LankaBangla Finance declares 10pc dividend

STAR BUSINESS DESK

Shareholders of LankaBangla Finance have approved 10 per cent cash dividend for 2021.

At a 25th annual general meeting at the company's head office on Monday, the shareholders also approved audited financial statements of the non-banking financial institution for the year.

Chairman Mohammad A Moyeen presided over the meeting while Managing Director Khwaja Shahriar was present, said a press release.

Sri Lanka raises taxes on wine, cheese

AFP, *Colombo*

Cash-strapped Sri Lanka raised tariffs on a wide range of goods including wine and cheese, in a new drive to discourage imports and preserve foreign currency reserves, the finance ministry said Thursday.

The island nation is in the midst of its worst economic crisis since independence, with dire shortages leading to anti-government protests which last month turned violent.

The government has now scrapped licensing for some 369 items and replaced it with sharply higher taxes, officials said.

Key targets will be luxury items out of reach for most Sri Lankans but widely used by hotels catering to foreign tourists, a key source of revenue.

From June 1, foreign cheese and yogurt attract a new tax of 2,000 rupees ($5.50) for a kilo (2.2 pounds). Duty on chocolates was raised by 200 per cent.

Additional levies also apply to imported fruit while duties on all alcoholic drinks and on electronic appliances were doubled.

Bangladesh will observe National Tea Day for a second time tomorrow, celebrating its 167 large gardens and over 8,000 smaller ones with more than 1 lakh permanent tea garden workers, who made it possible to attain a record production of 96.51 million kilogrammes of tea in 2021, according to Bangladesh Tea Board. The photo was taken at Karwan Bazar in Dhaka yesterday. PHOTO: PALASH KHAN

Russia seeks to minimise effects of EU oil ban

AFP, *Moscow*

Russia said Wednesday it was moving to limit the damage from an EU oil ban as its other key energy export, gas, has fallen after President Vladimir Putin sent troops to Ukraine.

At a summit on Monday, the EU agreed to a sixth package of sanctions on Moscow that will see the majority of Russian oil stopped, but exempted supplies by pipeline in a concession to Hungary.

"Sanctions will have a negative effect for Europe, us and the whole global energy market," Kremlin spokesman Dmitry Peskov told reporters.

Peskov added that a "reorientation" was under way to find alternatives for the oil that will no longer be sold to Europe.

"These are purposeful, systematic actions that will allow us to minimise the negative consequences," he said.

After Putin sent troops into Ukraine on February 24, Russia was hit with a barrage of sanctions that targeted its economy and financial institutions.

The Wall Street Journal reported that OPEC was considering whether to remove Russia from an agreement that has locked producers into limited output increases.

Moscow's removal would mean an early end to the pact and allow major crude nations such as Saudi Arabia to open the taps, analysts say. Foreign Minister Sergei Lavrov on Wednesday reaffirmed Moscow's commitment to OPEC+ agreements during a visit to Saudi Arabia.

OPEC+ is a group of 13 members of the Organisation of Petroleum Exporting Countries (OPEC), led by Riyadh, and their 10 partners led by Moscow. Speaking to reporters in Riyadh, Lavrov said the subject of Western sanctions came up within the context of OPEC+ cooperation.

"During discussions with my colleagues from Arab monarchies, we raised this subject, but only in the context of confirming the agreements on cooperation within OPEC+ that have already been agreed on and confirmed several times by our leaders," Lavrov said.

Separately, Russian energy giant Gazprom said that its gas exports to countries outside of the former Soviet Union dropped by more than a quarter year-on-year between January and May after losing several European clients.

Exports to countries outside the region totalled 61 billion cubic metres, a 27.6-per cent fall from the same period last year, Gazprom said in a statement.

Gazprom added that gas deliveries to China via the "Power of Siberia" pipeline were increasing, but it did not provide any figures. Moscow has demanded that clients from "unfriendly countries" -- including EU member states -- now pay for their gas in rubles.

The new requirement is seen as a measure to sidestep Western financial sanctions against Russia's central bank imposed over Moscow's offensive in Ukraine. So far Poland, Bulgaria, Finland and the Netherlands have had their natural gas deliveries suspended over refusing to pay in rubles.

Danish energy company Orsted said that Gazprom Export would cut gas supplies to Denmark on Wednesday after the Danish company refused to pay in rubles.

EU countries have scrambled to reduce their dependency on Russian energy but are divided about imposing a natural gas embargo as several member states are heavily reliant on Moscow's energy supplies.

BIT signs deal with US firm for internet coverage

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Business Information Technology Ltd (BIT) has teamed up with US-based ARRA Networks to introduce their new internet last-mile technology in Bangladesh.

BIT and ARRA hosted presentation sessions to a number of companies, community leaders, and the military during the week of May 29 – June 2, 2022. They even invited a number of guests to a formal roll out of this state-of-the-art internet solution in Bangladesh, read a press release.

Their all-in-one solution economically provides a wireless network infrastructure which significantly increases the coverage area and offers a new spectrum of digital accessibility and transformation to previously unconnected people, said a press release.

