

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES				
DSEX	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	CNY	
0.55%	0.52%	\$1,784.80	\$74.87	0.86%	0.71%	0.05%	0.40%	84.85	94.82	112.33	13.10	
6,882.02	12,112.29	(per ounce)	(per barrel)	58,283.42	28,640.49	3,119.95	3,681.08	BUY TK	85.85	98.62	116.13	13.77

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BUSINESS

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Economy's three looming challenges

Experts point to high inflation, exchange rate pressure and liquidity crunch

AKM ZAMIR UDDIN

A persistent higher rate of inflation, the upward trend of the foreign exchange rate and deepening liquidity crunch could pose major challenges to the economy as the government looks to keep up the current economic recovery and accelerate it further.

Both the government and the Bangladesh Bank should address the issue promptly, or else the economic rebound will stumble in the coming months, economists say.

Although the major shocks stemmed from the overheating global economy, there is enough room for the government to deal with the three challenges.

The global economy has given a signal that the ongoing inflationary trend may continue for at least one year, handing a serious blow to the common people of Bangladesh already struggling because of higher consumer prices.

A debate among the economists globally has already broken out whether stagflation will hit the economies in the eurozone and the United States.

Although Bangladesh seems to be immune from stagflation, which takes place when an economy faces a persistent high inflation combined with high unemployment and stagnant demand, the probable stagflation will create several downside risks for the economy, which is reliant on the external markets for remittance and exports.

Higher global inflation has already raised Bangladesh's import payments to a large extent, putting a pressure on the foreign currency reserves and the exchange rate.

The reserves, which rose to record highs on the back of lower imports, moderate exports, and record remittance, are already falling and the decline may continue in the days ahead.

As demand has picked up locally and globally, the central bank of Bangladesh is injecting a large amount of US dollars to help businesses settle import bills. But, this has already created a liquidity stress in the banking system as lenders have to purchase the American greenback in

LIQUIDITY SITUATION

Taka depreciates 1.17% Y-O-Y | BB injects \$2.17b into market this FY | Excess liquidity Tk 2.17 lakh crore in Nov

INFLATION AT HISTORIC HIGHS

US: 6.8% in Nov 39yrs high | EU: 4.9% in Nov 25yrs high | Bangladesh: 5.7% in Oct 12-month high

ECONOMISTS' OBSERVATIONS...

- Taka should be devalued more
- Banks should be encouraged to lend to productive sector
- 9pc interest rate cap on lending should be lifted
- Little risk of stagflation

“Social safety net programmes should be widened to help the poor. A new stimulus package for cottage and micro enterprises can be launched.”

Shah Md Ahsan Habib
professor of BIBM

exchange of the taka.

So, ensuring an adequate credit flow to the private sector, one of the key driving forces of the economy, will face hurdles in the coming months.

Tackling inflation: Govt should take fresh measures Both the central bank and the government will not be able to arrest the higher inflation as the commodity price in the global market has increased sharply.

The US inflation surged to a 39-year high last month and the eurozone inflation registered a 25-year high.

Against the backdrop, Bangladesh's import payments

surged 51 per cent to \$23.90 billion in the first four months of the current fiscal year.

The soaring import payments have already played a major role in sending inflation in Bangladesh to a 12-month high of 5.7 per cent in October, above the government target for the full fiscal year of 5.3 per cent.

The prices of major commodities, including fuel, capital machinery and industrial raw materials, have seen sharp rise in the global market, owing to pent-up demand, higher shipping costs and supply chain disruptions.

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Keep essentials' prices stable

Economists suggest

STAR BUSINESS REPORT

Essential commodity prices should be controlled to keep it at a tolerable level while rising inflation contained as people are still struggling to overcome the economic shock brought on by the pandemic, said economists yesterday.

"In macroeconomics perspective, if one indicator is to get the most importance, that is inflation. Essential commodity inflation is higher than the rate measured by the government," said Debapriya Bhattacharya, convenor of the Citizen's Platform for SDGs, Bangladesh.

"The prices of essential commodities that determine the living standards of the working class should be controlled and kept moderate," he said.

He was addressing the closing session of a two-day conference titled "Bangladesh emerging from the pandemic: coping experiences and policy choices", organised by the Centre for Policy Dialogue (CPD).

The government should continue providing assistance to people affected by the pandemic even when the health risks starts receding, said Bhattacharya.

"The economic implications of the pandemic will last longer than the health crisis. The economic implication will be with us for a longer period of time," he said.

For example, if the health crisis continues for two months, its economic impact will last for over four months, he said.

"So, there should be a continuation of Covid-19 related support measures in view of the depth of the impact," he said.

Bhattacharya, who is also a distinguished fellow of the CPD, presented a paper titled, "The Covid consensus: Bangladesh's experiences in dealing with the pandemic".

He said priority should be given to targeted cash transfers for eligible beneficiaries while the protection of marginalised groups from the rising prices of essential commodities should be also ensured.

He also recommended allocations in the public expenditure basket and effective spending for health, education and social protection.

"We should monitor debt sustainability concerns as we are taking loans from different sources including China," said Bhattacharya.

"We have to learn the lesson from the experience of Sri Lanka, which fell into the middle-income trap and debt trap after graduating to middle-income status," he said.

The SDGs commitment of "Leave No One Behind" should be implemented in all policies while SDG delivery refocused on poor, decent jobs, rising inequality and quality education, he said.

