India's inflation fight will hurt growth

Economists say

REUTERS, *New Delhi*

India's export duty hikes and tax cuts will likely hurt economic growth and raise the chances of the fiscal deficit widening, but do little to bring down retail prices within the central bank's tolerance level, economists and industry officials said.

Over the past month, India's fiscal and monetary policy have U-turned from being growth-focused to honing in on inflation -- with the central bank raising the key interest rate by 40 basis points, and the government cutting taxes on fuel and disincentivising exports.

"The measures announced mark a tacit admission by the government that both fiscal and monetary policies are set to be deployed to bring inflation down," said Sonal Varma, an analyst at Nomura.

Still, despite government intervention, India may end up with retail inflation at least 100 basis points above its 6% tolerance level, as key food prices are likely to be on the rise, economists at banks like HSBC and Nomura said.

The moves could hurt growth and the fiscal deficit could widen by 40-50 basis points, they said, despite the central bank governor saying India was likely to achieve its fiscal deficit target at 6.4 per cent of GDP.

Higher borrowing costs due to rate hikes and measures such as export taxes which could slow capital spending will hurt growth prospects, said Suvodeep Rakshit of Kotak Economic Research.

"The recent setback to growth and uncertainty on consumer demand is likely to push the revival in the private investment cycle further away," Rakshit said.

He kept his inflation projection unchanged at 7.2 per cent for 2022/23.

Milk from cows reared in individual homesteads being sold in plastic bottles for Tk 60 to Tk 70 per litre at Madhappasha area in Barishal's Babuganj upazila. Every day as much as 15 maunds (each maund equals around 37 kilogrammes) to 20 maunds of milk are sold here. The photo was taken recently.

PHOTO: TITU DAS

Samsung Group commits $356b in investments

AFP, *Seoul*

South Korean conglomerate Samsung Group on Tuesday unveiled a massive 450 trillion won ($356 billion) investment blueprint for the next five years aimed at making it a frontrunner in a wide range of sectors from semiconductors to biologics.

The new figure is an increase of more than a third over its investments spent over the past five years.

The tech giant is South Korea's largest chaebol -- the family-run conglomerates that dominate the economy -- and its overall turnover is equivalent to a fifth of the national gross domestic product.

Samsung Electronics, its flagship subsidiary, is the world's biggest smartphone maker.

The investment plan would bring "long-term growth in strategic businesses and help strengthen the global industrial ecosystem of crucial technology", Samsung said in a statement.

The 80,000 new jobs would be created "primarily in core businesses including semiconductors and biopharmaceuticals" through 2026.

It also noted the investment would "bring forward the mass production of chips based on the 3-nanometer process", the latest technology to further shrink the size of semiconductors and boost computing power.

It will also invest heavily in biopharmaceuticals with its affiliates Samsung Biologics and Samsung Bioepis.

The new plan represents a 36 percent increase in investment over its total investments over the past five years.

Of the 450 trillion won Samsung plans to spend over the next five years, it will commit 360 trillion won to South Korea.

The announcement comes after US President Joe Biden toured Samsung Electronics' massive Pyeongtaek semiconductor factory on Friday, underscoring the South Korean giant's role in securing global supply chains of microchips.

South Korea and the United States need to work to "keep our supply chains resilient, reliable and secure," Biden said, calling semiconductors manufactured there as "a wonder of innovation" and crucial to the global economy.

Lee Jae-yong, the firm's vice-chairman and the de facto leader of the wider Samsung conglomerate, escorted Biden and newly sworn-in South Korean President Yoon Suk-yeol inside the assembly line, and introduced the two to an audience in English.

It was Lee's highest-profile public appearance since his release on parole in August.

He had served more than half of a two-and-a-half-year sentence for bribery, embezzlement and other offences in connection with a corruption scandal that brought down ex-South Korean president Park Geun-hye.

Samsung employs about 20,000 people in the United States and work is under way to build a new semiconductor plant in Texas, scheduled to open in 2024.

The vast majority of the world's most advanced microchips are made by just two companies -- Samsung and Taiwan's TSMC -- both of which are running at full capacity to alleviate a global shortage.

