DHAKA SUNDAY MAY 15, 2022, JAISHTHA 1, 1429 BS ● starbusiness@thedailystar.net

Star BUSINESS

OVERALL IMPORT SCENARIO

Bangladesh imported goods worth $**52.6**b in the first **8** months of FY22

Of the amount, essential commodities account for **72.38**pc

FOREX MARKET

Inter-bank exchange rate now $**86.70** per dollar

But importers have to pay Tk **95** per dollar to banks

Some banks offer Tk **95** per dollar to remitters

ECONOMISTS AND BANKERS SAY…

- Global economic crisis may linger
- Price hike of commodities in global market may continue for at least 1yr
- BB should address the local issues in light of global situation
- Increasing LC margin may not help contain imports
- Gradual depreciation of taka will not be effective
- One-time sharp depreciation of taka is essential based on demand
- Taka should be fixed between Tk **90** and Tk **92**

IMPORT OF ESSENTIAL GOODS

Period: Jul-Feb of FY22

Essential food commodities	$5.67b
Intermediate goods	$4.41b
Industrial raw materials	$19.28b
Capital machinery	$3.44b
Petroleum	$4.46b
For Rooppur nuclear plant	$814m

FOREX MARKET VOLATILITY

SOURCE: BB

Time running out to devalue taka sharply

Economists and bankers suggest ways to avert major exchange rate instability

AKM ZAMIR UDDIN

Bangladesh has so far resisted calls for a major devaluation of its currency despite runaway imports amid higher food, energy and raw materials prices globally.

But the stance might not be continued for too long as minor depreciation, which was brought in gradually, has already created indiscipline in the foreign exchange market.

Now, the country, like most other import-dependent nations, is facing difficult choices: immediately devalue the taka at a faster rate or face consequences that nobody could predict as the volatility in the global market is intensifying since the Russia-Ukraine war shows no sign of abating, China is under huge pressure for rising coronavirus cases, and inflationary pressures are deepening globally.

This is the suggestion from a number of economists and senior bankers, as they urge the Bangladesh Bank to immediately depreciate the local currency to a large degree against US dollars.

The gradual depreciation followed by the BB since the global economy rebounded from the pandemic late last year may not be effective as banks have already started charging more than Tk 95 per dollar for businesses to settle imports. This means that the interbank exchange rate set by the central bank has become inoperative.

The exchange rate now stands at $86.70 a dollar after the BB devalued the local currency by Tk 0.25 on May 9.

> **The inter-bank exchange rate set by the central bank has not been effective as the foreign exchange regime is facing volatility of a high degree**

Banks usually sell US dollars to importers, under the arrangement known as BC (bills for collection) selling rate, by adding Tk 0.05 with the inter-bank exchange rate. But importers now have to pay Tk 94-95 to purchase a dollar from banks.

Similarly, some banks are offering between Tk 92 and Tk 95 per dollar to remitters to encourage them to send their money through their channel.

Banks usually add Tk 0.10 with the BC selling rate when they pay remitters.

Migrant workers don't send money through banks if a higher rate is not provided, said managing directors of three banks, requesting anonymity.

The interbank rate set by the central bank has not been effective as the foreign exchange regime is facing volatility of a high degree, they said.

So, the central bank should address the issue promptly or else the instability will spread further. Against the backdrop, the interbank exchange rate should be set on the basis of the demand and supply of the greenback, they said.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, called for raising the inter-bank rate to at least Tk 92 per dollar immediately.

He argued: "We earlier urged the central bank to depreciate the local currency by Tk 3 to Tk 89 per US dollar. But the central bank had not done so. As a result, the situation has worsened."

In December last year, he urged the BB to depreciate the taka more against US dollars in order to discourage imports and to maintain macro-economy stability.

If the local currency is not depreciated, remittances will be hit hard by the ongoing instability, he said yesterday.

Expatriate Bangladeshis will send their hard-earned money through the hundi channel, an illegal cross-border money transaction system, more if they do not get the desired rate from banks, said Mansur.

Yesterday, a trader of the kerb market, an illegal trading platform of foreign currencies, said clients had to count Tk 94.30 to purchase a dollar.

So, providing a 2.5 per cent cash incentive to remitters will not bring any output due to the higher rate prevailing in the kerb market, said Mansur, also a former official of the International Monetary Fund.

Between July and April, migrant workers sent home $17.30 billion, down 16.2 per cent year-on-year, data from the BB showed.

Mansur added that the attempts to keep the depreciation of the local currency subdued will put an adverse impact on exporters as well.

"The ongoing global economic crisis stemming from the coronavirus pandemic and Russia's invasion of Ukraine may not be over immediately. The twin issues will linger. So, the central bank will have to address the foreign exchange issue keeping them in mind."

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Pressure on forex market likely to continue

ZAHID HUSSAIN

The current inflationary pressures are attributable largely to the rise in international commodity prices and the exchange rate depreciation, albeit to a relatively smaller extent. The latest data from the Bangladesh Bureau of Statistics show there was a spike in domestic consumption demand as well.

The international commodity price may not rise further unless some new shock hits, but it may not return to "normal" levels any time soon. So, the foreign exchange market pressures are likely to continue in the near future. Tackling this is a challenge.

All measures of deficits (trade, current and overall) in the balance of payments are increasing. The overall balance of payment deficit increased by $1 billion to over $3 billion in the July-March period of the current fiscal year relative to the same period the year before.

The current account deficit reached $14 billion and the trade deficit is now $24 billion in March.

The biggest driver was increased import payments.

