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Star BUSINESS

Many banks unlikely to pay dividends as BB tightens rules

STAR BUSINESS REPORT

A good number of banks in the country will likely be unable to pay dividends after the Bangladesh Bank tightened the relevant rules through a notice yesterday.

Under the new rules, banks that have taken a deferral facility from the central bank to maintain provisioning requirements will be barred from paying dividends from 2024 onwards.

Additionally, banks with non-performing loans (NPLs) exceeding 10 percent of their total loans will not be able to declare dividends to shareholders from 2025.

NPLs reached a record Tk 345,764 crore at the end of December last year, accounting for 20.20 percent of total disbursed loans.

However, in its monetary policy for the January-June period of 2025, the central bank forecast a surge in NPLs, saying they are likely to exceed 30 percent of total outstanding loans by June.

Furthermore, lenders will be barred from declaring dividends if a penalty or fine is imposed due to a shortfall in the CRR (cash reserve ratio) and SLR (statutory liquidity ratio).

Another stipulation states that cash dividends can only be paid from the profits of the calendar year, but no cash dividends can be distributed from previously accumulated profits.

Officials of the central bank said many banks will be unable to pay dividends for 2025 because of the stricter rules.

Of the 61 scheduled banks in the country, only 10 to 12 may be able to pay a good dividend, they added.

Asif Khan, president of CFA Society Bangladesh, said the move was aimed at strengthening the banking sector's capital base.

NEWDIVIDENDRULESFORBANKS

- Dividends only from current year's profit
- No penalties due to CRR/SLR deficits
- Maxclassifiedloans/investmentsratiotobe10%of total loans
- No provision shortfalls
- No dividends during deferral benefits
- Amountofdividendwithin30%ofpaid-upcapital

"Hence, it is a good move given the circumstances. Some of the stipulations look a bit harsh but can be relaxed in the future if needed," he said.

However, it is important that the National Board of Revenue also removes penalties for lower dividends caused by complying with the new rules, he added.

"The immediate reaction to this move in the stock market may be knee-jerk given our investors tend to be short-term oriented. However, for the long-term, this is a good decision for the economy and the stock market."

The central bank said the overall situation of the country's banking sector, protection of depositors' interests, financial capacity of banks, and attracting investors to shares of banks were factors considered.

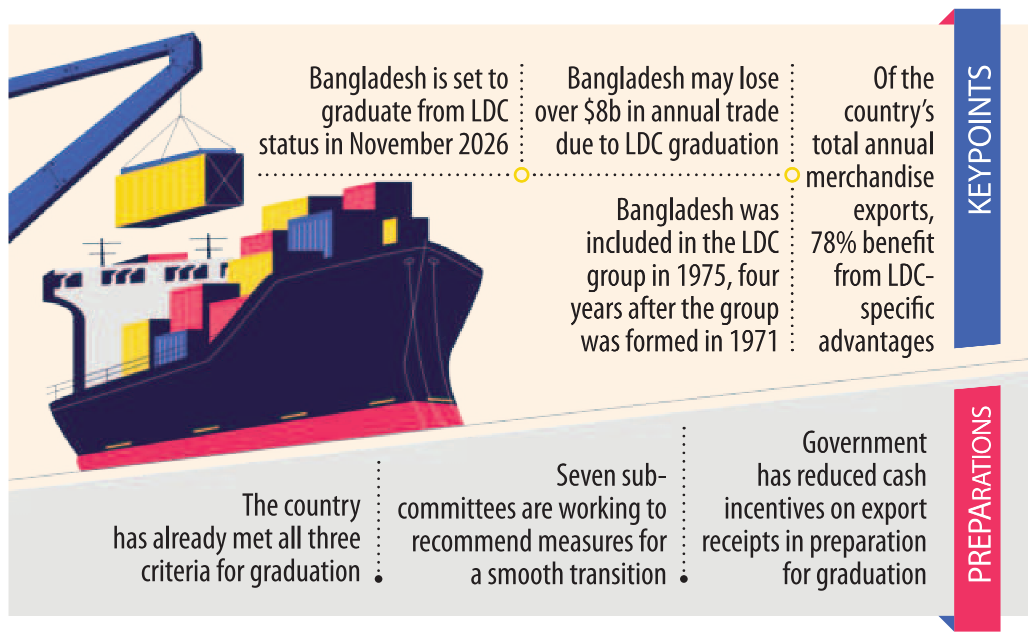
Md Moniruzzaman, managing director and chief executive officer of Prime Bank Securities, said, "Although this may impact the dividend payment capacity of some weak banks, it will strengthen the capital base of banks. Keeping provisioning shortfalls year after year and paying out cash is a form of taking away the bank's money in disguise."

DIVIDEND PAYOUT RATIO FRAMED

The amount of dividend will be determined by the 'dividend payout ratio'.

