Star BUSINESS

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Narrowing trade deficit not wholly good

AKM Zamir Uddin

Trade deficit narrowed heavily in the first two months of the fiscal year in the wake of falling imports because of the ongoing economic slowdown, a sign of depressed demand and consumption.

Between July and August, trade deficit, which occurs when imports outweigh exports, stood at $698 million, down 66 per cent year-on-year, according to data from the Bangladesh Bank.

During the period, imports declined 13.85 per cent from that a year earlier to $7.43 billion and exports rose 2.39 per cent to $6.73 billion.

All indicators of the balance of payments (BoP) have posted a shining mark, but these will not have a remarkable positive impact on the GDP growth, experts said.

Current account balance, one of the major indicators of the BoP, stood at $3.29 billion in the first two months in contrast to $204 million during the same period a year ago.

The current account, the record of a country's international transactions with the rest of the world, was in surplus riding on the large volume of remittance sent by expatriate Bangladeshis and the dwindling import payments.

The current account includes all the transactions (other than those in financial items) that involve economic values and occur between resident and non-resident entities.

"The ongoing economic meltdown brought on by the coronavirus pandemic has adversely affected the domestic demand, heavily bringing down import payments," said Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue.

Also, the commodity price in the global market has declined massively. The price of petroleum products also fell. Import of capital machinery has almost come to a halt amid the ongoing slowdown in businesses.

"Rising export earnings is a positive sign for the economy. But, we have still a long way to go as the country will need more time to attain the benchmark of the export which it enjoyed before the pandemic," Rahman said.

The government will not get any respite from the improvement in the indicators of the BoP immediately as robust domestic demand and consumption are highly important to make the economy vibrant.

"Depressed demand is not a good sign for the GDP growth under any circumstance. The government should address the health issues to push the economy," Rahman said.

Between July and August, the overall balance stood at $2.47 billion in contrast to $139 million a year earlier.

The strong position of the current account and foreign loans from multilateral lenders helped boost the overall balance of the BoP.

"There is no scope to feel happy watching the indicators of the BoP. The export sector has been in a weak situation considering the pre-Covid-19 level," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

The country is gradually recovering from the meltdown but more time will be needed due to the weak domestic demand, he said, adding that the economic recovery is also dependent on the global situation.

"It is predicted that North America and Europe will require at least five to six months to enjoy recovery from the existing economic hardship," said Mansur, also a former senior official of the International Monetary Fund.

"But the western nations are now in a panic as they think that a second wave of the coronavirus pandemic will hit them," he said.

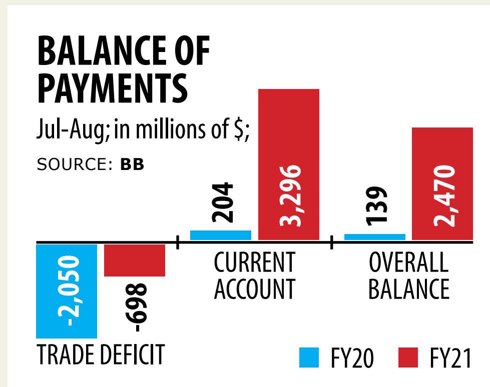
The government has already warned that a similar situation may occur in Bangladesh in the coming winter.

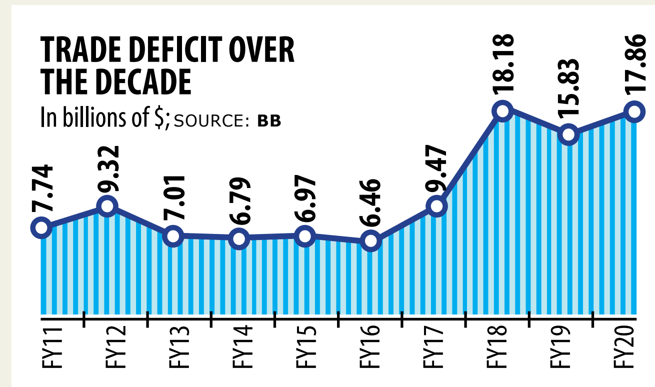
"This will impede the recovery process of the economy. We are far away from the economic revival. And the government should take cautious steps to tackle the ongoing crisis," Mansur said.

Lower imports and a high volume of remittances have played a great role in widening the foreign exchange reserve.

The reserve stood at $39.04 billion as of August, up 19.11 per cent year-on-year. The volume is good enough to settle import payments of 8.4 months, way higher than the standard limit of three months. The reserve was $39.11 billion on Wednesday, BB data showed.

Remittance inflow jumped 50 per cent year-on-year to $4.56 billion in the first two months of the fiscal year.





WHAT EXPERTS SAY

- Depressed demand hit imports
- GDP growth may be affected due to slower import
- Export is on the rise but not good enough to push growth
- Lower commodity prices in global market shrank trade gap
- No respite for govt despite declining deficit

Another breather for borrowers

Loan moratorium facility extended for third time

AKM Zamir Uddin

Bangladesh Bank yesterday extended the deadline for loan status classification by banks further to December 31, as it now forecasts the economy would be enshrouded by the coronavirus-induced gloom for longer than it had imagined earlier.

Now, banks will have to maintain the same credit status of a borrower as on January 30 until the new deadline.

This is the third time extension of the loan moratorium facility for borrowers in attempts to enable them to tackle the ongoing economic hardship smoothly.

On March 19, less than two weeks after the government first reported the country's maiden coronavirus cases, the central bank asked lenders not to consider businesspeople as defaulters if they fail to repay instalments until June 30 this year.

The moratorium facility was later extended on June 15 once again.

In its latest instructions, the central bank asked lenders not to treat the borrowers as instalment defaulters as well if clients fail to pay back any instalment of loans between the months of January and December.

