




## SMEs lose credit appetite in economic turbulence

SUKANTA HALDER

How have local private sector businesses fared in recent years?

To gain a micro-level understanding, ask the question to houseyard workshops, rural handicraft units, tiny grocery stores and small leather and footwear ventures.

These businesses have been struggling for over three years, gasping for air amid a challenging economic climate.

This is because high prices have eroded consumer demand, while increased power and utility bills have increased operating costs.

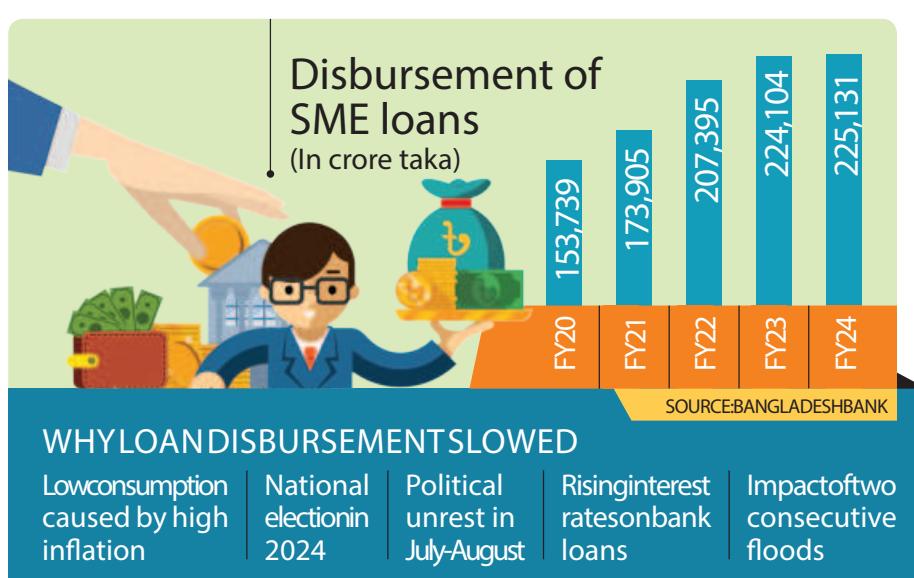
Access to bank loans has also become increasingly difficult for these small ventures, officially categorised as cottage, small, and medium enterprises (CMSMEs).

Instead of easing, the situation for around 78 lakh CMSMEs across the country, which contribute one-fourth of the gross domestic product (GDP) and employ 40 percent of the total workforce, has worsened in late 2024.

On top of the stubbornly high inflation, nationwide protests, violence, curfews, recurrent flooding and punishingly high interest rates on bank loans have brought the CMSMEs to their knees.

Credit data from the central bank also shows the economic disaster facing the CMSMEs.

During the April-June period of fiscal



### WHY LOAN DISBURSEMENT SLOWED

Low consumption caused by high inflation | National election in 2024 | Political unrest in July-August | Rising interest rates on bank loans | Impact of two consecutive floods

year 2023-24, small businesses received Tk 54,526 crore in bank loans. This figure plummeted to Tk 42,950 crore in the subsequent quarter, according to Bangladesh Bank (BB) data.

Compared to the same period in FY23, loan disbursement in April-June of FY24 witnessed a 13.10 percent decline.

BB data also shows that CMSMEs borrowed Tk 2.25 lakh crore in FY24, a mere 0.46 percent increase compared to the previous year's Tk 2.24 lakh crore.

Meanwhile, private sector credit growth in November of last year reached a three-year low due to weakened credit demand, a dearth of new investment, and a surge in government T-bills and bonds.

According to Syed Abdul Momen, deputy managing director and head of SME Banking at BRAC Bank, businesses mainly seek loans for

two purposes: managing operations and expanding their businesses.

"Given the current economic situation, there is little to no demand for loans aimed at business expansion," said the banker.

