Star BUSINESS

Tariffs, weak confidence heighten risks for Islamic banks

Says Moody's, warns solvency, governance and reporting rules to deepen challenges

STAR BUSINESS REPORT

Islamic banks in the country, which are already under strain from multiple challenges, are likely to face further difficulty amid political uncertainty, the fallout of US reciprocal tariffs and new financial reporting standards, Moody's Ratings said in a report released yesterday.

The global ratings agency said weak solvency of the banks, compounded by poor governance, is eroding depositor confidence, and this, in turn, will limit their growth.

"Still, regulators remain committed to developing the sector, and this will underpin its long-term growth," it added.

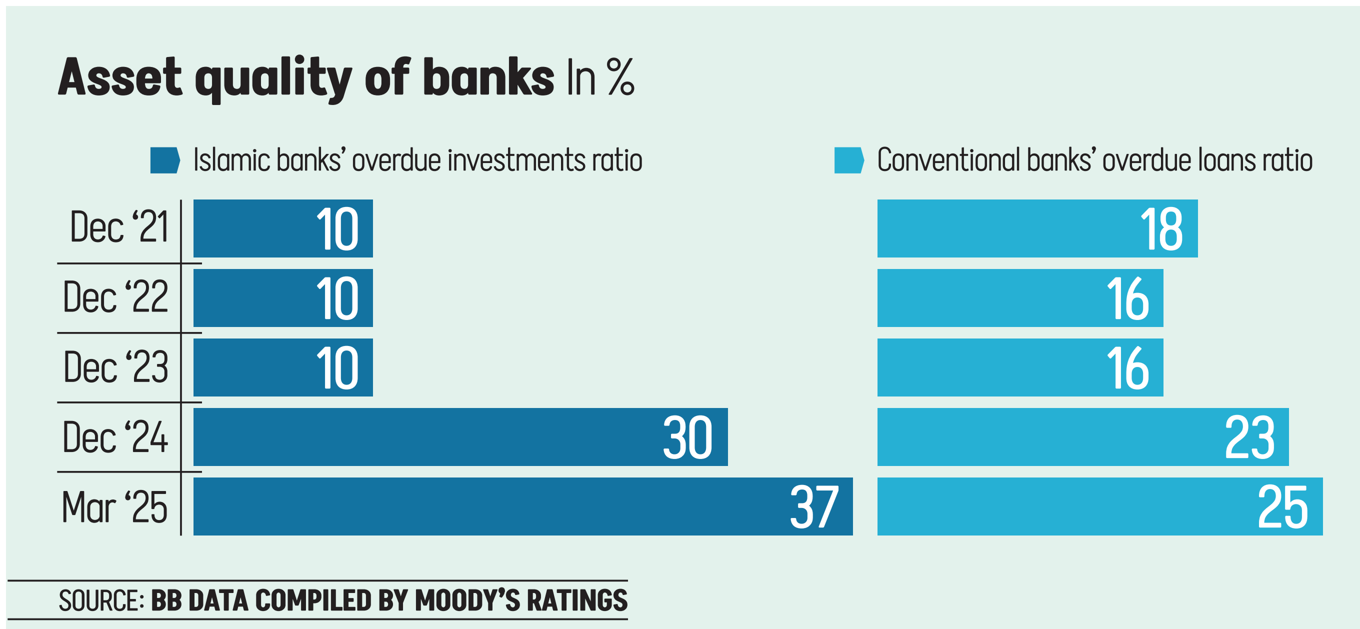
Moody's said Islamic banks in Bangladesh are highly exposed to the readymade garment industry, which makes up more than 80 percent of the country's exports and sends nearly a fifth of its products to the US.

The report said uncertainty over the new tariff remains, as the interpretation and implementation of any final agreements will dampen consumer and business sentiment and affect the entire RMG value chain and exports.

"We expect suppliers to the US to shoulder some of the tariff burdens. This diminishes borrowers' repayment capacity in a sector that is already challenged by rising production costs due to increases in wages and utility expenses," the report said.

Such pressures, it added, would squeeze exporters' revenues and raise credit risks for borrowers, in turn weakening the solvency of Islamic banks.

Moody's said the Islamic banking sector has also suffered from weak governance and a challenging operating environment, which has stemmed from a range of factors, including a slowdown in economic growth, political uncertainty, supply chain disruptions and a high inflation rate.



SOURCE: BB DATA COMPILED BY MOODY'S RATINGS

In addition, it said, the implementation of tighter rules for the classification of overdue loans in September last year led to a surge in non-performing investments, known as non-performing loans (NPLs) in conventional banks.

As of March 2025, overdue investments accounted for 37 percent of Islamic banks' portfolios, up from 10 percent in December 2023. By contrast, conventional banks recorded an overdue loan ratio of 25 percent.