"The biggest achievement of Bangladesh in 50 years is graduating to middle-income status and the biggest setback is the increase of inequality between rich and poor," he said.

Economist Zahid Hussain said although demand contributed to the rising inflation, another reason for it was cost push inflation, which occurs when overall prices increase (inflation) due to increases in the cost of wages and raw materials.

"After a hasty decision for increasing the price of diesel followed a spike in the international market, questions have been raised over the policy we are following to set energy prices," he said.

"First it was like we wouldn't increase the price, despite the hike in the international market. Then it seemed we wouldn't decrease price, despite the fall in the international market," he said.

"If the price is not set in a transparent and logical way, confusion will arise and inflation would shoot up," he said.

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DSE to invite big firms to market

STAR BUSINESS REPORT

For the first time in history, Dhaka Stock Exchange (DSE) will officially invite big and renowned local companies to get listed on the share market.

A conference in this regard has been arranged for December 21, when top officials and owners of around 100 companies are expected to be in attendance.

Rangs Group, Transcom, Bashundhara, Nasir Group of Industries, Meghna Group of Industries, Abdul Monem, Rahimafrooz, Nassa Group, Bengal Group of Industries, BRB Cable, Drug International, United Group, Kazi Farms, City Group, Jamuna Group, and Incepta Pharmaceuticals are on the list of invitees.

Prof Shibli Rubayat Ul Islam, chairman of the Bangladesh Securities and Exchange Commission, will speak as chief guest while Md Jasim Uddin, president of the Federation of Bangladesh Chambers of Commerce and Industry, will also participate.

"We want to motivate leading corporate houses to come to the stock market instead of going to banks for their long-term financing needs," said Shaifur Rahman Mazumdar, chief operating officer of the DSE.

The move will be helpful for banks as well as they face trouble in treasury management when giving long-term loans from short-term deposits, he said. "The stock market lacks good companies so their inclusion will be great news for the market," he added.

Medical PPE to help diversify exports

An expert says at a webinar

STAR BUSINESS REPORT

The ongoing Covid-19 pandemic has shed light on the potential of investing in the production and export of medical personal protective equipment (MPPE), analysts said at a webinar yesterday.

"The medical PPE industry is very close to our strength since the garments, plastic, and pharmaceutical industries can easily make adjustments to produce MPPE," said Abul Kasem Khan, chairperson of the Business Initiative Leading Development (BUILD).

"So, it is wise for us to pick a sector like this to diversify our export basket."

Khan made these comments at the webinar on "Exploring growth opportunities: production and export of MPPE", organised by BUILD.

Export diversification is a major challenge for Bangladesh as the country seeks to reduce its heavy dependence on garments, Khan said. The best strategy for Bangladesh now will be working on the country's strengths, he said.

He mentioned five key areas to focus on for developing the sector: ensuring the right products,

proper incentives, appropriate policies, knowledge and skills and proper use of technology and logistics.

The Covid-19 presented not only serious challenges, but also certain opportunities, and the MPPE industry is one such opportunity, Commerce Minister Tipu Munshi said.

He believes MPPE will contribute to the journey to produce more value-added and diversified products.

"We have also seen that Bangladesh has a lot of opportunities in this industry for local producers and exporters," said Commerce Secretary Tapan Kanti Ghosh.

Bangladesh needs to develop the MPPE industry in a strategic manner by setting up targets, extending the right incentives, ensuring public-private cooperation and following up closely on the progress and constraints, Ghosh added.

Md Mahbubur Rahman, director general of the Directorate General of Drug Administration, said local drug makers are doing very well abroad as they are enjoying steady growth in the global market.

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Maiden green zero-coupon bond for SMEs

STAR BUSINESS REPORT

Standard Chartered Bank has arranged the first green zero-coupon bond in Bangladesh for Sajida Foundation, a non-governmental organisation.

A zero-coupon bond, also known as an accrual bond, is a debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full face value.

Sajida Foundation will use the proceeds to finance expansion of its microcredit and SME lending portfolio, through investing in new and existing projects with environmental benefits, said the bank in a press release yesterday.

The issuance of the security will provide Sajida Foundation with an

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Only 20pc of unemployed households got govt support

STAR BUSINESS REPORT

Only one out of five people who lost jobs for the pandemic-induced lockdowns, received some form of government support, while more than half of households were compelled to borrow to withstand the crisis, a new study found.

Relatives and friends mainly stood by the victims of income and job losses as 46 per cent of them depended on unconditional support from their kith and kin.

Yet amid the crisis, 5.4 per cent of the families were forced to sell assets, said a study by the Centre for Policy Dialogue (CPD) released yesterday.

It was carried out between late January and early February this year among 2,600 households who are reliant on the incomes from garment workers, returnee migrants, micro, small and medium enterprises, and domestic workers.

"The decline in income has pushed a significant number of people into lower-income groups, indicating a higher poverty incidence," said Prof Mustafizur Rahman, a distinguished fellow of the CPD, while presenting the study report at a two-day conference on coping experience and policy choices on the Bangladesh emerging from the pandemic.

The Citizen's Platform for SDGs, Bangladesh and the CPD jointly organised the event at the Brac Centre Inn Dhaka.

The health and economic crisis forced more than 60 per cent of people in the informal sector out of jobs, and they were without work for 95 days on average.

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Street vendors were among the worst-affected segments of the labour force following the plunge in demand caused by the coronavirus pandemic. The photo was taken from the Dak bungalow intersection in Khulna recently.

HABIBUR RAHMAN