

star BUSINESS

The newly appointed board of National Bank will scrutinise all waived and written-off loans and interests, regardless of whether they were justified or not, says its chairman.

Interview on B4



Members of the army, Industrial Police, Rab and BGB are taking turns patrolling the industrial area in Ashulia in a bid to quell the unrest among factory workers.

PHOTO: AKLAKUR RAHMAN AKASH

Unrest to hit RMG exports

Many buyers are cancelling their trips to Bangladesh, industry people say

REFAYET ULLAH MIRDHA

The latest spell of unrest in the garment industry of Bangladesh will negatively impact its apparel exports as many international buyers are cancelling their trips to the country to finalise work orders for the coming seasons. Bangladesh had become a hotspot for international clothing retailers and brands despite the severe fallout of the Covid-19 pandemic and Russia-Ukraine war, which caused higher inflation in the Western world and disrupted the global supply chains. This is mainly because the country became the first choice for sourcing garment items in the face of geopolitical tensions, such as the tariff war between the US and China. Besides, local producers offer competitive prices and have improved their compliance with workplace safety standards following twin industrial accidents, namely the fire at Tazreen Fashions and the collapse of Rana Plaza factory.

Moreover, the country's capacity for supplying garment items has improved a lot thanks to increased investment in the production of diversified and value-added goods. But if the persisting unrest in the industry continues for long, it will definitely affect the total apparel exports, said an official of a major European buyer seeking anonymity. Citing that senior members of sourcing companies often visit factories in Bangladesh to finalise their work orders, the official said many of them have cancelled their trips as the industry remains in turmoil. "We have already completed the placement of work orders for next summer and now we are planning for next winter. So, the buying trips are very important for us," the official said. The official also informed that while their company has not cancelled any work orders, many requests for value-added garment items have either been cancelled or postponed by the other buyers.

Reiterating how safety is a big concern for international buyers, the official said their higher-ups think about a "Plan B" for sourcing apparel whenever buying trips are cancelled. Besides, following risk assessment makes them think about whether the supplying companies would be able to ship their goods on time, the official added. The official further said that reputational risk becomes a concern in such situations, especially since international buyers often consider negative social media posts before placing work orders in order to protect themselves from any backlash. As such, the international buyers ultimately shift a portion of their work orders to other sourcing countries, the official said. Many international buyers are saying that about 5 to 10 percent of their work orders could be affected by the latest spell of unrest in the garments industry alongside other domestic concerns.

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Most stocks owned by Awami League leaders struggling

AHSAN HABIB

Share prices of most companies with directors connected to the immediate past Awami League government saw a big drop in the past month after the fall of Sheikh Hasina, though the market was in a rising trend during the period. According to market analysts, politically powerful individuals often use their influence to benefit their companies. So, investors now fear that the regime change could lead to business losses. This fear has prompted investors to sell shares in companies owned by politically powerful individuals, they said. Another reason causing investors to worry is that a regime change may bring politically connected individuals under the scanner of the Anti-Corruption Commission (ACC) and legal action against these individuals could impact businesses, especially in firms with poor corporate governance, they said. Dhaka Stock Exchange (DSE) data shows that share price of Beximco Pharmaceuticals – whose Vice-Chairman Salman F Rahman was the former prime minister Sheikh Hasina's private industry and investment adviser – dropped 26 percent in the past month. Stocks of Beximco Ltd, another company owned by Rahman, are stuck at the floor price and cannot fall further due to the price-curb mechanism. Shinepukur Ceramics, also with Rahman as vice-chairman, saw its shares plummet 39 percent in the past month. Similar declines were observed in Sea Pearl Beach Resort, Summit Power, Sonar Bangla Insurance, Sandhani Life Insurance, BD Thai Food and some others. Investors consider three primary factors when investing: the company's financial situation, political aspects and people's perception of the company, according to Minhaz Mannan Emon, a former director of the DSE. While there are other factors to consider, Emon said these are the major perspectives. Investors are aware that the owners of these companies were connected to the former government, which benefited their businesses in many ways. With the regime change in the first week of August, some of these individuals are now fugitives, arrested, or fled the country.