Both companies strongly believe that their solution will assist in reaching Bangladesh government's 'Vision 2041' along with making internet accessible to the entirety of the country's population by 2025.

This solution is ideal for use in tech-savvy and globally emerging Bangladesh in its journey towards 'Digital Bangladesh' as envisioned by Prime Minister Sheikh Hasina and her adviser on information and communication technology.

Government data reflects the necessity for internet connectivity, especially for people and institutes in rural areas of the country. ARRA's integrated network solution will immediately provide a scalable, future-proof, and 5G-ready expanded network coverage to upazilas, unions, and other remote locations of the country, truly making Bangladesh a pioneer of the digital economy.

Two made DMD of AB Bank

Syed Mizanur Rahman

KM Mohiuddin Ahmed

STAR BUSINESS DESK

AB Bank recently promoted two officials to the post of deputy managing director.

Of the duo, Syed Mizanur Rahman has over 25 years of banking experience, including of working at Dhaka Bank, IPDC Finance, Bank Alfalah Bangladesh and United Commercial Bank, said a press release.

He obtained an MBA degree in finance from the Institute of Business Administration at the University of Dhaka.

The banking career of the other official, KM Mohiuddin Ahmed, spans over 19 years. He joined AB Bank in 2003.

He completed his graduation and post-graduation in accounting and information systems from the University of Dhaka.

Urgent need to stabilise macroeconomy

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For example, Dhaka retail prices suggest the following increases: rice 15 per cent; atta 30 per cent; cooking oil 43 per cent; sugar 29 per cent and lentils 15 per cent. These are hurting consumers at large but especially the poor and the fixed-income group. Additionally, the import bill has surged, creating huge excess demand for foreign exchange at the official rate, thereby exerting substantial pressure on the exchange rate.

The government has responded with several policy measures, including lowering of import duties on several food items, moderating the increases in the prices of energy, keeping the fertilizer price unchanged by absorbing the international price pressures through budgetary subsidies, partially devaluing the official exchange rate, depleting foreign reserves to reduce the pressure on the exchange rate, imposing trade restrictions (supplementary/regulatory duties on 135 items deemed as luxury imports; slowing down the opening up of import lines of credit), and slowing down the implementation of import-intensive development projects.

The government measures relating to the reduction of import duty and providing subsidy cover to the energy and fertilizer imports can have some dampening effects on domestic inflation. Similarly, trade controls and expenditure switching can play a temporary role in reducing pressure on the balance of payments. But these are not likely to be adequate.

They can also have unintended adverse effects on the budget (large subsidy bills crowding out high priority development spending and/or putting pressure on the fiscal deficit), promote inefficient import substitution (trade controls), and hurt development by slowing down project implementation of large infrastructure projects that tend to be capital and import intensive.

Import and trade controls can also discourage private investment, especially foreign direct investment (FDI) inflows, by giving wrong signals about the government's move towards a controlled economy, a feature that badly served Bangladesh in the 1970s and the 1980s.

What are the good and sustainable policy options?

The macroeconomic imbalances emerge from three sources: inflationary pressure; fiscal pressure and the balance of payments pressure. Addressing these issues requires the use of at least three policy instruments that best relate to each of these areas: use of monetary policy instruments to ease inflationary pressure; exchange rate policy to ease the balance of payments pressure; and tax/ expenditure policy measures to ease the budgetary pressure. Their combined use as a coordinated set of policy measures can help avoid the bluntness of any single instrument and reinforce the effectiveness of each of the policy measures.

MONETARY POLICY

Nobel Laureate Milton Friedman famously stated that inflation is always a monetary phenomenon. This is a truism because without monetary impulse, changes in individual price items cannot create inflation.

The debate about this extreme monetarism concerns the worry that using monetary policy instruments only can be blunt and hurt economic growth. For temporary inflationary pressure, one can ignore the need to use monetary policy. But for a prolonged period of inflation, as presently, it is too risky to avoid the use of monetary policy instruments.

Finance ministers and central bank governors across many countries, including the US, the UK, Canada, Australia and India have recognised this challenge and have raised interest rates to reduce aggregate demand. The European Central Bank is also poised to hike interest rate in July. The increases are being calibrated to have the desired effect of lowering inflation while moderating the adverse effect on economic growth.

For Bangladesh, the monetary policy challenge is to modify what has come to be popularly known as the "6/9" policy, whereby the deposit rate can't exceed 6 per cent and the lending rate can't exceed 9 per cent. This played a positive role during the Covid-19 years (2020 and 2021) and along with other supportive policies helped the current post-Covid economic recovery.

With sustained inflationary and balance of payments (BoP) pressures, the policy should be modified to let the interest rate be market-determined along with increases in the policy rate managed by the Bangladesh Bank. Without a change in the 6/9 policy, attempts to increase the policy rate will be largely futile.

