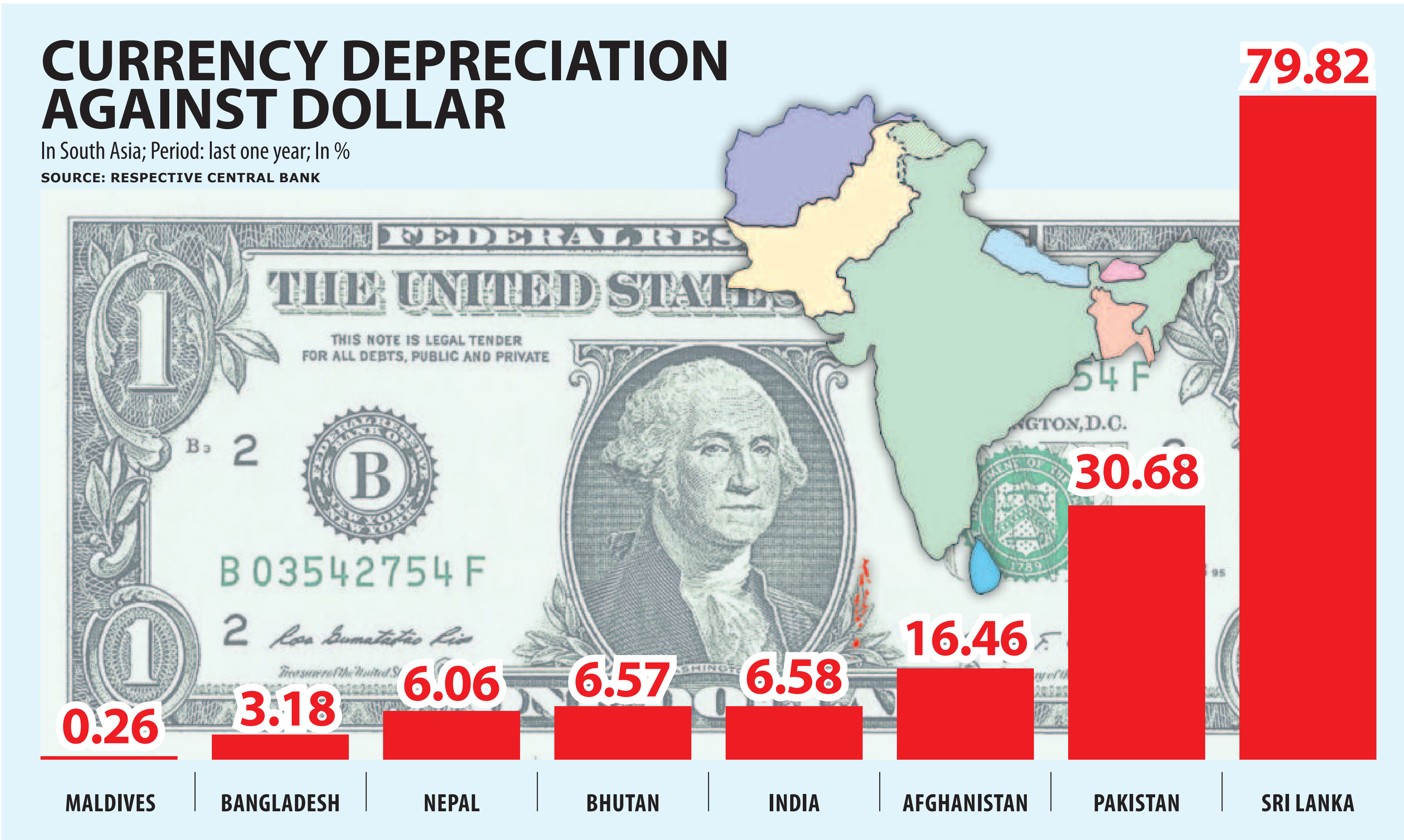
Star BUSINESS



BUDGET FOR FY23

Focus on fighting inflation, not higher GDP growth

Economists say

STAR BUSINESS REPORT

The upcoming budget for fiscal year 2022-23 should focus on checking inflation to give relief to the poor, lower middle and middle-income people, not on the higher gross domestic product (GDP) growth rate, said economists yesterday.

The government should shift its prime target of achieving higher GDP growth rates to rein in inflation, said Debapriya Bhattacharya, a distinguished fellow at the Centre for Policy Dialogue (CPD).

The poor and lower middle-income earners are facing problems for high market prices of essential commodities, he said.

The government should mainly focus on macroeconomic stability, even if it means accepting a trade-off, he said.

Among all the macroeconomic indicators, inflation alongside ways to control it should be the main target, especially food inflation, he said.

"The government should give a safeguard to the purchasing power of middle-income people," said Bhattacharya, also convener of the Citizen's Platform for SDGs, Bangladesh.

His comments came in a meeting on challenges of the economy and recommendations

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Is Bangladesh paying the price of administered forex regime?

AKM ZAMIR UDDIN

The taka faced less depreciation against the US dollar compared to other South Asian currencies in the last one year, eroding the export competitiveness of Bangladesh against its peers.

This seems that Bangladesh has been trying to tackle the ongoing global economic crisis by strengthening its currency artificially but it may leave an adverse impact on the macroeconomy, experts warned.

The currencies of South Asian countries except the Maldives experienced a devaluation between 6.06 per cent and 79.82 per cent in the past one year whereas the taka weakened by 3.18 per cent, data from the central banks in the countries showed.

All currencies in South Asia, which consists of Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka, are now under pressure like other currencies in the rest of the world due to the global supply chain disruptions and pent-up demand.

