

## RBI may need to choose between FX, bond interventions in second half: economists

REUTERS, Mumbai

The Reserve Bank of India's interventions in the foreign exchange market have helped reserves climb to a record \$501.7 billion in early June, but economists say the pace of increase is likely to taper in the second half of this fiscal year.

The RBI bought a total \$45 billion in the foreign exchange market in the fiscal year ended March 31, 2020, while reserves have climbed a further \$25 billion since the beginning of this fiscal year.

Some of the recent surge has been driven by the RBI's moves to mop up dollar inflows from Reliance Industries' recent stake sales in its digital unit, Jio Platforms. Reliance has raised some \$13.72 billion in the last eight weeks via deals with Facebook, KKR & Co and others.

"Given that the money market surplus is running at a high 6.8 trillion rupees, the RBI will likely not want to inject further liquidity through FX operations," Indranil Sen Gupta, economist with Bank of America Securities, wrote in a note.

Dollar buying intervention by the RBI pushes rupees into the banking system, which it has historically mopped up via open market bond sales.

With state and central governments scheduled to borrow a combined 19.5 trillion rupees in FY21, ICICI Securities Primary Dealership

predicts the RBI will need to absorb anywhere between 3 to 6 trillion rupees worth of the supply to keep yields from spiking sharply.

"The focus of liquidity accretion may switch from FX to domestic OMOs (open market operations) in the latter part of the year," said

Sameer Narang, chief economist at Bank of Baroda.

"Thus the pace of FX reserve accretion is unlikely to be this high in H2," he added.

With the RBI likely to be on the sidelines, some economists expect the rupee to gradually strengthen in the months ahead.



REUTERS/FILE

A police officer stands guard in front of the Reserve Bank of India head office in Mumbai.

## Kamal sets a bullish 5.2pc GDP growth target for this fiscal year

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The Prime Minister's Office got an additional Tk 214.73 crore, the cabinet division Tk 59.88 crore, the Supreme Court Tk 3.39 crore, the Election Commission Secretariat Tk 298.58 crore, the Public Service Commission Tk 18.30 crore, the Economic Relations Division Tk 65.10 crore and the planning division Tk 379.55 crore.

The implementation monitoring and evaluation division got Tk 53.34 crore, the statistics and information management division Tk 290.60 crore, the defence ministry Tk 454.90 crore, the armed forces division Tk 92.58 crore, the public security division

Tk 294.12 crore, the social welfare ministry Tk 12.79 crore and the women and children affairs ministry Tk 39.98 crore.

The labour and employment ministry was given Tk 53.96 crore, the housing and public works ministry Tk 842.99 crore, the religious affairs ministry Tk 527.42 crore, the local government division Tk 2,808.31 crore, the industries ministry Tk 450.19 crore, the textile and jute ministry Tk 559.48 crore, the energy and mineral resources division Tk 494.57 crore, the water resources ministry Tk 837.14 crore, the disaster management and relief ministry Tk 1,232.53 crore and the shipping ministry Tk 73.27 crore.

## BB extends loan status classification to Sep 30 as it fears pandemic would ram on

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The government has unveiled various stimulus packages amounting to \$103,117 crore, which is 3.7 per cent of the country's gross domestic product, to help people, businesses, entrepreneurs, farmers, industrialists and exporters counter the impact of the pandemic.

Of the packages, only Tk 3,000 crore would come from the government's coffers, while the rest would come from the central bank or the lenders themselves, said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, on Sunday.

The central bank has eased monetary

policy and taken several steps to improve the liquidity position at banks.

The repo rate was lowered from 6 per cent to 5.75 per cent in March and later to 5.25 per cent on April 12.

The cash reserve ratio was initially reduced from 5 per cent to 4.5 per cent (daily-basis) and from 5.5 per cent to 5 per cent (bi-weekly basis), with a further reduction to 3.5 per cent and 4 per cent, respectively, from April 15.

The BB has raised the loan-deposit ratio and investment-deposit ratio by 2 percentage points to facilitate credit to the private sector and improve liquidity in the banking system.

As part of the stimulus packages, the

central bank has injected Tk 73,000 crore in the banking system through the refinancing schemes and the cut in the CRR, BB Governor Fazle Kabir said on Friday.

So, the banking sector would not face problems in implementing the stimulus packages, he said, during the virtual post-budget media briefing.

There was Tk 113,000 crore additional liquidity in the banking sector as of April 30, after meeting the statutory liquidity ratio. There is another Tk 62,000 crore additional fund owing to the healthy reserve, the governor had said.

"The liquidity situation is very good."

