Star BUSINESS

Importers hit by dollar crisis get 8 years to repay loans

STAR BUSINESS REPORT

Businessmen involved in import-dependent industries that have suffered losses due to the depreciation of the local currency against the US dollar will get up to eight years to repay their loans.

Only importers who brought over goods on condition of delayed loan repayments and suffered losses will get this opportunity, according to a central bank notification issued yesterday.

The loans will be repaid on a monthly or quarterly basis with a one-year grace period after calculating losses separately, as per the circular.

The central bank said that the value of the taka against foreign currencies, especially against the US dollar, has decreased significantly due to the long-term impacts of the Covid-19 pandemic, the Russia-Ukraine war, and the global economic recession.

Only importers who brought goods on condition of delayed loan repayments and suffered losses will get this opportunity

So, local manufacturing industries have faced exchange rate losses while importing raw materials. As a result, forced loans are being created, and a working capital deficit is being observed alongside a reduction in the production capacity of these institutions, the central bank said.

The central bank issued the directive to maintain the production capacity of import-dependent industries, including the steel and cement sectors as well as local industries whose sales prices are determined by the government.

In line with the instructions, many food importers will get this benefit as the prices of various products, including oil and sugar, are determined by the government.

The Bangladesh Bank also said that the total amount of exchange rate-related losses would be determined by the relevant bank in the case of letters of credit opened from January to December 2022.

The central bank also announced the method to be used to determine the total amount of unexpected exchange rate-related losses.

The amount equivalent to the loss can be transferred as a separate term loan outside READ MORE ON B3

STOCKS

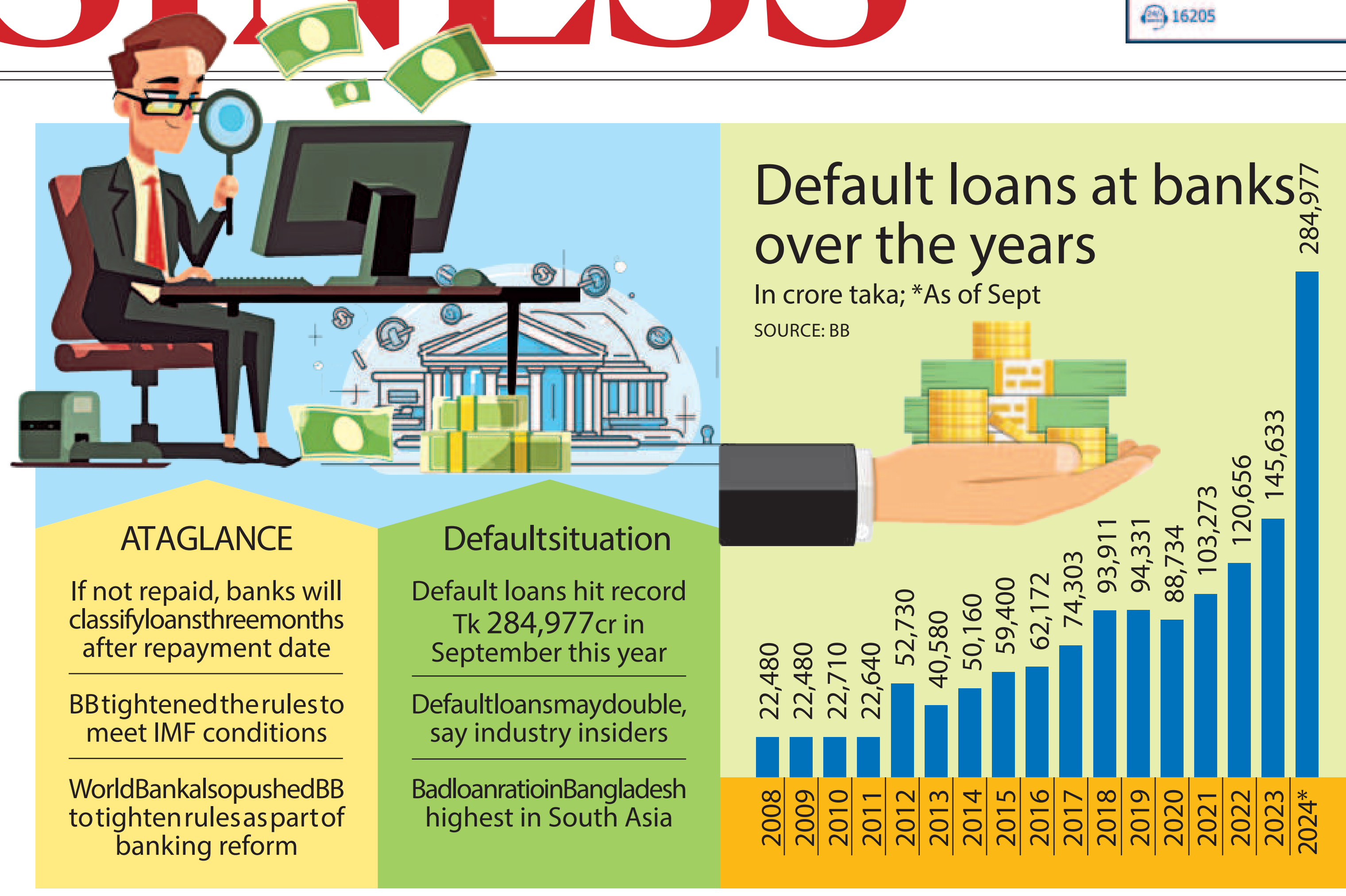
DSEX ▲	CASPI ▲
1.06%	0.95%
5,197.93	14,469.49

