turned into a key trading partner to become the third largest exporter to this trade bloc of 27 countries.

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KEY POINTS

- The EU's postponement of negotiation will have negative impact on trade and investment
- Many pending issues need to be negotiated with the EU
- GSP Plus status is an important issue to be negotiated with the EU
- The EU is the largest export destination for Bangladesh; shipment was worth $24b last year
- The EU will continue GSP for Bangladesh up to 2029

BB plans to develop alternative internet infrastructure

STAR BUSINESS REPORT

Bangladesh Bank (BB) is planning to develop an alternative internet infrastructure in order to keep the financial sector insulated and ensure smooth execution of transactions in the event of any unexpected situation, such as the recent countrywide internet outage.

The central bank shared the plan at a meeting with the Association of Bankers, Bangladesh (ABB), a platform of top officials of banks, at its headquarters yesterday.

BB Governor Abdur Rouf Talukder presided over the meeting while managing directors and CEOs of Pubali Bank, City Bank, Jamuna Bank, Eastern Bank, Bank Asia, Islami Bank Bangladesh and Mutual Trust Bank were also present.

"We have learned a lot from the recent abnormal situation," ABB Chairman Selim RF Hussain told journalists after the meeting.

"...and we have discussed ways on how to keep banking operations unaffected in case of any difficult situation like that we had to pass through recently," he said.

The learnings are that two forms of security have to be ensured, one for brick-and-mortar branches and the other for online banking, said Hussain, also the managing director of BRAC Bank.

"We have to make an alternative internet infrastructure...and improve broadband capability so that we can continue banking services... The good news is that Bangladesh Bank is thinking about an alternative internet infrastructure for banks," he said.

He said the IT department of the central bank would prepare a draft plan and share the document with the banks.

Bangladesh suffered from an internet blackout for five days since July 18 amidst violence centring the public job quota reform movement.

Bangladesh Bank has taken the move to ensure smooth execution of transactions in the event of any unexpected situation

Afterwards the government imposed a nationwide curfew and announced general holidays, which affected online and physical banking activities for three days.

Amidst the curfew, a lot of ATM booths were kept shut while many ran out of cash. As a result, people faced difficulties in withdrawing money. People were also unable to pay utility bills.

Bankers said they also discussed the trend of remittance inflow and the situation in the country's forex market.

BB Governor Talukder suggested banks stay focused on remittance collection as the foreign exchange reserve has continued to decline, said a meeting participant.

Remittance hit 10-month low in July

STAR BUSINESS REPORT

Bangladesh's remittance inflow fell to a 10-month low of $1.90 billion in July as expatriates were unable to send funds for some time due to an internet blackout centring the students' quota reform movement.

Earlier, the lowest expatriate income came in September last year at $1.33 billion, according to Bangladesh Bank's latest report on expatriate income.

July's receipts were lower by 3.2 percent year-on-year as banks could not collect the money sent home by migrant workers because of a five-day internet blackout across the country.

Remittance receipts were $1.97 billion in July last year, according to Bangladesh Bank Spokesperson Md Mezbaul Haque.

Central bank data showed that the inflow of remittance, a key source of foreign currency, stood at $138 million from July 21 to July 27, the lowest among the four weeks of the month. As such, Bangladesh missed out on much-needed foreign currencies to boost the country's falling forex reserve.

On the last day of July, remitters sent $120 million, Haque said.

However, remittance grew 10 percent year-on-year to $23.9 billion in fiscal 2023-24, with the receipts last June standing at $2.54 billion, according to central bank data.

Bankers and experts believe that remittance receipts through formal channels would have been higher if there were no bank closures and internet outage.

Bangladesh experienced a five-day internet outage from around 9:00pm on July 18 following violence, deaths and injuries related to the quota reform movement.

The government partially restored broadband connections on July 23 and fully restored internet access nationwide the next day.

Bankers noted that remittance collection was suspended during the outage, and the overall flow of receipts did not recover even after the internet was restored.

Monzur Hossain, research director at the Bangladesh Institute of Development Studies, said the recent 3.2 percent decline in remittance is nothing to worry about as it is a normal trend.

"There is nothing unusual about such a change in remittance inflow," Hossain added.