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Govt to drop wilful defaulter tag

Amendments to Bank Company Act also propose smaller boards, reducing family control

CHANGES THROUGH AMENDMENT

	Present situation	Proposed amendment
Wilful defaulters	Has a provision on them	It will be withdrawn
Number of directors	20	15
Independent directors	3	50% of total directors
Directors from a family	3	2
Family nominated directors	2	0
Tenure of directors	12 years	6 years
Family definition	Covers spouse, children, siblings	In-laws will be counted

REJAUL KARIM BYRON *and* ASIFUR RAHMAN

The government has moved to amend several sections of the Bank Company Act, including the removal of the provision on "wilful defaulters" that was introduced for the first time in 2023, and reducing the size of bank boards.

Under the current law, banks are required to prepare separate lists of loan defaulters deemed unwilling to repay, categorised as "wilful defaulters".

There will only be the defaulter list, and bad borrowers will face penalties according to related laws.

Bangladesh Bank officials said the rule of wilful defaulter not only creates additional workload but also leaves room for corruption due to subjective interpretation.

The proposed changes to the act are part of a wider reform of the financial sector. The central bank has already drafted the amendments, and its board has approved them recently.

A finance ministry official said the draft is now under review, with preparations to place it before the advisory council by September. An ordinance could be issued by December.

The draft recommends reducing the number of directors to 15 from 20. Currently, banks have three independent directors, but the draft sets this at half of the board.

Officials said this would mean seven or eight independent directors, adding that such a move was aimed at ensuring good governance through the inclusion of banking experts.

Independent directors would be chosen from a vetted pool of candidates shortlisted by an expert panel.

The officials said that bank boards in many countries are dominated by professionals rather than profit-seeking shareholders.

The draft also seeks to restrict the number of directors from one family. The existing law allows three family members, with two more nominated by relatives.

According to the draft, only two from a family would be permitted. Also, the definition of family would also be broadened to include in-laws.

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Rice import begins at reduced duty

STAR BUSINESS REPORT

Businesses yesterday began importing rice at a duty of only 2 percent after the government lifted the tariff to stabilise the domestic market, traders and the National Board of Revenue (NBR) officials said.

The move came after the food ministry on August 10 permitted 242 traders to import 5 lakh tonnes, following recommendations from the tariff commission and other agencies.

"After opening letters of credit (LCs), we have been able to import rice today [Tuesday]," said Lalit Keshra, proprietor of M/S Sairam Enterprise in Dinajpur yesterday evening.

There was an ambiguity over the duty as customs officials initially informed that the rate was nearly 62.5 percent previously prevented importers from releasing rice from customs, he said.

"Importing rice with a 62.50 percent duty would push higher retail prices, which was not viable," he said.

According to NBR sources, a Statutory Regulatory Order (SRO) issued late last year waived 62.5 percent of import duties on rice. However, the validity of that SRO expired in April this year. As a result, importers had to pay full duties again, effectively halting rice imports and causing domestic prices to rise.

Following recommendations from the Directorate General of Food

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BB dissolves Premier Bank board

STAR BUSINESS REPORT

Bangladesh Bank has dissolved the current board of Premier Bank and formed a new one – a move which, industry insiders claim, will end the dominance of the family members of HBM Iqbal, founder chairman of the bank and an Awami League lawmaker.

For the sake of the depositors, the central bank dissolved the seven-member board led by Mohammad Imran Iqbal, son of HBM Iqbal and chairman of the bank, Bangladesh Bank Director and Assistant Spokesperson Mohammad Shahriar Siddiqui told The Daily Star.

In its place, the banking watchdog formed a six-member board, including Arifur Rahman, a sponsor shareholder, as a director, and the remaining five as independent directors.

After leading Premier Bank as chairman for 26 years, HBM Iqbal stepped down in January this year from the private commercial bank he co-founded in 1999.

Imran Iqbal was made chairman of the bank after his father left the post.

