Traps made out of bamboo and strings and meant for catching small fish from small waterways and water bodies, especially during the monsoon, are sold at a market in Atghar Kuriana of Pirojpur's Nesarabad upazila which sits every Friday and Monday. A pair sells for Tk 120 to Tk 200, depending on the size and quality. The photo was taken on Friday. PHOTO: TITU DAS

British pound: the sick man of the currency world

REUTERS, *London*

In volatile currency markets, one trade stands out as an easy bet: selling the British pound.

With the world's fifth-biggest economy grappling with a particularly unhealthy cocktail of slowing growth and surging inflation, the British currency has become the medium of choice to express a negative view.

Official data on Wednesday showed inflation reached a 40-year high of 9 per cent in April - more than four times the Bank of England's 2 per cent target while Britain's worst cost of living crisis in three decades will not subside until late this year, according to a Reuters poll.

And though the BoE was the first among major central banks to raise interest rates in December, now their predicted future path is far less steep than some of its global peers including the US Federal Reserve.

While the British economy's problems are broadly similar to what other policymakers are grappling with, a few unique factors additionally weigh on the pound.

One is the potential for a messy trade conflict with the European Union if Britain threatens to push ahead with a law to override parts of a post-Brexit trade deal for Northern Ireland.

Any protracted trade war would threaten to further widen the current account deficit and subsequently weaken the currency.

Then there is an increase in tax burdens, which followed massive temporary relief for struggling sectors during the pandemic and which has hit workers and employers already saddled with surging energy bills, adding to the drag on the economy.

"The chance of a UK recession is all but guaranteed as there are just too many headwinds facing the economy," said Wouter Sturkenboom, chief investment strategist for EMEA and APAC at Northern Trust Asset Management.

Money markets now expect only 120 basis points of cumulative rate hikes by the end of the year compared to the Fed's nearly two full percentage points. Even a more cautious European Central Bank is expected to raise interest rates by 108 basis points over that period.

Jane Foley, head of FX strategy at Rabobank says markets have slashed their UK rate hike expectations in recent weeks because recession risks have grown. Respondents in a Reuters poll assign a 35 per cent probability of a recession within a year.

Kaspar Hense, a senior portfolio manager at Bluebay Asset Management in London, said he was short the currency in his portfolios.

"The pound has the weakest outlook among all the major currencies as the central bank's reluctance to raise interest rates aggressively means it has the lowest inflation-adjusted yield among its rivals," he said.

As the war in Ukraine added more fuel to price pressures, UK growth expectations and consumer confidence tumbled because of the soaring inflation, the protracted conflict and concerns about the impact of extended Covid lockdowns on growth in China, Britain's third biggest trading partner.

Citibank indexes that measure how economic data fare compared with expectations are lower for Britain than for the rest of Europe or the United States, suggesting growing economic headwinds ahead.

That suggests any British rate hike cycle will be short-lived. Using the spread between three year and 1-year market interest rates, HSBC strategists predict interest rates will peak in June 2023, rising to 2.5 per cent, and then rate cuts will follow.

"The consumer outlook has taken a big turn for the worse, as the real income squeeze bites hard and this will make it very difficult for the Bank of England to deliver anything close to what is priced into the forward rates market," HSBC said.

HSBC now expects the pound to end the year at $1.20, some 8 per cent weaker than its earlier $1.30 forecast.

India trims tax on fuel, essentials

Bid to fight inflation

REUTERS, *New Delhi*

India on Saturday announced a series of changes to the tax structure levied on crucial commodities in a bid to insulate consumers from rising prices amid high inflation.

Finance Minister Nirmala Sitharaman announced a cut in excise duty on petrol by 8 rupees ($0.1028) per litre, and 6 rupees per litre on diesel.

The new tax regime on petrol and diesel could result in a loss of about 1 trillion Indian rupees to the government in annual revenue due to the lower collection, she said in a series of tweets.

The government also removed the import duty on anthracite, PCI coal and coking coal in a bid to reduce raw material costs for local market demand.