"Some Islamic banks have reported losses in the first half of 2025, highlighting ongoing challenges and pressure on their profitability," the report noted.

The report said the introduction of International Financial Reporting Standard (IFRS) 9 from 2026, which requires earlier recognition of loan impairments, will deal another blow to the Islamic banks.

"While the new rules will enhance the management of credit risks across the banking system, banks will have to recognise asset impairments earlier than they currently do. This will strain their profitability in the initial years of adoption," Moody's said.

In addition, Islamic banks' weak solvency, exacerbated by poor governance in the recent past, will continue to undermine depositor confidence and limit their growth, it added.

According to Moody's, although the Bangladesh Bank (BB) restructured the boards of some Islamic lenders following the political changeover in August 2024, restoring public trust will take time.

Since September, banks with weaker governance have suffered deposit outflows, while remittance inflows to Islamic banks have also fallen, tightening liquidity and reducing their ability to lend.

Even so, the central bank remains supportive, said the report.

"We expect the sector's financing growth to accelerate in the next three to five years, with its share in the overall banking system expanding from 27 percent as of the end of March 2025," Moody's said.

To provide liquidity support to Islamic banks, the central bank has rolled out two schemes -- the Islamic Banks Liquidity

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Debt burden on the poorest getting heavier

Study finds

STAR BUSINESS REPORT

The debt burden of the poorest section of the population is rising due to high food prices and the overall cost of living, according to a study by the Power and Participation Research Centre (PPRC).

The study found that the poorest 40 percent of the population reported a 7 percent net increase in debt over the previous six months, the research organisation said while releasing the report at the LGED auditorium in Dhaka yesterday.

The most marginalised are being pushed into deeper economic stress, said PPRC Executive Chairman Hossain Zillur Rahman.

Based on data from more than 8,000

The most marginalised are being pushed into deeper economic stress, said PPRC Executive Chairman Hossain Zillur Rahman

households across the country, the survey found that people used nearly one-third of their debt for household consumption. This was followed by medical expenses and house construction or repairs, with some 11 percent of loans spent on healthcare.

Farming and small business investments also accounted for a notable portion, highlighting the reliance of many households on credit to maintain livelihoods.

Rahman said there are five new vulnerabilities that require urgent attention. These are debt burden, poverty in female-headed families, food insecurity, chronic illness, and the use of non-sanitary latrines.

The economist said the rising debt among the poorest households is a stark reminder that poverty is not only about low income but also financial vulnerability.

In this situation, Rahman said the interim

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Ismartu Tech to make DrKumo tablets for US export

MAHMUDUL HASAN

Ismartu Technology BD Limited, the local manufacturer of Chinese brands Itel, Tecno, and Infinix, has secured regulatory approval to make tablets under the US-based DrKumo brand exclusively for export to the American market.

The Bangladesh Telecommunication Regulatory Commission (BTRC) recently approved the plan at a commission meeting, allowing Ismartu to assemble the devices under the Original Design Manufacturer (ODM) model.

The approval explicitly states that the tablets will not be sold in Bangladesh, making this the first instance of a local company being permitted to manufacture a foreign-branded device solely for export, according to the BTRC document seen by The Daily Star.

Md Emdad ul Bari, chairman of BTRC, also confirmed the matter. "We have decided to grant the company approval to manufacture tablets for export as per the guideline," he said.

Under the ODM model, local producers manufacture devices according to a foreign company's design and specifications. The products are branded by the foreign firm and usually exported, enabling cost-effective production and integration into global value chains.

Ismartu applied earlier this year, outlining plans to work with California-based DrKumo, which specialises in digital health solutions, including remote patient monitoring and telemedicine.

According to BTRC documents, DrKumo will supply the technical specifications, while Ismartu will assemble the tablets at its local facilities using printed circuit boards imported from Transsion Holdings, the same supplier for its existing Chinese brand assembly.

DrKumo will ship SIM cards from the US to be installed in

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Businesses oppose Ctg port tariff hike

STAFF CORRESPONDENT, *Ctg*

Businesses urged the government not to raise service tariffs at Chattogram port by a massive 41 percent at once, but to increase them rationally in phases, aiming to keep the country's foreign trade competitive in the global market.

They made the proposal at a meeting held at the shipping ministry in Dhaka yesterday to review the proposed new tariff structure by the Chittagong Port Authority (CPA).

Shipping Adviser Brig Gen (retd) M Sakhawat Hussain chaired the meeting, which was attended by leaders of different business bodies and port users' associations, along with CPA Chairman SM Moniruzzaman and senior port officials.

The proposed tariff structure—approved by the finance ministry on July 24—was supposed to come into effect once the proposal was published in the gazette after being vetted by the law ministry.

Yesterday's meeting was called by the shipping ministry to review the tariff with the CPA and the stakeholders, as port users have been opposing the steep increase in tariffs.

