

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

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He highlights that asset protection is a major concern for investors. To maximize benefits for the national economy, the banking sector's negative impacts must be addressed. Proper guidance from the central bank and government is essential for making Bangladesh an attractive destination for offshore investment.

If banks can attract a substantial amount of foreign currency through this channel, it will reduce their reliance on higher-rate foreign borrowing, enabling more effective resource management. Ultimately, this will positively impact the national economy.

“Foreign currency inflows positively impact reserves, with stable non-resident deposits expected to remain consistent long-term. Currently, many financial institutions are limiting loan disbursements, whereas banks previously borrowed funds more freely. Increasing foreign currency through offshore banking can help banks

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. If banks can attract a substantial amount of foreign currency through this channel, it will reduce their reliance on higher-rate foreign borrowing, enabling more effective resource management. Ultimately, this will positively impact the national economy.

source funds domestically. When banks borrow from international markets, they incur a country risk premium due to Bangladesh's credit rating. However, by attracting foreign currency deposits through offshore banking, banks can secure funds at a lower cost, offering interest on those deposits instead of paying a premium for foreign borrowing,” said Shaheen Iqbal, DMD & Head of Treasury at BRAC Bank.

He further emphasized that a strong central bank and robust risk management practices are essential. Offshore banking, in particular, requires continuous monitoring to ensure that banks meet their liabilities and maintain financial stability.

BRAC Bank's initial experience with offshore banking has been slow, but it presents a significant opportunity for both depositors and the bank. They have already opened more than a hundred accounts and received numerous inquiries, indicating a growing interest in the service.

Offshore banking appeals to depositors by offering competitive interest rates, often free from taxes or maintenance fees, making it an attractive investment option that simultaneously boosts foreign currency inflows. Additionally, depositors may perceive themselves as strengthening the state's financial position, fostering a mutually beneficial relationship between investors and the country. To fully leverage the advantages of offshore banking, it is essential to brand Bangladesh as a stable economy and ensure stringent oversight of the banking system by the central bank.

MTB has received numerous inquiries about offshore banking, indicating that the new offshore banking provision has gained widespread attention. The bank is laying the groundwork effectively, ensuring that once they begin marketing, there will be no negative repercussions.

“Those banks that have received permission for offshore banking have met specific criteria, equipping them to handle it successfully. As Bangladesh's economy grows, its banks are expanding their correspondent relationships, with new foreign banks entering the market for investment. These are positive developments for offshore banking. Whenever we talk to foreign banks, we emphasize that we've never defaulted on foreign currency transactions, always completing them on time. This builds confidence and encourages their investment,” says Imam Uddin Ahmad, Unit Head, OBU Operation and Assistant Vice President, MTB.

He also emphasizes the need to enhance the country's branding, which is crucial for offshore banking and can help mitigate the current reserve crisis, as significant amounts of foreign currency are required for importers' LC purposes.

So far, Bank Asia has successfully secured funds totaling USD 15 million across approximately 200 accounts.

“We do hope that foreign currency inflow via OBUs will contribute to the long-term foreign reserves; however, that would mostly depend on the kind of investment we would be able to make overseas, as income generated from overseas sources would yield more benefit in building up reserves. While offshore banking provisions have played a vital role in trade financing, particularly for domestic companies, the limitations with collateral and regulatory approvals have kept foreign participation relatively modest,” says Md. Zia Arfin, Senior Executive Vice President & Head of International Division at Bank Asia.

He also adds that while offshore banking inflows can boost foreign reserves when utilized effectively, there is a potential risk of uneven economic outcomes if the funds are not managed or invested prudently.

The readymade garments industry, which accounts for the largest share of our exports, is currently facing challenges due to a dollar shortage. Access to foreign currency through local banks would offer much-needed relief to the sector.

“Offshore banking was an untapped market, but we are now exploring new deposit sources and attracting investments by offering diversified foreign currency deposits. At present, our national economy is grappling with a liquidity crisis, and local interest rates are significantly higher than those in the international market. While foreign currency loans through SOFR are around 9.5%, local rates hover around 14%. With offshore banking, local banks can provide dollar financing to capital-intensive sectors like the readymade garments and power industries, ultimately benefiting both businesses and the national economy,” explains Mahbub Jamil, Head of Offshore Banking at City Bank.

