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BUSINESS

Call money rate goes up further

AKM ZAMIR UDDIN

The inter-bank call money rate in Bangladesh rose further yesterday owing to the growing demand for cash ahead of Eid-ul-Azha, the government's increased borrowing from the banking system and banks' purchases of US dollars aimed at settling import bills.

The weighted average rate in the inter-bank call money market, where banks borrow from each other on an overnight basis, hit 5.85 per cent, data from the central bank showed.

It stood at 5.48 per cent on Wednesday, the highest at least since 2016, the latest for which data is available on the Bangladesh Bank website.

The banking sector is now going through liquidity stress as many lenders are buying US

Banking sector is going through liquidity stress as many lenders in exchange for taka from BB to settle import bills

dollars in exchange for the local currency from the central bank to settle import bills, which have surged to record levels driven by higher global commodity prices.


The Bangladesh Bank injected a record \$7.62 billion into the market in the fiscal year that ended on June 30, meaning an equivalent local currency amount has moved in the other direction, intensifying the liquidity crunch.

In 2021-22, the government's borrowing from the banking sector rose sharply, amid weak revenue generation, putting additional pressure on the liquidity position of banks.

It borrowed Tk 64,755 crore from the banking system in the last concluded fiscal year in contrast to Tk 26,078 crore a year ago.

People are also withdrawing a significant amount of funds from banks on the occasion of Eid-ul-Azha to meet their expenditures centring the festival, including those for buying sacrificial animals.

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## PRESSURE OF SUBSIDIES AND INCENTIVES

### GOVT SUBSIDIES FOR ENERGY

	Total subsidy	FY22	FY23
	Subsidy for power	Tk 60,198cr	Tk 82,745cr
	LNG	Tk 12,000cr	Tk 18,000cr
		0	Tk 6,000cr

### INCENTIVE FOR EXPORT AND REMITTANCE

	Remittance		Export
	FY22		FY23
Tk 5,000cr	Tk 6,200cr	Tk 8,300cr	Tk 7,825cr

### DIRECT CASH TRANSFER AMONG POOR (2020 and 2021)

Over Tk 2,000cr

### FOREX RESERVE

\$41.98b (As of July 7)

### CURRENT ACCOUNT DEFICIT (As of May)

\$17.23b

### EXCHANGE RATE (interbank)

Tk 93.45 as of July 7  
Tk 84.80 a year ago

### SUGGESTIONS

- Allow exchange rate to float
- Divert incentive for export, remittance to social protection
- Implement projects with foreign funds
- Seek concessional foreign loan
- Explore energy and mineral resources
- Ration energy supply

SOURCE: FINANCE MINISTRY

AUSTERITY STEPS OKAY but more belt-tightening needed

REJAUL KARIM BYRON and SOHEL PARVEZ

The government in Bangladesh has already begun enforcing energy and power rationing to contain the surging import cost of gas and fuel oil and turned to austerity measures to save US dollars.

The initiatives have won support from economists, who said yesterday that there is little room for the country other than taking the measures to stabilise the economy and avert any crisis.

The steps to ration energy supply will slow the pace of the economy but the growth should not be a priority for now, they also said.

In order to overcome the challenge, analysts recommended allowing the taka to depreciate further, cutting revenue expenditures, curbing wastages, leakages and the cost-overrun of development projects, and improving governance.

"It is vital to tackle the current situation. There is no alternative to keep the economy stable," said Ahsan H Mansur, executive director of the Policy Research Institute (PRI) of Bangladesh.

"For this, we all will have to take the pain. There will be no harm even if the economic

growth slows."

He supported the government's steps but said they are not adequate.

"It has to think seriously about how it can reduce expenditure. The government has to tighten its belts in the areas when it comes to spending from the state coffers."

His other advices included

become a big challenge.

"If more cracks develop, there will be little to do other than taking harsh actions," he said, suggesting the authorities allow the exchange rate to float freely.

Owing to the blistering import bills, Bangladesh has roughly four months of reserves to clear import bills, according

an annoyance. It erodes the savings of the middle class. But for the lower-income groups, it is a livelihood problem," Hussain said.

He suggested the government resume direct cash transfer and provide cash to poor households through the school stipend programme and other cash transfer schemes.

In the second half of 2020, the government provided Tk 2,500 to nearly 35 lakh families each through mobile financial services and bank accounts to partly cover the income losses of the poor resulting from the coronavirus pandemic.

"It worked although it had faced some setback initially," Hussain said.

According to Hussain, by allowing the taka to float against foreign currencies, the government can transfer the Tk 6,200 crore kept aside as incentives for remitters to the social protection schemes.

The depreciation will allow the country to free up the Tk 8,300 crore that has been allocated to exporters as incentives.