The latest measures will be effective from May 22, the government said in a notification after the announcement by Sitharaman, who also urged state governments to follow suit with similar reductions on fuel prices keeping in line with federal plans.

A litre of petrol currently costs 105.41 rupees, while diesel is at 96.67 rupees in New Delhi.

The government will also provide a fresh subsidy of 200 rupees per cooking gas cylinder to over 90 million beneficiaries under a welfare scheme introduced for women below the poverty line.

The subsidy will have an annual revenue implication of nearly 61 billion Indian rupees, Sitharaman said.

"Prime Minister Narendra Modi has specifically asked all arms of the government to work with sensitivity and give relief to the common man," she said.

Brac Bank offers loans for higher education

STAR BUSINESS DESK

Brac Bank recently launched "Agami Personal Loan", a customised product meant to help parents and guardians bear expenses of their children's higher education.

Up to 130 per cent of the total education expense or a maximum of Tk 20 lakh can be availed at 8 per cent interest, payable in a maximum of five years, said a press release.

Parents and legal guardians of students enrolled in universities approved by the University Grants Commission (UGC) and who have a minimum monthly income of Tk 20,000 can apply for the loan.

The loan is disbursed in phases according to the customer's preferred schedule and synchronised with the student's academic calendar.

"Every year, around one million students graduate from higher secondary level in Bangladesh. Many families find it difficult to bear the cost of university education especially in local private and overseas universities," explained Md Mahiul Islam, head of retail banking.

Managing exchange rate regime

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a rapid pace partly facilitated by the impressive growth in export demand and partly in the anticipation of a further rise in the prices of imported investment goods in the coming days.

There was a sudden escalation in foreign exchange demand also due to the rapid rise in foreign travels by Bangladeshis for medical, pilgrimage, education and recreation purposes as entry restrictions in the destination countries were relaxed significantly.

We need to understand that the sudden spike in foreign exchange demand due to this reason is likely to be transitory, and so it does not call for immediate corrections in the exchange rate. In that case, the enhanced demand for foreign currency will have to be met by drawing down the reserves, which the BB has, in fact, been doing during the current fiscal year.

The resulting decline in the foreign exchange reserves has been interpreted by some as the ominous indication of Bangladesh eventually landing on to a Sri Lanka type crisis. This view completely overlooks the fact that the purpose of building up foreign exchange reserves, in the first place, is to provide contingency support in the event of a sudden mismatch between inflow and outflow of foreign currency.

One also needs to take into account: the transitional nature of part of the enhanced import demand; the likely negative impact on import demand due to the successive depreciation of the local currency and other policy measures taken up to curtail foreign exchange demand; and the expected positive impact on export and remittance inflow due to the depreciation of the taka and the enhanced incentive for remittance.

The medium-term problem in the foreign exchange market arises out of the weakening of major world currencies against the US dollar. If we fail to adjust our currency at a commensurate rate it would imply an erosion of the competitiveness of our products against those of our competitors.

However, the extent to which Bangladesh needs to carry out this adjustment will depend on the current state of our exports and the outlook for export growth in the medium term. Against that consideration, Bangladesh seems to be in a fairly comfortable situation as the post-pandemic export levels have been quite impressive and with more than 30 per cent growth achieved in the current fiscal year, the export prospects in the medium term seem quite optimistic. In that context, the trade-off between additional export growth and the unavoidable inflationary impact of further depreciation of the local currency may not prove to be worthwhile.

It may be prudent to postpone the required exchange rate adjustments on this count as long as the robust export growth persists. Thus the gradual depreciation of the exchange rate by the BB appears to be the right strategy for the time being.

There is one important concern, however, that needs the attention of the policymakers: remittance. If the expatriate Bangladeshis do not get adequate conversion value for their hard-earned foreign currency due to the misalignment of the taka with the dollar, there will be a greater tendency to send remittance through the illegal channel, hundi.

To address this issue, the government has raised the incentive for remittance by half a percentage point. The incentive rate may be adjusted further in light of the emerging gap between the official and the open market price of the dollar.