The government is facing the twin challenge of taming inflation and protecting the foreign exchange reserves. At the same time, it must be mindful of not putting the ongoing economic recovery at risk. New risks or threats can't be ruled out in the state of geopolitics globally.

The recession is in the forecasts for the European market. The question is not whether the recession is coming in Europe. The question is when it will come, how deep it will be, and how long it will linger.

A recession in the US economy is also likely, but less so than in Europe. Even if it occurs, it may not stay for too long. But the tail risks are high.

Any recession in Europe is a serious downside risk for us.

In order to cope with the threats, an appropriate policy response is needed on all fronts: monetary, fiscal, and structural.

Monetary policy must protect reserves by increasing the flexibility of the exchange rate. This is now almost fait accompli.

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STOCKS (WEEK-ON WEEK)

DSEX ▼	CASPI ▼
1.36%	1.23%
6,565.47	19,248.61

COMMODITIES (AS OF FRIDAY)

Gold ▼	Oil ▲
$1,811.09 (per ounce)	$110.20 (per barrel)

ASIAN MARKETS (FRIDAY CLOSINGS)

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 0.26%	▲ 2.64%	▲ 0.82%	▲ 0.96%
52,793.62	26,427.65	3,191.16	3,084.28

Soaring global inflation to erode apparel demand

BGMEA says

STAR BUSINESS REPORT

Apparel manufacturers yesterday expressed concerns over an alarming rise in global inflation, citing that increasing prices may affect the purchasing power of end-consumers in export destinations and cause demand for garment items to fall.

The Russia-Ukraine war has led to an increase in food and oil prices while the risk of an economic recession is also increasing in several countries, including those in Europe, said BGMEA President Faruque Hassan.

Entrepreneurs are struggling with rising production costs and supply chain challenges, he told a press conference organised by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) at The Westin Dhaka marking the upcoming 37th IAF World Fashion Convention.

The challenges include a crisis of raw materials, rise in fuel oil, gas and electricity prices and an abnormal increase in container and ship rentals, he added.

In this context, Bangladesh's strategy should not be to look at the current growth in garment exports but on how it can create new ones to further enhance competitiveness, he added.

He believes the model followed by the industry in the last four decades would make it difficult to achieve desired growth.

Reducing lead time should be cost effective and

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Bangladesh's strategy should not be to look at the current growth in garment exports but on how it can enhance competitiveness, said Faruque Hassan, president of Bangladesh Garment Manufacturers and Exporters Association. The photo was taken from a denim exhibition in Dhaka last week.

PHOTO: AMRAN HOSSAIN

Int'l fashion convention in Dhaka in Nov

STAR BUSINESS REPORT

The 37th IAF World Fashion Convention will be held in Dhaka in November this year.

International Apparel Federation (IAF) will host the convention in collaboration with the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

A "Made in Bangladesh Week" will be held simultaneously in Dhaka from November 12 to November 18.

BGMEA President Faruque Hassan and IAF Secretary General Matthijs Crietee made the announcement at a press conference in the capital yesterday, according to a press release of the BGMEA.

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Islami Bank wins BB remittance award

STAR BUSINESS DESK

Islami Bank Bangladesh has won Bangladesh Bank's remittance award for 2019 and 2020.

Mohammed Monirul Moula, managing director of Islami Bank Bangladesh, received the award from Finance Minister AHM Mustafa Kamal at Krishibid Institution Bangladesh on Thursday, said a press release.

Fazle Kabir, governor of Bangladesh Bank, Ahmed Munirus Saleheen, secretary to the expatriates' welfare and overseas employment ministry, Sheikh Mohammad Salim Ullah, secretary to financial institutions division (FID) at the finance ministry, Abu Farah Md Nasser, deputy governor of Bangladesh Bank, and Md Abul Bashar, executive director, ANM Siddiqur Rahman and Miftah Uddin, executive vice-presidents of Islami Bank Bangladesh, were present.

Emirates announces 'significantly' lower loss

AFP, *Dubai*

Emirates airline announced a "significantly reduced" annual loss of $1.1 billion dollars on Friday, five times lower than a year before, as pandemic travel restrictions ease.

Losses came in at 3.9 billion dirhams ($1.1 billion) in the 2021-2022 financial year to March, with revenues up 91 per cent, as the airline expanded its global capacity and reinstated flights, Emirates said in a statement.

The Middle East's largest carrier said it received a capital injection of $954 million from its owner, the government of Dubai, to help it survive the crisis.

Around 100 types of dried sea fish are sold in the New Market area next to the Kuakata sea beach in Patuakhali while prices range from Tk 200 to Tk 3,500 per kilogramme. The photo was taken last week. PHOTO: TITU DAS

US consumer sentiment near 11-year low

REUTERS, *Washington*

US consumer sentiment slumped to its lowest level in nearly 11 years in early May as worries about inflation persisted, but consumer spending remains underpinned by a strong labor market and massive savings, which should keep the economy expanding.

The University of Michigan's survey on Friday showed the deterioration in sentiment was across all demographics, as well as geographical and political affiliation. Gasoline prices and the stock market have a heavy weighting in the survey.

Gasoline prices resumed their upward trend this month, setting an average record high of $4.432 per gallon on Friday, according to AAA. Fears that the Federal Reserve will have to aggressively tighten monetary policy to bring down inflation have unleashed a massive stock sell-off on Wall Street.

"Just because consumers resent paying higher prices and are suffering limited availability doesn't mean they aren't still making those purchases," said Michael Pearce, a senior US economist at Capital Economics in New York. "As goods shortages and prices ease over the rest of this year, we expect confidence will bounce back."