In order to lessen the impacts of inflation, the government may hike the prices of petroleum and electricity in phases as it stokes inflation, Hussain said.

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suspending new hiring and ensuring an adequate supply of essential commodities.

"We must reduce the import costs," said the former economist of the International Monetary Fund (IMF).

Mansur urges the government to focus more on implementing projects that are backed by foreign aid, instead of those being implemented by domestic resources.

Zahid Hussain, a former lead economist of the World Bank Bangladesh, said maintaining macroeconomic stability has

to the central bank.

"Since you do not have enough reserves to defend the taka persistently, you have no option but to let the taka float against the dollar," Hussain said.

The increased cost of the American greenback will discourage imports and leisure trips abroad, attract remittances and make exports competitive in foreign markets. However, the depreciation of the taka will raise the cost of imported commodities, thus fanning inflation.

"For the rich, inflation is



Forex reserves to slip below \$40b for first time in 2yrs

AKM ZAMIR UDDIN

Foreign exchange reserves in Bangladesh could slip below \$40 billion for the first time in nearly two years owing to regular import payments and a slowdown in remittance flow.

Bangladesh will have to settle import payments worth \$1.96 billion with the Asian Clearing Union (ACU) next week. The reserve may fall down below \$40 billion once the Bangladesh Bank adjusts the import payments.

Bangladesh's foreign currency reserves stood at \$41.98 billion on Wednesday in contrast to \$46.15 billion in December last year as exports and remittance flow failed to keep pace with blistering import bills.



The ACU is an arrangement through which participating countries settle import payments for intra-regional transactions.

Bangladesh, Bhutan, India, Iran, the Maldives, Myanmar, Nepal, Pakistan and Sri Lanka are members of the Tehran-headquartered ACU. The BB has to make the payments every two months.

In Bangladesh, imports show no sign of abating, while remittances

may decrease next week as usually seen after Eid festivals, bringing an adverse impact on the reserves, which have already taken a beating in recent months from the abnormally high commodity prices globally.

Experts say a further decline in the reserves will create additional pressure on the macro-economy, already under stress due to the higher imports and surging inflation.


This led Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, to urge the government to keep the public well-informed about the situation.

"Consumption of petroleum oil and electricity will have to be reduced to tackle the ongoing situation. We have still time to address the issue."


He thinks that there is no other scope but to stop the implementation of mega projects by using the own funds of the government.

Mansur advised the government to take up foreign loans aggressively from multilateral lenders such as the International Monetary Fund and the World Bank to implement mega projects.


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STOCKS	
DSEX ▲	CASPI ▲
0.01% 6,366.95	0.01% 18,751.83



COMMODITIES	
Gold ▼	Oil ▲
\$1,734.90 (per ounce)	\$101.53 (per barrel)



ASIAN MARKETS			
MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.80% 54,178.46	▲ 1.47% 26,490.53	▲ 0.83% 3,129.40	▲ 0.27% 3,364.40



Vendors at Karwan Bazar, the largest grocery wholesale hub in Dhaka, have stocked up on all the spices anyone could ever need to prepare their favourite dishes this Eid-ul-Azha. However, prices were slightly higher yesterday considering the increased demand.

PHOTO: AMRAN HOSSAIN

Apparel exports to US log record 51pc rise

STAR BUSINESS REPORT

Garment exports to Bangladesh's single largest destination, the USA, rose by 51.57 per cent year-on-year to \$9.01 billion in the just concluded fiscal year.

Germany remained the second largest export destination, as Bangladesh shipped garment items worth \$7.16 billion to the central European nation, registering a 27.74 per cent year-on-year growth, according to data from the Export Promotion Bureau (EPB).

Garment shipment to the European Union (EU), the largest apparel importer in the world, rose by 33.87 per cent year-on-year to \$21.04 billion in the last fiscal year.

Export to the UK increased by 30.56 per cent year-on-year to \$4.49 billion and to Canada by 33.22 per cent to \$1.32 billion, according to the data.

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Rawhide traders upbeat as tanners pay arrears

REFAYET ULLAH MIRDHA and SUKANTA HALDER

Rawhide traders are expecting a good season for business this year as tanners have cleared last year's arrears owed to them, which would in turn enable purchasing skins and hides from seasonal traders during upcoming Eid-ul-Azha.

The rawhide traders across the country have already received arrears amounting to nearly Tk 650 crore of last year from the tanners, said Aftab Khan, president of the Bangladesh Hide and Skin Merchants' Association.

So, this year rawhide merchants will face no cash crunch, which was acute over the last couple of years. If favourable weather prevails, there will be no problem in selling rawhides this year, he said.

Rawhide merchants are a very important part of the whole supply chain of the business.

Tanners usually clear some of previous years' arrears before Eid-ul-Azha so that rawhide merchants can buy

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