COMMODITIES

Gold ▲	Oil ▲
$2,648.36	$69.03
(per ounce)	(per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.29%	▼ 0.80%	▼ 0.12%	▲ 1.53%
80,234.08	38,134.97	3,708.09	3,309.78



BB tightens loan classification rules to meet IMF conditions

Bankers fear this may double default loans next year

STAR BUSINESS REPORT

Payment failure for three months or 90 days after the due date will now lead to classification of loans regardless of type, according to new rules announced by the central bank yesterday, aligning with international best practices prescribed by the International Monetary Fund (IMF).

The new rules will be effective from April next year, replacing current different non-performing loan (NPL) labelling tenures for different types of bank loans.

This stokes fears about a surge in toxic loans within the banking sector, which stood at a record Tk 284,977 crore at the end of September this year.

While approving the ongoing $4.7 billion loan package for Bangladesh in January last year, multilateral lender IMF set several targets, including reworking loan classification rules.

The Bangladesh Bank (BB) issued a detailed circular yesterday regarding the loan classification.

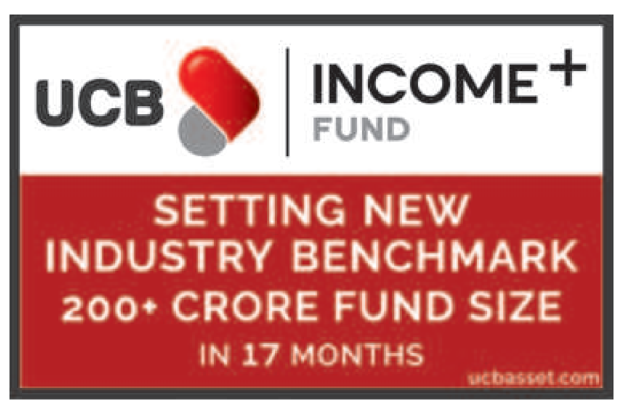
As per the new rules, a loan will be classified as substandard when the overdue tenure is three to six months. It will be classified as doubtful when the overdue tenure is six to 12 months.

When the overdue tenure is 12 months and above, loans will be classified as bad and loss.

Currently, a loan is classified as substandard when the overdue tenure is three to nine months. It turns doubtful when the overdue tenure is nine to 12 months.

Under the new rules, the overdue tenure for bad and loss category remains the same as now -- which is 12 months and above.

The cottage, micro, small and medium enterprises (CMSME) currently enjoy different loan classification tenures, which have been revoked under the new rules.



CMSME loans are classified as sub-standard when the overdue tenure is six to 18 months. Those turn doubtful when the overdue tenure is 18 to 30 months. When the overdue tenure is 30 months and above, those loans are labelled as bad and loss.

In the new rules, there is no change in provisioning against loans.

Banks now have to keep 1 to 5 percent as a provision against general category loans. This provisioning rises to 20 percent against sub-standard loans, 50 percent against doubtful loans and 100 percent against bad loans.

In the notification, the central bank said a strong financial sector is necessary to support the growing economy in Bangladesh.

According to the BB, timely steps are necessary to reduce the rate of classified loans for financial stability. The government and the Bangladesh Bank have taken various initiatives to reform the banking sector.

As part of those steps, the BB said the instructions have been issued in light of international best practices.

The loan classification and provisioning policy was first introduced in 1989 under the financial sector reform programme in Bangladesh.

Later, various changes were made to the policy to align it with international best practices and methods. Two major changes were brought in 1998 and 2006.

However, the latest major revision of the loan policy was made in 2012, central bank officials said.

Loans disbursed through irregularities to Awami League-affiliated businesses turned sour at an alarming pace after the ouster of the Sheikh Hasina-led government on August 5.

Between July and September, bad loans soared 34.8 percent or by a staggering Tk 73,586 crore, according to BB data.

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BB introduces longer-term bills to fight inflation

STAR BUSINESS REPORT

The Bangladesh Bank has decided to introduce two more bills which would have tenures much longer than those of the three bills currently available in an effort to mop up excess liquidity from the money market and rein in runaway inflation.