The coronavirus pandemic has spawned the crisis and it has now been exacerbated by Russia's invasion of Ukraine.

Among the countries, Sri Lanka is facing an acute foreign exchange crisis, which has already forced its prime minister to step. Pakistan's foreign exchange regime is witnessing volatility as well.

Amid the volatile situation, the Bangladesh Bank is now giving all-out efforts to keep the foreign exchange market stable by weakening the local currency to some extent, ignoring the natural course of demand and supply.

The Daily Star spoke to five noted economists who suggested the central bank abandon its historic stance on the currency and devalue it.

The central bank has depreciated the taka five times this year, but the initiatives were not enough given the surging import payments, which have already generated a record trade deficit.

The interbank exchange rate was Tk 87.50 per USD on May 21, down 3.18 per cent year-on-year. The rate was Tk 81.84 a decade ago.

Before the outbreak of the latest financial crisis, the central bank had not depreciated the taka significantly. The rate stood at Tk 84.80 per USD in May last year.

Ahsan H Mansur, executive director of the Policy Research Institute (PRI), says the peer countries of Bangladesh have been devaluing their currencies gradually over the years, whereas the BB has not followed the same path.

For example, the dong, the currency of Vietnam, one of the strongest competitors of Bangladesh in the global export market, was devalued by 11.95 per cent to VND 23,145 in the last one decade in keeping with the global market trend, data from the central bank of the southeast Asian nation showed.

As a result, the dong has not come under any significant devaluation pressure in recent times.

"Bangladesh has tried to strengthen its currency artificially, so the ongoing global volatility has created an enormous pressure on the taka," said Mansur, a former official of the International Monetary Fund.

But the banking sector is now ignoring the central bank's BC (bills for collection) selling rate – the rate at which banks sell US dollars to businesses to settle imports – due to the shortage of the greenback in the market.

Importers now have to pay Tk 95-97 to purchase a dollar to settle import bills. Preventing the taka from following the usual course of devaluation entails a number of risks.

For example, exporters may opt for under-invoicing, while remittance flow through the official channel may drop further as the rate in the formal and informal markets of US dollars has widened to a large degree.

Traders in the open market are now charging Tk 95-97 for a USD whereas the BB rate is hovering around Tk 86.5-87.45 for remitters.

The taka is set to face more pressure in the coming days as the central bank of the United States is hiking its benchmark interest rate to rein in inflation, a phenomenon that would make American greenback dearer.

On May 12, the dollar climbed to a fresh 20-year high as concerns persisted that central bank actions to drive down high inflation would crimp global economic growth, boosting the currency's safe-haven appeal, reported Reuters. More interest rate hikes are expected this year.

Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue, urges the central bank to inject an adequate amount of dollars from its foreign exchange reserves into the market along with depreciating the local currency.

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WHEAT FLOUR

Retail prices recently shot up to a 15-year high amid concerns of supply shortage

STORY ON B3

STOCKS (WEEK-ON-WEEK)

DSEX ▼	CASPI ▼
4.68%	4.20%
6,258.25	18,439.72

COMMODITIES (AS OF FRIDAY)

Gold ▲	Oil ▼
$1,846.53	$110.24
(per ounce)	(per barrel)

ASIAN MARKETS (FRIDAY CLOSINGS)

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 2.91%	▲ 1.27%	▲ 1.56%	▲ 1.60%
54,326.39	26,739.03	3,240.58	3,146.57

Firms prefer to remain non-listed despite tax benefit

AHSAN HABIB

Although the corporate tax levied on listed firms is lower than that of their non-listed counterparts, many companies in Bangladesh lack interest in joining the stock market as they want to avoid the obligation of ensuring good corporate governance, regularly disclosing financial information and complying with other rules.

Besides, their tendency to evade taxes keeps many firms away from the stock market as their financial records would come under scrutiny once listed, according to market analysts and participants.

Without tightening tax rules and ensuring proper enforcement, only reducing corporate tax and maintaining the gap between publicly listed and non-listed companies is unlikely to bring about a big improvement in the supply of new securities to the market, which is in a bearish trend.

The current corporate tax rate for listed and non-listed companies is 22.5 per cent and 30 per cent respectively.

The National Board of Revenue has been keeping a 7.5 percentage points gap between the two categories since fiscal year 2020-21 while it had been 10 per cent since fiscal 2006-07.

AB Mirza Azizul Islam, former adviser to the caretaker government, said the entrepreneurs are not attracted with the incentive of a tax gap for many reasons.

When a company is listed, then it is held accountable and needs to place financial statements regularly.

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A woman collects sheaves of paddy from what has been left over by farmers during harvest. Growers have had to go for early harvesting after the key crop was blown down and damaged by storms and rains in several northern districts. The photo was taken from Nondigram upazila of Bogura on Thursday.

PHOTO: MOSTAFA SHABUJ

Learn about Bangabandhu to ensure economic justice

Says economist

STAR BUSINESS REPORT

Bangabandhu Sheikh Mujibur Rahman's economic philosophy gives equal importance to public and private sectors and co-operatives in terms of ownership of industries, said Binayak Sen, director general of the Bangladesh Institute of Development Studies (BIDS), yesterday.

"Bangabandhu's socialism doesn't entail the economy that is only dominated by state-ownership of industries, rather he believed in a mixed form of ownership by public, private and co-operatives," he said.

Sen was delivering a speech at an event titled "Bangabandhu's economic philosophy: contemporary debate" organised by 1971 Genocide-Torture Archive and Museum Trust in Dhaka.

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