He further notes that certain banks in the Middle East are not cooperating with local banks in opening LCs. Having foreign currency readily available within the country would ease LC financing, enhancing trade and financial stability.

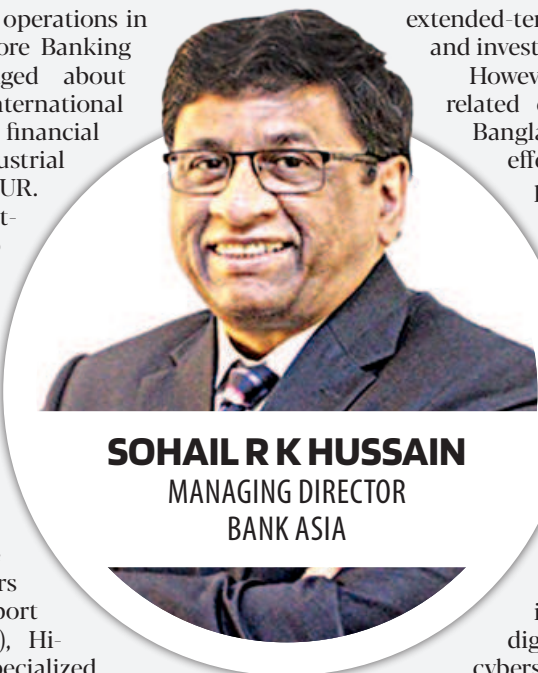


STABLE POLICIES to attract offshore investment

Since launching offshore operations in 2008, Bank Asia's Offshore Banking Unit (OBU) has arranged about USD 3 billion from international banks and development financial institutions to finance industrial transactions in USD and EUR. This has enabled export-oriented businesses to secure low-interest foreign currency loans, minimizing exchange rate risks. Recently, the OBU portfolio reached USD 200 million. By discounting import and export bills for the customers of the Domestic Banking Unit (DBU) and Type A, Type B, and Type C customers operating in Export Processing Zones (EPZs), Hi-Tech Parks (HTPs), and Specialized Economic Zones (SEZs), Bank Asia's OBU has supported enterprises' liquidity needs, reducing reliance on costly LC confirmations and conserving foreign currency.

We offer our customers easy online account opening with minimal documentation, free internet banking for balance checks, tax-free earnings, and the highest returns of up to 7.20% on term deposits, outperforming Europe's negative returns on institutional deposits. All funds are freely transferable and encashable. Bank Asia also has a 24/7 helpdesk to assist with account opening.

OBUs play a crucial role in boosting the country's financial sector by providing access to international capital markets and global funds, reducing reliance on domestic markets for trade financing, and enabling banks to secure foreign currency directly, thereby minimizing dependency on international banks. OBUs also attract overseas investors to industrial zones like EPZs, HTPs, and SEZs, boosting foreign direct investment (FDI). By offering cost-effective trade financing solutions, OBUs lower the cost of imports and enhance business competitiveness. Additionally, OBUs provide longer-term financial products, supporting



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extended-term funding for large projects and investments.

However, there are still trust-related concerns among expatriate Bangladeshis that need to be effectively addressed to popularize offshore banking products. Regulatory uncertainty and frequent changes in policies can deter investment. Limited liquidity and market size may not meet the needs of large institutional investors. Country rating is an important factor in securing more deposits for OBUs.

Additionally, weaknesses in banking infrastructure, including digital capacity and cybersecurity, as well as a lack of good corporate governance standards and robust deposit insurance schemes, can

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undermine trust.

We believe that any government with economic and political stability and the right policies will be able to attract foreign currency funds for offshore banking. Even if governments change, fundamental country policies must remain consistent, and customers need to feel secure that their money is in safe custody.

City Bank Plc

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Notes:

- Profit rates are tied to SOFR and CSTR rates, but locked in at deposit. Currently, 3 months FD rate in dollars is 6.34%, 1 year is 5.27%, and 4-5 years is 7.02%. Invest or spend in Bangladesh without any prior approval, or transfer your money and profits abroad anytime.
- National Board of Revenue (NBR) SRO no. 100, dated 22 April, 2024.
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