"Entrepreneurs are now focused on securing the minimal financial support required to meet their working capital needs," he added.

Similar to Momen, Sanjib Kumar Dey, the head of the SME and Agri-banking division at Mutual Trust Bank, said that high inflation and costly loans have compelled small businesses to shelve their expansion plans over the past three years.

"Business owners have been primarily focused on survival rather than growth," Dey said. "Banks, too, are exercising caution in lending amid the prevailing economic uncertainties."

**'SITUATION IMPROVING SLOWLY'**  
Compared to July or August of last year, when a nationwide protest culminated in a government ouster, the current

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## BTRC initiates telecom licensing reforms for better services

STAR BUSINESS REPORT

The Bangladesh Telecommunication Regulatory Commission (BTRC) has launched efforts to reform the country's telecom licensing regime to align with contemporary demands.

A committee, led by BTRC Commissioner Brig Gen (retd) Iqbal Ahmed, has already held three meetings to restructure the network and licensing roadmap.

BTRC Chairman Maj Gen (retd) Md Emdad Ul Bari shared this information at a press conference at the commission's office in Dhaka yesterday.

"Currently, we observe that many licences are functioning as intermediaries, increasing costs instead of promoting cost efficiency. We intend to review this and strive for a licensing framework that is streamlined, effective, and efficient," he said.

Bari said that the reforms aim to safeguard consumer interests rather than protect

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## VAT hike to minimally impact goods prices

Salehuddin says

STAR BUSINESS REPORT

The recent hike in value added tax (VAT) and supplementary duty (SD) rates will not have any significant effect on the prices of goods, said Finance Adviser Salehuddin Ahmed yesterday.

"What is the worst that could happen?" he told journalists after a meeting of the Advisers' Council Committee on Government Purchase at the Bangladesh Secretariat.

The National Board of Revenue (NBR) increased VAT and SD on nearly 100 goods and services on January 9, leading to apprehensions that it would stoke inflation, put further strain on consumers' wallets, and slow down businesses.

The NBR raised the indirect taxes at a time when overall revenue collection fell by 2.62 percent in the July–November period, increasing pressure on the government to borrow from domestic and foreign sources.

The VAT increase also aligns with the recommendations of the International Monetary Fund (IMF) as part of a \$4.7 billion loan it approved for Bangladesh in January 2023.