The University of Michigan' preliminary consumer sentiment index tumbled 9.4 per cent to 59.1 early this month, the lowest reading since August 2011. Economists polled by Reuters had forecast the index dipping to 64.

The survey's gauge of current economic conditions dropped 8.4 per cent to 63.6. That was the lowest reading since 2013, and 36 per cent of consumers attributed their negative assessment to inflation. Its measure of consumer expectations declined 9.9 per cent to 56.3.

Consumers viewed buying conditions for long-lasting manufactured goods as the worst since the survey started tracking the series in 1978.

"The dip in confidence does not warrant any immediate change to our near-term forecast for consumer spending as the relationship between spending and sentiment is loose, particularly in the short run," said Scott Hoyt, a senior economist at Moody's Analytics in West Chester, Pennsylvania.

Even as consumers stressed about high prices, long-term inflation expectations appeared to be anchored.

The survey's one-year inflation expectations were at 5.4 per cent for the third straight month. Its five-year inflation expectations were unchanged at 3.0 per cent for the fourth month in a row.

Stocks on Wall Street rebounded after a tumultuous week, while the dollar fell against a basket of currencies. US Treasury yields rose.

Though inflation is likely to remain elevated, there are growing signs that price pressures have peaked.

A separate report from the Labour Department showed import prices were unexpectedly flat in April as a decline in the cost of petroleum offset gains in food and other products. Import prices had surged 2.9 per cent in March.

Economists had forecast import prices, which exclude tariffs, would climb 0.6 per cent. In the 12 months through April, import prices rose 12.0 per cent after accelerating 13.0 per cent in the year through March.

Romo Rouf reelected Bank Asia vice-chairman

STAR BUSINESS DESK

Romo Rouf Chowdhury has been re-elected as vice-chairman of Bank Asia at the 473rd meeting of the bank's board of directors recently.

Chowdhury is one of the sponsor shareholders as well as sponsor directors of the bank, said a press release.

He has more than 30 years of experience as an industrialist. He is one of the successful young entrepreneurs of the country.

Chowdhury holds directorship of various sister concerns of Rangs Group and Sea Fishers Group.

Currently he holds the position of chairman of Rancon Agro Machineries, Rancon Electronics, Rancon Infrastructures and Engineering, Rancon Car Hubs, and Rancon Hospitality.

He is also the vice-chairman of Rancon Holdings, Rancon Motorbikes, and Ranks Petroleum.

Besides, Chowdhury is the managing director of Rancon Motors, Rangs, Rangs Properties, Rancon Automobiles, Ranks Telecom and 10 other renowned companies.

He completed his graduation in engineering from Durham University in the United Kingdom.

Russia using energy as weapon

Germany says

AFP, *Berlin*

German Economy Minister Robert Habeck accused Russia on Thursday of using energy as "a weapon", after Moscow slapped sanctions on Western energy firms and slowed gas flows to Europe.

"It has to be said that the situation is coming to a head, in such a way that the use of energy as a weapon is now being realised in several areas," Habeck told reporters in Berlin.

Ukrainian Foreign Minister Dmytro Kuleba, on a visit to the German capital, said Moscow had shown itself to be an unreliable supplier.

Kuleba urged Europe to end its heavy dependence on Russian gas that was helping to finance Moscow's war machine.

"This energy oxygen for Russia must be turned off and that is especially important for Europe," Kuleba said at a joint press conference with Habeck.

"Europe must get rid of this complete dependence on Russian gas, since Russia has shown... that it is not a reliable partner and Europe cannot afford that." Russia on Thursday said it would stop sending natural gas via the Polish section of the Yamal-Europe pipeline as part of retaliation for Western sanctions over its invasion of Ukraine.

Ship export

FROM PAGE B4

Shipbuilders were particularly hard hit by the global recession a decade ago. Some European buyers cancelled several export orders handing a huge loss to the entrepreneurs. As a result, some completed ships could not be exported.

Thereby, they were unable to repay the loan, and the debt has now grown to be around Tk 5,500 crore, Bari said.

Ananda Shipyard saw the creation of forced loans of Tk 620 crore with a bank in 2008. Now, the company owes around Tk 1,400 crore to the bank.

Western Marine Shipyard said it borrowed Tk 350 crore from various banks and leasing companies between 2009 and 2014. It now owes Tk 1,600-1,700 crore to the lenders.

WHAT DID GOVT PROMISE AND DID

In January, the cabinet approved the Shipbuilding Industry Development Policy 2020 to facilitate the growth of the labour-intensive sector and generate export earnings. The policy aims to fetch $4 billion through ship exports by 2025.

Under the policy, benefits and loans can be accessed by shipbuilders. This will also help create more jobs and reduce the country's import dependence.

In order to implement the policy, there are plans to reduce taxes and VAT as well as provide long-term loans to public and private shipbuilders.

Wishing anonymity, an official of the industries ministry said, "We met with the concerned stakeholders on several occasions. But no dedicated funds have been formed yet. We are working on it and trying to find out any alternatives to resolve the issue."

Prof Zakaria says the government has adopted many plans for the industry. But implementation is very slow. He says the testing of model ships has started at the Buet.

In early 2021, the AEOSIB requested the finance and commerce ministries to form a Tk 6,000 crore refinancing fund. However, no progress has been made yet to this effect, Bari said.

Recently, the central bank moved to unveil a Tk 2,000 crore refinance scheme for the sector.

The matter is at the final stage, said Md Sirajul Islam, an executive director and spokesperson of the Bangladesh Bank, in April.

The AEOSIB has sought the refinancing facility at a 4 per cent interest rate.

