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IMF for keeping policy rate at 10% to contain inflation

STAR BUSINESS REPORT

Bangladesh should maintain its policy rate at 10 percent until the middle of fiscal year 2025-26, the International Monetary Fund (IMF) has said, citing the inflationary pressures of a weaker currency and the heightened sensitivity of inflation expectations to exchange rate depreciation.

It said the uncertainty surrounding inflation, external imbalances, and forex market pressures calls for a cautious approach to unwinding the tighter monetary policy stance and for a higher degree of exchange rate flexibility.

"Normalising inflation to the target range will become more protracted if the Taka depreciates in response to the impact of US tariffs on the external trade balance," it said.

The Fund made the observation in its report following the third and fourth reviews of the conditions it had attached to the \$5.5 billion ongoing loan package for Bangladesh to help restore macro-economic stability.

The Bangladesh Bank (BB) raised the policy or repo rate, at which BB lends to commercial banks, in October last year to 10 percent.

In BB's effort to contain runaway inflation, which remained above 9 percent for more than two years until May, the rate hike was the 11th time since May 2022.

The BB maintained the policy rate unchanged for the January-June period of this year as inflation stayed high.

In the three months to June, consumer prices eased to 8.48 percent from 9.05 percent the previous month, according to the Bangladesh Bureau of Statistics (BBS).

The annual average inflation, however, stood at over 10 percent, higher than the BB's expectation of 7-8 percent at the end of June.

In an interview with The Daily Star early this month, BB Governor Ahsan H Mansur said the policy rate is likely to remain unchanged in the monetary policy for July-December of FY26.

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Fraudulent trade deals enable money laundering: study

MD MEHEDI HASAN

Fraudulent trade transactions are one of the key reasons behind the rise in non-performing loans (NPLs) in Bangladesh's banking sector, creating a dangerous feedback loop that undermines financial stability and enables trade-based money laundering (TBML), according to a study by the Bangladesh Institute of Bank Management (BIBM).

At the end of March 2025, banking sector bad loans hit Tk 420,335 crore, the highest in the country's history, painting a clearer picture of the rot in the banking system.

The BIBM study, titled Enforcement Status of the Standards to Prevent Trade-Based Money Laundering, is set to be published today.

The study report, seen by The Daily Star, suggests that when criminals forge export-import documents or mis-invoice export-import deals, banks often extend credit based on fictitious paperwork. Once these deals are executed, the loans inevitably default, contributing to the mounting pile of NPLs.

It points out that despite the issuance of TBML guidelines by the Bangladesh Financial Intelligence Unit (BFIU), enforcement remains patchy.

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A nationwide survey of 37 banks conducted by BIBM found that while 100 percent claim to have sanction screening systems, only 50 percent subscribe to price verification tools like Global Trade Tracker or Bloomberg to mitigate the risk of trade-based money laundering," the report states.

Worse still, only 40 percent of banks have centralised price

BIBM STUDY FINDS

Fake trade deals driving NPLs, now at record Tk 420,335 crore

40% have central price verification units

BIBM RECOMMENDS

Form a 'trade transparency unit'

Track ultimate beneficial owners

75% of money laundering is trade-based

Many still depend on manual systems

Link customs and BFIU data

Bring freight, warehouse operators under AML/KYC rules

Only half of banks use price verification tools

One-third manage trade operations at branch level

Publish 'beneficial ownership register'

Use analytics, offer incentives, and enforce penalties

verification units, making uniform monitoring difficult.

Even more worrying is the reliance on manual processes.

"Banks often lack automated escalation mechanisms to flag and investigate suspicious transactions. A three-tier escalation system, mandated in the guidelines, is frequently bypassed. Decisions are often made verbally and undocumented, compromising audit trails and regulatory scrutiny," reads the report.

The report goes on to state that TBML is now widely acknowledged as one of the most complex and underreported forms of money laundering, globally accounting for nearly 30 percent of laundering schemes.

In Bangladesh, it is far more serious. Nearly 75 percent of domestic money laundering is believed to occur through trade channels, according to the National

Board of Revenue, it adds.

