

Economy at a glance

Private credits grow as trade demand rises, BB stats suggest

Credit flow into Bangladesh's private sector increases further as demand for loans, particularly for trade financing, grows for settling import payments. The reopening of the country's overall business activities has helped push up the credit growth. According to the central bank's latest statistics, the credit flow rose to 11.07 per cent in January 2022 on a year-on-year basis, from 10.68 per cent a month before.



According to experts, the credit growth increased during the period under review mainly due to higher trade financing for settling import-payment obligations. Besides, higher prices of essential commodities, including petroleum products on the global market also pushed up the country's import payments during the period under review. The existing upward trend in private-sector credit growth is expected to continue in the coming months if the demand for credit persists..

Remittance falls 12% in February

Remittances fell into a negative territory last month after showing a dazzling display in December and January. The inflow stood at \$1.49 billion in February, down 12.2 per cent from the month before and 16 per cent year-on-year, according to data from Bangladesh Bank. The government has recently increased the incentive for the remitters to 2.5 per cent instead of the previous 2 per cent. But, the inflow failed to get its expected momentum despite the government's efforts as the hundi cartel—an illegal cross-boundary financial transaction system—has become activated in a full-fledged manner, according to Bangladesh Bank Officials. Many expats are using the informal channel to send remittance as they receive more money against per dollar than what banks offer.

Current account deficit hits all-time high

Bangladesh's current account deficit hit an all-time high of \$10 billion in just the first seven months of the ongoing fiscal year due to the escalation of trade deficit and dwindling remittances. The large shortfall in the current account will only widen further because of the ongoing pressure on the foreign exchange reserve and exchange rate between the US dollar and taka according to economists. The previous highest deficit in the current account was \$9.56 billion in FY 2017-18, data from Bangladesh Bank showed. The deficit was \$4.57 billion last fiscal year. The increasing trend of trade deficit, which stood at nearly \$18.7 billion between the months of July and January in FY2021-22, are one of the main reasons for the shortfall in the current account. Remittances have not picked up yet, which also has resulted in a large current account deficit.

Relaxed policies fail to bring down bad loans

Default loans in the banking sector surged 16.38 per cent year-on-year to Tk 103,274 crore in 2021, rendering the relaxed loan classification policy unveiled by the Bangladesh Bank largely ineffective. So, analysts have urged the central bank to take long-term policy measures in order to rein in non-performing loans (NPLs) instead of putting in place short-term steps. The ratio of NPLs to outstanding loans and advances stood at 7.9 per cent last year in contrast to 7.6 per cent in 2020, according to the BB data.



According to the central bank official, some borrowers had early filed writ petitions with the High Court so that their loans were not shown as classified. But, the High Court later vacated the petitions following submission of pleas from lenders. As a result, classified loans rose. Moreover, business slowdown emanating from the pandemic was one of the factors for the rise in NPLs. In addition, some habitual defaulters had not repaid instalments despite repeated attempts from banks.

Global commodity price hikes may jeopardise inflation target: BB

Bangladesh's economy has experienced a strong rebound from the pandemic-induced downturn, but the recent spikes in global commodity prices – aided by unfolding geopolitical conflicts – may create price pressure for the country, causing the government to miss its inflation target, observes the Bangladesh Bank. In its monetary policy review 2021, the central bank also addressed a number of risks, including negative pressure on the balance of payment amid high imports and the severity of the ongoing pandemic, which may cast a cloud over the growth prospects. The Bangladesh Bank, however, hinted at continuing with the current expansionary and accommodative monetary stance when other global central banks are opting for squeezing money supply to curb inflation.

Cabinet approves draft law for protection of deposits at financial institutions

The government of Bangladesh has approved a revised draft of a law with an aim to protect deposits of non-bank financial institutions (NBFIs). As per the draft law, the NBFIs will have to provide clients with compensation up to Tk 200,000 if they go bust and fail to provide security for their deposits. The money deposited only in banks were secure until now. But deposits in different leasing companies or financial institutions were not. So government revised the existing law and enacted the Bank Deposit Protection Act 2022. Previously, it was Bank Deposit Insurance Act, now it will be a protection law. It was only applicable for banks before, not for the financial companies. 'Banks' have been replaced by 'banks and financial companies' [in the revised law]. In that case, if a leasing or finance company shuts down or something similar happens, the customers will receive up to Tk 200,000 from the deposit. The rest can be recovered only if it's possible to retrieve from the companies.

