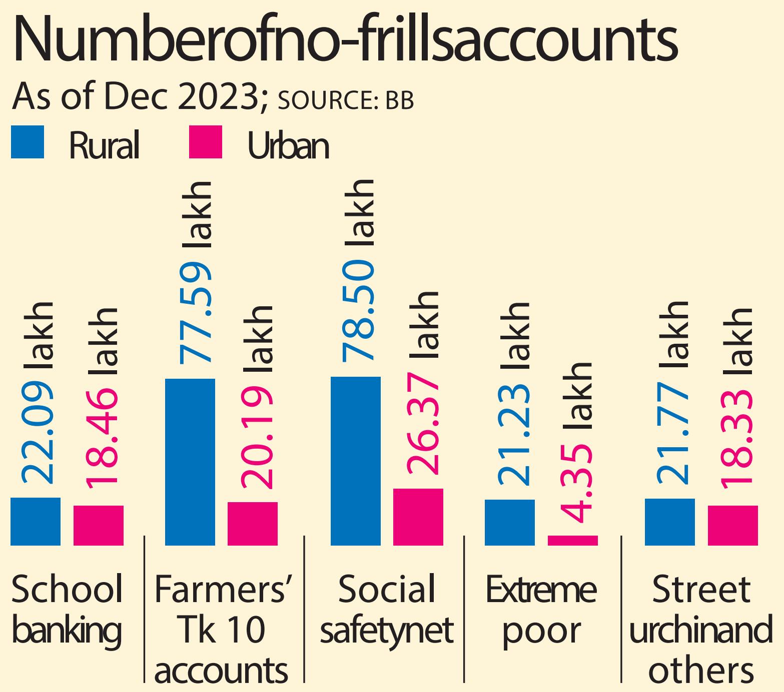
Financial inclusion evolves with focus on rural Bangladesh

PHOTO: SUZIT KUMAR DAS



STAR BUSINESS REPORT

Financial inclusion in Bangladesh is evolving, as evidenced by the increasing penetration of agent banking, mobile financial service (MFS), and no-frills accounts (NFAs), alongside a strong commitment to rural outreach, according to a central bank report.

A big driver of this evolution is an expanding network of banking services and mobile financial solutions. However, targeted interventions are needed to address gaps, particularly in rural areas and among women, it recommended.

As per the World Bank's Global Findex Database 2021, 47 percent of individuals aged 15 years and above remain outside the formal financial system in terms of account ownership.

Among adults, the gender gap is particularly evident, with 43.46 percent of women accessing formal financial services compared to 62.86 percent of men.

The scenario is being countered though the expansion of rural banking services, according to Financial Inclusion Report 2023 of Bangladesh Bank.

The report measured access, usage, and quality of services provided by financial service providers as of December 2023.

It stated that of the 11,284 bank branches and 260 finance company outlets nationwide, nearly half are located in rural areas.

Around 80 percent of the 21,601 agent banking outlets in the country are in rural areas, facilitating account creation and financial transactions.

This outreach has resulted in notable rural account ownership, with around 47.11 percent of bank accounts and 55 percent of MFS accounts held by rural residents, according to the report.

Bangladesh's MFS sector, which has over 210 million accounts, is a key driver of financial inclusion. It complements the efforts of microfinance institutions, which serve over 40 million people, predominantly in rural areas.

Of these account holders, 90 percent are women, highlighting the sector's role in empowering female entrepreneurship and household financial management.

The NFAs, such as Tk 10 accounts for farmers and school banking accounts, play a pivotal role in extending financial services to underserved populations.

As of December 2023, 30.9 million of the NFAs were active, with the leading numbers comprising social safety net accounts and farmers' Tk 10 accounts.

Over 70 percent of these accounts belong to rural customers, underscoring their impact on low-income groups.

School banking accounts, however, remain largely urban-centric, reflecting the need for a more balanced geographical outreach in financial literacy initiatives targeting students.

Despite the progress, challenges remain. Rural areas often face an overconcentration of banking outlets in specific locations, leaving other regions underserved. Similarly, while account ownership is increasing, active usage and financial literacy continue to be pressing concerns, the report states.

The gender disparity in financial access also underscores the need for robust policies. Initiatives promoting financial literacy, tailored products for women, and incentives for rural financial activity are crucial, it said.