"The scale is staggering. A 2024 white paper estimated annual trade-related outflows from Bangladesh at \$16 billion, equivalent to 3.4 percent of the GDP—more than the nation's total yearly health budget. These losses, often facilitated through over- or under-invoicing and phantom shipments, erode the country's foreign exchange reserves, reduce customs revenue, and inflate the cost of doing business," reads the report.

The BIBM report identifies the lack of enterprise-level TBML risk analysis in many banks as another major concern.

"Despite all banks claiming to review TBML alerts, few have year-round review teams or structured methods for disseminating red flags and regulatory updates across departments. This knowledge gap at the operational level severely undermines the effectiveness of even the best-designed policies," it states.

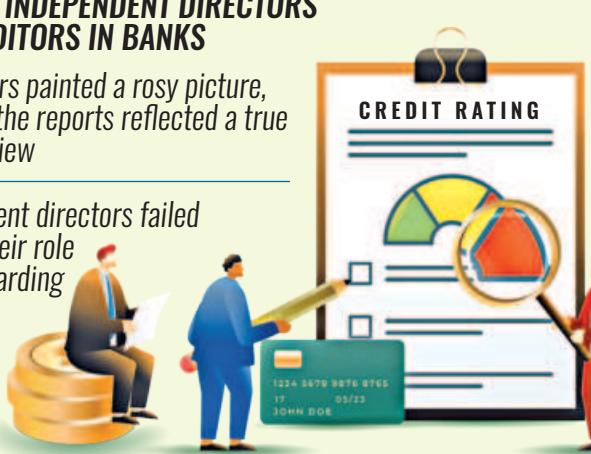
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Auditors, rating agencies fail to forecast banking woes

ROLE OF INDEPENDENT DIRECTORS AND AUDITORS IN BANKS

All auditors painted a rosy picture, claiming the reports reflected a true and fair view

Independent directors failed to play their role in safeguarding savers' interests



CREDIT RATINGS OF BANKS THAT STRUGGLED LAST YEAR

Banks	Rating agencies	Ratings	NPL ratio*
Islami Bank	Emerging Credit	AAA	27%
Social Islami	Alpha Rating	AA+	38%
First Security	Emerging Credit	A+	37%
Union Bank	Alpha Rating	A+	90%
Global Islami	Alpha Rating	AA-	54%
National Bank	Emerging Credit	A- (2022)	64%

*March 2025

RECOMMENDATIONS

Accountability of auditors has to be ensured

Assign auditors randomly through the central bank

Increase remuneration for auditors

Strengthen accountability of credit rating agencies

AHSAN HABIB

Banks have several layers of professionals to regularly assess their financial health and raise early warnings at the first sign of trouble.

But following the political changeover in August last year, which exposed widespread corruption and the fragile state of many banks, scrutiny has turned on the very people tasked with sounding the alarm.

Now fingers are pointed at professionals responsible for detecting irregularities, ranging from independent directors and external auditors to credit rating agencies, for helping conceal bad loans, irregularities, and mismanagement for years.

As the cosmetic gloss begins to wear off, these so-called flag raisers are trading

blame. Many now concede it was "a collective failure", rooted in a broader weakness of regulatory oversight.

At an event last week, Bangladesh Bank Governor Ahsan H Mansur said the balance sheets of most banks were "fictitious", built on "cooked-up" data. "If I judge the audit reports based on their reports, there will be no auditors left qualified for the job."

One such example of the audit blunders is First Security Islami Bank, which failed to pay

depositors last year due to a severe cash crisis. Yet, over the past decade, the bank received a long-term credit rating of "A+" and a short-term rating of "ST 2".

According to the bank's own website, an "A+" rating reflects strong capacity to meet financial obligations, while the "ST 2" short-term rating means superior performance.

These ratings were issued by Emerging Credit Rating Ltd.

