

COMMODITIES		ASIAN MARKETS				CURRENCIES						
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY	
▲ 1.46%	▲ 2.07%	\$1,637.97 (per ounce)	\$98.18 (per barrel)	▲ 3.63%	▲ 1.48%	▲ 2.25%	▼ 1.12%	80.65	103.74	124.49	1.00	
5,163.88	9,373.38			15,726.01	8,459.98	2,673.32	2,191.15	BUY TK	81.65	107.92	128.80	1.10
								SELL TK				

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Star BUSINESS

DHAKA THURSDAY DECEMBER 22, 2011, e-mail:business@thedailystar.net

High inflation to affect financial sector: study

STAR BUSINESS REPORT

A double-digit inflation may adversely affect the financial sector, especially the banking sector in Bangladesh, according to a study.

It said inflation at 10 percent and above negatively impacts assets, liability and private sector credit flows from the banking sector, putting a detrimental effect on the development of the overall financial sector.

"There has been a long-run negative effect of inflation on financial sector development in Bangladesh," said the study shared yesterday at a discussion on the impact of commodity price volatility.

Research Fellow of Bangladesh Institute of Development Studies (BIDS) Monzur Hossain and Lecturer of Department of Economics of American International University-Bangladesh Farhana Rafiq jointly conducted the research on the impact of inflation on the performance of the financial sector in Bangladesh.

Hossain shared the findings of the study at the discussion at Ruposhi Bangla Hotel. The BIDS and South Asia Network of Economic Research Institutes (SANEI) co-organised the event, marking the 11th Annual SANEI Conference.

SR Osmani, professor of Development Economics, University of Ulster, UK, chaired the session.

"Moderate inflation seems to be helpful for the development of the financial sector but high inflation has detrimental

impact," said Hossain, suggesting that financial institutions including banks should be more efficient and should have some strategies to tackle the impact.

The caution on the impact on banking sector, the main source of finance for industrial and trading activities, coincides the time when average inflation hit the highest in the decade at 10.51 percent in November.

Monthly inflation rose to 11.58 percent in November from 11.42 percent a month ago, putting strains on the wallets of consumers.

The authors, who worked on data obtained between the years 1990 and 2009, however, said high inflation reduces spread between deposit and lending rates of interests.

High inflation also contributes to the rise in value of stocks and thereby turnover. But it reduces market capitalisation and equity returns, according to the findings of the study.

At the discussion, another two papers were presented on India. Namrata Ghosh of India Development Foundation (IDF) and NR Bhanumurthy & Surajit Das of National Institute of Public Finance and Policy unveiled their study findings.

In their study on oil price shock and its impact on India, NR Bhanumurthy & Surajit Das showed that an increase in prices of oil by withdrawing subsidy fuels inflation.

Increasing oil prices without giving subsidy also causes gross domestic product growth to slow down, said Das.

Losses pile up for potato growers

SOHEL PARVEZ

Consumers are switching to newly harvested potato, while thousands of tonnes of old potato are stacking up in cold stores amid falling demand. Losses are piling up for farmers.

Sales of old potato fell amid the arrival of fresh harvests in the market, leading to a 33 percent decline in prices of the old ones in the last one month, trader said.

Prices of new potato slumped by almost half to Tk 15 a kg in the past two weeks, according to data from the Department of Agricultural Marketing.

"Buyers are less interested in old potato than new ones," said Mohammad Ilias, a vendor at Gopibag kitchen market.

The volume of old potato is a third of his total sales of the new ones -- 30-35 kg a day, he said.

The downturn in prices of the tuber, one of the mostly consumed vegetables after rice, comes at a time when 2.5 lakh tonnes of old potato remain stockpiled in cold stores, according to Bangladesh Cold Storage Association (BCSA) Chairman Md Jasim Uddin.

Many farmers and middlemen, who had stored potato to have a better margin in off-seasons, are now releasing their stocks at throwaway prices.

In some cases, farmers are also using their preserved produce as feed for cows. Abul



Kalam, a farmer of Pargacha in Rangpur district, is one of them.

Kalam, who stored nearly five tonnes of potato in cold stores and paid the store rents from the proceeds of paddy, used part of his produce as cattle feed and a part as seed for growing potato this season. He said he would incur a loss of Tk 15,000 this year.

In the immediate past season, potato production rose to 83 lakh tonnes from 81 lakh tonnes the previous year, according to Bangladesh Bureau of Statistics.

Last year, cold stores had unsold stocks till December. But the previous year the quantity of stored potato was lower than the current year, according to some farmers and traders.

Mir Mohammad Siraj, a farmer at Munshiganj, said a 70-80 kg sack of old harvest

now sells at Tk 200-220 in the potato producing district. The current price is one-third of the price of a jute-sack that is used to pack potato, he said.

"Many are surrendering their produce to cold storages, while many want to realise part of their investments," said Siraj, claiming a loss of Tk 1.80 lakh this year.

"There is no hope of a price rise as fresh harvests are arriving now," he said.

BCSA Chairman Jasim Uddin said the whole sector would post crores of taka in losses because of low prices of potato and a slump in demand for old ones.

"We all, from farmers to cold storage owners, are ruined," he said.

"The government did not pay heed although we on several occasions asked the government to include potato in its safety nets schemes to cushion farmers from losses," said Jasim whose cold storage still has 22,000 sacks of old potato.

He feared that cultivation might fall this year due to the losses of farmers. "Farmers do not have enough funds for investing," he said.

The Department of Agricultural Extension (DAE) is yet to finalise its data on acreage of potato cultivation this season.

But its Director General Md Habibur Rahman hoped cultivation area this year will not be less than 460,000 hectares the previous season.

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HSBC sells Japan unit

AFP, Hong Kong

HSBC said Wednesday it had sold its private banking business in Japan to Credit Suisse for \$2.7 billion, as part of its broader restructuring to reduce costs and focus on growth.

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