

# Star BUSINESS



## Investors don't get clear picture as banks barely follow IFRS

AHSAN HABIB

Unlike other companies in Bangladesh, banks and non-bank financial institutions have not been fully adhering to the International Financial Reporting Standards (IFRS), so the real scenario of the financial sector is hidden from public view.

The IFRS is a set of accounting rules that determines how transactions and other accounting events are required to be reported in financial statements. It is followed by more than 100 countries, including those in the European Union. It is intended to make financial reports consistent, transparent and easily comparable around the world.

However, as banks have not been following the IFRS, their health appears better than it is in reality. Moreover, they are showing high profits and disbursing dividends, deteriorating their health further, according to financial analysts.

The Bangladesh Bank (BB) itself provides the opportunity for financial institutions to dodge some requirements of the IFRS by giving waivers through circulars. Banks then follow the central bank's circulars when preparing financial reports, artificially presenting themselves as healthier.

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However, while banks and NBFIs have not been following the IFRS fully, all other companies in the country adhere strictly to international standards to prepare their financial reports.

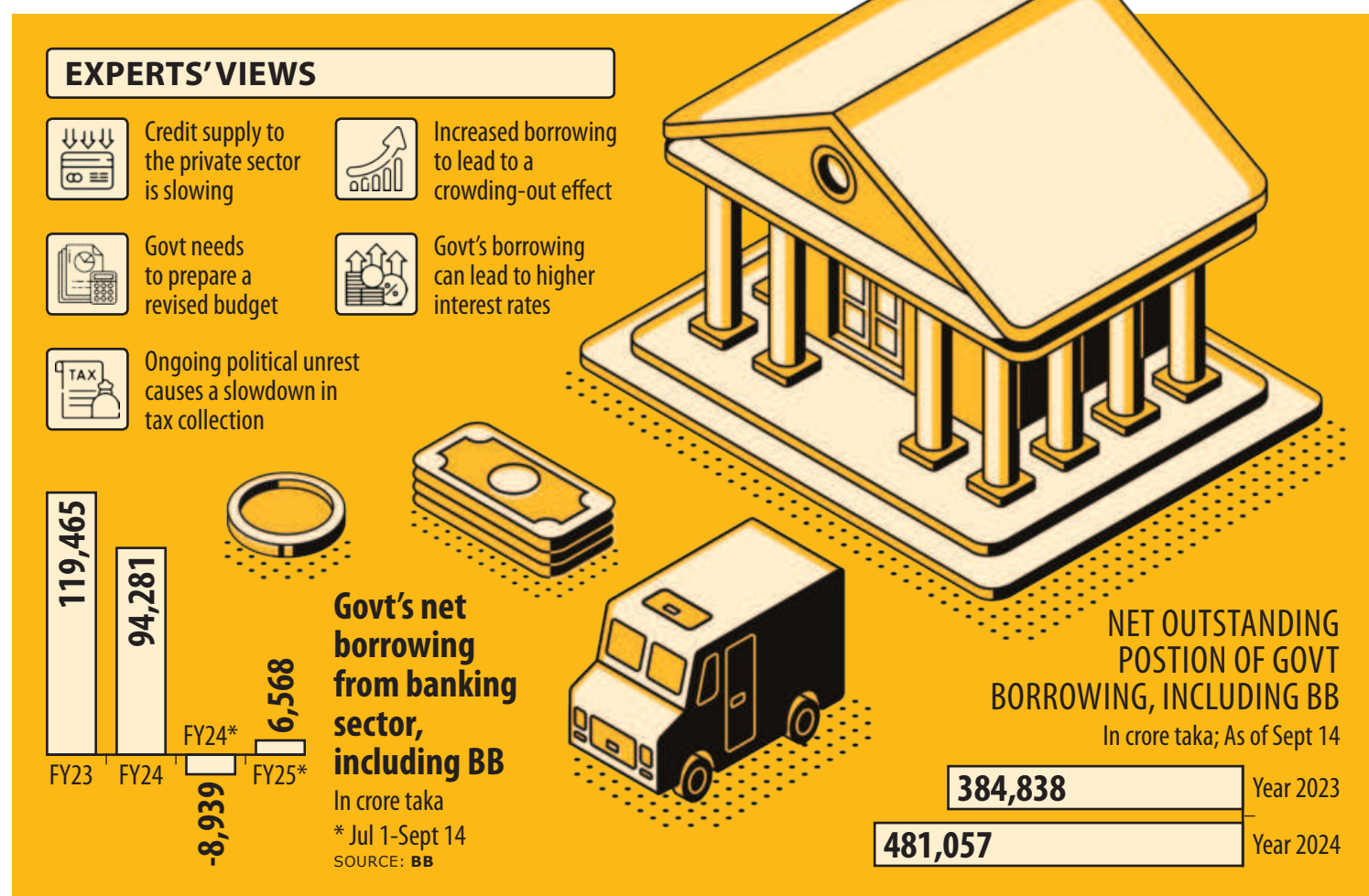
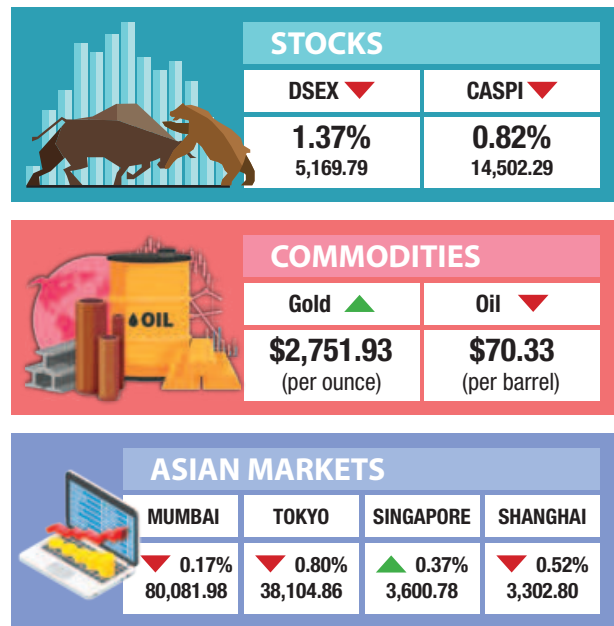
Shahadat Hossain, a former president of the Institute of Chartered Accountants of Bangladesh (ICAB), said that if the gap between the IFRS followed standard and local standards rises, it indicates that the true picture of the companies is not reflected in the reports.