Nagad offers healthcare discounts

STAR BUSINESS DESK

Nagad is offering discounts of varying durations throughout the year on routine healthcare payments at several hospitals, mental health centres and dental care over the use of its app or merchant account through USSD *167#.

Discounts of up to Tk 2,350 are available with United Hospital till May 31 while discount of Tk 600 is available on purchase of a Tk 1,000 health card from Sakib 75 Health Care, said a press release.

At the Zaynax Health and Dhaka City Physiotherapy Hospital, a 20 per cent discount can be availed multiple times till July 15.

Discounts of up to 15 per cent and 5 per cent respectively are available at LifeSpring and Bangladesh Psychiatric Care till December 31 and August 31 respectively.

One Bank, National Housing Authority sign agreement

STAR BUSINESS DESK

One Bank recently signed a memorandum of understanding (MoU) with National Housing Authority for digitalisation of payment collection and operational management of Bostibashi Bharabhittik 533 Abashik Flat Project at Section-11, Mirpur in Dhaka.

Flat tenants under this project will be able to pay their monthly rent digitally using the bank's OK Wallet, online platforms and branches.

Mohammad Ullah, secretary to the authority, and Monzur Mofiz, managing director of the bank, signed the deal at Grihayan Bhaban in Dhaka, said a press release.

Md Delwar Haidar, chairman of the authority, Md Shahjahan Ali, member (admin and finance) and additional secretary, Md Maynul Hoque Anshary, member (land and asset management) and additional secretary, and Quazi Wasif Ahmad, member (engineering and co-ordination) & additional chief engineer, were present.

7UP TVC features Shakib, Fido Dido

STAR BUSINESS DESK

A new television commercial of lemon and lime flavoured non-caffeinated soft drink 7UP was released on Monday as a part of a "Think Fresh" summer campaign featuring brand ambassador Shakib Al Hasan.

It portrays Shakib making his way through a situation in life taking inspiration from 7UP's mascot Fido Dido and motivates youngsters to be calm and tackle every tough situation with composure and wit, said a press release.

Feasible options for cross-border power

FROM PAGE B4

agreement that allows the Indian authority to sign the framework of bilateral agreements between the government of India and the governments of the respective neighbouring countries. In other words, Bangladesh and Nepal need to sign bilateral agreements for cross-border electricity trade with India.

Bangladesh's options for cross-border energy trade

Bangladesh has an installed generation capacity of 25,556 MW from where about 13,079 MW of electricity has been generated. According to the April 30 report of the Bangladesh Power Development Board (BPDB), there is an unutilised capacity of 12,477 MW, which is as high as 48.8 per cent of the total installed capacity.

The amount of excess capacity usually rises further during the winter season, which amounted to be 52.8 per cent in November 2021. Apparently, such an excess reserve margin in generation capacity is likely to be a source for cross-border energy trade. It is important to note here that Bangladesh's plan to export electricity should not be based on its excess reserve margin, which is causing huge fiscal and budgetary pressure on the economy.

Maintaining more than 48 per cent of excess capacity requires paying capacity payment to the private sector. Although the average retail price of electricity is Tk 6.81 per kilowatt-hour, the generation cost of some independent power producers and quick rental power plants after paying the capacity payment reached as high as Tk 300 ($3.45) and Tk 600 ($6.95) per unit, respectively.

Because of the administered price of electricity, such high generation costs have been accommodated by allocating subsidies from the public exchequer. Since FY2017, the government has allocated a subsidy of Tk 32,000 crore to mainly meet the capacity payment.

According to the data of September 2021, because of subsidising the electricity generation, the retail electricity price for commercial use in Bangladesh is Tk 8.99 ($0.104) while in Nepal, it was 9.010 Nepalese rupee ($0.074). Thus, Bangladesh's retail price is higher than that of Nepal.

Without the subsidy, Bangladesh may not offer a competitive price to Nepal. The point is: Will BPDB export electricity to Nepal or any other country at the subsidised price taking the burden of huge fiscal burden?

At present, more than 90 per cent of total electricity is generated by using domestic natural gas (52 per cent), imported liquefied natural gas or LNG (13 per cent), petroleum (36 per cent) and coal (3 per cent). The use of renewable energy is minimal -- only 3 per cent.