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Adani repeatedly pressing for \$800m electricity dues

ASIFUR RAHMAN

India's Adani Group has been repeatedly requesting the interim government to immediately clear dues of around \$800 million on their electricity sales, according to officials of Bangladesh Power Development Board (PDB). Multiple officials confirmed that the group recently asked the PDB, the Ministry of Power, Energy and Mineral Resources, Bangladesh Bank and the interim government's chief adviser several times to clear the outstanding bill. According to the officials, the average monthly bill for the purchase of power from Adani Power Jharkhand Limited is of \$90 million to \$100 million, whereas the PDB has been able to pay only \$20 million to \$30 million. The due has been accumulating over a span of around eight months. The PDB signed a 25-year power purchase agreement (PPA) in November 2017 to avail 1,496 megawatts (MW) of electricity from the plant, located in Jharkhand's Godda district. It is around 10 percent of the country's peak power demand. The PDB officials said Adani Group sent letters to them asking to at least clear the bills of June and July. "We are forced to inform you that Godda plant is struggling hard to sustain its operations on account of running expenses towards procurement of coal, debt service obligations, operation and maintenance," a PDB official quoted the letter as saying. Adani Group repeatedly requested the PDB to clear the dues, pointing out it was to ensure supply of uninterrupted power, he said. The PDB cleared only \$27 million in July and \$13.81 million in August. "Such meagre payments against the average monthly invoice amount of \$90-100 million has resulted in overdue amounts reaching an alarming level of \$797.58 million as on August 19," said the letter. It remains to be known whether any payment has been made after this date. PDB Member (company affairs) Md Shamsul Alam and Chief Engineer ABM Ziaul Haque were not available over the phone for comment yesterday. Adani Group's letter mentioned that though they have not received payments in due time, they were continuously supplying electricity.

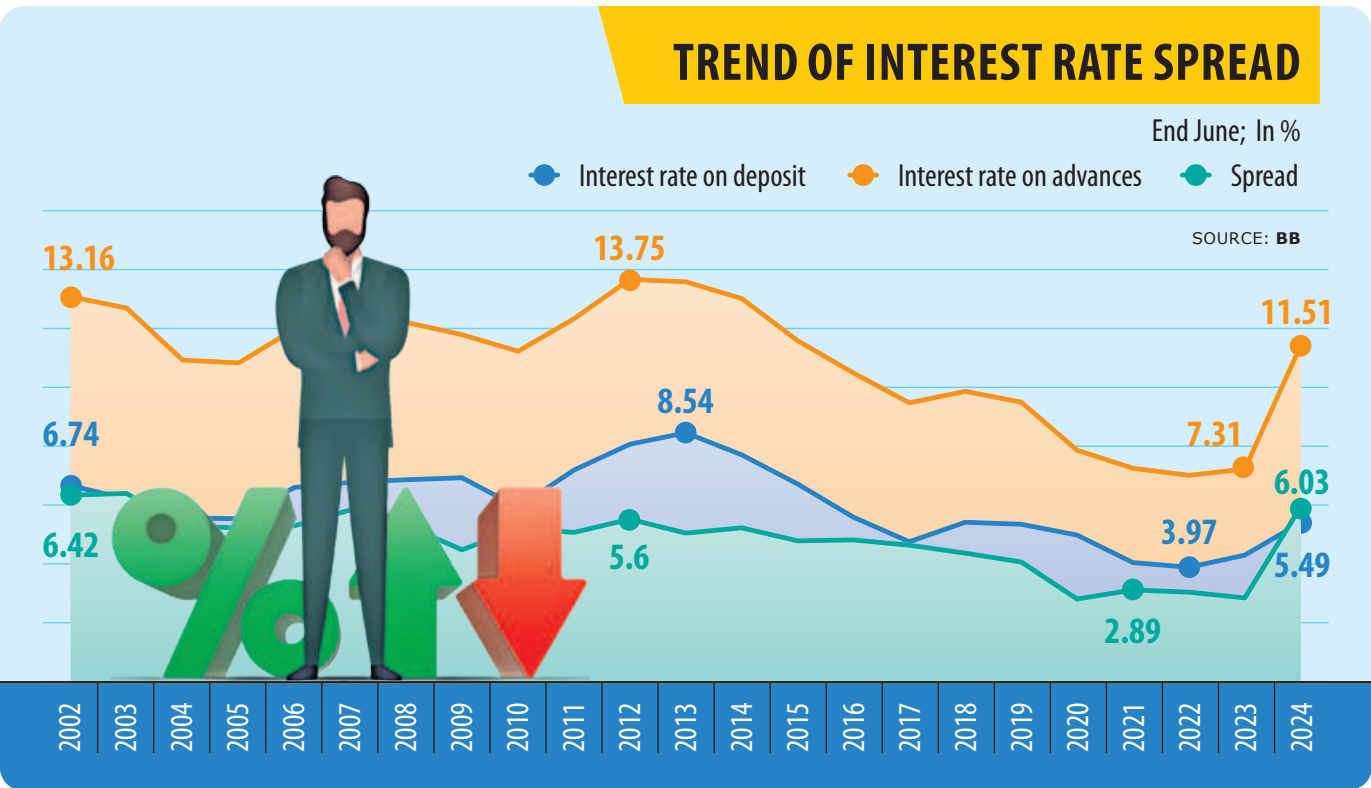
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Interest rate spread rises to highest level since 2003