The dividend payout ratio will be based on the ratio of the bank's declared dividend amount to the READ MORE ON B3

CA confirms scheduled LDC graduation



REFAYET ULLAH MIRDHA *and* ASIFUR RAHMAN

Professor Muhammad Yunus, chief adviser of the interim government, yesterday instructed his cabinet colleagues to prepare for Bangladesh's status graduation from a least developed country (LDC) to a developing nation in November 2026, effectively doing away with all speculation.

Many, including a section of economists and businesspeople, were in favour of a deferment by a couple of years.

They reasoned that the economy needed time to cope with the severe fallout of the pandemic, the Russia-Ukraine war, and high global inflationary pressure over the last few years. Even some cabinet members had spoken out on several occasions recently about their doubts.

Shafiqul Alam, the chief adviser's press secretary, yesterday said the interim government had decided to keep to the schedule for availing the United Nations status graduation.

"The government has taken into consideration opinions from experts on whether the process would impact industries and settled on going for it," he said at a briefing at the Foreign Service Academy.

If any detrimental impact is identified, preparations will be made to overcome it, he said.

Besides, he said, benefits provided to Bangladesh for being an LDC would prevail for three years past the graduation.

"I think we have the ability to show our global competitiveness," Alam added.

Replying to a question, the press secretary said the pharmaceutical industry would also face no disruption in availing intellectual property rights.

Bangladesh has met all three preconditions for graduation, thanks to its economic development since the country attained independence in 1971.

The country was listed in the LDC grouping in 1975 to avail different benefits, such as zero-tariff and quota access to different countries, as the economy was on the verge of collapse following the Liberation War.

Such benefits have enabled Bangladesh to currently stand out as the second-largest garment exporter after China.

Bangladesh will lose trade worth over $8 billion annually due to the withdrawal of post-LDC preferential trade benefits, for which the country would have to pay at least 12 percent duty on goods shipments.

Currently, 78 percent of the country's exports avail LDC benefits in 38 countries.

The European Union has already assured that it will continue the LDC trade benefits for Bangladesh for three more years, up to 2029, as a grace period meant to enable a smooth transition.

The UK, Canada, and Australia have given similar commitments, except for some conditions.

Moreover, the World Trade Organization has also decided to grant the same grace period following Bangladesh's appeal for 12 years.

BB gives two Islamic banks Tk 2,500cr more in emergency support

STAR BUSINESS REPORT

The Bangladesh Bank (BB) yesterday extended an additional Tk 2,500 crore in emergency liquidity support to Social Islami Bank and First Security Islami Bank without any security to help them address financial crises.

Of the sum, Tk 1,500 crore was provided to Social Islami Bank and Tk 1,000 crore to First Security Islami Bank for a tenure of 90 days, central bank officials said.

Mohammad Shahriar Siddiqui, a director and assistant spokesperson of BB, told The Daily Star that the Shariah-based banks had applied for liquidity support to meet their emergency needs earlier.

The liquidity support was approved yesterday, he said.

The fresh injection of funds into the ailing banks comes more than three months after the central bank provided Tk 22,500 crore to six crisis-hit banks without any security.

This development took place in November after the central bank had restructured the boards of 11 troubled banks following the political changeover in August last year.

Of the sum, Tk 1,500 crore was provided to Social Islami Bank and Tk 1,000 crore to First Security Islami Bank

At that time, Social Islami Bank received Tk 4,000 crore and First Security Islami Bank Tk 5,500 crore.

It also reflected a shift in the stance adopted by the BB governor, who had earlier declined to provide fresh liquidity to scam-hit banks, citing concerns that it would stoke already elevated inflation.

The six crisis-hit banks are yet to repay the funds to the central bank.

After the political changeover last year, the central bank provided money to troubled banks with depositors' interests in mind and to prevent a bank run, which occurs when many customers rush to withdraw their funds from a lender, BB officials said.

Under the Awami League regime, the central bank provided liquidity support to some banks as per their demand, but there was virtually no accountability in the process.

Besides Social Islami Bank and First Security Islami Bank, Union Bank, Global Islami Bank, National Bank and Exim Bank had received central bank liquidity support in November last year.

Most listed MNCs saw a drop in profits in Oct-Dec

AHSAN HABIB

Most listed multinational companies (MNCs) saw a year-on-year erosion of profits in the October to December period of FY25, mainly due to higher financing costs and macroeconomic challenges amid political uncertainty.

Among the 13 listed multinational companies in Bangladesh, nine have so far published their financial reports for the three-month period.

Analysing their financials in the quarter, Sandhani Asset Management found that four of the nine saw their profits drop year-on-year while one incurred higher losses and the rest logged higher profits.