Md Mahamud Hosain, a former vice-president of the ICAB, said the ground reality for most banks is very different from what is shown in their financial reports because of the deviation in accounting standards.

Sometimes, the central bank used to give waivers to serve political interests, he said, adding that a roadmap should be prepared for banks to get them to follow international standards within the next three years.

If they are suddenly forced to follow global standards, their situation may deteriorate so much that their credit rating may fall, which will impact the opening of letters of credit, he pointed out.

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## Govt borrowing from banks rises as unrest hits tax collection

SOHEL PARVEZ

The government's net borrowing from the banking system rose in the first two and half months of the current fiscal year in the face of falling tax collection and surging foreign debt servicing costs, raising concerns of a crowding out effect on private credit.

The government's borrowing from banks increased by Tk 6,568 crore during July 1 to September 15 of fiscal year (FY) 2024-25. During the same period a year ago, the net borrowing from banks fell by Tk 8,939 crore, according to the Bangladesh Bank (BB) data.

The spike in borrowing took place at a time when high inflation, rising interest rates and import contraction have caused a slowdown in businesses and investment.

Bangladesh's economic activities ground to a near-halt in July amid deadly protests and a mass uprising, which led to the fall of the Sheikh Hasina-led government on August 5.

The interim government took charge in the second week of August, the latter part of which saw devastating floods in the Eastern districts and crippled the Dhaka-Chattoagram Highway, the key economic corridor which carries most of the country's export and import cargo.

Tax collection by the National Board of Revenue (NBR), which collects more than 85 percent of total revenue, fell 6 percent year-on-year in the first quarter of FY25.

Disbursement of loans by bilateral and multilateral lenders fell by a third year-on-year to \$846 million in the July-September period of FY25. At the same time, Bangladesh's foreign debt servicing shot up 29 percent

year-on-year to \$1,126 million.