Borrowers pay higher but savers get lower rates

SOHEL PARVEZ

The spread between interest rates on deposits and loans rose to 6.03 percent, the highest in two decades, indicating that banks are making money at the expense of depositors and borrowers. The spread, which fell to 2.93 percent in June 2023, began increasing as the interest rate started moving upwards since July last year, when the Bangladesh Bank lifted the 9 percent cap on lending and introduced the Six-months Moving Average Rate of Treasury bills (SMART). The central bank introduced the formula in line with the prescription of the International Monetary Fund (IMF) to contain persistent inflation by allowing the market to determine the interest rate gradually. The Bangladesh Bank later in May this year scrapped the SMART so that the interest rate becomes fully market-driven. Central bank data showed that over the last year, interest on deposits and loans grew. However, the extent of the spike in the interest rate on advances or loans was higher than the increase in the rate of deposits. For instance, the weighted average interest rate on deposits rose by 1.11 percentage points to 4.46 percent in June this year from 4.38 percent a year ago. The weighted average interest rate on advances soared 4.21 percentage points to 11.52 percent in June this year from 7.31 percent in June 2023, according to the data. This widened the spread between the lending and deposit rates offered by banks above 6 percent which was recorded last in December 2003. At the end of 2003, the spread between weighted average lending and deposit rates was 6.11 percent.



Since then, it had been falling before starting to regain at the onset of FY24. The spread stood at a two-decade high when the year that ended on June 30. "It is unusual. It is too much. The high gap shows that banks are ultimately benefiting," said Shah Md Ahsan Habib, a professor at the Bangladesh Institute of Bank Management. He said the interest rate spread should be between 3 and 4 percent or 5 percent at best. "Savers must benefit from the interest rate spike. But the current spread

indicates that they are not," Habib added. On the other hand, borrowers are retraining from borrowing because of increasing interest rates and this is not an expected outcome of the market-driven interest rate system, he added. "This high difference shows that the operational costs of banks are high," said Habib, adding that the central bank should give a signal to the market to bring down the spread. Mohammad Ali, managing director and CEO of Pubali Bank PLC, one of the oldest banks in the country, said one of

the main factors is the interest differential between cash-rich and cash-starved banks. "Banks suffering from a cash crisis are offering as much as 11.5 percent interest on fixed deposits. On the other hand, banks that do not have cash shortages are giving low interest rates," he added. Various bankers said troubled banks have not hiked the interest on deposits and savers there are facing difficulty in withdrawing their deposits. However, they increased the interest rate on loans.

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