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BUSINESS

Prime Bank

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24X5 TRADE SHOP

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NEW EXCHANGE RATES:
DOLLAR VS TAKA

Interbank rate:
Tk **89**

For importers:
Tk **89.15**

For exporters:
Tk **88.15**

BB MEASURES

- Raised repo rate after 10 years to fight inflation
- Depreciated taka by 1.25%
- May make lending rate flexible

EXPERTS SAY...

- BB should lift lending rate cap to make the new policy rate effective
- Market should determine the dollar price

DOLLAR'S STRENGTH
AGAINST TAKA

*May 29; SOURCE: BB

Month	Value
Jul	84.8
Aug	85.2
Sep	85.5
Oct	85.6
Nov	85.8
Dec	85.8
Jan	86
Feb	86
Mar	86.2
Apr	86.45
May*	89

REVISION OF POLICY
RATE BY BB

In %; SOURCE: BB

Month	Value
Jan '12	7.75
Jan '13	7.25
Jan '16	6.75
Apr '18	6
Mar '20	5.75
Apr '20	5.25
Jul '20	4.75
May '22	5

BB raises policy rate for first time in a decade

It weakens taka further, moves to contain inflation, stabilise forex market

AKM ZAMIR UDDIN

The Bangladesh Bank yesterday raised its key interest rate for the first time in a decade and devalued the local currency for the seventh time this year against the dollar as part of its moves to tackle inflationary forces and restore stability in the foreign exchange market.

The BB interest or policy rate, which is termed the repurchase agreement (repo), is a pivotal benchmark interest rate followed by commercial banks to set the interest rates on both loans and deposits.

Hiking the repo rate means the taka will be costlier, which will subsequently help contain inflation.

Yesterday, the BB raised the repo rate by 25 basis points to 5 per cent, the first hike since January 5, 2012.

The BB notice announcing the hike in the policy rate came hours after it depreciated the exchange rate of the taka by 1.25 per cent to Tk 89 per US dollar. It stood at Tk 85.80 per dollar on December 30 and Tk 84.80 on May 29 last year.

This is the seventh depreciation of the local

currency in 2022, which has created inflationary pressure in the market. Inflation shot up to 6.29 per cent in April, the highest in 18 months.

The latest depreciation indicate that inflation might fuel further in the coming days since the factors – from the dragging coronavirus pandemic and the Russian-Ukraine war to supply chain disruptions – that created the exchange rate volatility are still there.

Md Habibur Rahman, chief economist of the BB, said that the hike in the policy rate would help rein in the demand for local and foreign goods.

“We have given a signal to the market that the central bank has started implementing its tools to fight inflation and bring back stability to the foreign exchange market.”

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, described the hiking of the policy rate as a good measure but warned that it would be difficult to benefit from the move.

“The central bank should withdraw its lending rate cap in order to make the policy rate

hike effective,” he said.

The BB declared a lending cap of 9 per cent in April 2020. As a result, banks can’t disburse loans beyond the rate, except for credit cards.

“Importers will feel discouraged to import goods if the cost of loans goes up,” said

currently assessing what the effects would be if the lending cap is scrapped.

The BB will take positive decisions to restore the stability in the financial sector, he said.

“For now, it is a welcoming move, but it is not enough in the context of spiralling

BB’s move to establish a specific exchange rate of the taka against the US dollar.

“The single rate indicates that we have moved away from the floating exchange rate to a fixed rate. What the central bank can do is to fix a band of the exchange rate,” he said.

According to Hossain, banks may become selective in import financing following the exchange rate fixation and this may create some distortion in the market and result in inequality in import financing.

“The fixed exchange rate may help contain inflation temporarily. But it is necessary to revise the rates periodically. Otherwise, the taka will become overvalued and this will affect export competitiveness.”

The foreign exchange market is under pressure due to the acute greenback shortage amid soaring payments. In addition, the majority of banks are now ignoring the exchange rates set by the central bank.

Although the BB fixed the BC (bills for collection) rate—at which banks sell dollars to importers—at Tk 88, banks are charging importers up to Tk 97.

Hossain was critical of the

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Mansur.

A withdrawal of the lending ceiling will impact the deposit rate as it will make the taka more attractive.

“The central bank is cautiously monitoring the lending cap,” said Rahman of the BB. “The central bank will do everything in the interest of the economy.”