In net terms, the country spent more to repay foreign loans than it received during the period.

"The ongoing political unrest has triggered a slowdown in revenue growth between July-September and Annual Development Programme implementation," said Ashikur Rahman, principal economist at the Policy Research Institute of Bangladesh.

"The resulting economic uncertainties that we have witnessed have also motivated development partners like the World Bank to reduce our growth forecast for the current year to 4 percent," he said.

**The spike in borrowing took place at a time when high inflation, rising interest rates and import contraction have caused a slowdown in businesses**

"Moreover, the lack of coherence within the civil bureaucracy, and recurring strikes and unrest on various issues are keeping political uncertainties very much alive. As a result, the government is depending on commercial banks to meet its expenditure outlay.

"But this is unlikely to influence inflation as it does not involve the printing of high-powered money."

Central bank data showed that the government repaid Tk 29,272 crore from July 1 to September 15 this year, which was higher than the amount it repaid in the same period a year ago.

"Furthermore, given Bangladesh Bank has categorically stated that it is not willing to directly lend to the government through the creation of high-powered money, the inflationary pressure is expected to come down provided that the central bank remains committed to the tightened monetary regime," said Rahman.

However, Deen Islam, associate professor of economics at the University of Dhaka, was of a different opinion.

"Increased borrowing from the banking system often leads to higher liquidity in the market, which can contribute to inflationary pressures, especially when not offset by corresponding increases in productivity or supply," he said.

"With headline inflation already high, further borrowing by the government could worsen the inflationary environment. The increased availability of money in the economy, without a corresponding rise in the production of goods and services, can drive up prices, exacerbating inflation."

Additionally, the recent data on currency outside banks, which rose by 0.69 percent in August 2024, suggests that more money is circulating in the economy, potentially adding to inflationary pressures.

Islam said the net outstanding position of government borrowing from the banking sector, including the BB, rose 24 percent year-on-year to Tk 4.81 lakh crore as of September 14 this year.

"This is a significant increase, indicating the government's growing reliance on domestic bank financing to meet its fiscal demands," he said.

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## Flood-hit SMEs seek govt assistance

SUKANTA HALDER and ANWARUL HAIDER

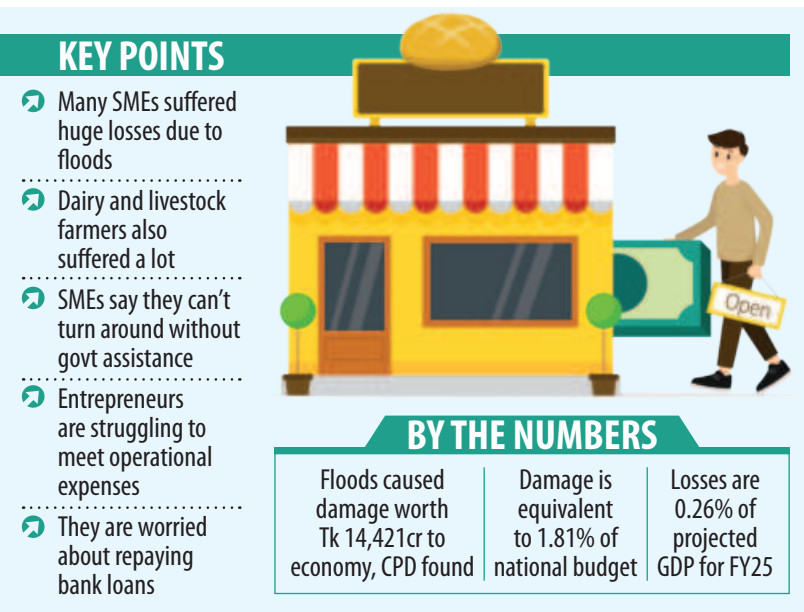
Devastating floods in August and the following months have made life miserable for dairy and livestock farmers as well as small entrepreneurs, who are now struggling to meet operational expenses and repay bank loans after losing most of their belongings.