The long-term difficulty that the external sector of our economy now faces is the sharp rise in the commodity prices and the shipment costs in the international market following the supply-chain disruptions caused by the Covid-19 pandemic, followed by the negative global economic impacts of the Russia-Ukraine war.

Unfortunately for Bangladesh, there has not been any commensurate increase in the export price index or in the wages of expatriate Bangladeshis. This means that in order to buy the same amounts of the same goods, Bangladesh needs more foreign currencies although there is no such increase in the foreign exchange supply due to export prices or foreign wage increases. Given that this new demand-supply gap of foreign currencies is likely to persist in the medium term, it naturally calls for exchange rate adjustments.

The BB can choose its own pace of adjustment but there is no escape from the need for price correction of the local currency.

The non-adherence of the banks to the BB's guideline of BC buying and selling rates and the resulting chaos in the foreign exchange market lead to the worst of both worlds: a depletion in foreign exchange reserves due to dollar sales by the BB and a rise in inflation due to the import LCs opened at a much higher rate than the BC selling rate. This is a regulatory failure and needs to be addressed by the regulator. The Bangladesh Foreign Exchange Dealers' Association has already met on this issue and has given the necessary instructions to its members.

As a developing country, we do face a persistent negative trade balance, as our import needs exceed our export capabilities. But remittance inflow has been our lifeline, often bridging the trade deficit and rendering a positive current account balance (CAB).

However, one needs to note that even in the years when Bangladesh experienced a negative CAB in the past, the impact on the foreign exchange reserves was none or marginal due to the healthy net capital inflow.

The recent adverse balance of payment situation has been somewhat unprecedented as there has been a culmination of several factors simultaneously. The supply shocks created through the Covid-19 pandemic and the Russia-Ukraine war have been exacerbated by the sudden surge in import demand. But as we cross the peak of the wave, the pressure on the foreign exchange market is expected to taper off and the cooling effects of higher exports and remittances supported by a gradual depreciation of the taka and higher remittance incentives are likely to contribute towards stabilisation of the exchange rate.

The resilience of Bangladesh's economy has been vindicated time and again. We need to pin our confidence on that and avoid unnecessary panicking.

The author is an economist

Bitter harvest

FROM PAGE B4

Farmer Navtej Singh saved half his 60-tonne wheat harvest to sell during the lean season, when prices normally rise, and is aghast at the government's decision.

Now he is scrambling to sell his remaining stock.

"This ban has come as a shock," he told AFP. "The price has dropped to the lowest and doesn't even cover our expenses. I can't even wait for a day." The authorities had not consulted anyone and had acted "selfishly", he said.

"We were already hit with production losses this year, and the ban order has made our life difficult."

Before the war in Ukraine and the heatwave, India's wheat production of 109 million tonnes in 2021 and seven million tonnes of exports had both been expected to rise this year.

Golam Awlia, managing director of NRBC Bank, received a certificate of appreciation from Fazle Kabir, governor of Bangladesh Bank, on the central bank premises in Dhaka recently for achieving a loan disbursement target of a special refinance scheme under a Covid-19 stimulus package of Tk 5,000 crore. AKM Sajedur Rahman Khan, deputy governor of the BB, Awlad Hossain Chowdhury, executive director, Md Abdul Hakim, general manager of agricultural department, and Tanusree Mitra, senior executive vice-president of NRBC Bank, were present. PHOTO: NRBC BANK

Tarique Afzal, managing director of AB Bank, received a certificate of appreciation from Fazle Kabir, governor of Bangladesh Bank, on the central bank premises in Dhaka recently for achieving a loan disbursement target of a special refinance scheme under a Covid-19 stimulus package of Tk 5,000 crore. PHOTO: AB BANK

M Kamal Hossain, managing director of Southeast Bank, and M Shahadat Hossain Taslim, president of the Hajj Agencies Association of Bangladesh (Haab), exchanged signed documents of an agreement at the latter's office in the capital recently over depositing Hajj related fees and expenses with the Haab's members free of charge. PHOTO: SOUTHEAST BANK