Large loan restructuring: lessons learned from Hallmark

MAMUN RASHID

Classified loans in Bangladesh have exceeded Tk 284,000 crore. Various agencies are even talking of Tk 4 lakh to Tk 7 lakh crores of stressed assets in the banking sector, which tends to be 25-45 percent of the total loans.

Due to the concentration of loans within a few large borrowers, many banks run the risk of going "belly up" during any possible economic meltdown or challenging period. The situation is more precarious with the weak banks that enjoyed political favour during the fallen regime.

Loans usually go bad due to: 1) improper or weak need assessment, 2) wrong structuring of the facilities, 3) security or collateral shortfall, 4) weak internal cash generation in the business leading to recurring past dues, 5) lending on the basis of names of the borrowers without looking into their business fundamentals or future potentials or even succession, 6) ignorance about competition or emerging competition, 7) failure to monitor the performance of loan asset, and 8) economic downturn or investment in the business segments other than the core ones.

Added to these are, of course, weak loan appraisal, failure to understand foreign exchange risk, corruption or failure of the lending officers and weak or no approval covenant monitoring. Too much of one-off excess approvals can be attributed to most large loan failures.

Once the recovery of a large loan or portfolio becomes doubtful, we must apply extraordinary caution and whether like it or not keep the client in a good relationship till the bank can strongly secure the exposure.

Now let us look at the Hallmark episode where an apparel exporter with Tk 200 crore projected exports with a 120-day end-to-end trade cycle ended up with Tk 3,606 crore exposures from commercial banks mostly state-owned ones. Interestingly their main banker Sonali Bank considering the trade cycle and similar industry players approved a credit limit of Tk 70 crore, the rest were local bill discounting (LBD) based on fake transport or shipping documents and subsequent use of bank limits.

More interestingly, when Hallmark's fraudulent activities were put on the surface and Hallmark applied for rescheduling, a few seniors mostly with central banking backgrounds, only kept on focusing on ensuring exemplary punishment of Hallmark promoters, not on ring-fencing the large loans exposure with further security or collateral. Since the clients' plea to reschedule the loan and business continuity was not heard positively, Sonali Bank was held captive with Tk 70 crore worth of security, not the additional risk assets or even a liability acceptance for the additional or total amount.

Hallmark's legal counsel behaved very intelligently and continued pounding on Tk 70 crore loans, not the local bill discounting amount, not to mention additional hard collateral. The legal advisers attributed the entire excess amount to the reported corruption of Sonali Bank officials and a few political seniors, putting Sonali Bank only to regret. The bank didn't consider Hallmark's rescheduling plea or business continuity appeal.

Large loan exposures once become sour, banks should keep on ensuring total liability acceptance by the borrower and security/ collateral improvement, especially hard collateral.

Learning from other similar countries, recovery of large risky and stressed assets of the banks warrants special attention, trained people assigned for recovery with legally enforceable security structures or even special approval for large loan restructuring from the central bank, not only rescheduling. The good bank and bad bank practices by a few global banks also should work here.

The author is the chairman of Financial Excellence Ltd

London 'natural home' for Chinese finance

UK treasurer says

AFP, *Beijing*

British treasurer Rachel Reeves said Saturday that London was a "natural home" for Chinese finance during a visit to Beijing in the shadow of bond market turmoil back home.

Reeves, whose formal title is chancellor of the exchequer, is the most senior British government official to visit China since then-prime minister Theresa May held talks with President Xi Jinping seven years ago.

The trip comes as the yield on British government bonds reached a 17-year high this week, further complicating the ruling Labour Party's sputtering efforts to revitalise growth.

The increase makes it more costly for the government to finance current operations and repay debt, raising risks it will have to make spending cuts or hike taxes.

Speaking at the reopening of long-suspended finance talks between the two countries, Reeves said London was a "natural home for China's financial services firms and your clients raising capital, and a launchpad for Chinese firms seeking to build a global footprint".

She hailed "opportunities to deepen connections" on capital markets, but said both countries needed to work more closely on "regulatory cooperation".

British Finance Minister Rachel Reeves (L) shakes hands with Chinese Vice Premier He Lifeng during a press conference in Beijing yesterday. PHOTO: AFP

At a later press briefing, Reeves said "common ground" had been found on financial services, trade, investment, climate change and other areas.