A building to carry out the testing of a ship's model has been constructed at the Buet at a cost of around Tk 50 crore. The facility will help see whether a ship has been properly designed or not and find out the ship's performance, said Prof Zakaria.

He points out that the country's infrastructure needs to be improved to attract orders for new ships.

"Investment is needed in research and development to take the industry to the next level and build bigger ocean-going vessels."

Russia inflation

FROM PAGE B4

in 2024, according to the Central Bank.

"Looking ahead, we expect monthly increases in prices to ease further from May," Capital Economics said.

Inflation has been speeding up for months due to a number of factors including the post-pandemic recovery and high prices for raw materials. Putin's decision to send troops to Ukraine has added sanctions and the resulting logistical difficulties as factors.

Putin on Thursday said Western countries were worse hit by sanctions imposed on Moscow over Ukraine than Russia, which he insists has been resilient in the face of "external challenges".

Kutubuddin Ahmed, chairman of Sheltech Group, receives the Order of Civil Merit (or Orden del Mérito Civil) in the Knight's Cross (Cruz) category from Francisco de Asís Benítez Salas, ambassador of Spain to Bangladesh, at the Spanish embassy in Dhaka on Thursday. The Order of Civil Merit was established by King Alfonso XIII of Spain in 1926 to recognise "the civic virtue of officers in the service of the nation, as well as extraordinary service by Spanish and foreign citizens for the benefit of Spain". PHOTO: SHELTECH GROUP

Hungary holds up EU plan to ban

FROM PAGE B4

plight, and officials are scrambling behind the scenes to patch up a compromise.

But, as Hungary's Foreign Minister Peter Szijjarto told the Spanish daily El Pais this week, Budapest has told von der Leyen they have "a problem" with her proposals.

"We can't accept it, unless she offers us a solution," he said.

Hungary's Prime Minister Viktor Orban, often the odd man out in Brussels' decision making, has informed von der Leyen and French President Emmanuel Macron, who holds the EU presidency, of his concerns.

Hungary is landlocked and, like neighbouring Slovakia, all but 100 per cent dependent on Russian oil from a single pipeline to supply its refinery, which is calibrated to process only Russian crude.

Budapest has demanded to be exempted from the embargo for at least four years and wants 800 million euros ($830 million) in EU funds to re-tool the refinery and boost the capacity of a pipeline to Croatia.

A European diplomat told AFP that Slovakia, the Czech Republic, Bulgaria and even Croatia are queuing up behind Hungary's more vocal opposition with similar demands.

The embargo as envisaged by Brussels would see most member states halting Russian crude imports by the end of the year and refined fuels by the end of next.

Hungary, the Czech Republic and Slovakia have been offered a two-year derogation to the embargo, but Hungary has dismissed this as insufficient.

After the sanctions package was announced with some fanfare on May 4, 10 days of backroom negotiations has failed to find a breakthrough, and tension is mounting.

Diplomats in Brussels dismissed reports the oil embargo could be removed from the plan to allow the other much more minor measures to take effect -- arguing that this would be seen as weakness.

"If this package is adopted without an oil embargo, I believe President Putin can celebrate," warned Ukrainian Foreign Minister Dmytro Kuleba.

Kuleba, who will join his EU colleagues on Monday, said "it will be the first case when the unity of the European Union will be broken because of the position of one country -- Hungary." Hungary has proposed exempting deliveries by pipeline from the export ban. Of the 2.8 million barrels of Russian crude that arrive in the EU every day, only 0.7 million come by pipe.

But this idea has been coolly received in Brussels. "That would undermine the unity and solidarity of the 27 in sharing the burden of the embargo," one diplomat said.

"Orban wants guarantees on European funding and on energy security so he can tell the Hungarian people: 'See, you have nothing to worry about'," he said.

Hungary's right-wing populist government has capped fuel prices since last year, but the Ukraine war has already sent world energy prices higher even before an embargo.

Investment rises despite

FROM PAGE B4

It has pumped about Tk 2,000 crore into the sector and employs 4,000-5,000 people. Despite sluggish business, shipbuilders are expected to continue their investment spree because of the local industry's potential.

Another reason is the market leaders of the global shipbuilding sector are not interested in producing small-sized ships of less than 25,000 DWT (deadweight tonnage) where Bangladesh can lead the way.

Globally, the market size of the shipbuilding sector is $1,600 billion whereas the small ships' market is worth around $400 billion.

If Bangladesh can grab 1 per cent of the market, the amount will be $4 billion, according to Prof NM Golam Zakaria, head of the naval architecture and marine engineering department at the Bangladesh University of Engineering and Technology.

Recently, the government signed a contract with two foreign companies to set up a shipbuilding facility at the Payra seaport in Patuakhali with an investment of $1.58 billion to cut import dependence for vessels and market ships globally.

State-run Bangladesh Steel and Engineering Corporation under the industries ministry will provide land to Gentium Solutions, a Singapore and Australia-based company, and Damen Shipyards Group, a Dutch company, to construct the shipyard.

Although the government began a drive to procure wheat from the domestic sources on May 10, farmers are more inclined to sell the crops at local markets given that they get higher prices. The photo was taken in front of a flour mill at Karwan Bazar in the capital yesterday.
PHOTO: SK ENAMUL HAQ

Govt struggles to fill its wheat stores

Farmers not showing interest to sell to the state at lower price

AKANDA MUHAMMAD JAHID, QUAMRUL ISLAM RUBAIYAT *and* **MOSTAFA SHABUJ**

The government is struggling to fulfil the target of wheat procurement from the domestic market this season as growers are not showing interest to sell the food grain to the state at a lower price.