Revenue collection crashed more than 55 per cent in April and the National Board of Revenue may end up facing a shortfall of Tk 100,000 crore in the current fiscal year.

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The stimulus packages are the second-highest among the peer countries in Asia.

## Govt needs to rally behind the leather goods manufacturers, too

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Currently, the number of leather and leather goods factories in Bangladesh is nearly 1,200 and most of them are small and not export-oriented.

Over the years, Bangladesh has become a lucrative destination for buyers from Europe, America, Japan, Australia, New Zealand and China because of quality goods and competitive prices.

"So, almost all renowned brands like Timberland and Nike have been purchasing their goods from Bangladesh."

The government should reduce the source tax to 0.25 per cent from the proposed 0.50 per cent such that exporters can become more competitive during this crisis, Islam added.

The government should reduce duties on the import of chemicals needed for treating rawhides, said Md Shaheen Ahmed, president of the Bangladesh Tanners' Association. Tanners use 40 different kinds of chemicals in their factories and the average import tariff for those is 27 per cent, he said, adding that they have long been demanding that the government bring down the duties to less than 20 per cent.

He said most of the tanners could not avail themselves of the funds from the Tk 5,000-crore stimulus package because of stringent conditions.

The tanners are facing challenges in receiving loans from another two stimulus packages of Tk 20,000 crore and Tk 30,000 crore as well for the same reasons, he added.

Only 30 per cent out of 155 tanneries at the newly-established Savar Tannery Industrial Estate are in operations now because of poor work orders from buyers.

Work orders for finished and crafted leather from four major markets -- Spain, Italy, Hong Kong and South Korea -- dropped 40 per cent amid the pandemic, according to Ahmed.

Exports to the four markets account for nearly 60 per cent of Bangladesh's total shipment of finished and crafted leather, he added.

Work orders from China, which takes 30 per cent of Bangladesh's total finished and crafted leather, are still coming but at a slower pace, industry people said.

## Onion prices hold steady

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Imports declined 33 per cent year-on-year to 8 lakh tonnes in the first nine months of the ongoing fiscal year, the BBS data showed.

India withdrew its export ban in March this year but bilateral trade with Bangladesh through land ports came to halt on the third week of the same month as the neighbouring nation went into lockdown to contain the deadly coronavirus.

However, trade through most of the land ports, particularly Benapole, resumed last week.

And so, trucks laden with onions started arriving through the Benapole port, the country's most active land port. However, Bhomra, one of the main ports for goods coming from India, remains idle, said Dipankar Ghosh, a clearing and forwarding agent.

The price of onion has remained practically the same even though import costs increased by Tk 1.30-Tk1.40 per kg and this would benefit the economy.

"The government will earn some revenue through this measure."

However, there will be little effect on the price of onion if there is adequate supply from India.

"Onions are a perishable commodity and the prices mainly depend on the supply and demand, not tariffs. Therefore, prices drop when supply increases and vice-versa," Ghosh added.

Meanwhile, Aminul Islam, a wholesaler of locally grown onions in Pabna, a major growing district, said the price of domestically produced bulbs has edged up only marginally.

Farmers harvested 10 per cent -- or 25.57 lakh tonnes -- more onions in the outgoing fiscal year. A year earlier, it was 23.3 lakh tonnes, according to data from the Department of Agricultural Extension.

## Steel manufacturers aggrieved about cold shoulder

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Manufacturers also have to pay 5 per cent advance tax on the import of raw materials and this only creates additional pressure on generating working capital.

But although the government decided to decrease advance tax to 4 per cent in the new budget, manufacturers want a full withdrawal of the duty.

To secure enough funds to continue operations, many manufacturers turn to the banks, further deepening the sector's liquidity crisis, Hossain said.

The BSMA also sought for removal of the 5 per cent advance income tax placed on the import of various production-related materials for the next fiscal year.

If this situation prevails until December, losses in the steel industry could run north of Tk 15,000 crore, said Hossain, also the managing director of the Anwar Group of Industries.

From raw materials to spare parts and capital machinery, steel manufacturers have been unable

to bring in any of these much-needed equipment due to the virtual standstill of all economic activities across the world, he said, adding that there are about eight million empty containers stranded at the Chinese ports alone.

Millers are suffering from a serious liquidity crisis as they could not make enough revenue in the past three months, said Tapan Sengupta, deputy managing director at BSRM, the country's biggest steel producer.

With millers barely able to meet operational expenses, it seems unfair to charge advance tax, advance income tax, VDS and the like.

"So, the government should provide some incentive by postponing some of these taxes to boost the sector."

