Powdered milk products of popular brands are getting costlier due to rising prices in the international market caused by higher transportation costs and the growing value of US dollars, putting pressure on local consumers who are already grappling with increased edible oil, wheat, rice and sugar prices. PHOTO: PRABIR DAS

Fresh blow for consumers as powdered milk prices rise

SUKANTA HALDER *and* MOHAMMAD SUMAN

Powdered milk prices have increased by Tk 50 to Tk 80 per kilogramme (kg) as rising transportation charges and the growing value of US dollars pushed up costs in the international market.

According to retailers, the price of 1 kg packets of powdered milk under brand names such as Nido, Dano, Marks and Diploma rose from Tk 530 to Tk 560, Tk 680 to Tk 730, Tk 580 to Tk 660 and Tk 680 to Tk 740 respectively.

The development comes at a time when consumers are already suffering from high prices of edible oil, wheat, rice and sugar due to disruptions in the international supply chain caused by the Russia-Ukraine war while unfavourable weather conditions have battered the domestic front.

"The international market is volatile now due to the Russia-Ukraine war while rising production and transportation costs along with dollar prices are also to blame," said Mostafa Kamal, chairman and managing director of Meghna Group.

"As soon as the price of any basic product increases, it hits another sector and that is what happened to the cost of powdered milk," he added.

Galib Bin Mohammad, head of marketing at Arla Foods Bangladesh, said pricing is dependent on multiple factors, both external and internal.

"It can be affected by, but is not limited to, the increase of global milk prices, higher logistic costs, import duties and so on," he added.

Arla Foods Bangladesh, the local subsidiary of Danish multinational dairy cooperative Arla Foods, is the producer of powdered milk brand Dano.

Abdul Matin, a wholesaler at Karwan Bazar, one of the largest kitchen markets in Dhaka, said the price of powdered milk went up in the past month.

He went on to say that prices would go up further even though there is no shortage of milk in the local market.

In the current fiscal year, powdered milk imports increased 9 per cent while prices of the product increased by 12 per cent year-on-year.

According to the Custom House, Chattogram, about 101,153 tonnes of powdered milk worth Tk 2,594.4 crore was imported in the 10 months up till April of the ongoing fiscal year.

About 93,247 tonnes of powdered milk worth Tk 2,143.33 crore was imported during the same period in fiscal 2020-21.

Sibly Ahmed, a private job holder who lives in Dhaka's Agargaon area, said the rise in powdered milk prices has left middle-class people embarrassed about their spending capacities.

"I had to stop eating eggs in order to pay the extra price of my baby's milk," he added. Bashir Uddin, president of the Moulvibazar Traders Association, said the global price of powdered milk has risen considerably.

The price of one tonne of the product was about $2,500 two or three years ago but now, the same amount costs $7,000 to $9,000. "If the Russia-Ukraine war does not stop, the price will increase further and not only us, but the whole world will suffer," Uddin added.

Kamruzzman Kamal, director for marketing at Pran-RFL Group, said the price of powdered milk rose in international markets between October and April this year due to several reasons.

During the last auction in the international market in May, the price of powdered milk had come down by 2-3 per cent. Even after buying powdered milk at the upcoming auction, it will take another three to four months for the product to reach retail markets in Bangladesh.

"Only then will the price go down," Kamal said.

Processed milk prices rising

The price of processed milk is rising at the retail level in different areas of the capital as well due to the higher cost of feed and other inputs.

On average, half-litre packs of the dairy product are being sold for Tk 45 while a one-litre packet costs Tk 80, up by Tk 7 and Tk 10 respectively.

Aarong Dairy currently sells each litre of pasteurised milk at Tk 80 while it was Tk 70 previously. Likewise, the price of the company's half-litre packs rose to Tk 45 from Tk 38.

Pran Dairy, a concern of Pran-RFL Group, increased the price of its one-litre UHT milk packets to Tk 80 from Tk 70 while the half-litre packs of the product now cost Tk 45 instead of the previous Tk 40.

MONGLA, BANGLABANDHA

Bhutan wants to finalise deal to use the ports

STAR BUSINESS REPORT

Bhutan wants Bangladesh to make 2017's transit route deal functional soon so that the landlocked country can use Mongla and Banglabandha ports to carry goods from and to Bangladesh through India.

Bhutan's proposal to use the ports was discussed at the third meeting of the joint working group, Senior Commerce Secretary Tapan Kanti Ghosh told The Daily Star yesterday.

The meeting was held in Dhaka yesterday and attended by senior officials of the two countries.

"The discussion is still at the primary level. We will discuss further in this regard as India is also a part of the proposed transit route," Ghosh said.

However, the secretary declined to comment in details immediately as the negotiation is still underway. Bhutan has been showing interest to do trade with Bangladesh.

