

Star BUSINESS

Dhaka residents complaining about sky-high prices of food, especially vegetables, has been a common sight over the last several days



Story on B4

16 NBFIs face total provision shortfall of Tk 1,954cr

MD MEHEDI HASAN

Sixteen non bank financial institutions (NBFIs) faced a combined provision shortfall of Tk 1,954 crore till June this year, reflecting that their financial health had worsened.

Lenders face provision shortages when they have a high amount of non-performing loans (NPLs). It ultimately impacts their net profit. When a lender faces provision shortfalls, it indicates poor financial management practices.

NBFIs are required to maintain provisions ranging from 0.25 percent to 5 percent against general category loans, 20 percent against classified loans in the substandard category, and 50 percent against classified loans in the doubtful category.

They must set aside 100 percent against classified loans in the bad or loss category.

The 16 non-banks are: Aviva Finance, BD Finance, Bangladesh Industrial Finance Company (BIFC), Bay Leasing, FAS Finance, First Finance, GSP Finance, Hajj Finance, Industrial and Infrastructure Development Finance Company (IIDFC), Islamic Finance, Meridian Finance, Midas Finance, National

shortfall, said Md Golam Sarwar Bhuiyan, chairman of the Bangladesh Leasing and Finance Companies Association (BLFCA).

Central bank data showed that soured loans at the NBFIs in the country totalled a record Tk 24,711 crore till June of 2024.

Their total disbursed loans amounted to Tk 74,533 crore in the same period, meaning NPLs accounted for a record 33.15 percent of the money that they had lent.

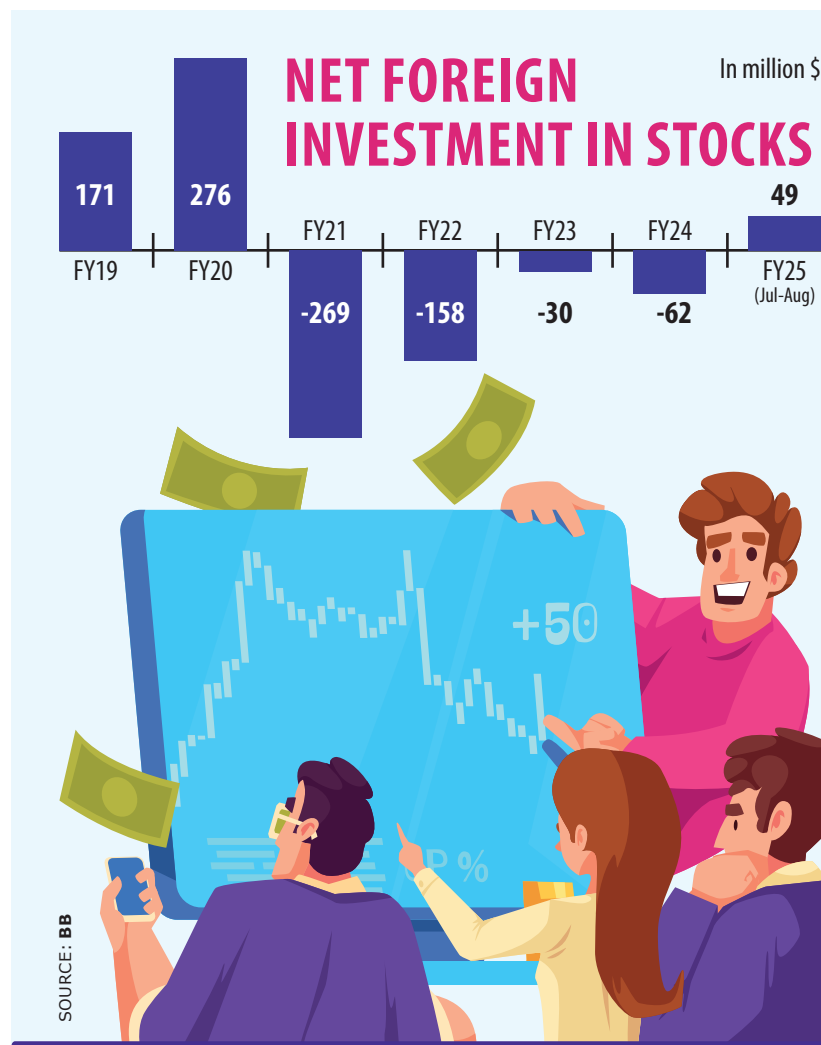
Soured loans increased by Tk 4,760.11 crore or 24 percent year-on-year in June this year from Tk 19,951.17 crore in the same month last year.