Govt to buy 3 LNG cargoes from spot market

STAR BUSINESS REPORT

The government has approved the purchase of three cargoes of liquefied natural gas (LNG) from the spot market at a total cost of Tk 1,442 crore, with the average price set at about $11 per million British thermal unit (MMBtu).

The approvals came at a meeting of the Advisers Council Committee on Government Purchase at the Secretariat in Dhaka yesterday.

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Bangladesh to launch marine survey in Bay

STAR BUSINESS REPORT

Bangladesh is set to launch a month-long marine survey in the Bay of Bengal to assess fishery resources and ecosystem health, aiming to support sustainable management and conservation efforts.

Conducted with support from the Food and Agriculture Organization (FAO) and Norway, the expedition will begin on August 21 using the Norwegian research vessel RV Dr Fridtjof Nansen.

Fisheries and Livestock Adviser Farida Akhtar shared the details at a press conference held yesterday at the fisheries ministry in Dhaka.

Twenty-six researchers from various countries, including 13 scientists from different institutions in Bangladesh, will take part in this approximately 32-day expedition, the ministry said in a press release.

The fishery resources extracted from the Bay of Bengal play a significant role in the country's economic growth, food security and employment, the adviser said.

Ensuring proper management of Bangladesh's marine waters will further strengthen the sector's contribution to the national economy, she added.

She said the survey will assess the abundance and stock of small pelagic and mesopelagic fish, evaluate the species diversity of demersal fishery resources, and analyse the overall condition of the marine ecosystem.

Additionally, data will be collected on sea temperature, salinity, current speed, productivity, deep-sea circulation systems and climate change impacts, she said.

Research on microplastics, marine debris, oxygen minimum zones, carbon dioxide levels and ocean acidification will be conducted, which will help formulate effective policies to combat the impacts of climate change in the future, she said.

The adviser further said the scientific data obtained from this survey will assist in fishery resource conservation, sustainable harvesting, climate change adaptation and protection of the marine environment.

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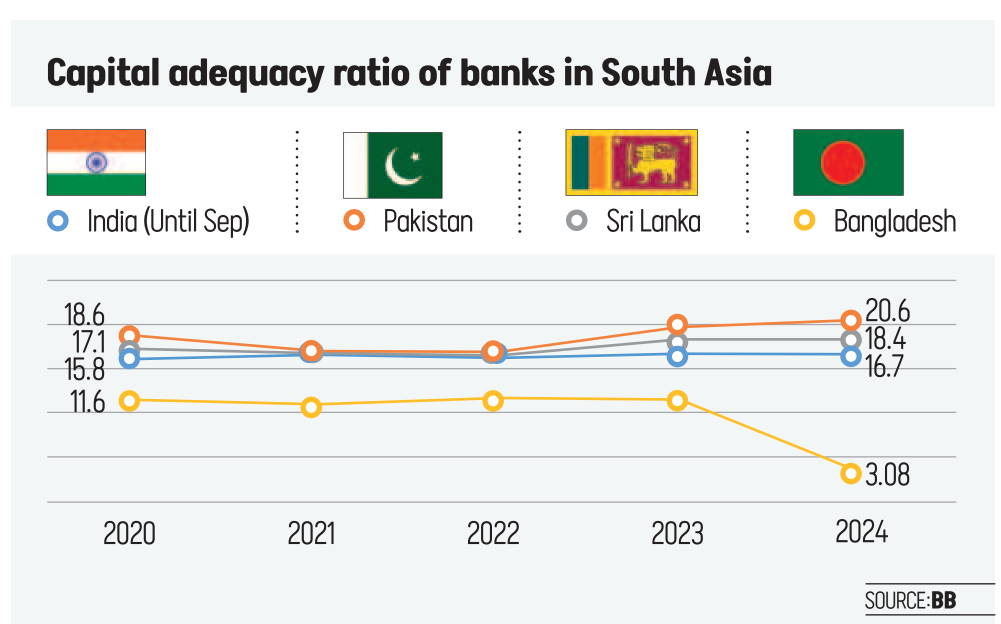
Capital base of Bangladeshi banks lowest in South Asia

STAR BUSINESS REPORT



Bangladeshi banks emerged as the most fragile against shocks from risky assets compared to other countries in the South Asian region at the end of 2024, as large volumes of long-buried toxic loans surfaced after last August's political changeover.