The 90-day "Bangladesh Bank (BB) Bill" and 180-day BB Bill are aimed at enforcing the tight monetary policy by curbing excess demand in the economy alongside consumer prices.

The bills are aimed at enforcing the tight monetary policy by curbing excess demand in the economy

The existing 7-day BB Bill, 14-day BB Bill and 30-day BB Bill were reintroduced through auctions since August 2021 after a three-year suspension.

"We are going to hold auctions of longer tenure bills for better implementation of the monetary policy," said a senior BB official.

The central bank yesterday withdrew Tk 452 crore from the money market by auctioning the BB bills. The cut-off yield or the minimum price was 11.10 percent, according to the BB.

The BB official said the banking regulator would use the BB bills by analysing the market situation. "We will hold auctions for the longer tenure BB bills depending on the market situation," the official added.

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Exports to EU may fall 20%

Study assesses combined impact of LDC graduation and EU-Vietnam FTA

STAR BUSINESS REPORT

Bangladesh's overall exports to the European Union (EU) may fall by as much as 20 percent due to the combined impacts of the nation's graduation from least developed country (LDC) status and the EU-Vietnam Free Trade Agreement (EVFTA), according to a study.

Mohammad Abdur Razzaque, chairman of Research and Policy Integration for Development (RAPID), presented the study, conducted jointly by the think-tank and German political foundation Friedrich-Ebert-Stiftung, at a seminar in Dhaka yesterday.

"Bangladesh's apparel exports to the EU are projected to decline by 1.8 percent and leather and leather products by 6.5 percent due to trade diversion caused by the EVFTA," Razzaque said.

By 2023, Vietnam's exports to the EU more than doubled Bangladesh's, despite both countries having similar shipments in 2002, he added.

"Vietnam has made significant investments in its garment industry's backward linkages while Bangladesh has yet to implement visible policies, thereby failing to fully capitalise on the opportunity."

The EVFTA, which came into effect in 2020, grants Vietnam significant trade advantages, including zero-duty access to the EU market, replacing its earlier standard Generalised Scheme of Preferences (GSP).

In addition to tariff eliminations, the EVFTA addresses non-tariff barriers, opening the market for services and investment, and aligns Vietnam with the EU's labour and environmental standards, collectively strengthening its competitiveness and investment appeal.

EU-VietnamFTA:implicationsforBangladesh
(Vietnam entered into FTA with EU in 2020)

Exports to EU may fall 20.3%afterLDCgraduation	Apparelexports maydecline1.8%	Leatherandleatherproduct exports may drop 6.5%

VIETNAM'SBENEFITS

Gettinghigherduty benefits	ExportstoEUcould increase 47%	Its backward linkage industriesaregettingstronger

SOURCE:STUDYBYRAPID

Currently, Bangladesh's exports enjoy duty-free access to the EU under the "Everything but Arms (EBA)" programme. This, alongside relaxed rules of origin, has been instrumental in expanding the country's apparel exports to the EU.

But the benefit is only extended to LDCs, meaning Bangladesh may lose the privilege after graduation.

At the same time, while Bangladesh has been lagging in policy implementation, Vietnam has effectively streamlined its business environment and opened up trade and investment, taking timely and strategic policy actions, the study said.

"If Bangladesh wants to remain competitive, especially as global trade rules evolve, it must prioritise investments in backward integration and infrastructure development," Razzaque said.

He added that Bangladesh relies heavily on apparel exports while Vietnam's export basket is more diversified.

Razzaque also said Bangladesh and Vietnam are filling the void of China's declining market share in the global apparel market at a similar pace.

"Bangladesh has captured China's market share in the EU while Vietnam has done so in the US." READ MORE ON B3

Tk 18,500cr injected into four crisis-hit banks

STAR BUSINESS REPORT

The Bangladesh Bank has injected Tk 18,500 crore into four crisis-hit banks, namely First Security Islami Bank, National Bank, Social Islami Bank and EXIM Bank, against demand for promissory (DP) notes.

A DP note is a written instrument that promises to pay a specific amount of money on demand to the bearer of the note.

The central bank usually accepts a DP note when a bank does not have available bills or bonds to provide as collateral.

The four ailing lenders received the funds from the central bank on November 25 for a six-month tenure at the repo rate, which currently stands at 10 percent.

A senior central bank official, seeking anonymity, told The Daily Star that those banks will primarily get six months to repay the funds.

But if they fail to do so, the lenders may be allowed to repay the funds in phases.

The banking regulator took the major decision after consulting with the interim government, the BB official added.

In September, Bangladesh Bank Governor Ahsan H Mansur said that the central bank would not provide liquidity support by printing money as in the past.

As such, the central bank decided that weak banks would be allowed to secure liquidity from the inter-bank money market.

However, this decision failed to resolve the crisis.

Before securing the latest funds from the central bank, over half a dozen struggling banks received Tk 6,850 crore in liquidity support from the inter-bank money market.