The Hasina administration signed its maiden preferential trade agreement (PTA) with Bhutan on December 6 last year.

Bangladesh signed the first PTA with Bhutan as a gesture of friendliness as the landlocked country was the first nation in the world to recognise Bangladesh's independence on December 6 in 1971.

Under the PTA, some 100 Bangladeshi goods will be enjoying the preferential duty benefit on export to Bhutan while some 34 Bhutanese goods will enjoy the same benefit in Bangladesh.

Last month, Bhutan requested Bangladesh to make the signed PTA effective from July 1 this year as the Bhutanese parliament has already completed the formalities to make the trade deal effective.

Govt frames charcoal policy

STAR BUSINESS REPORT

The government has formulated a "Charcoal Policy, 2022" to establish an eco-friendly, sustainable and export-oriented charcoal industry of international standard.

It was necessary to formulate a policy for the sake of national interest to increase the production of raw materials for charcoal and develop the industry, said the Ministry of Textiles and Jute.

The most common method for producing charcoal in Bangladesh is through the burning, cooling and compressing of jute sticks at a certain temperature.

The charcoal industry bears a lot of potential and is eco-friendly as carbon emissions from jute mills are very low, said the ministry in a press release yesterday.

Three-quarters of charcoal is carbon, which is used as a raw material for water purification, fireworks, lifesaving antitoxin tablets, cosmetics and photocopier and computer ink.

The policy will enable manufacturers and traders to receive government assistance in charcoal production, marketing and export.

Fitch Solutions cuts growth

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the continued easing of Covid-19 restrictions over the coming quarters, high base effects and the myriad headwinds facing the economy suggest that the growth on balance will likely slow in FY23.

Fitch Solutions sees three headwinds for the economy over the coming quarters.

First, commodity prices have surged since late-February owing to the outbreak of the Russian-Ukraine war. Prices are expected to stay elevated through end-2022 before moderating slightly in 2023. This has put upside pressure on inflation globally and eroded consumer purchasing power.

The impact is more acute in Bangladesh than in developed markets since food and energy account for around 62 per cent of the CPI (Consumer Price Index) basket, the second-highest in the region after Thailand.

"Given Bangladesh's low level of GDP per capita, this will likely significantly weigh on discretionary spending and therefore, private consumption in the economy," said Fitch Solutions.

Inflation in Bangladesh climbed to 6.3 per cent in April, the highest since October of 2020.

Second, investment in Bangladesh is expected slow due to high commodity prices.

This is because Bangladesh is a net importer of energy and commodities. Higher commodity prices will lead to higher import bills and weigh on savings and therefore investment.

Import payments $61.52 billion between July and March, up 44 per cent year-on-year, data from the Bangladesh Bank showed, as the economy is rebounding from the pandemic-induced slowdown.

Higher inflation induced by higher commodity prices has pushed central banks around the world to tighten their monetary policy.

"Although Bangladesh Bank has so far maintained an accommodative monetary policy stance, external credit conditions have still tightened and this will likely lead to a slowdown in foreign direct investment," said Fitch Solutions.

The persisting higher inflation forced the BB to raise its key interest rate by 25 basis points to 5 per cent on Sunday, the first hike in a decade.

Lastly, Fitch Solutions believes, the slowing global economic backdrop will also weigh on Bangladesh's economy, though the impact on growth is less significant than on other export-oriented economies such as Thailand and Vietnam, given that merchandise shipment only accounted for about 14 per cent of GDP in FY2018-19.

Besides, the emergence of a more transmissible, deadlier, and vaccine-resistant Covid variant could cause the government to re-impose restrictions to prevent the healthcare system from being overwhelmed.

"In addition, a further escalation of the Russia-Ukraine war and/or wider lockdowns in China could further disrupt the supply chain and weigh on Bangladesh's export-oriented manufacturing sector," said Fitch Solutions.

On the upside, a strong recovery in remittances on the back of the faster growth in the Gulf Cooperation Council (GCC) group of countries could be supportive of Bangladesh's growth, it said. Remittance inflows accounted for 6 per cent of GDP in FY21, with around 55 per cent coming from the GCC countries.

Remittance receipts, however, dropped 13.15 per cent year-on-year to $1.88 billion in May as expatriate Bangladeshis now prefer informal channels to send their hard-earned money since their beneficiaries receive better rates owing to the significant devaluation of the local currency against the US dollar.

Forex market volatility drags on

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The central bank has so far depreciated the taka against the US dollar seven times alone this year and now it stands at Tk 89. This has created an enormous pressure on the banks, which have no greenbacks available to settle import bills.

The dollar-strapped banks are now scrambling to secure dollars from the exchange houses located abroad.

The exchange houses owned by the Bangladeshi banks now follow the central bank's rate, which is Tk 89.20 per dollar, but the foreign companies are not abiding by the instruction.