Farmers are selling their produce in local markets for between Tk 30 and Tk 32 per kilogramme, which is about Tk 2 to Tk 4 higher than the government stipulated price.

This season, the government set the target of procuring 1.50 lakh tonnes of wheat from local markets at Tk 28 per kilogramme. Starting from April 1, the procurement process will continue until June 30, according the food ministry.

However, the government has been able to buy only 18 tonnes of wheat from across the country in 40 days until May 10, showed data from the food ministry.

To fulfil the target, the government will have to buy 132,000 tonnes of wheat within the next 45 days.

The government had 119.16 lakh tonnes of wheat in stock on May 10, down from 276.85 lakh tonnes on the same day last year, it added.

Last season, the government procured 103,212 tonnes of wheat from the domestic market.

In Thakurgaon, the government has set a target of buying 24,282 tonnes of wheat through 12 warehouses under five upazilas of the district. Still though, only four tonnes of wheat have been bought so far. As per data from the Department of Agricultural Extension in Thakurgaon, farmers produced 1.87 lakh tonnes of wheat by cultivating 45,192 hectares of land this year.

Some 24,282 farmers were selected in the district through a raffle draw for supplying the produce to government warehouses this season, according to local officials of the Directorate General of Food.

Nikhil Roy, food controller of Baliadangi upazila, said 1,975 growers were selected in his upazila but none of them have supplied even a single tonne of wheat as of yet.

Md Nafirat, a farmer of Baracoat village in Baliadangi, said he produced 60 maunds of wheat but is not interested in selling it to the state as local market prices are higher than the government fixed rate.

Monirul Islam, district food controller of Thakurgaon, said the pace of the wheat procurement drive is at a standstill now as the domestic market price of wheat is higher than that being offered by the government.

Meanwhile, the wheat procurement situation in Bogura, Gaibandha and Dinajpur is also severe as not a single tonne of wheat has been procured from the three districts due to the same reasons. Mohammad Ashraful, district food controller of Bogura, said they could not buy wheat due to the high price in local markets.

Echoing Ashraful, Antara Mallik, district food controller of Gaibandha, and Saiful Islam, district food controller of Dinajpur, said they were supposed to buy 1,430 tonnes and 1,400 tonnes of wheat respectively but have not managed to purchase even a single kilogramme so far.

They went on to say that the price of wheat has risen at home and abroad, as has other food items, in the wake of Russia's war on Ukraine.

Md Moniruzzaman, additional director of procurement at the Directorate General of Food, said farmers are not showing interest to sell the grain to the government as they are getting higher prices at local markets.

Currently, wheat prices are around Tk 30 per kilogramme, which is higher than the food department's procurement prices of Tk 28 per kilogramme, he said. "So, we are focusing on importing from the international market," he said.

The food office has already completed the tender process to buy 700,000 tonnes of wheat this fiscal year.

"Nearly 500,000 tonnes has already arrived but if needed, we may import more this year," Moniruzzaman added.

Honda yearly earnings solid despite chip crisis

AFP, *Tokyo*

Japanese auto giant Honda said Friday net profit rose 7.6 per cent in the financial year to March, benefiting from strong motorbike sales and a weaker yen.

The company also expects net profit to remain steady in the current financial year, even as the global microchip shortage and virus-related supply chain disruption cause headaches for the car industry.

Honda said annual net profit rose 7.6 per cent to 707 billion yen ($5.5 billion) in 2021-22 and issued a forecast of 710 billion yen net profit for the year to March 2023.

Sales last year were up 10.5 per cent, it said, "due mainly to increased sales revenue in motorcycle business and financial services business operations as well as positive foreign currency translation effects."

But "despite shifting to a recovery trend, the economic environment surrounding the company, its consolidated subsidiaries and its affiliates... continued to be difficult due to the impact of (the) semiconductor supply shortage, and increases in raw material costs, among other factors."

Honda said its factories in Japan and overseas had been forced to suspend or reduce output due to supply chain and staffing issues related to Covid-19.

US cancels 3 offshore oil lease sales

AFP, *New York*

The Biden administration has scotched plans to hold three offshore oil and gas lease sales in Alaska and the Gulf of Mexico, a government spokeswoman said Thursday.

Citing a lack of interest from the industry, the Interior Department won't offer tracts at the proposed Cook Inlet in Alaska, an agency spokeswoman said.

The department also will not undertake a pair of lease sales in the Gulf of Mexico "as a result of delays due to factors including conflicting court rulings that impacted work on these proposed lease sales," the spokeswoman said.

The action comes as polling shows US President Joe Biden struggling with low approval ratings amid consumer fury at high gasoline prices and inflation in other household staples.

Reaching first oil and gas production from a federal offshore lease typically takes at least one or two years of drilling and other work. That means the decision on the lease sales will not affect the near-term supply outlook driving commodity prices.

Still, Republican politicians and business lobby groups slammed the Biden administration's energy policy, which has emphasized the need for more green energy to address climate change.

Time running out to devalue

FROM PAGE B1

He described more than $7 billion in expenses to settle import payments for a single month as illogical and urged the central bank to insulate the foreign exchange reserves from the ongoing global volatility.

The reserves fell to $41.9 billion on May 11 from $46.15 billion on December 31, driven by surging imports needed to feed the economy rebounding from the coronavirus pandemic.

Between July and February, import payments shot to $52.60 billion, of which at least 72.38 per cent was spent on essential commodities.

In the face of depleting reserves, the BB last week instructed banks to take up to 75 per cent of import payments in advance from businesses to open letters of credit for luxury and non-essential goods.