Bhuiyan, also the managing director of IIDFC, told The Daily Star that his company would meet the provision shortfall and it would be reflected in September's quarterly report.

Most NBFIs get some time from the central bank to meet any such shortfalls, he added.

The BLFCA, a forum of the chief executives of leasing and finance companies, recently met with the central bank governor seeking liquidity support and policy measures aimed at restoring people's trust in NBFIs.

Foreign investors returning to stock market



Factors that ignite hope among foreign investors

- Govt may not interfere in stock index mechanism
- Floor price will not return again
- Foreign exchange market may become stable
- Good governance may return in the stock market
- Prices of well-performing stocks have dropped to a lucrative level
- Banking sector reform may boost investor confidence
- Interest rates in the US are coming down

AHSAN HABIB

After a long time, foreign investors are showing renewed interest in buying shares of listed companies in Bangladesh as they hope good governance will return to the local stock market following the recent political changeover.

This is because the interim government has implemented various measures, such as punitive action against stock manipulators, to make the market more attractive since taking office on August 8.

Besides, foreign investors hope the exchange rate volatility in the country will stabilise and that floor prices or any other market intervention mechanism will not return following the preceding government's ouster on August 5.

Another reason for their buying mood is that interest rates in US banks have dropped while the share values of many listed companies in Bangladesh have reached a lucrative level, according to market analysts.

Bangladesh Bank data shows that the net portfolio investment of foreign investors soared to \$49 million in the July-August period of fiscal year (FY) 2024-25 while it was \$3 million at the same time the previous year.

"The main priority of foreign investors is good governance and they hope it will return

to the market," said Mohammed Rahmat Pasha, managing director and CEO of UCB Stock Brokerage.

"They are very positive about the punitive action being taken against manipulators."

He went on to say that the second priority for foreign investors is their returns.

If the forex market is unstable, then their investment value deteriorates with the depreciation of the local currency, Pasha said. "So, they are hoping recent reform activities will ensure stability in the forex market."

Central bank data shows that the taka has depreciated by more than 40 percent against the US dollar over the past four years.

The net portfolio investment of foreign investors was in the negative for the past four fiscal years, standing at \$62 million in the negative in FY24 and \$30 million in the negative in FY23.

Foreign investors began selling shares en masse in FY21, when their net sales amounted to \$269 million, before dropping to \$158 million in FY22, shows central bank data.

Pasha said foreign investors prefer the same well-performing companies that they had poured investment into in the past. Aside from assured returns, this is because they have no other options considering that no new good stocks have been listed in the past four years.

UCB Stock Brokerage reported increased buying orders from foreign investors, mainly for well-performing stocks with lucrative prices, since July.

"The lucrative price of good stocks is the main reason for the higher participation of foreign investors," said Ershad Hossain, managing director and CEO of City Bank Capital.

Meanwhile, bank interest rates in the US are declining, so funds are moving out of the country to emerging markets, with Bangladesh also getting in on the action, he added.

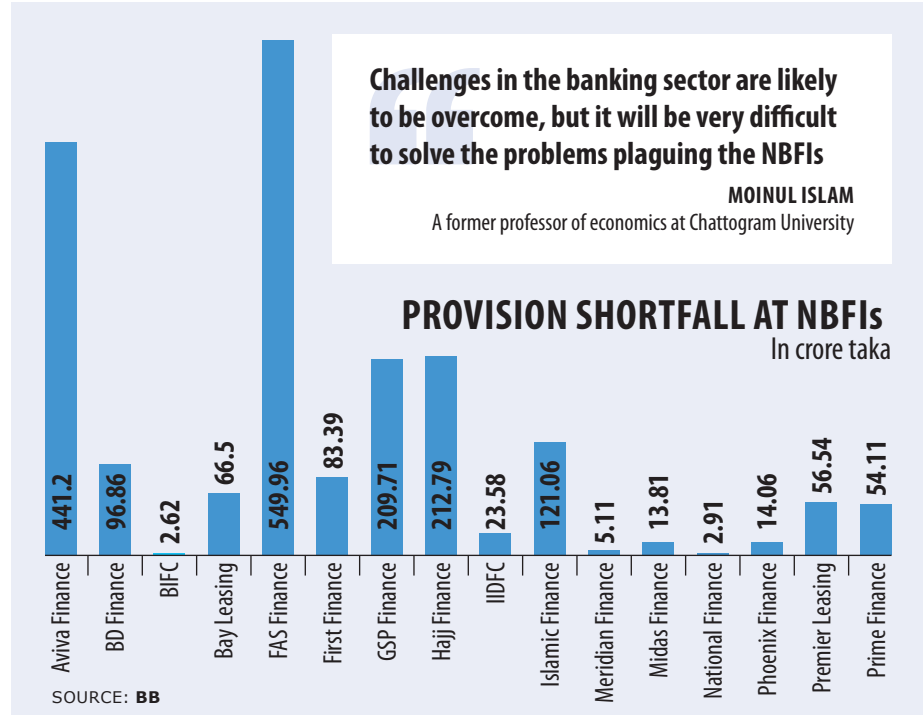
The US central bank lowered its interest rates last month for the first time in more than four years, according to a BBC report. The Federal Reserve reduced the target for its key lending rate by 0.5 percentage points to the range of 4.75 percent to 5 percent.