The instalments will be considered as deferred ones and banks will have to reconstruct the loans from the inception of next year.

The same rules will be applicable for the borrowers, who have taken credit in the form of working capital or demand loans.

Banks will have to adjust their interest of demand loans and working capital to their principal amount.

Banks will be permitted to rebate interest to the borrowers, who have not taken the moratorium facility by paying back their instalments on time.

A good number of borrowers now repay their loans despite the central bank's facility, which is a good example for the financial sector, said MA Halim Chowdhury, managing director of Pubali Bank.

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Locally made LPG cylinders get a cut in VAT

Sohel Parvez

The revenue authority has reduced value added tax (VAT) on locally made cylinders for storing liquefied petroleum gas (LPG) in order to allow domestic manufacturers to better compete with imported cylinders and enable users to afford bottled gas.

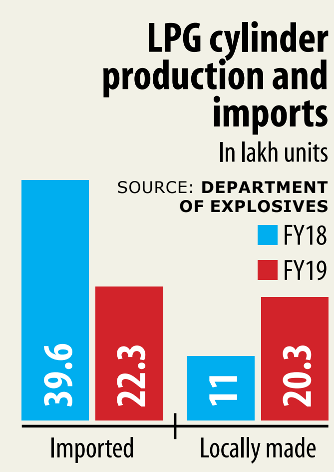
The VAT rate for locally-made LPG cylinders has been slashed to 5 per cent from 15 per cent, the National Board of Revenue (NBR) said in a notice issued at the end of last week.

The benefit will remain effective until June 30, 2021, the NBR added.

The move follows pleas from domestic manufacturers of LPG cylinders after the government imposed 15 per cent VAT on local manufacturing from the beginning of fiscal 2020-21 in July.

Until the last fiscal year, there was no VAT on locally made LPG cylinders.

Azam J Chowdhury, chairman of the East Coast Group, which has an LPG cylinder production plant, said imports became cheaper than local cylinders after the imposition of 15 per cent VAT.



"We demanded that the government ensure parity with imported ones. Following the move, local industries will get some advantage," he said.

Omera Cylinders is a concern of East Coast Group.

Bangladesh has 11 companies producing LPG cylinders and their combined production capacity is 85 lakh units whereas the annual requirement is 65 lakh units, according to Chowdhury, also president of the LPG Operators Association of Bangladesh.

"This is a heavy industry and given the existing capacity, there is no need to import. We will also be able export LPG cylinders to other countries through value addition," he said.

In recent years, local manufacturing of LPG increased as more companies joined the foray to profit from the growing demand for bottled gas for cooking and small industries because of the fast-depleting reserves of natural gas, unavailability of firewood, rising income of consumers and rapid urbanisation.

Bangladesh now annually uses 10 lakh tonnes of LPG.

A decade ago, in 2009, LPG use was just below 50,000 tonnes, according to the energy and mineral resources ministry and various industry operators.

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Lub-rref aims to make Bangladesh 'self-reliant in lubricant production'

Will invest Tk 400cr to establish a base oil refinery

Ahsan Habib, *back from Chattogram*

Lub-rref, a local lubricant producer, is set to invest Tk 400 crore to establish the country's first state-of-the-art base oil refinery with an aim to meet the growing demand for lubricants from both home and abroad.

"The sector has huge potential for growth in Bangladesh as the local lubricant market is mostly import based," said Mohammed Yousuf, managing director of Lub-rref.

Base oils are a raw material used to produce various lubricants, such as grease, motor oil and metal processing fluids.

Of the total investment, Tk 120 crore would come from equities and return earnings while the rest will be financed through foreign loans.

Alongside the construction of a new base oil refinery at the Julda Industrial Theme Park in Chattogram, the company will expand its present factory and fit it with the means to produce a higher grade of lubricant products.

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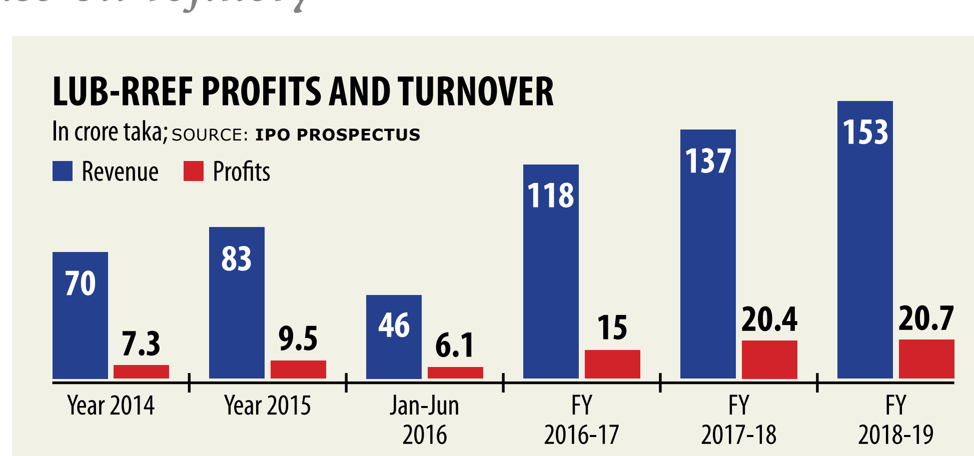
Workers bottle lubricants at a refinery of Lub-rref in Chattogram.



To finance the expansion, around Tk 98 crore will be funded through Lub-rref's initial public offering (IPO) proceeds.

The Chattogram-based company recently secured approval from the Bangladesh Securities and Exchange Commission to off-load its shares and raise funds of Tk 150 crore. Of these IPO proceeds, Tk 46 crore will be used to pay back bank loans.

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