Creating a secondary market for T-bills will help increase the effectiveness of the monetary policy. The policy rate, reserve requirements and open market T-bill operations can all be used to moderate increases in the interest rates

EXCHANGE RATE MANAGEMENT

The Bangladesh Bank (BB) is well aware that the taka has been appreciating in real terms steadily against major currencies like the US dollar and the euro and also against the basket of currencies used by the BB to calculate the real effective exchange rate (REER).

The REER trend shows that the value of the taka appreciated in real terms by 71 per cent between FY2011 and FY2020. This was clearly unsustainable, as has become evident now. So, the depreciation of the taka was long overdue. Therefore, instead of throwing all its futile energies to artificially preserve a highly overvalued exchange rate through multiple currency practices, trade and exchange controls and moral suasion, the BB exchange rate management should be modernised to adjust to the realities of the market trends.

More flexible management of the exchange rate than in the past to allow the exchange rate to play its role in export growth and the reduction of imports will be a sound policy. Along with the flexibility of the exchange rate, monetary and fiscal policies should be used to moderate the demand pressure on imports.

FISCAL POLICY

Fiscal policy pressure has been mounting for a while due to the slow growth in tax revenues. The Bangladesh tax-GDP ratio is one of the lowest in the developing world and has basically stagnated at 7-8 per cent of GDP.

Much has been written and known to the government about the need to modernise the tax structure with a view to increasing tax efficiency, tax buoyancy and revenue growth. Unfortunately, no significant tax reforms have happened. Without a strong political signal, this will not be possible. So, realistically, at the present time, expenditure management is the only feasible fiscal instrument.

As noted, the government is already using two important expenditure policy moves to dent inflationary and bop pressures. First, the subsidy is being used judiciously to try to reduce the inflationary impact of global energy and fertilizer price increases. Second, the government has decided to slow down the implementation of import-intensive development projects to lower the demand for imports. Both have some merit when used cautiously.

Regarding subsidy policy, the main concern is its fiscal sustainability.

Fiscal subsidies are estimated to reach Tk 62,500 crore in FY2021-22, which is 1.6 per cent of GDP, and surge to Tk 85,000 crore, including the subsidy to Bangladesh Petroleum Corporation, which is 1.9 per cent of GDP, in FY2022-23, if no energy and fertilizer price increases are allowed.

The total revenue (tax and non-tax) amounted to 9.3 per cent of GDP in FY2021 (7.6 per cent tax to GDP ratio and 1.7 per cent non-tax revenue to GDP ratio), which is not likely to grow much in FY2022 and FY2023 in the absence of tax and state-owned enterprise reforms. Assuming some revenue growth from higher-than-budgeted imports and the increase in trade taxes, one could envisage that the revenue base could grow to a maximum of 10 per cent of GDP.

In this scenario, subsidy alone will eat up 20 per cent of total revenues. Given other fixed spending items: wages and salaries (2 per cent of GDP), pension (0.8 per cent of GDP), supply and maintenance (1 per cent of GDP), transfers to local governments and state-owned enterprises (1.4 per cent of GDP) and interest cost of debt servicing (2 per cent of GDP), there will be very little fiscal space for spending on social protection and high priority development spending on health, education, and infrastructure even with 6 per cent of GDP fiscal deficit. Therefore, a better policy would be to keep the fiscal deficit at 5 per cent of GDP and allow step-wise price increases of energy products and fertilizer to keep the subsidy bill for these items under control.

Subsidies for exports and remittances should be eliminated through the depreciation of the exchange rate.

Expenditure switching will only make sense for projects that are financed from domestic resources. Foreign-funded projects provide foreign currency loans to finance-related capital goods imports. So, care will have to be taken to slow down or postpone only domestically-funded import-intensive projects.

Since inflation hurts the poor and the low-income group relatively more than the rich, an important and positive fiscal policy measure would be to put priority on spending on health, education and social protection to support the income of the poor and the vulnerable.

Acceleration of income-transfer programmes to the poor and vulnerable will be a strong policy move to protect the poor from the adverse effects of inflation. So, instead of subsidising energy for all consumers, a combination of the energy price increase and re-channelling the saved resources as income transfers to the poor and vulnerable through the social protection system is a better policy option.

In health, the most urgent reform is the introduction of universal health care through government-funded health insurance schemes for the poor.

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China firmly opposes

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Beijing opposes any form of official contact between Taiwan and other countries, including negotiating and signing any economic and trade agreements "with sovereign connotations and of an official nature", Gao told an online briefing.

Taiwan has been cheered by the initiative, seeing it as another sign of support from Washington, and hopes it could pave the way for Taiwan eventually joining Biden's Indo-Pacific Economic Framework (IPEF), launched last week.

Taiwan Premier Su Tseng-chang told a cabinet meeting on Thursday the island "has an indispensable key position in the global supply chain", according to a statement from his office.

This "made the US government realise that it must strengthen economic and trade links with our country in order to consolidate the resilience and security of the global supply chain", Su said.

At a time of Russia's attack against Ukraine and with the "dramatic changes" in the international situation, "the importance of Taiwan's global strategic position has become clearer", he said.

Taiwan is a major producer of semiconductors, global shortages of which have disrupted production of cars and some consumer electronics.