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# Weak taka fuels inflation

SAJJADUR RAHMAN

The continuous depreciation of the taka against the US dollar has made imports of 'essential-to-luxury' items expensive over the last six months and fuelled inflation.

The weak taka has also put the balance of payments (BOP) under stress and widened trade deficit.

The taka has depreciated by more than 5 percent against the dollar since January this year. In the beginning of 2011, the US dollar was sold at Tk 71 for import payments and now the value stands at around Tk 75. The exchange rate was Tk 69.34 in June last year.

Though the finance minister in his budget speech on June 9 said he might have to take some unpopular decisions including exchange rate alignment to control soaring inflation, the pledge remains unclear to economists and importers.

"I don't know what he (finance minister) has meant by exchange rate alignment," said AB Mirza Azizul Islam, former finance adviser to a caretaker government. He said the finance minister did not give any clear-cut indication on the continued devaluation of the taka against the dollar.

The finance minister's proposal for 'exchange rate alignment' has come under question as Bangladesh follows a free-floating exchange rate, meaning the rate depends on the market, not on the regulator's intervention.

Taka depreciation leaves direct impact on food inflation, which is evident in edible oil and sugar prices. The devaluation has not only made import of food items costly, but it has also hiked the costs of inputs of readymade garments, pharmaceuticals and agriculture (fertiliser and tractor).

In the outgoing fiscal year ending on June 30, Bangladesh imported on an average \$2.5 billion worth of goods that include food, fuel oil, raw materials and capital machinery, according to Bangladesh Bank data.

The depreciating exchange rate is impacting economy in a number of ways.

If the taka is devalued by just Tk 1 against the dollar, the country has to pay an additional Tk 250

crore as import payments. The additional payments would stand at around Tk 1,000 crore a month measuring the depreciation by Tk 3.5 against a dollar.

"We are importing inflation with the continued depreciation of the taka," said Monzur Hossain, senior research fellow of Bangladesh Institute of Development Studies (BIDS).

Point-to-point inflation soared to 10.49 percent in March, 10.67 percent in April and 10.20 percent in May this year.

Not only the food items, the prices of luxury items such as car have also shot up due to the falling value of the local currency.

Abdul Mannan Chowdhury Khosru, president of Bangladesh Reconditioned Vehicles Importers and Dealers' Association, said devaluation of the taka against the greenback is now costing a car by additional Tk 2 lakh.

The central bank is in dilemma over the falling exchange rate. Neither it can inject dollar into the market to ease the volatility in the wake of falling reserve and BOP, nor it can bear the soaring inflationary pressure.

The BOP remained deficit at -\$502 million at the end of April this fiscal year against nearly \$2.5 billion a year ago.

Hossain of the BIDS said managing the exchange rate is going to be difficult following a decline in foreign exchange reserve, now at \$10.4 billion, equivalent to only four months' import bills.

"There is no way but to sell dollar in the market. But the central bank cannot do it because of a squeezing reserve position," he said.

Private bankers said, presently the BB is supporting only the imports of government through different state-owned banks.

However, a senior central bank official said they are injecting dollar to rein in the volatility. He said \$1.3 billion has been sold to the market from July to June 20 of fiscal 2010-11.

"We hope the market will calm down soon as the private banks have become conservative in opening of letter of credit," said head of treasury of a private bank.

sajjad@thedailystar.net

# Many projects may face axe

## Sixth five-year plan approved

REJAUL KARIM BYRON

The government will cancel irrelevant projects and help ministries close schemes that face implementation holdups in a revived five-year plan to execute development programmes.

The move on the implementation of development projects came as the National Economic Council approved the government's sixth five-year plan for fiscal 2011-15 at a meeting, chaired by Prime Minister Sheikh Hasina.

The plan will also seek to break the logjam by conducting a proper review of all approved and active projects in cooperation with the ministries, according to government documents.

It said an intense review of projects will seek to clean out dormant or irrelevant ones and help the ministries close the projects that are stuck in ruts.

The government has also made a commitment to take up reform programmes in the public sector.

The government promised to ensure good governance alongside developing infrastructure, energy and roads to attract investment in the private sector, said Planning Minister AK Khandker.

He said by approving the plan the government has again entered the phase of the five-year plan.

The plan has targeted to limit the average inflation to 7 percent dur-

ing the period. A little inflation has to be accepted in the economy for achieving higher growth, the ministers said.

Soon after assuming power in 2001, the BNPlanned four-party alliance government discarded the five-year plan, and implemented Poverty Reduction Strategy Paper in making development plans following advice from donors, especially International Monetary Fund.

Shamsul Alam, a member of General Economic Division, said the PRSP was not home-grown rather it was imposed by the donors.

An investment of Tk 13.5 trillion has been planned during the period to achieve an average 7.3 percent GDP growth a year.

Of the total investment, Tk 10.39 trillion or 77.2 percent will come from the private sector and the public sector investment will be Tk 3.1 trillion, with much of it will be through ADP.

In the terminal year of the five-year plan, the size of ADP will be about Tk 80,000 crore. The budget for the upcoming fiscal year has proposed Tk 46,000 crore as ADP.

The government will mobilise around 19.7 percent of the resources from domestic sources and 9.3 percent from external sources to achieve the investment target.

# Hasina optimistic about Nepal, Bhutan transit

STAR BUSINESS REPORT

Prime Minister Sheikh Hasina has said the process of allowing Nepal and Bhutan to use Mongla and Chittagong ports to transport "transit goods" to a third country through Bangladesh is close to the final stage.

"Significant progress has been made in discussions with India, Nepal and Bhutan that aimed at taking regional initiatives on water resources, electricity and communication infrastructure," the premier said in a reply to lawmakers' queries in parliament yesterday.

"Discussion with India is now at the final stage for uninterrupted movement of the people of Dahagram and Angorpota enclaves with mainland Bangladesh. The problem would be solved very quickly," she said. Hasina added that her government is sincere to solve the enclave-related problems with the neighbouring country.

On maritime boundary issues with India and Myanmar, the premier said the foreign ministry is continuing its diplomatic efforts to solve the problem, and it is expected that the two friendly states would be able to find out an acceptable solution soon through discussions.

On the Myanmar issue, Hasina said her government has attached top priority to settling the maritime boundary dispute. "The issue was placed in the form of a case in the International Tribunal of the Law of the Sea," she said.

"Hearing of the case will be completed by 2011, and the case is expected to be settled by 2012."

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