



Containing inflation will be a big challenge in the coming months as the situation could worsen in the face of rising prices of essential commodities such as food items, according to the Metropolitan Chamber of Commerce and Industry. The picture was taken recently.

PHOTO: PROBRIS DAS

# Manage subsidies in energy sector skilfully

MCCI says containing inflation a big challenge

## STAR BUSINESS REPORT

The government should properly manage subsidies in the energy sector as taxpayer-backed spending is set to surge owing to higher commodity prices in the global market, according to the Metropolitan Chamber of Commerce and Industry (MCCI).

"Skilful management of the high subsidies on electricity, gas and fertiliser prices is necessary for Bangladesh," the organisation said while presenting its quarterly review of the economic situation for January-March.

As per the quarterly review, the rate of inflation increased in that period.

However, the chamber predicted that inflation could go up further by the end of May because of a probable rise in the price of some essential commodities.

"Containing inflation will be a big challenge in the coming months," the MCCI said.

The chamber urged the government to stabilise the country's macroeconomic situation by taking

cautionary measures in spending foreign currency in view of limiting imports and the cascading Russia-Ukraine war fallout.

"It is necessary to be careful when opening letters of credit so as to avoid unnecessary imports and save foreign currency as one of the potential thrifty measures," it added.

According to the review, Bangladesh's low labour costs are widely regarded as appealing to foreign investors. However, they hesitate to make fresh investments in the country due to its underdeveloped infrastructure and other impediments.

The government should address the underdeveloped infrastructure, policy consistency and corruption in the country to attract more foreign direct investment (FDI) to the country to ensure its full economic recovery from the coronavirus pandemic.

"FDI inflow to Bangladesh is low compared to that of many countries at similar levels of development," the chamber said.

However, they also predicted that

foreign exchange reserves will likely fall in May 2022 due to payments to the Asian Clearing Union (ACU) against imports.

According to the review, Bangladesh's robust export earnings have facilitated economic recovery in recent times.

The export-oriented garment and leather industries have resumed full-scale operations while the domestic market-oriented steel, food processing and transport sectors are fully up and running as well.

"Inward remittances also increased, which has multiplier effects on other economic sectors," the MCCI said.

The chamber then expressed satisfaction over the progress made in major macroeconomic indicators.

For example, robust export earnings have facilitated the country's economic recovery in recent times.

On the other hand, some of the economic indicators appear to be less promising than projected earlier.

"The fiscal framework continues to be weak in view of poor achievements,

more specifically, both in terms of revenue mobilisation and public expenditure," it added.

The MCCI went on to say that unemployment and low investment in the country are still big challenges.

The chamber also said the steady outflow of migrant workers in the January-March period of 2022 has raised hopes for a healthy growth in overseas employment, a vital source of Bangladesh's foreign exchange reserves.

According to the Bureau of Manpower Employment and Training, 322,583 workers went to various countries in the first quarter of the year while the number was 146,895 in the corresponding period of 2021, up 119.60 per cent.

"Such a steady growth is expected to continue in coming months and the sector could see record levels of employment by the end of 2022," the MCCI said.

Job opportunities have also been created in developed countries such as Greece and Italy, which would help increase quality migration.

## S Korean firm to invest \$35m in Bepza EZ

### STAR BUSINESS REPORT

South Korean company HKD Bangladesh is going to establish an industry in Bepza Economic Zone to manufacture a range of camping equipment, from tents and sleeping bags to nuts and steel wires.

The company will invest \$35.03 million to set up the facility where 6,650 Bangladeshis will get employment opportunities, said Bangladesh Export Processing Zones Authority (Bepza) in a statement yesterday.

The company will produce 18.8 million pieces of products annually.

The HKD is a company fully owned by foreigners. It started its operation in 1990 in Chattogram Export Processing Zone.

HKD Bangladesh would be the fifth venture of the HKD group with Bepza.

The group has four operational enterprises in Chattogram and Karnaphuli EPZ which have invested about \$100 million for producing tents, camping equipment and readymade garments.

Around 10,000 Bangladeshi nationals are working in those factories, according to the statement.