The steel sector nurtures all other sectors and creates about one lakh opportunities for direct employment and seven lakh for indirect employment.

The infrastructure and construction sectors completely depend on the steel industry, which plays a vital

role in the economy's development, Sengupta said.

The National Board of Revenue (NBR) has held back about Tk 1,000 crore from his company as refundable advance tax for several years now.

"The NBR has not returned the money yet and this has created a capital shortage," he added.

The millers are frustrated by the government's reluctance to include even a single demand in the new budget, said Mohammed Shahidullah, secretary-general of the BSMA.

Besides, the sector will need around two years to recover from the losses made in this time.

The country has about 40 active steel manufacturers, who altogether can manufacture nine million tonnes of steel annually.

Of them, Abul Khair Steel, GPH Steel, BSRM and KSRM meet more than half the yearly demand of about eight million tonnes.

Although the steel industry is not export-oriented, the government should give it the same importance as the garment sector, Shahidullah said.

## ADB tops up rural road project with \$100m

FROM PAGE B4

More than 1 lakh migrant workers have so far been deported and thousands of them are waiting to return home, according to Tasneem Siddiqui, chair of the Refugee and Migrating Movements Research Unit at the Dhaka University. Then are lakhs of informal sector workers who had gone back to their villages after the countrywide shutdown, and many have decided to stay back.

So, the scaling up of a manpower-heavy project can be viewed as a godsend for the government's conundrum of finding jobs for so many people.

With the additional financing, the current road network development programme would be extended from 1,700 kilometres (km) to 2,630 km of rural roads.

It will build on a \$200 million financial package approved in 2018 aimed at upgrading rural roads in 34 districts to all-weather standards with climate resilience and safety features.

The impact and outcome of the overall project are expected to be further enhanced with the coverage

of additional geographic areas and the increase in beneficiaries. The expanded project will benefit 40.2 million inhabitants.

The increased support brings more rural communities closer and faster to economic development activities, which accelerates the delivery of produce and services from agricultural lands to markets, said ADB Senior Water Resources Specialist Olivier Drieu.

"Women and children will have easier and safer access to education, employment, health, and other essential social services in any weather condition," he added.

Inadequate rural transport and poor market infrastructure remain a challenge to Bangladesh's rural development.

The situation is further worsened by recurrent flooding and disasters that paralyse agricultural value chains.

Less than half of the rural population has access to all-weather roads, which make up less than a third of the total length of rural roads in the country. The additional funding will also supplement the

government's infrastructure spending to boost the local economy, which has been affected by the novel coronavirus pandemic.

Infrastructure spending will generate local employment, increase access of rural communities to health services and medical supplies, and lay the ground for long-term growth prospects of the economy.

The Rural Connectivity Improvement Project supports the government's Seventh Five Year Plan to increase the percentage of the country's rural roads classified as good from 43 per cent in 2016 to 80 per cent in 2020.

The overall project will continue to strengthen governance and institutional capacity in rehabilitating and maintaining rural roads with the use of a geographic information system to optimise monitoring of road conditions, thus sustaining an efficient rural road network that would boost further growth of the rural economy.

The project, for which the government is providing \$149.23 million, is expected to be completed by 2024.

characteristics of different product codes.

We suggest performing this analysis with data that spans over multiple years only.

Exploiting cases that correspond to LCs that are settled, but no bill of entry is submitted. This is indeed very relevant and some of the flags that identify suspicious observations address this case.

However, the censoring that comes from the time span of the data limits

the statements we can make on this dimension.

The instruments to be used for the study are bills of imports and exports, bills of lading (NBR) and LC opening and settlement (the Bangladesh Bank), which are available online.

Real-time data for five years may be used for the purpose.

The author is a professor at Brac Institute of Governance and Development, Brac University and former chairman of NBR

## Malaysias AirAsia to resume all domestic routes from July

REUTERS, Kuala Lumpur

Malaysian budget carrier AirAsia Group will restart all domestic routes from July, Chief Executive Officer Tony Fernandes said on Monday, after the government eased movement curbs for containing the coronavirus.

Malaysia allowed interstate travel to

resume last week as part of the government's plan to revive an economy hit hard by the pandemic after declaring that the coronavirus was successfully brought under control.

Fernandes said the airline will run flights over its entire domestic network and at full seat capacity, according to government guidelines, though frequency would depend on demand.

## Govt eyes Tk 17,000cr in budget support next fiscal year

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The overall budget deficit will be Tk 190,000 crore in fiscal 2020-21, which is 6 per cent of GDP, said Finance Minister AHM Mustafa Kamal in his budget speech.