Capital shortfall at banks widens

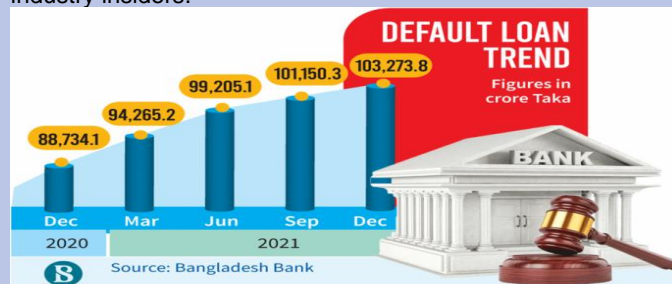
Ten banks in Bangladesh collectively faced a capital shortfall of Tk 34,639 crore in December, which highlighted their fragile health caused by years of irregularities. The banks are Bangladesh Krishi, Janata, Agrani, Sonali, Rupali, BASIC, Rajshahi Krishi Unnayan, Bangladesh Commerce, ICB Islamic and National Bank. Irregularities perpetrated at the banks are mainly responsible for the large capital deficit.

BANKS WITH CAPITAL SHORTFALL			
As of Dec 2021; In crore taka; SOURCE: BB			
Bangladesh Krishi	12,428	BASIC	2,530
Janata	4,256	RAKUB	1,665
Agrani	3,877	Bangladesh Commerce	1,088
Sonali	3,639	ICB	1,661
Rupali	3,038	National	457

Bangladesh Krishi Bank had the highest capital shortfall of Tk 12,428 crore in December, up 15 per cent from a year ago, data from the Bangladesh Bank showed. Sonali's shortfall widened to Tk 3,640 crore from Tk 3,063 crore during the period. This led experts to call on the central bank to take immediate measures to address the problem as such a situation sends a negative signal to the international community and local businesspeople that the banking sector is weakening. Foreign businesses usually look at the capital base and non-performing loans of banks before making any investment decisions. This level of the capital shortfall puts foreign investors at bay.

Default loans increase by Tk14,539cr in 2021

Defaulted loans have started to rise from the pandemic lows as banks began ending moratorium packages by classifying loans amid normalization of the financial condition of borrowers. Default loans in the banking sector increased by Tk14,539 crore in the past year after loan moratoriums were partially lifted. Although resumption of business activities increased money flow last year, many borrowers were yet to meet payments, forcing banks to classify a number of loans causing a rise in defaults, according to industry insiders.



The banking sector experienced a 16.38% growth in default loans after many banks did not extend the moratorium facility in 2021. Default loans came down to Tk.88,734cr in December 2020, which was 7.66% of total loans, the lowest in recent years. The payment deferral facility, however, was partially lifted from the beginning of last year causing a sharp rise in default loans, which crossed Tk1 lakh crore in September. At the end of the year, the total default loans stood at Tk1,03,273cr, 7.93% of total loans, according to the central bank data

REAL ESTATE NEWS

Realtors against including city corporations for construction approval

The government's move to include city corporations in the approval process for construction in Dhaka directly contradicts its effort to improve the ease of doing business in Bangladesh, according to various realtors. This is because such a decision would create new crises in the housing industry, where the government is striving to create an orderly system and business-friendly environment for new entrepreneurs, who play a strong role in the country's development. Up until 2019, there was a provision in the Dhaka Building Construction Act 2008,

requiring developers to obtain clearance from the city corporations to erect any structure with more than 10 storeys. But in order to expedite the construction of high-rise buildings in the capital, the approval process was then simplified to include just three organisations: Rajdhani Unnayan Kartripakkha (Rajuk), Bangladesh Fire Service and Civil Defence, and the Civil Aviation Authority. The move to include city corporations in the approval process was proposed during the meeting, where LGRD minister and the two mayors discussed how to reduce waterlogging in the upcoming monsoon season.

NATIONAL HOUSING NEWS

NHFIL holds Dhaka Division Business Meeting

Divisional business conference (Dhaka Division) of NHFIL was held in Dhaka at The Rio lounge, Gulshan on February 28, 2022. Honorable Managing Director Mr. Mohammad Shamsul Islam presided over the business meeting along with top executives of National Housing. Branch Managers and executives of Sales and Marketing Department of Dhaka Branches actively participated the meeting and share their challenges they face in seeking new businesses and suggestions for the betterment of the company.

