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BUSINESS


BANKING UNBOUNDED


Annual Report 2021

OVERALL IMPORT SCENARIO

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

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

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.

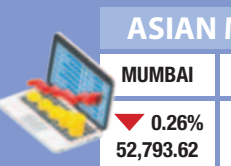
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STOCKS		WEEK-ON WEEK
DSEX ▼	CASPI ▼	
1.36%	1.23%	
6,565.47	19,248.61	



COMMODITIES		AS OF FRIDAY
Gold ▼	Oil ▲	
\$1,811.09	\$110.20	
(per ounce)	(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 exposition 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 Crieetee made the announcement at a press conference in the capital yesterday, according to a press release of the BGMEA.

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