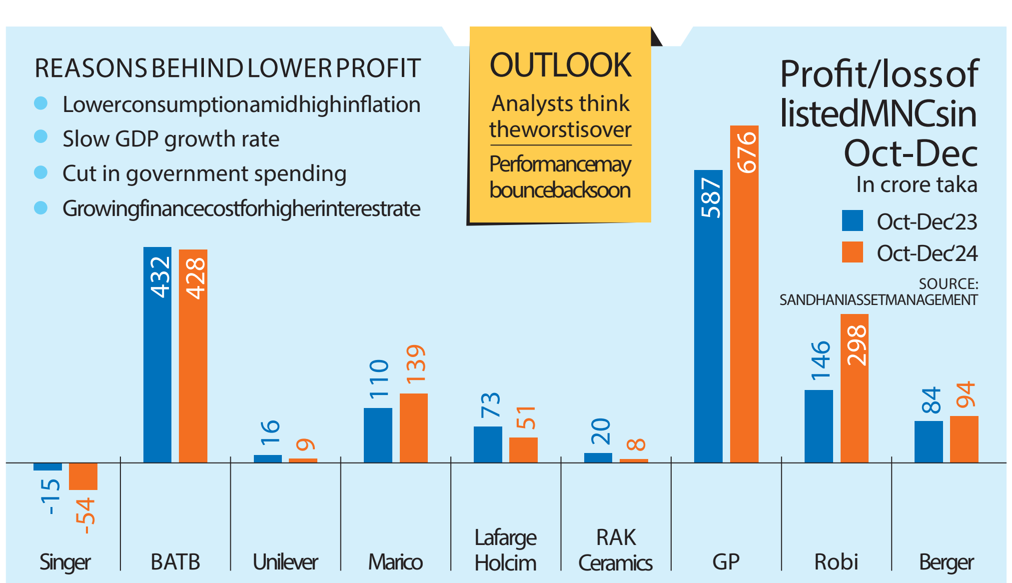
Thanks to the central bank's adoption of tight monetary and fiscal measures, aggregate demand in the country dropped and gross domestic product growth fell. So, the profits of multinationals companies dropped, said Shahidul Islam, CEO of VIPB Asset Management.

"We saw extraordinary policy tightening," he remarked.

VIPB has investments worth hundreds of crores in shares of listed firms, but it selectively invests in companies that are well-governed, such as MNCs.

Shahidul said the profit drop among MNCs was relatively lower than that seen at other listed firms. He hoped that MNCs and well-governed companies would continue to do better in the future as a level playing field is expected to be reinstated.

The performance of MNCs varies depending



on their product lines as consumption of less essential products was impacted in recent months amid stubborn inflation, said Mir Ariful Islam, managing director and chief executive officer of Sandhani Asset Management.

Inflation has remained above 9 percent since March 2023, according to the Bangladesh Bureau of Statistics.

Moreover, as government spending on the Annual Development Program was cut, cement producers were impacted, Islam said, adding that the overall construction sector is under pressure in the face of high inflation.

So, all construction-related firms have been impacted.

Profits of LafargeHolcim Bangladesh fell 43 percent to Tk 51 crore in the October to December quarter.

In 2024, the net sales of LafargeHolcim Bangladesh stood at Tk 2,754 crore, a 3 percent decrease from the previous year. However, its net profit plunged 36 percent to Tk 381 crore.

The company claimed that its business was impacted by the political changeover in August last year and the challenging macroeconomic environment.

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Govt plans smaller budget with 6% GDP growth target

REJAUL KARIM BYRON *and* ASIFUR RAHMAN

The interim government is planning to prepare a small budget with a 6 percent GDP growth target for the next fiscal year considering the sluggish economy and low revenue collection.

Officials said the finance ministry has already started working to this end after receiving directives from the chief adviser, with Finance Adviser Salehuddin Ahmed set to begin pre-budgetary meetings with different stakeholders from next week.

Ahmed will preside over the series of meetings, the first of which will be held on Sunday featuring various economists. Later, the finance ministry will call upon business leaders, economic reporters and related other individuals.

But as the country's parliament is absent, he may announce the proposed budget for fiscal year (FY) 2025-26 on air.

Ahmed said they will complete the pre-budget meetings by April.

"No ambitious goals will be set in the upcoming national budget, and the GDP growth target will be set lower," he told The Daily Star.

Officials of the finance ministry said they had a long discussion with the Chief Adviser Prof Muhammad Yunus last month, where they presented a draft plan for formulating the budget.

The chief adviser then issued directives for the draft plan and those are now being incorporated, according to a senior official of the finance ministry.

As per the current plan, the GDP growth target for FY26 will be set at 6 percent, which is lower than the 6.75 percent being targeted in this year's budget.

However, the GDP growth target could be lowered to 5.25 percent in the revised budget for FY25 considering the damage caused by multiple floods and the interim government's contractionary monetary policy aimed at containing inflation.

Finance Adviser Salehuddin Ahmed is set to begin pre-budgetary meetings with different stakeholders from next week

Besides, GDP growth in the ongoing fiscal year is low as there was political unrest and an unstable business environment. But the growth will likely be higher next year thanks to gradual improvements in the economic environment, the officials said.

Multilateral lenders like the World Bank, International Monetary Fund and Asian Development Bank have also forecasted lower growth for the current fiscal year and enlarged the growth for the next.

Meanwhile, the targeted inflation rate for FY26 may rise to 6.5 percent while it was around 8 percent in the budget for the ongoing year. READ MORE ON B3