Some businesses and homes have been directly damaged by the floods while others experienced a sharp decline in sales, according to various entrepreneurs and leaders of business associations.

Nazma Akhter, an entrepreneur from Begumganj upazila in Noakhali district, lost 10 of the 50 cows on her farm, which was submerged under three feet of water during the recent floods.

The businesswoman told The Daily Star that the floods have caused her over Tk 10 lakh in losses.

"I have been running the farm with loans from various banks and non-government organisations [NGO]. But I couldn't sell a single drop of milk in the past one month, which has compounded my financial



difficulties." "So far, there has been no government support. Without it, I may have to shut down the farm."

Similarly, Rahima Bibi, an entrepreneur from Noakhali sadar upazila, said the floods have washed away all the fishes and ducks of her

pond and farm, causing an estimated loss of Tk 1.25 crore.

The 55-year-old said she had plans to repay about Tk 1 crore in loans taken from Janata Bank, Mercantile Bank and 10 NGOs by selling fishes in November and December.

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## Why stocks on a downward curve

AHSAN HABIB

The stock market index has been on a downward trajectory for the past two months, as a brief surge following the August political changeover quickly fizzled out.

For the market plunge, analysts point the finger at a combination of factors, including higher interest rates in the banking sector, forced selling due to margin calls, a series of labour unrest slowing the manufacturing sector and low investor confidence.

The DSEX, the benchmark index of the Dhaka Stock Exchange (DSE), surged 786 points, or 15 percent, within just four days after August 5th of this

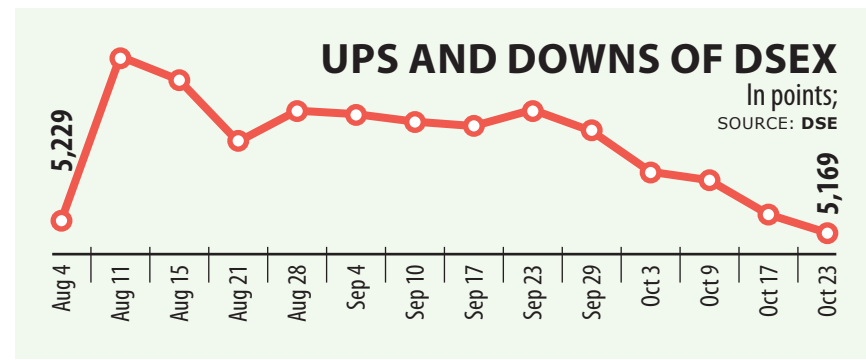
year. Since then, the main index has plummeted 846 points, or 14 percent, to 5,169 points as of yesterday.

One of the main reasons for the market's decline is the high interest rates offered by banks, according to Md Ashequr Rahman, managing director of Midway Securities.

He said good banks are now offering interest rates above 11 percent for deposits, while treasury rates have also reached historic highs. "This combined effect diverts funds away from stocks, impacting the market negatively."

Besides, the ready-made garment sector faced production disruptions due to labour unrest in September and early October.

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## No documents needed to file e-return

STAR BUSINESS REPORT

To ease online tax return submissions, taxpayers will not be required to submit any documents or soft copies when filing an e-return, according to the National Board of Revenue (NBR).

"We made the decision to ensure ease of doing business and encourage taxpayers. The taxpayers, however, will have to keep the required documents on hand," said Md Abdur Rahman Khan, chairman of the NBR.

"If the taxman finds any discrepancy, the taxpayers will be responsible for their declaration on the return," he said.

When filing taxes manually, taxpayers have to provide essential documents like copies of their e-TIN, national ID, address details, and the previous year's return.

Besides, employees have to provide salary certificates, bank statements, and other relevant documents. For different income sources, certificates or documents should be submitted, including investment details, property information, and tax-free income certificates.

"In this regard, the taxpayers will have to take the 'risk', but we believe taxpayers will endorse accurate information," the NBR chairman said.

Khan made the remarks while speaking to the reporters at the NBR headquarters in the capital's Agargaon yesterday.

"We want to reduce the manual connection with the taxpayers and taxmen," he said, adding that they have already created guidelines for taxpayers and were taking steps to publicise the initiative through videos and other methods.

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