A BB high official, on the condition of anonymity, said that the central bank is

inflationary pressure,” said Monzur Hossain, research director of the Bangladesh Institute of Development Studies (BIDS).

“The interest rate caps also need to be revised upward to make credits somewhat costly and attract deposits.”

He said because of the lending rate cap, many are taking advantage of the cheap loans to import consumer goods.

Hossain was critical of the

Preserve all loan documents until repayment

BB asks non-banks

STAR BUSINESS REPORT

The Bangladesh Bank yesterday directed non-bank financial institutions (NBFIs) to preserve all documents, either physically or digitally, related to loans, leases or investments until the repayment is complete.

The central bank issued a circular to this effect yesterday. It aims to enable NBFIs to run legal actions if any complexity arises in loan repayment.

The documents may be necessary to investigate any allegation on loan disbursement, it said.

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“Some financial institutions have not preserved the documents properly, so various types of complexities arose,” said the circular.

A top official of the central bank said the decision was taken against the backdrop of Bangladesh Industrial Finance Company’s (BIFC) failure to come up with all documents related to bad loans on the excuse that they had been lost in a fire.

So, taking legal action has become tougher, he said.

Former BIFC boards led by PK Halder embezzled around Tk 500 crore from the non-bank financial institution, according to a case filed by the Anti-Corruption Commission.

Moreover, a business group owned by one Maj (ret’d) Abdul Mannan plundered around Tk 1,000 crore sanctioned as loans to the companies belonging to him and his family, the case statement added.

The BB has taken the decision as a precautionary step as documents are important and could be preserved digitally, added the central banker.

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STOCKS

DSEX ▲

2.10%

6,369.33

CASPI ▲

2.00%

18,647.80

COMMODITIES

AS OF FRIDAY

Gold ▲

\$1,853.48

(per ounce)

Oil ▲

\$115.07

(per barrel)

ASIAN MARKETS

FRIDAY CLOSINGS

MUMBAI

▲ 1.17%

54,884.66

TOKYO

▲ 0.66%

26,781.68

SINGAPORE

▲ 0.67%

3,230.55

SHANGHAI

▲ 0.23%

3,130.24

Tyre imports fall on BB curbs

MD NAZRUL ISLAM, Chattogram

Tyre importers in Bangladesh have been hit hard by the rise in the exchange rate and the doubling of the cash businesses require to pay in advance to open letters of credit to bring in the item.

In the face of falling foreign exchange reserves, the Bangladesh Bank, on May 10, instructed banks to charge 50 per cent of import payments in advance to open LCs for luxury items such as tyres and tubes.

It came after the LC margin was increased to 25 per cent for tyre and tube imports from 10 per cent on April 11.

The central bank was forced to raise the LC margin to discourage the imports of luxury and non-essential items as the reserves have fallen to around \$42 billion owing to the escalation in imports against moderate exports and remittances.

Now importers say tyre imports and the trading of foreign tyres have declined since the BB issued the circular.

A number of importers in the Kadamtali and Dewanhat areas, the wholesale markets for tyre and tubes in Chattogram, say the increase in the LC margins would have a negative impact on the country’s transport sector since Bangladesh relies on the imports, mainly from India and China, for the tyres used in trucks, lorries, buses and other large vehicles.

Rashid Ahmed, managing director of United Enterprise, an importer, said truck and lorry tyres were sold at Tk 28,000 per piece in March.

“Since the LC margin has gone up, we have to invest around Tk 2,000 more for each set of tyre. This is increasing our costs.”

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A worker pushes a number of new tyres on the road as he takes them from an importer’s warehouse to its showroom in the Kadamtali area of the port city of Chattogram. The photo was taken on Friday.

PHOTO: RAJIB RAIHAN

Monthly mobile data usage doubles since Covid

STAR BUSINESS REPORT

The monthly internet usage of mobile subscribers has more than doubled ever since the coronavirus pandemic began as more people are being pushed online for work and entertainment purposes.

For example, the average monthly data usage of a single mobile customer was 2 gigabytes (GB) in March 2020 while it now stands at around 4.5 GB, according to Bangladesh Telecommunication Regulatory Commission (BTRC).

The average monthly data usage surged 23 times from 2008 to 2022, said BTRC Chairman Shyam Sunder Sikder.

“We have seen a tremendous growth in data usage in the last decade as

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