But Mansur said that the decision may not yield any major outcome on a long-term basis since the dollar would gain further.

Earlier this month, the Federal Reserve, the central bank of the US, raised the benchmark interest rate by 0.5 percentage points to a target rate range of between 0.75 per cent and 1 per cent in order to tamp down soaring inflation.

More rate increases are expected.

The Economist Intelligence Unit, the research and analysis division of The Economist Group, expects the Fed to raise rates seven times in 2022, reaching 2.9 per cent in early 2023, according to a Guardian report.

This means the currencies of almost all countries will face devaluation pressure this year.

Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue, said that the central bank should depreciate the local currency quickly.

"Raising margin on the opening of LCs alone can't offset the volatility in the foreign exchange market. A sharp one-time depreciation of the local currency is essential."

Mohammad Shams-Ul Islam, managing director of Agrani Bank, says many banks have become involved in an unholy competition to chase US dollars in the form of remittances in the wake of shortages of foreign exchanges.

"The central bank should explore more ways to ease the ongoing foreign exchange pressure."

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, thinks the current situation warrants more depreciation.

Zahid Hussain, a former lead economist of the World Bank's Dhaka office, says monetary policy must protect reserves by increasing the flexibility of the exchange rate.

"This is now almost fait accompli. Better do it from a position of strength than from a position of weakness. This means allowing the interbank to adjust to market conditions."

Soaring global inflation to erode

FROM PAGE B1

investment in unique backward linkage sectors has to be increased, he said.

More attention needs to be paid on product and market diversification, technology upgradation and skill development and services, he said.

Tariff and tax rates should be kept constant for a period of five years to help investors and traders adopt and implement plans, said the BGMEA president.

The BGMEA is working on creating new markets in several countries outside Europe, such as in South Korea, India and even China, Faruque said.

Ukraine's IT sector booming despite war

AFP, *Lviv*

Workers with stickers on their laptops recline on beach chairs outside a warehouse for start-ups in the west Ukraine city of Lviv giving off major Silicon Valley vibes.

But the atmosphere inside is different.

Through the glass doors of the complex, young Ukrainians zig-zag between stacks of bulletproof vests and cardboard boxes filled with helmets ready for the front.

They are part of Ukraine's burgeoning tech sector which was forced to adapt after Russia's invasion and has become key to supporting the war effort.

"Most tech companies had developed contingency plans" in case of war said Stepan Veselovskiy, the head of the "IT Cluster Lviv" community.

He told AFP that companies transferred servers to secure locations and established back-up systems outside the country before Russia invaded on February 24.

When Russian bombing started, IT companies shut offices in the capital Kyiv and eastern city of Kharkiv and engineers found refuge in western Ukraine or Poland next door.

Veselovskiy said there were already around 500 tech companies in Lviv before the war but now estimates that 80 percent of the sector is in the western city.

One is Infopulse, which provides various digital services to mainly European customers.

It brought 300 of its 2,300 employees to Lviv, where it has offices in one of the city's few buildings equipped with a bunker.

There are bunk beds and stable internet underground so employees to continue working in the event of an air raid. There are also generators in case Russian forces target power stations and terminals for Elon Musk's Starlink internet service.

Int'l fashion convention

FROM PAGE B1

They also unveiled the logos of the events.

Various programmes, including the board meeting of the IAF board of directors and a conference with the participation of local and international speakers, will be held during the three-day convention.

The annual convention will bring together the IAF members, including apparel industry associations representing 40 countries, leading brands and other stakeholders.

The BGMEA will organise the "Made in Bangladesh Week" to promote the apparel industry of Bangladesh locally and globally by showcasing compelling stories of the garment sector.

"As we have achieved a certain level of growth and momentum, it is now time for us to leapfrog to the next level of growth," said Hassan.

"Our progress and prospects have made us one of the most sustainable sourcing partners to the West and we have to work harder for safeguarding it," he said.

The convention will play an important role in initiating a greater collaboration with key actors in the supply chain, including buyers, suppliers and global stakeholders, to ensure a more sustainable manufacturing and sourcing, Hassan said.

The "Made in Bangladesh Week" will provide a unique opportunity to showcase the impressive strides of Bangladesh's RMG industry, he added.

"Perhaps more than ever before garment manufacturers play a pivotal role in the industry transformation we all need," said Crietee.

"So on the international stage presented by the 37th IAF World Fashion Convention, the Bangladeshi apparel industry will show itself as a source of solutions to the industry's current major challenges," he added.

Pressure on forex market likely

FROM PAGE B1

Better do it from a position of strength than from a position of weakness. This means allowing the interbank to adjust to market conditions.

The role of the Bangladesh Bank is to make it orderly on a market-determined path. Fiscal measures to reduce the demand for imports can help.

The finance minister's call for austerity in domestically financed public imports and travel should be heeded.

Greater exchange rate flexibility will mean further depreciation of the taka, which will increase the cost-push pressure on inflation.

The economy is recovering from the coronavirus pandemic but the increased poverty that happened has probably not been reversed yet despite the recovery in exports, domestic sales, and production. Scores of families who dropped back or were pushed deeper into poverty are not back to their pre-pandemic state yet. Inflation to them is a blow to their recovery.

The government should avoid monetising the fiscal deficit going forward. If the liquidity in the financial system deteriorates, the government should reconsider how much money it will borrow from the market.

The room for expansionary fiscal policy is rather limited. The deficit financing tradeoff can be eased by mobilising budget support from the donors. These require a reform package to sustain growth and enhance resilience to future shocks. There are ongoing discussions with some donors. The government needs to speed up the reforms being contemplated.