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উইমেন'স লাই

নারীর স্বীকৃত প্রযোগ যাত্রা আরো সার্কেলসমূহ করতে "ইন্ডিগেল উইমেন'স লাই"

সুবিধাসমূহ:

- সর্বোচ্চ ২০ লক্ষ টাকা মর্যাদিত জারামতবিলী লাই
- সর্বোচ্চ ৫০ মাস মর্যাদিত মাসিক কিঞ্চিতে মর্যাদিত মর্যাদিত প্রযোগ
- যে কোর স্বীকৃত আর্থিক বা সম্পর্ক লাই মর্যাদিত মর্যাদিত প্রযোগ
- আকর্ষণীয় ইন্টারেস্ট রেট

Processed food exports slow further

JAGARAN CHAKMA

Bangladesh's agricultural product exports increased slightly last fiscal year, although shipments to India fell, apparently due to its recent ban on the entry of goods, including processed foods, garments, fruits, and soft drinks, through all land ports except Bhomra.

Local exporters are reporting shipment delays, rising logistics costs, and declining exports as goods must be rerouted through a single port, coupled with a new provision making it mandatory to get all goods tested at laboratories.

According to the Export Promotion Bureau (EPB), Bangladesh exported agricultural products worth \$989 million in fiscal year 2024-25, whereas it was \$964 million in the preceding fiscal year of 2023-24.

The data show dry food exports fell by more than 14 percent year-on-year, while sugar and confectionery dropped 17 percent.

When it comes to India, goods worth \$145 million were exported in FY2024-25. It was \$192 million in the preceding fiscal year of 2023-24, according to the EPB.

The data show dry food exports fell by more than 14 percent year-on-year, while sugar and confectionery dropped 17 percent.

"Every shipment now undergoes mandatory lab testing after entry into India. Previously, this wasn't required for all products. It's not a question of quality, it's bureaucracy—delays can stretch up to 10 days," said Kamal.

The northeastern Indian states, such as Guwahati, Agartala, and Manipur, are key markets for Bangladeshi products like dry foods, spices, and processed goods, he said.

However, rerouting through Bhomra requires goods to traverse almost the entire length of Bangladesh, increasing transport costs significantly, he added.

"At this rate, forget profit—we're not even recovering our costs," said Kamal.

"We urge the government to raise this issue diplomatically. If relations with India are friendly, there should be no such trade bottlenecks," he said.

Khurshid Ahmad Farhad, general manager of international business and corporate affairs at Bombay Sweets, highlighted a concerning decline across fast-moving consumer goods (FMCG) exports to India.

"Dry food exports have dropped by 14 percent, sugar and confectionery by 17-18 percent, beverages by 1.52 percent, and spices by 1.18 percent. These numbers are alarming."

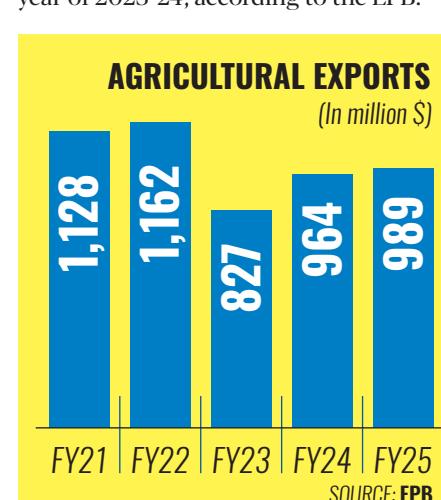
"Many companies had long-term export and investment plans in sectors like food processing and plastics. These plans are now in limbo," he said.

The exporters said that had India not banned imports through the land ports in May this year, the overall agricultural product exports would have grown a bit more.

Exporters cautioned that the restriction threatens Bangladesh's efforts to diversify

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AGRICULTURAL EXPORTS (In million \$)



These declines are directly linked to India's trade restrictions via land ports.

As a result, the overall growth in agricultural product exports stood at only 2.52 percent last fiscal year, whereas it was 3.9 percent in the preceding fiscal year, according to exporters.

The exporters said that had India not banned imports through the land ports in May this year, the overall agricultural product exports would have grown a bit more.

Exporters cautioned that the restriction threatens Bangladesh's efforts to diversify

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