She said the total value of what had been agreed would be worth £600 million ($732 million) for the British economy over the next five years, without giving specific details. Her Chinese counterpart, Vice Premier He Lifeng, said experience showed that "as long as China and the UK respect each other... relations between our two countries can develop in a healthy way".

Reeves faced pressure from the parliamentary opposition to stay home and address the financial crisis, but a spokesperson for Prime Minister Keir Starmer said this week she had not planned to cancel her "long-standing" trip.

On a visit to British bicycle-maker Brompton's Beijing showroom earlier Saturday, Reeves acknowledged "moves in global financial markets over the last few days", but said the fiscal rules she set out in her October budget were "non-negotiable".

US hiring beats expectations

AFP, *Washington*

US job gains soared past expectations in December, according to government data released Friday, in a sign the labor market remains healthy shortly before President-elect Donald Trump's inauguration this month.

This indicates he is set to inherit an economy in relatively good shape, despite running an election campaign in which he painted its condition as a disaster.

Hiring in the world's biggest economy stood at 256,000 last month, up from a revised 212,000 in November, the Labor Department said. The December figure was significantly above the market consensus estimate of 154,000, according to Briefing.com.

The jobless rate meanwhile crept down to 4.1 percent from 4.2 percent.

The latest report marks a solid end to 2024 for the jobs market, which has held up in the face of elevated interest rates, allowing consumers to continue spending.

Jobseekers speak with prospective employers during a City of Los Angeles career fair. PHOTO: AFP/FILE

Outgoing President Joe Biden lauded his administration's performance.

"Although I inherited the worst economic crisis in decades with unemployment above six percent when I took office, we've had the lowest average unemployment rate of any administration in 50 years with unemployment at 4.1 percent as I leave," he said in a statement.

"This has been a hard-fought recovery," he added.

In a separate statement, Biden noted the country saw 21 million new business applications during his administration.

The United States "generated 2.2 million jobs in 2024, the slowest pace since 2020, but still above 1.99 million in 2019," said KPMG chief economist Diane Swonk.

China's electric and hybrid vehicle sales jumped 40.7% in 2024

AFP, *Beijing*

Sales of electric and hybrid vehicles jumped more than 40 percent in China last year, as demand for new energy models continues to surge and the sector remains entrenched in a gruelling price war.

The Chinese electric vehicle market has witnessed explosive growth in recent years, driven in part by generous subsidies from Beijing.

But the world's largest automotive market has also seen fierce competition among domestic car manufacturers as a consumption slowdown fuels a price war that is weighing on profitability

In 2024, almost 11 million new energy vehicles (NEVs) were sold, a year-on-year increase of 40.7 percent, the China Passenger Car Association (CPCA) said Thursday.

NEVs accounted for nearly half -- 47.6 percent -- of all retail sales last year, the association said.

By comparison, such vehicles accounted for just 22.6 percent of sales in the European market in November, according to the European Automobile Manufacturers' Association.

In China, NEV sales surpassed 1.3 million units in December, CPCA data showed, up 37.5 percent year-on-year and representing the fifth consecutive month of sales of more than one million.

Beyond just NEVs, the total number of vehicles sold last year in the Chinese market swelled 5.5 percent, reaching nearly 22.9 million units, the CPCA said.

For EV companies, the price war is likely to carry on in the new year, CPCA secretary general Cui Dongshu said during a Thursday press conference.

More than 200 car models saw price cuts last year, compared to 148 in 2023, Cui added.

This photo shows a brand-new H9 vehicle at the production line of Great Wall Motors' Chongqing smart factory on January 2. PHOTO: AFP

BYD has emerged as a clear leader in the Chinese market -- the Shenzhen-based firm sold more than four million vehicles globally in 2024.

While BYD occupies roughly one third of the Chinese market, the situation is bleaker overseas, where various governments have hiked customs duties on vehicle imports from the country.

In December, sales in foreign markets accounted for just 12 percent of BYD's overall sales, according to the company's figures.

"We are now experiencing significant pressure on exports," Cui said Thursday, adding that Chinese NEV sales are "currently being suppressed by the European Union".

The European Union has said that extensive state support by Beijing for its domestic carmakers has led to unfair competition, with an investigation by the bloc finding that subsidies were undercutting local competitors.

Foreign automotive giants, on the other hand, are battling against slumping sales in the world's second-largest economy.

BYD's quarterly revenue surpassed global rival Tesla's for the first time during the third quarter last year.