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THINGS BB CONSIDERING FOR MPS


  
Containing high inflation

  
Withdrawing lending rate cap or making it flexible

  
Hiking policy rate further

  
Restoring stability in foreign exchange market

  
Keeping private credit growth target unchanged



EXPERTS' SUGGESTIONS

- No other scope but to withdraw lending rate cap
- Interest rate on deposit should be raised
- Money supply should be controlled further
- Imports should be contained aggressively
- Loans should be given to productive sector

KEY INDICATORS

- Average inflation in May: 5.99%
- Private sector credit growth in Apr: 12.48%
- Weighted average rate on lending in Apr: 7.04%
- Foreign exchange reserves on Jun 15: \$41.38b
- Trade deficit in Jul-Apr: \$27.56b

Wage hike dwarfed by rising inflation

MD FAZLUR RAHMAN and REJAUL KARIM BYRON

The wage growth in Bangladesh grew slower than the inflation rate in May, handing a blow to the country's millions of low-paid skilled and unskilled workers already struggling to make ends meet amid the rising cost of living.

According to the Wage Rate Index (WRI) of the Bangladesh Bureau of Statistics, pay rose 6.38 per cent last month compared to a year ago and were up 10 basis points from April's.

Inflation surged to an eight-year high of 7.42 per cent in May, driven by a hike in food costs, underscoring the plight a majority of the population in Bangladesh is currently



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BB treads a tightrope

It finds tools dwindling to fight inflation

AKM ZAMIR UDDIN

A key role of central banks is to conduct monetary policy to achieve price stability and help attain targeted economic growth.

But central banks in many countries are currently struggling to fight against runaway inflation caused by global supply chain disruptions stemming from the Russia-Ukraine war and the coronavirus pandemic.

The Bangladesh Bank, the central bank of Bangladesh, is also finding it hard to rein in the soaring inflation as it is set to draw up its monetary policy for the next fiscal year, beginning from July 1.

The latest inflation data, for May, released by the Bangladesh Bureau of Statistics on Monday has intensified further pressure on the central bank as it plans to unveil the monetary policy for FY2022-23 this month.

Point-to-point inflation surged to an eight-year high of 7.42 per cent in May, driven by a hike in food costs, exacerbated by global commodities price leaps, the depreciation of the local currency and supply bottlenecks.

The average inflation rate stood at 5.99 per cent during the July-May period, data from

the BBS showed, against the revised target of 5.7 per cent set for the outgoing fiscal year, ending on June 30.

Central banks usually hike their key interest rate, also known as the repurchase agreement (repo) in Bangladesh, so as to contain price pressures since the move reduces the money supply.

The Federal Reserve, the central bank of the United States, last week approved its biggest interest rate increase since 1994 to tackle an inflation that is running at a four-decade high.

The key interest rate is followed by commercial banks to set the interest rates on both loans and deposits. Banks also take short-term loans from the central bank on the basis of the rate.

But the situation is quite different in Bangladesh as the central bank has been maintaining a 9-per cent cap on lending since April 2020, meaning borrowing from banks is cheaper if the inflation rate is considered.

Amid a sharp increase in price pressures, the central bank raised its key interest rate for the first time in a decade on May 29 in order to contain inflation as it raised the repo rate by 25 basis points to 5 per

cent.

Although banks now feel discouraged to disburse loans to borrowers due to the increase in the key interest rate, the measure has hardly had any impact on reducing the demand for funds.

What is more, the upward trend of inflation may continue

BB officials, who are working to formulate the monetary policy statement, admit that the central bank has been left with one single tool – withdrawing the lending rate cap – to fight against inflation.

Although the BB is the authority to lift the cap, it can't do so in a true sense: it had to

foreign exchange market is another priority for the central bank's monetary policy.

The foreign exchange reserves stood at \$41.38 billion as of June 15 in contrast to \$46.15 billion on December 31.

The soaring import payments have contributed to the instability in the foreign exchange market.

Between July and April, imports went up by 41 per cent to \$68.66 billion, while exports grew by 35 per cent to \$41 billion. This resulted in a record trade deficit of \$27.56 billion, up 53 per cent year-on-year.

Withdrawing the lending cap will also help bring back discipline to the foreign exchange market as the cost of import financing will go up.

The BB official says it will keep unchanged the private sector credit growth for the next fiscal year to disburse funds to the productive sector smoothly.