The author is an economist

Several ships are being constructed on the yard of Western Marine Shipyard Ltd on the bank of the Karnaphuli river in Kolagaon, Patiya of Chattogram. Although ship exports from Bangladesh have failed to meet expectations, rising local demand has kept the sector alive. The photo was taken recently. PHOTO: RAJIB RAIHAN

Ship export sinks

SUKANTA HALDER *and* MD ASADUZ ZAMAN

Bangladesh emerged as a shipbuilding nation in 2008 when it exported its first ocean-going vessel to a Danish company and suddenly there were talks about the sector's immense potential and the country capturing a major share of the global shipbuilding market.

Ananda Shipyard & Slipways Ltd became the first shipbuilder to achieve the feat of exporting sea-going ships from Bangladesh, in a display of the country's growing manufacturing prowess.

Soon, existing companies pumped hundreds of crores of taka into expanding their footprint. New shipbuilders also sprang up.

But, within a few years, the momentum was lost as demand from western buyers, hit by the dragging impacts of the global financial crisis, evaporated. On the domestic front, local entrepreneurs failed to build on the initial success, maintain international standards and deliver vessels on time, denting the confidence of buyers.

A liquidity crunch and higher interest rates on industrial loans also contributed to the decline.

Subsequently, ship exports from the country started to fall. Exporters fetched only $0.2 million in the last fiscal year, the lowest in a decade, according to data from the Export Promotion Bureau.

Export proceeds stood at $0.18 million in the July-April period of the current fiscal year, slightly up from $0.16 million during the same period a year ago.

Since 2008, Bangladesh earned around $180 million by exporting 40 ships to several countries in Europe, Africa, and Asia. However, no sea-going ships were exported in the last two years.

The last ships were exported in January of 2020 when Western Marine delivered two ships to Jindal Steel Works of India.

Bangladesh has more than 100 shipbuilding yards, with most serving the local market.

RIDDLED WITH CHALLENGES

Shipbuilders have to import around 50-60 per cent of raw materials since there is no backward linkage industry. As a result, it takes additional time to build a ship in Bangladesh compared to global competitors.

Vietnam takes one and a half years to build a ship, whereas Bangladesh takes two years to two and a half years. "So, buyers are shying away," said Sohail Hasan, managing director of Western Marine Shipyard Ltd.

In Bangladesh, there is no facility for designing international standard ships. The design work has to be done in Singapore, China, Europe, or India.

Until recently, a model ship could not be tested in Bangladesh as well.

A shipbuilder says they are facing a fund crisis as banks usually don't want to extend loans to them. Five to six companies that jumped into the bandwagon of building ships relying on bank loans are now unable to repay because of a lack of a steady revenue stream.

"It has created a negative impression among lenders," he said.

M Abdur Rashid, managing director of Karnaphuli Ship Builders Ltd, which makes both ocean-going and inland vessels, says negative perception about Bangladesh among foreign buyers is hampering the industry.

According to Abdullahel Bari, president of the Association of Export-Oriented Shipbuilding Industry of Bangladesh (AEOSIB), exporters lost capital. Later, the coronavirus pandemic exacerbated the situation.

"We repeatedly demanded from the government a guaranteed reserve fund of $500 million to provide capital to the shipbuilding industry. We did not receive it. Nobody is paying attention to our demands."

Ananda Shipyard and Slipways Ltd, where Bari is the chairman, is set to send a ship to Germany with an export value of $7-8 million.

Uttam Ghosh, a deputy general manager of FMC Group of Companies, says the cost of building ships in Bangladesh is 15-20 per cent higher than in other countries such as China, Korea, Japan, and India.

Taxes on the imported spare parts have further increased the cost of manufacturing ships.

Prof NM Golam Zakaria, head of the naval architecture and marine engineering department at the Bangladesh University of Engineering and Technology, says the backward linkage industry has not been developed in Bangladesh despite its huge potential.

SADDLING WITH DEBTS

Because of the high-interest rate of bank loans, the sector has been in a severe financial crisis since 2010.

Shipbuilders borrowed Tk 1,500 crore at high interest rates. As a result, they are now saddled with interests and debts.

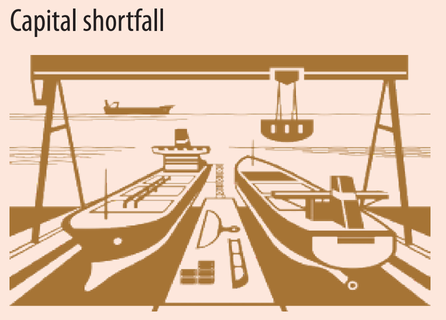
READ MORE ON B2

BY THE NUMBERS

- Bangladesh first exported ocean-going vessel in 2008
- Since 2008, 40 ships worth $180m exported
- No ships exported in last two years
- Over 100 shipbuilding yards, mostly domestic market-oriented
- 50,000-60,000 people are working directly in the shipbuilding sector
- Total investment in sector: Tk 5,000cr

REASONS FOR EXPORT DOWNFALL

- Fall in demand from Western buyers
- Order cancellation by some buyers
- Failure to maintain standards
- Failure to deliver vessels on time
- Global financial crunch
- Capital shortfall



SHIPBUILDING SECTOR

Investment rises despite gloom

SUKANTA HALDER *and* MD ASADUZ ZAMAN

Entrepreneurs in Bangladesh have pumped billions of dollars into the shipbuilding sector in recent years to meet their own demand for vessels as well as regain the international market.