Ali Reza Mazid, member for investment promotion of Bepza, and Chul Hee Kim, chief operating officer of HKD Bangladesh, signed an agreement to this effect at a programme at the Bepza complex in Dhaka yesterday.

BEPZA Executive Chairman Abul Kalam Mohammad Ziaur Rahman attended the deal signing ceremony.

Mentionable, including HKD Bangladesh, Bepza gave approvals to eight companies in total to set up industries in Bepza Economic Zone.

## Shipping Corp's profit nearly triples

### STAR BUSINESS REPORT

Earnings of Bangladesh Shipping Corporation (BSC) rose 183 per cent year-on-year in the January-March quarter of the current financial year on the back of a significant increase in fares in the shipping sector internationally.

The state-run organisation reported earnings per share (EPS) of Tk 3.31 for the quarter, which was Tk 1.17 in the same period last year, according to its unaudited financial report.

In a regulatory filing on the Dhaka Stock Exchange yesterday, the company said the EPS had increased significantly during the period compared to last year as shipping fares saw a sharp rise globally.

The EPS was Tk 11.59 in the first nine months of the ongoing financial year ending in June, up 310 per cent from Tk 2.83 a year prior.

The net operating cash flows per share, a measure of a firm's financial health, rose to Tk 17.76 in the nine-month period, against Tk 9.58 during the same period of the previous financial year.

The net asset value, which represents the net value of an entity, was Tk 69.31 per share as on March 31. It was Tk 60.28 as on June 30 last year.

Shares of the corporation closed 5.04 per cent higher at Tk 118.70 on the DSE yesterday.

## Govt, BB steps

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All of the measures aim at containing inflation, safeguarding the economy, and protecting the poor and low-income groups from the higher cost of living.

"All of the steps are in the right direction. The impact of the measures will be there," Zahid Hussain, an economist, told The Daily Star.

Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue, said: "These steps will send a positive signal to the economy that both the government and the Bangladesh Bank are trying to do something. This is positive."

According to Hussain, some impacts on the demand and supply of foreign exchanges will be visible from next month. But the effect of the austerity measures related to the government expenditure will not be felt soon since they take time to produce results.

And the lasting impact of the measures, he thinks, will depend on their reflection in the budget for the next fiscal year, set to be unveiled on June 9.

"If the measures get highlighted in the budget, there will be some positive results in the next fiscal year."

Rahman does not think that the slapping of the duty on the imported items will bring about a significant positive outcome since they account for a small portion of the total imports.

The former professor of the University of Dhaka advises the BB to keep injecting dollars into the

economy since there are adequate reserves.

"The US dollar supply and the exchange rate should be backed by the central bank. More depreciation will be needed and the central bank should support the rate."

Zahid Hussain thinks that the exchange rate set by the BB at Tk 87.9 has become irrelevant since banks are charging importers more than Tk 95 to settle imports.

"There should not be any exchange rate since, on papers, we have a floating exchange rate regime. Why does the Bangladesh Bank set a rate that confuses the market?"

The government and the BB measures are not without risks.

This is because the rise in the LC margin, the surging exchange rate, and the hike in the regularity duty on the imported products will eventually stoke inflationary pressures since the moves will increase the cost of the goods purchased from external sources.

"Only the austerity measures such as the cancellation of foreign trips and the postponement of the implementation of less important projects will have no negative effect," said Hussain.

The management of subsidies will be a major challenge for the government in the upcoming budget as well, owing to the squeezing fiscal space caused by higher expenses against lower revenue generation.

"If the government plans to increase the price of

electricity, diesel and gas, it should be done in phases and announced in advance, not all of a sudden."

If the government doesn't revise up the energy prices, the subsidy spending will shoot up in the next fiscal year.

So, Hussain urged the government to explore ways to save money from other subsidised sectors so that the subsidy spending in the energy sector can continue and the price adjustment can be minimal.

"Fertilizer prices should not be increased as ensuring food security is the most important task under the current global scenario," added the former lead economist of the World Bank's Dhaka office.

MA Razzaque, research director of the Policy Research Institute, thinks the policy mechanisms introduced by the government have so far been good to tackle the crisis.

"These are what we need at this moment."