Riding on the economic recovery, private sector credit growth improved to 12.48 per cent in April, against the full fiscal year's goal of 14.8 per cent.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, said that the central bank had

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in the coming months as the exchange rate of the taka against the US dollar is trending lower due to the shortage of the American greenback amid an abnormal hike in import payments.

Still, the government has set an average inflation target of 5.6 per cent for FY23 although it has failed to hit the goals, set at similar ranges, in the last three fiscal years, including the outgoing FY22.

Inflationary pressures will also worsen due to the recent floods.

impose the ceiling in line with the government's instruction.

The BB may go for a withdrawal of the cap or make it more flexible such that funds will become costlier.

"We are now discussing to this end. We hope that a positive decision will be declared while unveiling the next monetary policy," said an official.

The key interest rate might be hiked once again if the lending rate is finally lifted, he said.

Ensuring stability in the

experiencing, BBS data showed on Sunday.

In Bangladesh, inflation has been rising since October owing to accelerated costs for commodities globally amid lingering supply chain disruptions and the Russia-Ukraine war.


The WRI is intended to measure the movement of wages of low-paid skilled and unskilled workers over time in the main sectors of the economy and is also used to measure the changes in real wages.

In fact, the wage growth has been running below the inflation rate since February, as pent-up demand, abnormally high global commodities prices and supply disruptions sent the price pressure high globally and in Bangladesh. Wage growth has failed to keep pace.

Service sector workers witnessed the highest increase in wages among the three main sectors of the economy in May, rising 6.77 per cent, as high-income groups are increasingly seeking more services following a significant fall in coronavirus infections. It was 6.59 per cent in April.

Industrial workers' pay was up 16 basis points to 6.46 per cent compared to a month ago.

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0.76%

6,357.38

CASPI ▼

0.74%

18,728.39



COMMODITIES

Gold ▼


\$1,837.97

(per ounce)

Oil ▼

\$107.50

(per barrel)



ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.46%	▼ 0.74%	▼ 0.05%	▼ 0.04%
51,597.84	25,771.22	3,096.40	3,315.43

NBR makes VAT registration easier for firms

SOHEL PARVEZ

The National Board of Revenue (NBR) has relaxed rules regarding value-added tax (VAT) registration of manufacturing entities operating in Bangladesh, a move welcomed by the businesses as it would reduce their cost of compliance.

From next fiscal year, companies that have one production or manufacturing unit will be able to get a central or only one registration to comply with the VAT law, said the revenue authority.

Until now, firms could sign up for only one VAT registration if they made goods in more than one unit and sold those through multiple sales centres.

However, companies that have only one manufacturing unit and one sales outlet were not allowed to get the central registration for VAT.

Instead, they had to get separate registrations for each of unit or sales centre, which would increase the cost of doing business of firms.

"We had been urging for the change in this provision for many days...this is a very progressive move," said Debabrata Roy Chowdhury, director for legal and corporate affairs and company secretary of Nestle Bangladesh.

"(It) will benefit many firms that only operate with one factory," said the official of the fully owned subsidiary of Nestlé SA, Switzerland, one of the world's largest foods and beverage companies.

"This will simplify the VAT operations, reduce cost of doing business and save our time," he added.

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Midway through their life cycle, flowering maize plants await a grim future in Shonpocha Char of Bogura's Shariakandi upazila as the Jamuna river continued to run 53 centimetres above the danger level yesterday afternoon. The deluge reached here on Friday night after a record-breaking rainfall upstream in India's Meghalaya and Assam on Wednesday. Over 9,000 hectares of the upazila's croplands have been left inundated by floodwaters. The photo was taken yesterday.

PHOTO: MOSTAFA SHABUJ

NBFI MDs  
BB issues eligibility criteria

STAR BUSINESS REPORT

Star Business Report

The Bangladesh Bank yesterday said the interested candidates for the post of managing directors of non-bank financial institutions (NBFIs) have to obtain at least 20 years of working experience at banks or NBFIs.

The candidate also has to have two years' experience of working in the immediate lower post of a managing director, according to a Bangladesh Bank notice.

The NBFIs which have lower than Tk 1,000 crore in their financial balance sheet will be allowed to recruit the general managers of state banks and executive vice presidents of private banks as their MDs.

The candidate also has to have 20 years of working experience, including 5

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