Their entry came despite sinking ship exports from Bangladesh, driven by the global financial crisis of 2007-2008, collapse in demand, and failure to maintain international standards and deliver vessels on time.

Ship exporters fetched only $0.2 million in the last fiscal year, the lowest in a decade, according to data from the Export Promotion Bureau.

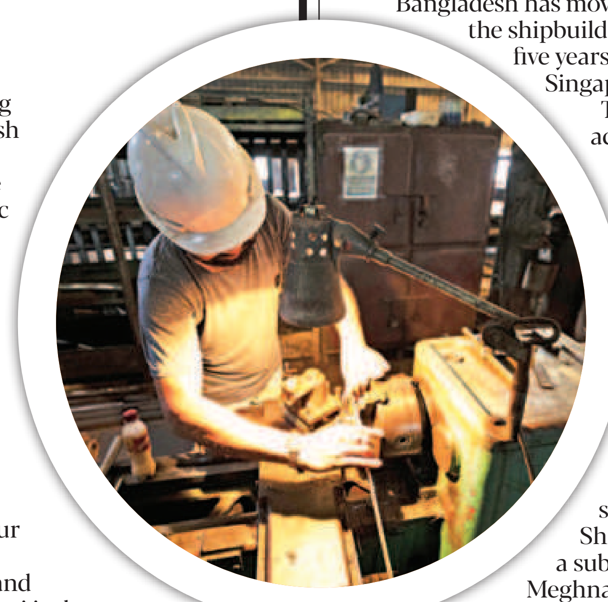
Export proceeds stood at $0.18 million in the July-April period of the current fiscal year, slightly up from $0.16 million during the same period a year ago.

Although the ship export is in a tight spot, a big market has been created, thanks to Bangladesh's fast-expanding international trade through sea routes.

More than 90 per cent of the country's $110 billion international trade takes place through seas. Hundreds of ships are needed every year to provide the service.

Today, Bangladesh has more than 100 shipbuilding yards, with most serving the local market, worth more than Tk 3,000 crore.

According to the latest report of the United Nations Conference on Trade and Development, Bangladesh has moved 13 places up to 14th in the shipbuilding industry in a span of five years, ahead of the US, India, Singapore, and Spain.



The success has been achieved by major industrial groups, including Meghna Group, City Group, and Delta Shipyard, a joint investment of TK Group and Seacom Group.

Meghna Group has so far manufactured the highest number of ships of international standards.

The group started investing in the sector in 2008 and has built 110 ships so far at the Meghna Shipbuilders & Dockyard, a subsidiary of the group, at Meghnaghat in Sonargaon of Narayanganj.

In the last three years, the company has produced 45 ships operating in coastal areas.

"In order to bring raw materials from the Chattogram port to factories or warehouses by inland waterways, a larger ship is needed instead of a lighter ship," said Mostafa Kamal, chairman and managing director of Meghna Group, recently.

"As the movement of goods is increasing, it is not possible to handle them in small ships. So, I've invested a lot in building relatively large ships."

The group has invested Tk 700-800 crore so far and employs more than 1,200 people.

"After meeting our own needs, we are now ready to export ships," Kamal said.

City Group, one of the largest commodity processors in Bangladesh, made its foray into the sector in 1996 to carry goods and raw materials from Chattogram to Dhaka.

It had a shipbuilding yard in Rupganj of Narayanganj that has now been shifted to Meghnaghat.

So far, it has built 60-65 ships. Another 20-25 ships are being built currently, said Biswajit Saha, director for corporate and regulatory affairs of the group, recently.

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Hungary holds up EU plan to ban Russian oil

AFP, *Brussels*

The European Union's hopes to quickly impose a ban on Russian oil imports could be dashed after Hungary demanded expensive guarantees for its own fuel supplies, diplomats say.

"I am sure we will have an agreement -- we need this agreement, and we will have it," EU foreign policy chief Josep Borrell told reporters Friday in Germany as G7 ministers met.

But he added if EU diplomats could not overcome resistance among certain member states, then foreign ministers meeting Monday in Brussels would need to "provide the political impetus".

The European Union has already imposed five rounds of sanctions against the Russian economy and individuals in President Vladimir Putin's inner circle in response to the invasion of Ukraine.

A sixth round would add some names to the sanctions list and hit some Russian media outlets, but most importantly include a ban on Russian crude oil imports.

EU chief Ursula von der Leyen's European Commission has drawn up a proposed text for such a package, but this needs unanimous approval of all 27 EU member states.

Hungary is holding out, and several of its neighbours who are also highly dependent on Russian crude for their oil refineries are reluctant to sign up.

Brussels is desperate to avoid the appearance of division in the face of Putin's onslaught and Ukraine's

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A view of the Russian oil producer Gazprom Neft's oil refinery on the south-eastern outskirts of Moscow on April 28. PHOTO: AFP/FILE

Russia inflation hits 20-year high

AFP, *Moscow*

Russia's annual inflation jumped to a two-decade high of 17.8 per cent in April, fuelled by Western sanctions over Moscow's military campaign in Ukraine, the statistics agency said on Friday.

Since President Vladimir Putin moved troops into Ukraine on February 24, Russia has been hit with a barrage of international sanctions, including embargoes on key exports, accelerating already high inflation.

Inflation of food prices, a huge concern for Russians on low incomes, has reached 20.5 per cent year-on-year, according to Rosstat.

Pasta has gone up by 29.6 per cent, butter by 26.1 per cent, and fruit and vegetables by 33 per cent.

Annual inflation could reach 23 per cent this year before slowing down next year and returning to the target of 4 per cent

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