As the hidden losses surfaced, the safety reserves of banks were eroded, taking the capital adequacy ratio far below the required level.

The Capital to Risk-Weighted Asset Ratio (CRAR), the main measure of how much cushion banks hold against risky assets, fell to just 3.08 percent at the end of 2024, according to Bangladesh Bank's latest Financial Stability Report.

By contrast, the ratio was 16.7 percent in India as of September last year, while it was 18.4 percent in Sri Lanka and 20.6 percent in Pakistan at the end of 2024. Smaller economies such as Nepal, Bhutan, and Afghanistan also reported levels well above 10 percent.

The Capital to Risk-Weighted Asset Ratio, the main measure of how much cushion banks hold against risky assets, fell to just 3.08 percent at the end of 2024, according to BB's Financial Stability Report.

Smaller economies such as Nepal, Bhutan, and Afghanistan also reported levels well above 10 percent.

Non-bank financial institutions (NBFIs) are in even worse shape. Their bad loan ratio rose from 31.55 percent to 33.83 percent in 2024, while their CRAR turned negative at -6.46 percent.

In simple terms, CRAR indicates how much capital a financial institution has compared to the risks it has taken on through lending. A high CRAR means the bank has enough of a safety net to withstand shocks and meet its obligations. A low CRAR means it is vulnerable to collapse if borrowers default. The minimum requirement under the Basel III rules is 10 percent, plus an additional 2.5 percent buffer. Bangladesh is nowhere close.

Bangladesh's banking sector has long maintained lower capital adequacy than its neighbours, averaging around 11 percent. But the ratio saw a steep slide of over 8.5 percentage points from 11.64 percent a year earlier at the end of December 2024.

Veteran banker Anis A Khan said the weakness is structural.

"The initial capital requirement for setting up a bank was very low," he said, noting that the amount was only Tk 3 crore for first-generation banks. With deposits and loan demand growing much faster, banks could not keep pace by issuing new shares or paying out dividends.

"Thanks to the low capital base, banks will not be able to lend. The low ratio indicates that their deposits were wiped out, and they cannot fulfil the central bank's guidelines and cannot function well," added Khan, also a former chairman of the Association of Bankers Bangladesh (ABB).

According to the central bank, the default of large borrowers posed the most severe risk to capital adequacy, followed by collateral devaluation.

By December 2024, only 42 banks still met CRAR requirements. These compliant banks retained 59 percent of total assets and 57 percent of total liabilities of the banking sector.

In contrast, non-compliant banks held 41 percent of the sector's total assets and 43 percent of total liabilities, marking a 2 percentage point excess of liabilities over assets in this segment.

Only foreign banks kept their ratios well above the regulatory threshold. Conventional private banks hovered just above the line.

The significant deterioration of capital adequacy happened in state-run banks and shariah-based private banks.

Banks are required to maintain buffer capital of 2.50 percent of total risk-weighted assets in addition to the minimum regulatory capital requirement of 10 percent under the Basel III framework.

Against this requirement, the banking industry of Bangladesh failed, as the buffer capital stood at 1.64 percent at the end of December 2024.

The aggregate CRAR of Islamic banks dropped from 12.71 percent in 2023 to -4.95 percent in 2024, largely because of steep losses in seven banks.

Stress tests by Bangladesh Bank show the system remains fragile. A default by the two largest borrowers in the country would have the most damaging impact on the sector's resilience.