Against the backdrop, it is not possible for banks to follow the rates at this moment.

"The volatility in the foreign exchange market yesterday worsened from what was on Tuesday," said one banker.

The central bank also did not provide liquidity support yesterday as per the demand of the banks.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, said the forex market yesterday remained the same as it had been the day before.

"If the price of the US dollar was allowed to go up naturally, the demand for it would have gone down and the supply would have gone up," said Zahid Hussain, a former lead economist of the World Bank's Dhaka office.

He questioned how much US dollars Bangladesh would be able to save by cutting development expenditures, curtailing foreign tours and raising import duties.

The notion that artificially holding back the dollar price can contain inflation is flawed, he said.

"This is because if imports come to a standstill owing to the dollar crisis, inflation will go up by leaps and bounds."

The economist said Sri Lanka committed the same mistake, which was keeping the exchange rate fixed, and Bangladesh was doing that now.

"In order to keep the dollar price fixed, Sri Lanka had injected dollars into the market. Bangladesh Bank is also doing the same," said Hussain.

"But how long can you keep doing this? Will you be able to keep the exchange rate fixed when you run out of the reserves?" he asked.

"Why aren't we learning from the Sri Lankan crisis? Sri Lanka had injected dollars in the market throughout the year. But when it ran out of reserves, the market became volatile."

Higher imports against moderate exports and remittance flow brought the foreign exchange reserves of Bangladesh to $42.29 billion on May 25. It was $46.15 billion on December 31.

Hussain urged the government to ensure external stability first, reasoning that the country does not print US dollars.

"It is a resource. So, in order ensure the supply of the resource and save this resource, the biggest weapon is to let the price adjust in line with the market situation."

Because if the price goes up, people become cautious when it comes to spending while the suppliers get the incentive to increase supply.

"But we have blocked both paths by fixing the rate," he said.

He says the exchange rate acts as a shock absorber during crises.

"If you remove the shock absorber, how long can one [the economy] run? And the reserves are like spare tyres. You use it when the tyres of the car get punctured," he said.

Tax rates

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"We have many diversified product makers and exporters but many cannot reach the policy level as they do not have associations. If the tax rates are reduced, diversified exports will increase," Islam said, adding that the MCCI has been urging for the measure.

Khondaker Golam Moazzem, research director of the Centre for Policy Dialogue, said the government has been giving the reduced tax benefit with the objective of encouraging investments of surplus funds.

"However, we have not seen any major spike in private investment in this regard," he added.

To ensure the benefit is properly implemented, the financial reporting system should be strengthened to curb the tax avoidance tendency among local companies.

Moazzem went on to say that the tax cut might affect overall tax collection.

"The question is how far the government is prepared to handle the situation when fiscal pressure is high as the requirement for payment of subsidy bills would be high," he said.

Moazzem also raised the issue of unequal tax treatment between exporters and domestic market-oriented firms.

"Domestic market-oriented firms are major employers. So, there should be a balance in the tax rate among all," he added.

Remittance drops

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According to Monzur Hossain, research director of the Bangladesh Institute of Development Studies, expatriate Bangladeshis now face difficulties due to the higher inflation prevailing across the globe.

"The financial condition of many expatriates is in bad shape. So, they are sending a lower amount of remittance."

Another reason is that remittance flow usually slows after Eid festivals.

Officials of three commercial banks say banks are now desperately trying to mobilise dollars from abroad to get respite from the ongoing foreign exchange pressure.

Last week, exchange houses, located abroad, charged Bangladeshi banks Tk 95-96 per dollar. The lenders need the American greenback to settle import bills.

This prompted the central bank on Sunday to fix the interbank exchange rate at Tk 89.20 a US dollar.

The exchange houses owned by Bangladeshi banks follow the BB rate, but the foreign ones are ignoring the central bank's instructions. So, the foreign exchange market is still facing the crisis, bankers say.

"If banks can't offer better rates than in the kerb market, who would sell dollars to them?" questioned Zahid.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, said that the central bank should make efforts to reduce the exchange rate gap between the formal and informal channels.

"If the gap widens, remitters may prefer to send their money through hundi."

Zahid Hussain warned that if the central bank maintains its strong grip on the exchange rate, the senders of remittance through formal channels may even explore alternative ways to get better rates.

"Under such circumstances, one can't expect to boost remittance flows even by paying 2.5 per cent incentive and allowing fund transfers without asking any questions."

"If you don't offer the market rate, you can't expect much remittances through the formal channel."

The downward trend of remittances has hit the foreign exchange reserves: it stood at $42.29 billion on May 25 in contrast to $46.15 billion on December 31.

Ensuring stability in the foreign exchange market is highly essential to give a leg-up to remittance flow, said CPD's Rahman.