With the depletion of domestic natural gas, the dependency on imported fossil fuels, both LNG and petroleum, is increasing. The government has spent $5.4 billion to import crude petroleum, petroleum products, coal and LNG in 2021, while the import cost of energy was $2.8 billion in FY2016.

The import bill for the purchase of energy would rise much higher in the ongoing fiscal year since the Ukraine war has sent the energy prices higher. Such a huge import bill has created huge pressure on the exchequer and the pressure would intensify in the coming years unless the energy mix is restructured by using more renewable energy. Hence, Bangladesh should not facilitate fossil fuel-based electricity for cross-border trading.

Feasible options for Bangladesh's cross-border energy trade

Bangladesh's future scope for regional electricity trade needs a major overhauling in its energy mix in order to achieve its target (40 per cent of the total power by renewable energy by 2041). It needs to significantly reduce its excess capacity and keep the installed capacity with a modest reserve margin.

Without phasing out the excess installed capacity of fossil fuel-based power plants, it is difficult to promote renewable energy-based power generation. Most of the quick rental power plants are supposed to be closed down by 2024 and should not be extended beyond that.

Alternatively, Bangladesh will have to depend on the neighbouring countries to meet the target of 40 per cent of renewable energy through the import of renewable energy from India, Nepal and Bhutan.

It would be quite unfortunate if Bangladesh needs to import cheap renewable energy from neighbouring countries and export the electricity generated from expensive fossil fuels by bearing the burden of the capacity payment and the huge import bill. Bangladesh should prioritise developing a domestic base of renewable energy, cutting reliance on regional countries.

Exploring feasible options through the proposed master plan

Bangladesh's new power and energy policy, the Integrated Power and Energy System Master Plan, should promote developing a domestic base of energy, primarily focusing on renewable energy. Besides, the new plan should not put over-emphasis on cross-border trade of electricity.

Bangladesh has the little luxury to export electricity at subsidised prices. And there is no logic to keep these power plants alive with the argument of exporting electricity.

The author is research director of the Centre for Policy Dialogue

Sri Lanka hikes fuel

FROM PAGE B4

Diesel prices have increased 230 per cent and petrol has gone up 137 per cent in the past six months.

Both are in short supply and motorists have to queue, sometimes for days, to fill up.

An acute foreign exchange shortage has also led to widespread scarcity of food and medicines, with the public suffering lengthy electricity blackouts and high inflation.

Bus and taxi fares have risen by up to 50 per cent sparking price increases in almost all goods and services, officials said.

Wijesekera said the government was seeking a $500 million loan from India to purchase fuel, in addition to two credit lines worth $700 million already provided by New Delhi.

The census office reported Monday that the country's overall inflation last month was a staggering 33.8 per cent year on year, with food inflation at an even higher 45.1 per cent.

However, an economist at Johns Hopkins University, Steve Hanke, who tracks prices in the world's trouble spots, said Sri Lanka's inflation was even higher than officially reported.

"Using high-frequency data and the purchasing power parity technique, I accurately measure inflation at 122 per cent year on year," Hanke said, referring to March inflation, which was officially 21.5 per cent.

Mohammed Haider Ali Miah, managing director of EXIM 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 the government's special refinance scheme under a Covid-19 stimulus package. AKM Sajedur Rahman Khan, deputy governor of the BB, and Md Awlad Hossain Chowdhury, executive director, were present.

PHOTO: EXIM BANK

Mohammad Abu Jafar, additional managing director of Dhaka Bank, and Biplob Kumar Roy, chief executive officer of TVS Auto Bangladesh, exchanged signed documents of an agreement at the bank's head office on a distributor financing programme. Emranul Huq, managing director of the bank, and AKM Shahnawaj and Md Mostaque Ahmed, deputy managing directors, were present.

PHOTO: DHAKA BANK

Waliul Islam, chairman of SMC Enterprise, recently inaugurated its Annual Sales Conference for 2021 at the Pan Pacific Sonargaon Dhaka. The event awarded the top 12 performers for their significant contribution in achieving the sales target. Ali Reza Khan, managing director of SMC, and Abdul Haque, managing director of SMC Enterprise, were present.

PHOTO: SMC ENTERPRISE