However, he says the restricted policy shouldn't be a long-term trade policy. "Through the policies, the government is giving protection but it comes at a cost. It will make our domestic sector more inefficient. We have already had a restricted policy. Now it is becoming even more restricted."

Razzaque thinks bringing money from abroad by providing incentives without questioning the source of the funds will serve as a disincentive for honest taxpayers.

## Tax-free income limit

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The next slab for personal income tax, which is 5 per cent for an additional Tk 100,000, should be increased to Tk 300,000 to provide a cushion for middle-income earners, it added.

To increase tax collection and promote justice, the independent think-tank demanded the reinstatement of 30 per cent tax on the highest income slab from the existing 25 per cent.

The change which was made in the current fiscal year was against the cause of promoting tax justice, the CPD said.

Besides, corporate income tax may also remain unchanged in the next fiscal year except for the companies that do most of their transactions through banks.

The National Board of Revenue (NBR) considers placing a proposal to the

parliament to cut corporate tax by 2.5 percentage points for firms that will do cashless transactions in most cases.

Companies will be able to do cash transaction up to a particular ceiling, said an official of the finance ministry.

This includes listed companies too.

If the measures are passed in parliament, the tax rate for non-listed companies that do cashless transactions will likely be 27.5 per cent in the next fiscal year.

As such, listed firms may be able to pay 20 per cent tax on their incomes instead of 22.5 per cent.

One person companies, which are owned by a single individual, may also get relief as the tax rate may be cut by 2.5 percentage points from 22.5 per cent in the next fiscal year, according to officials.

The injection of the US dollar has left an adverse impact on the reserves, which stood at \$42.29 billion on Wednesday in contrast to \$46.15 billion in December. The tripartite meeting also decided that exporters would have to sell their export proceeds to the banks through which they ship goods.

"They will not be allowed to sell the export proceeds through other banks," said Islam. Many exporters sell their export proceeds to the banks that offer the higher rate.

Selim RF Hussain, chairman of the ABB, said that the ongoing pressure



Md Sanaullah Shahid, chairman of Shahjalal Islami Bank Securities, cuts a cake at its head office in Motijheel, Dhaka to celebrate its 11th founding anniversary Wednesday. Mohammed Yunus, chairman of Shahjalal Islami Bank, Akkas Uddin Mollah and Khandaker Shakib Ahmed, directors, Abdul Aziz, managing director (current charge), Mian Quamrul Hasan Chowdhury, additional managing director, Md Shahjahan Shiraj, M Akhter Hossain, Nasim Sekander and Md Nazimuddoula, deputy managing directors, were also present.

PHOTO: SHAHJALAL ISLAMI BANK SECURITIES

## Taka may be weakened

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Islam said that the central bank would continue to provide liquidity support to the banking sector based on the demand.

The BB has injected a record \$5.83 billion into the economy to cool down the market in the current financial year, ending in June.

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Selim RF Hussain, chairman of the ABB, said that the ongoing pressure

in the foreign exchange market would ease soon as banks have already taken a set of measures.

The ABB will also recommend the rates to be followed while buying USD from exporters and selling it to importers.

The rates for importers could be set at Tk 89.90 per USD. For exporters, it could be Tk 88.90 and Tk 89.70 for the exchange houses, said the managing director, on the condition of anonymity.

## TK subsidiary

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import liquefied natural gas (LNG) and fertiliser at prices lower than previous rates.

The cabinet committee also approved a proposal of Petrobangla to import 33.60 lakh million British thermal unit (MMBtu) of LNG from Vitol Asia Pte in Singapore.

It will cost \$25.75 per

MMBtu, Zillur Rahman, additional secretary to the cabinet division, told journalists after the purchase committee meeting.

The total cost of the consignment will be Tk 886.76 crore. Earlier, the government bought LNG at \$26.40 per MMBtu, he said.

The cabinet committee

also approved a proposal of Bangladesh Chemical Industries Corporation for purchasing 30,000 tonnes of urea fertiliser.

It will cost \$671 per tonne while the price of each tonne of the last consignment was \$876, Rahman said.

The total cost of the fertiliser this time will be Tk 174.62 crore, he said.