According to sources in the shipping ministry, the meeting ended with no decision.

At the meeting, CPA Deputy Chief Finance and Accounts Officer Qazi Meraz Uddin Arif, in a PowerPoint presentation, argued for the tariff hike, which is being made after 40 years.

The CPA official said that the port tariffs are still lower than those of

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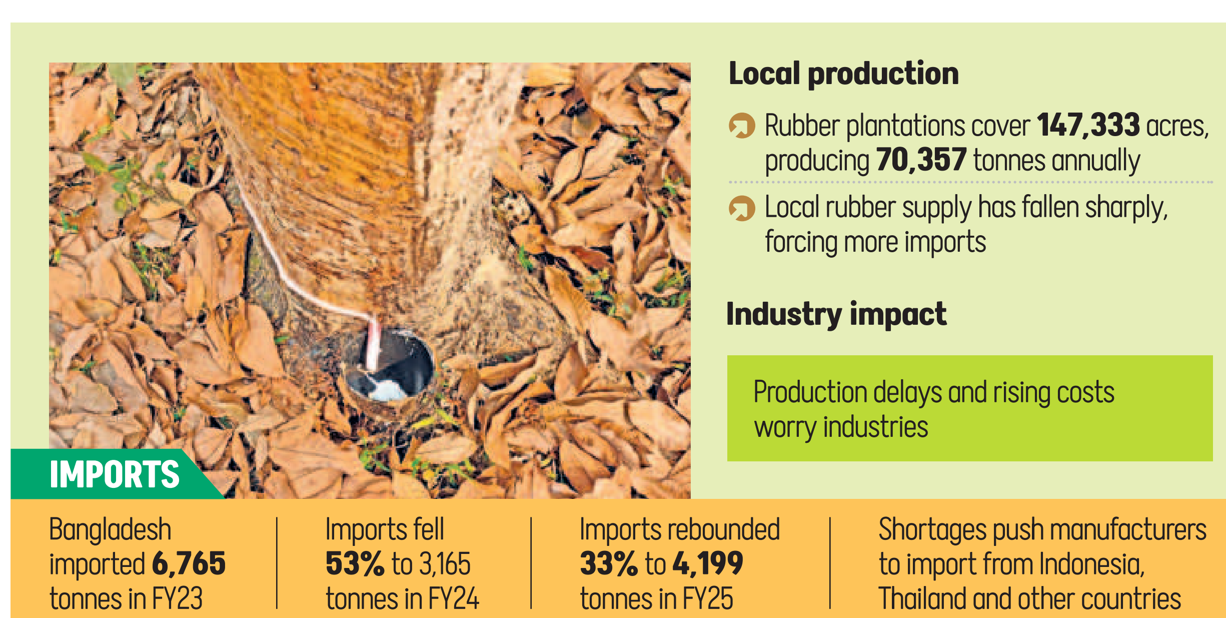
Rubber imports rose 33% last fiscal year



SUKANTA HALDER *and* JAGARAN CHAKMA

Bangladesh's rubber imports surged by 33 percent year-on-year in the fiscal year 2024-25 (FY25), as local industries faced shortages due to supply disruptions from domestic producers.

The country imported 4,199 tonnes of rubber worth Tk 107.54 crore in FY25, compared with 3,165 tonnes a year earlier, according to Bangladesh Trade and Tariff Commission (BTTC) data. FY2023-24 had recorded a sharp 53 percent decline in imports, following 6,765 tonnes in FY2022-23.

PRODUCTION, EXPORT, IMPORT

Rubber is cultivated across 147,333 acres nationwide, producing about 70,357 tonnes annually, show a BTTC report on the "Current Situation and Export Potential of Bangladesh's Rubber Industry" submitted to the commerce secretary yesterday.

Private operators manage 1,304 gardens, accounting for two-thirds of total output, while 28 state-run gardens, mostly in the greater Chattogram region, produce the rest.

Bangladesh Rubber Board officials said they do not have the latest data on the annual demand for rubber.

Despite the large production base, manufacturers say they have not received any shipments from local suppliers in recent weeks, particularly from state-owned agencies that typically account for about one-third of output. This has forced manufacturers to seek alternatives from abroad, primarily from Indonesia, and Thailand.

"For the past month, they haven't been able to supply a single tonne of rubber locally," said Md Luthful Bari, chief operating officer of Meghna Rubber Industries Ltd, one of the largest rubber consumers. "The current shortage has created serious disruption in our supply chain."

Shafiqur Rahman, managing director of Rupsha Tyres & Chemicals Limited, alleged that the Bangladesh Forest Industries Development Corporation (BFIDC), which distributes rubber from government plantations, lacks a clear and transparent supply policy.

"We are being forced to import rubber to keep our factory running, which increases costs and deepens dependence on foreign suppliers," he said.

While import is helping bridge

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