Moreover, the fall of the autocratic Awami League government has raised confidence of foreign investors in Bangladesh's stock market, Hossain said.

"As such, many of them [foreign investors] are now even considering the potential of investing in non-listed firms," he said.

Furthermore, the interim government has already started many reform activities across all economic sectors to boost confidence in the market.

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Challenges in the banking sector are likely to be overcome, but it will be very difficult to solve the problems plaguing the NBFIs

MOINUL ISLAM
A former professor of economics at Chattogram University

PROVISION SHORTFALL AT NBFIs

In crore taka

Finance, Phoenix Finance, Premier Leasing, and Prime Finance.

Till June, the 35 NBFIs in the country were collectively required to set aside about Tk 16,023 crore as provision but managed Tk 14,122 crore, Bangladesh Bank data shows.

Since many banks also have surplus provisions, their combined provision shortfall stood at around Tk 1,901 crore.

The growing amount of bad loans in the sector is the reason for the large provision

Consumer confidence in the NBFIs hit a nadir a few years ago when the sector was rocked by massive irregularities and scams due to a lack of corporate governance.

For instance, PK Halder, former managing director of NRB Global Bank, which was later renamed Global Islami Bank, swindled at least Tk 3,500 crore from four NBFIs, namely People's Leasing, International Leasing, FAS Finance and BIFC, according to a central bank probe report.

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Demand for luxury apartments near nil

JAGARAN CHAKMA

Luxury apartment sales have dwindled to almost nil ever since the recent political changeover as people have become cautious about spending amid the ensuing economic uncertainty, according to industry insiders.

Although the demand for luxury apartments was quite high for some years, it plunged after the Awami League government was ousted by a mass uprising on August 5, they said.

They also informed that luxury apartments are mostly bought by high-powered businesspeople or government officials.

Aysha Siddiqua, executive director of communication and brand management at building technology and ideas (bti) Ltd, said it is only natural that those who can afford luxury apartments have become frugal following the regime change.

Pointing out that prices of luxury apartments far exceed the capabilities of middle-class people, she said it would take a long time for sales in the segment to return to previous levels.

Most luxury apartments are being built in the upscale neighbourhoods of Dhaka, such as Dhanmondi, Gulshan, Banani, Uttara and Baridhara.

"The prices of apartments in these areas is beyond the imagination of average people. Only the demand for mid-range apartments remains the same," Siddiqua added.

It should be mentioned that the National Board of Revenue still allows the use of undisclosed income for real-estate purchases, subject to the payment of Tk

6,000 as tax for each square metre of the property.

"But there is no scope to consider the buyers of luxury apartments as black money holders. Rather, they are just honest businesspeople," said Shihab Ahmed, head of sales and customer service at Shanta Holdings Ltd.

He explained that apartments sized between 1,500 and 2,500 square feet are considered as being in the premium category while those above 3,000 square feet are in the luxury segment.

However, the classification can vary depending on the unit's location.

For example, apartments that are at least 2,500 square feet in the Baridhara, Gulshan, Banani and Dhanmondi areas are considered luxury units.

Rabiul Islam, head of brand and communications at Ananta Real Estate Ltd, said there is no denying that the sudden political shift has massively impacted the sale of luxury apartments.

This is because although the situation is gradually stabilising, it is still not completely normal. So, people are taking their time before making large purchases.

"We usually target top executives and government officials as buyers for luxury apartments," he added.

Islam informed that prices of luxury apartments can start from as low as Tk 4 crore and go up to as much as Tk 20 crore depending on size and location.

Aside from people's changing spending habits, the ongoing economic uncertainty has also made banks more cautious about giving loans and this has had an immense impact on sales, he said.

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According to industry insiders, around 13,000 apartments are built each year in Bangladesh. However, luxurious buildings are largely seen in affluent areas of the capital such as Gulshan, Banani, and Baridhara.

PHOTO: STAR