Bangladesh would receive Tk 4,013 crore in grants in fiscal 2020-21, up from Tk 3,454 crore in the revised budget. Of the grants, Tk 613 crore would come in the form of food support and Tk 3,400 crore in project assistance.

Of the external financing, Tk 88,824 crore will come in the form of loans, which was Tk 63,659 crore in the revised budget. The support for loans includes Tk 67,102 crore in project assistance.

The pandemic is severely impacting the Bangladeshi economy.

Two major sources of external financing, namely export of garment and remittance inflows, are projected to decline rapidly.

Exports are projected to contract by about 18 per cent in fiscal 2019-20 and decline further by 1 per cent in the

following year as demand from major trade partners remains weak.

Remittance inflows dropped off 14 per cent year-on-year to \$1.50 billion in May on the back of the global coronavirus pandemic.

Continued remittance weakness in the coming months will slow fiscal 2019-20's growth to 1.4 per cent and lead to a 7 per cent fall in fiscal 2020-21, the IMF said recently.

Revenue collection crashed more than 55 per cent in April and the National Board of Revenue may end up facing a shortfall of Tk 100,000 crore in the current fiscal year.

The government has unveiled various stimulus packages amounting to \$103,117 crore, which is 3.7 per cent of the country's gross domestic product, to help people, businesses, entrepreneurs, farmers, industrialists and exporters counter the impact of the pandemic.

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## LankaBangla Finance triumphs despite liquidity pressure

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As 2019 was a challenging year for the non-bank sector due to the liquidation of People's Leasing and Financial Services (PLFS), LankaBangla Finance's profit crept up slightly, according to Shahriar.

Its profit was Tk 73.60 crore in 2019, a rise from Tk 71.41 crore in the previous year.

On June 27 last year, the finance ministry instructed the central bank to shutter the PLFS for its failure to improve its financial health, in a first for Bangladesh's financial sector.

The government also announced that another four or five companies were under the scanner for their lacklustre performance and might face the same fate. This created a huge liquidity pressure in the sector as many depositors started to withdraw funds.

"Despite the liquidity pressure, we were able to log in profit faring fine in the first quarter of the current year," Shahriar said.

The company's profit rose 24.55 per cent year-on-year to Tk 6.87 crore in the first quarter of the year.

"But the pandemic again has hurled a new and big challenge for the sector."

Many of the borrowers affected by the economic fallout of the novel coronavirus cannot repay loans, which has put huge pressure on all lenders, he said, adding that they have been in continuous communication with their clients but cannot force them to pay back.

"If the borrowers don't survive, how will they repay?"

Shahriar, however, thinks the present crisis might linger until the third quarter of the year and the situation will start to look up from the fourth quarter.

"As the country's stock market is now bearish and we have huge exposure in the market, it is also not clear how much money we are going to make from stock investment," he added.

Stock investment by the NBF was Tk 459.25 crore at the end of 2019 against Tk 551.35 crore on December 31, 2018.

DSEX, the benchmark index of the Dhaka Stock Exchange, slumped more than 20 per cent to 3,603 in the first three months of the year.

LankaBangla stocks traded at Tk 12.90 each yesterday on the Dhaka bourse. The NBF declared 12 per cent dividend -- 7 per cent cash and 5 per cent stock -- for the year that ended on December 31, 2019.

## Fahim elected VP of Saarc Chamber

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He served as a member of the executive committee of the Saarc CCI for two terms and represented 28 national chambers in Asia and the Pacific.

Fahim is currently serving as the vice-president of the Confederation of Asia Pacific Chambers of Commerce and Industry. He is also the executive committee member of the D8 Chamber of Commerce, the Global Advisory Council of the Commonwealth Enterprise and Investment Council and the Advisory Board of the Silk Road Chamber of International Commerce.

Acknowledging the realities, the Saarc CCI board will focus on serving its 1.8 billion people in 2020-21 by engaging the strength of all eight member countries to build Saarc and beyond, especially in the new coronavirus world order, Fahim said in the press release.

"The FBCCI, along with its counterparts in the eight nations, will explore greater engagements in investment, trade, culture, sports, best practices and philanthropy."

Fahim holds a bachelor's degree in economics and a master's degree in liberal arts in political economy from St Edward's University in Austin, Texas.

## In a digital world, Bangladesh's stock trading remains defiantly analogue

FROM PAGE B1

But a top official of the Bangladesh Securities and Exchange Commission said on condition of anonymity that they have already asked the DSE to fix the problems.

"The entire trade settlement process cannot be made automated yet. We're working on it."

However, the BSEC official said many investors still prefer to come to the brokerage houses or call brokers over the phone to execute trades.