

Shoring Up Resilience: Harnessing Offshore Banking to Strengthen Bangladesh's Financial Future

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The recent regulatory developments in offshore banking in Bangladesh are viewed as a vital new source of foreign exchange, especially during this period of shortage. These guidelines are expected to strengthen the national financial sector and have the potential to evolve into a stable source of forex through formal banking channels, ultimately contributing to the national economy.

Offshore banking was first introduced in Bangladesh in 1985 to facilitate financing in Export Processing Zones (EPZs). Recent policy changes, including the 2019 offshore banking framework and the 2024 Offshore Banking Act, have boosted interest in offshore banking among Non-Resident Bangladeshis (NRBs), foreign nationals, overseas firms, and investors in EPZs, EZs, and Hi-Tech Parks. These changes have led to a steady increase in popularity, as banks have received positive responses regarding foreign currency deposits.

"Currently, our businessmen are facing significant challenges in opening letters of credit (L/C) for imports due to the dollar crisis. By utilizing the foreign exchange received from offshore depositors, banks can help alleviate this issue, creating a mutually beneficial financial arrangement for potential NRB depositors, banks, and the national economy," says

Mustafa K. Mujeri, Executive Director of the Institute for Inclusive Finance and Development (InM), and former chief economist of Bangladesh Bank and Director-General of the Bangladesh Institute of Development Studies (BIDS). According to the latest Fortnightly Major Economic Indicators report by

Bangladesh Bank (Volume: 07/2024; Issue: 01), exports decreased by 4.34 percent, totaling USD 44.47 billion in FY24. The report attributes this decline primarily to a drop in knitwear exports in recent months. It also notes that the current account balance remains in deficit, with a shortfall of USD 6.51 billion in FY24, compared to USD 11.63 billion in FY23. The deficit is largely driven by the increasing trade gap. As a result, foreign exchange reserves declined from USD 31.20 billion on June 30, 2023, to USD 26.71 billion as of June 30, 2024.

Given the situation, the central bank's guidance on offshore banking operations aims to attract NRBs by relaxing asset declaration requirements and exempting interest on their savings and deposits from all duties and levies. Additionally, banks are offering attractive interest rates in foreign currencies. This initiative is seen not only as a remedy for the current foreign exchange crisis but also as a potential stable source of foreign exchange in the future, provided it is managed effectively.

Offshore banking operations can be conducted in nine currencies: the US dollar, Great British pound, euro, Swiss Franc, Canadian dollar, Australian dollar, Singapore dollar, Japanese yen, and Chinese yuan. To capitalize on this potential, banks are strategically setting up offshore banking units.

'NRB depositors can now earn higher interest on their deposits through Bangladesh's offshore banking system, as local banks are offering more competitive rates compared to the foreign banks where they previously kept their money. This is likely to encourage NRBs to deposit their foreign currency in local banks, attracted by the opportunity to earn lucrative interest in foreign currency for the first time in Bangladesh. Such deposits would also contribute significantly to boosting the country's forex reserves', adds Mustafa K. Mujeri.

Bank insiders believe that the most promising segment of the NRB community for offshore

banking could significantly boost GDP. Currently, there are over one crore NRBs, and foreign exchange is expected to stabilize beyond remittances.

Eastern Bank is carefully preparing to expand its offshore banking services and is actively reaching out to potential depositors through digital platforms to make it easier for NRBs to open accounts. The bank has already upgraded its IT infrastructure, launching it in June, and has since received numerous inquiries from potential clients.

"More than 11 million Bangladeshis are currently living abroad, and we must

missions in developed countries are now fully operational and should actively promote local banks' offshore banking services. This will boost service adoption and strengthen the diaspora's connection to national development.

Dhaka Bank's initial response has been positive, having already received around a million dollars. However, their target is higher, as many potential investors are currently in an observing phase. They anticipate an increase in deposits through this channel once the country's situation stabilizes.

"We are currently facing a reserve crisis, but the flow of foreign money through offshore channels can be invested in the financial sector, boosting GDP. Our industrial sector will also benefit from this, as it helps restore national confidence and yields positive impacts. With the proper permissions in place, not only NRBs but also foreign individuals, companies, and institutions can invest their funds in our banks, as the scope for investment continues to broaden. However, the country's stability and rating are crucial for success in the offshore banking sector.

If investors observe disturbances or negative news in the financial sector, they are unlikely to engage," states Rumman Habib, Vice President and Head of the Offshore Banking Division at Dhaka Bank.

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acknowledge that the majority of NRBs who send remittances are from the working class. These remittances are typically converted into Taka, which often leaves the banking system. However, if funds from offshore banking units remain in foreign currency and depositors feel confident, this could become a reliable source of foreign currency for our country," says Md Mamunur Rashid, Head of International Business at Eastern Bank.

He emphasizes that Bangladeshi foreign

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