Indonesia removes palm oil export levy until Aug 31

REUTERS, *Jakarta*

Indonesia has scrapped its export levy for all palm oil products until Aug. 31 in a fresh attempt to boost exports and ease high inventories, finance ministry officials said on Saturday, adding the move would not disrupt government revenues.

The decision by the world's biggest palm oil exporter could further depress prices, which have fallen by about 50 per cent since late April to their lowest in over a year.

Indonesian palm oil producers have been struggling with high inventories since the country imposed a three-week export ban through to May 23 to reduce domestic cooking oil prices.

Since lifting the ban, Jakarta has implemented rules on mandatory local sales – known as the domestic market obligation (DMO) – to keep produce at home to be made into cooking oil.

The decision by the world's biggest palm oil exporter could further depress prices

At the same time, it has tried to clear up storage tanks by cutting export taxes and launching a shipment acceleration programme, but exports remained slow and companies have blamed the DMO rules, as well as problems with securing cargo vessels.

The levy removal is intended to further support exports, Febrio Kacaribu, the ministry's head of fiscal policy agency, told reporters on the sideline of a G20 finance meeting in Bali.

"In the context of government revenues, (the impact) won't be too big," he said.

Finance Minister Sri Mulyani Indrawati said a progressive palm oil export levy would be applied starting Sept. 1, with the rate set between $55 and $240 per tonne for crude palm oil, depending on prices.

High palm oil stocks have forced mills to limit purchases of palm fruits. Farmers have complained their unsold fruits have been left to rot.

There were 7.23 million tonnes of crude palm oil in storage tanks at the end of May, data from the Indonesian Palm Oil Association (GAPKI) showed on Friday.

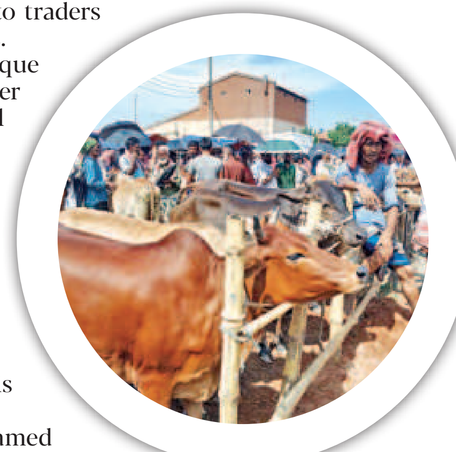
Farmers in northern districts of the country had expected to rake in hefty sums by selling large animals such as this behemoth of a bull at cattle markets centring the recent Eid-ul-Azha. However, they had to make do with poor profits as prices exceeded the people's buying capacity. PHOTO: AHMED HUMAYUN KABIR TOPU

Large animals brought small profits this Eid

AHMED HUMAYUN KABIR TOPU, *Pabna*

Farmers in northern Bangladesh who prepared large cattle for sale during the recent Eid-ul-Azha have been left disgruntled as they registered unexpectedly poor profits even though a higher number of animals were bought for sacrifice this year, according to traders and livestock officials.

Mozammel Haque Babu, a cattle farmer from Baghoil Modhopara village under Chatmohar upazila of Pabna, had brought a handsome bull weighing approximately 36 maunds to Gabtoli haat in Dhaka ahead of Eid-ul-Azha this year.



The bull, named Shopno Raj, was a star attraction at the cattle market but it sold for just Tk 5.05 lakh a day before Eid.

"I spent about Tk 8 lakh in the last four years to provide the bull with organic food and expected to sell it for Tk 20 lakh," Babu said.

"Had I sold the meat separately, I would have easily earned Tk 9-10 lakh but my family forced me to sell the giant animal for such a low price because it would be costly to bring it back home," he added.

Babu went on to say that even other large bulls that weighed up to 40 maunds sold for just Tk 4 lakh and so, he was compelled to accept the Tk 5 lakh offer.

"Considering this huge loss, I have become discouraged about fattening bulls in the future."

Md Habib Hossain, a cattle farmer from Chor Bolorampur village in the same upazila, also received poor prices for the 22 bulls he fattened in preparation for the Eid market.

"We prepared enough animals for sacrifice this year but people did not have the capacity to buy big animals with high prices," said Krishno Mohon Haldar, district livestock officer of Pabna

"Each one weighed between 800 to 900 kilogrammes and I expected to sell them for Tk 2.5 to Tk 3 lakh per animal but I had to accept prices of Tk 1.5 to Tk 2 lakh before the festival," he said.

Habib then explained that he was bound to sell his cattle no matter the cost as it would be expensive to maintain them for another year considering the soaring feed prices.