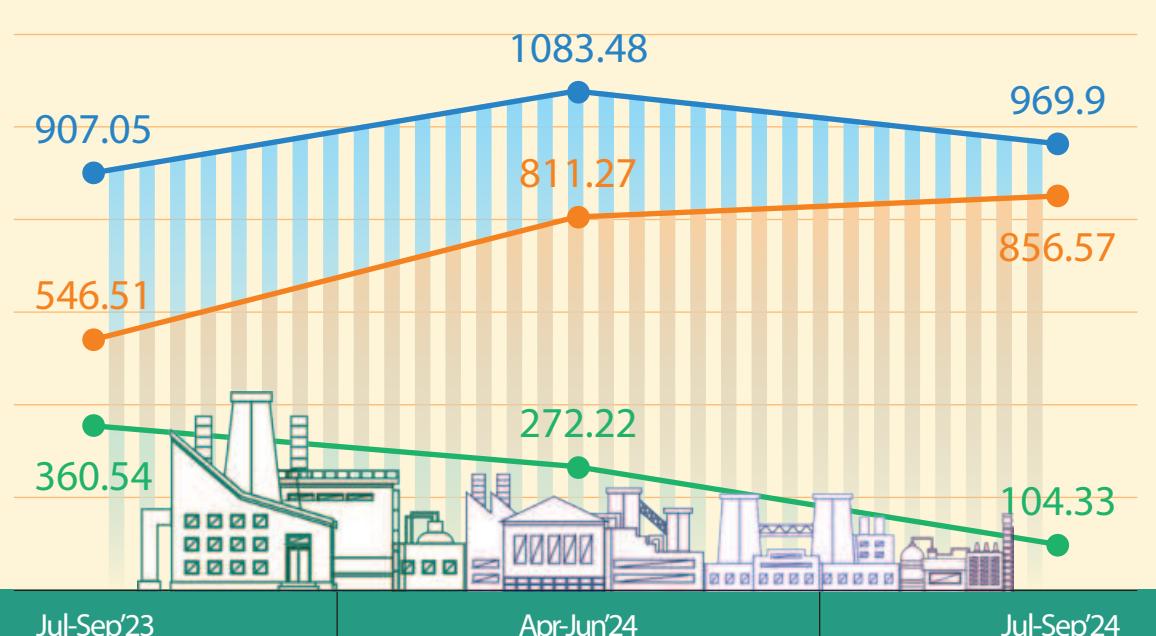
Regarding the criticisms of

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## Overall situation of foreign direct investment

In million \$; SOURCE: BB • Inflow • Outflow • Net



## Net FDI hits six-year low

JAGARAN CHAKMA and MD MEHEDI HASAN

The flow of foreign direct investment (FDI) in Bangladesh fell to \$104.33 million in the July–September quarter of fiscal year 2024–25, the lowest in at least six years, as foreign investors stayed away from Bangladesh amid deadly political unrest, labour agitation, and a persistent economic crisis.

The South Asian country received 71 percent less foreign investment year-on-year, down from \$360.5 million in the July–September period of FY24, as both the flow of net equity and reinvested earnings declined, according to data released by the Bangladesh Bank (BB) yesterday.

In July–September FY25, only \$76.79 million came as net equity, registering a 46 percent slump year-on-year.

During the period, reinvested earnings by the companies operating in the country dipped 73 percent year-on-year to \$72.9 million.

The first quarter FDI data was the lowest since the July–September quarter of FY20.

The new data on foreign investment inflow comes at a time when businesses have been suffering from a slowdown owing

to a host of reasons: high inflation, import restrictions, dollar shortages, political uncertainty, and volatile law and order.

The uprising in July, which toppled the Awami League in early August, led to an unstable law and order situation. This took a serious toll on investment inflow during the quarter.

**On the dwindling foreign investments, Zaved Akhtar, president of FICCI, said investors prioritise predictability and stability in policy and the economy before making significant investments**

Regarding the dwindling foreign investments, Zaved Akhtar, president of the Foreign Investors' Chamber of Commerce & Industry (FICCI), said investors prioritise predictability and stability in policy and the economy before making significant capital investments.

"Over the last two to three years, Bangladesh has experienced significant economic mismanagement, which has

eroded investor confidence and discouraged them from committing to investments in the country," he said.

"To make things worse, the July–September period was one of the critical moments of the year when the country faced significant destabilisation, and investor confidence was further dented. They opted to rein in any decisions for investments and adopted a 'wait-and-see' approach."

In the July–September period of FY25, the highest investment came from the United Kingdom, followed by South Korea and China, according to BB.

M Masrur Reaz, chairman and chief executive officer of Policy Exchange Bangladesh, said the decline in FDI inflow is unsurprising, given the country's ongoing macroeconomic challenges, including inflation and an unstable currency exchange rate.

He noted that a period of massive political unrest during that time also impacted foreign investment.

"Investor confidence was shaken, both among existing and prospective investors, which is evident in the declining FDI inflow. They are closely monitoring the situation," he said.

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## EBL CLIMATE CHANGE ACTION AWARDS 2025

The EBL Climate Change Action Awards 2025, initiated in partnership with the US, German, French, and Danish embassies, aims to recognize and celebrate outstanding contributions towards tackling the most pressing challenges of climate change and promoting sustainability in Bangladesh. The awards will honor individuals, businesses, and organizations excelling in five different categories, thereby fostering innovation and leadership in addressing climate challenges.

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Submission closing: January 31, 2025

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