Likewise, Md Barekul Sheikh of Mazzan village in Sirajganj's Shahzadpur upazila said he sold 17 fattened bulls at Badamtoli haat in the capital but was denied the expected profit.

Sheikh was able to sell his cattle for about Tk 1.2 to Tk 1.5 lakh, making a profit of about Tk 5,000 per animal.

"So, we incurred losses considering the various input costs but we are happy to have at least gotten some money given the lack of profit in this Eid market," he added.

Zeenat Sultana, deputy director of the Department of Livestock Services, said that around 90.93 lakh sacrificial animals were sold in the Eid market this year, which is about 10 lakhs higher than the number sold in 2021.

"Last year, a total of 90.83 lakh sacrificial animals were sold for about Tk 46,000 crore collectively but this year, business was well over Tk 50,000 crore," she added.

According to a number of officials in the livestock department, the cattle were sold for cheaper prices this time around as the consumers' financial capacity has deteriorated due to high inflation and other economic concerns.

"We prepared enough animals for sacrifice this year but people did not have the capacity to buy big animals with high prices," said Krishno Mohon Haldar, district livestock officer of Pabna.

But even though farmers were deprived of their expected profits when it came to large animals, small and medium sized ones fetched them good returns.

The demand for animals weighing two to four maunds saw a marked increase this Eid as those are sold at more affordable prices.

"So, those were able to get the maximum asking price," he added.

How to survive capital shortfall at banks

MESBAH UDDIN AHMED

If media reports are followed closely, it can then be concluded that our banking industry is battling a persisting malady: capital shortfall.

As reported, at the end of the December quarter of 2021, the capital shortfall in 10 banks was more than Tk 30,000 crore.

Most of the banks have been managing their capital adequacy little over the regulatory requirements. Due to the reduction of capital, the CAR (capital adequacy ratio) reduced to 11.08 per cent from 11.68 per cent last year against the minimum requirement of 12.5 per cent as prescribed by the Bangladesh Bank.

The situation marginally improved at the end of March 2022 but the verdict is still out on how our banking industry will fare by the end of the year.

It is important that banks are equipped with meeting their payment obligations and absorbing losses under any circumstances. A bank's capacity for absorbing losses is derived from its capital base.

In Bangladesh, the central bank has implemented a set of guidelines in line with Basel III, which prescribes that each bank maintains a minimum capital requirement.

The riskiness of loans impacts how much regulatory capital it must maintain: If a bank has less risky loans, its minimum capital requirement will then be less than a bank that has more risky loans and advances.

ASSET QUALITY OF BANKS

The asset quality of our banks has been historically unsatisfactory and managing non-performing loans (NPLs) has been an uphill battle. The addition of the Covid-19 pandemic and the measures taken to help consumers and businesses survive have just exacerbated the situation.

The collaboration between Bangladesh Bank and Bangladesh Securities and Exchange Commission is crucial for the development of a vibrant bond market, which can support banks in dealing with capital shortfall

The central bank relaxed loan classification policies to counteract the financial devastation brought about by the pandemic. The ideology behind the decision was that as the borrowers' financial health improves, they will start meeting their debt obligations. However, the borrowers have a long history of defaulting on loans and advances.

As reported in the March-end, the NPL ratio has increased by more than 16 per cent and default loans are about 7.9 per cent of the total outstanding loans. This figure is supposed to go up as the moratorium period for many restructured loans ended as the June quarter came to a close.

The central bank recently relaxed the loan repayment facility for the large industries, SMEs and flood-hit agro businesses for up to December 2022 considering the negative impact of the pandemic, rising virus infections, the recent floods in the northeastern part of the country and the Ukraine war. This action would temporarily inhibit the NPL but it will intensify stress on banks' profitability since banks can't recognise the income on uncollected revenue.

Media reports indicate that a portion of the NPL arises from willful defaults. However, there are other factors in play as well.

Our banking industry is heavily exposed to the readymade garment (RMG) sector and the SME industry. Both sectors were hit the hardest during

READ MORE ON B2

The big default?

Dozen countries in danger zone

REUTERS, *London*

Traditional debt crisis signs of crashing currencies, 1,000 basis point bond spreads and burned FX reserves point to a record number of developing nations now in trouble.

Lebanon, Sri Lanka, Russia, Suriname and Zambia are already in default, Belarus is on the brink and at least another dozen is in the danger zone as rising borrowing costs, inflation and debt all stoke fears of economic collapse.

Totting up the cost is eyewatering. Using 1,000 basis point bond spreads as a pain threshold, analysts calculate $400 billion of debt is in play. Argentina has by far the most at over $150 billion, while the next in line are Ecuador and Egypt with $40 billion-$45 billion.

Crisis veterans hope many can still dodge default, especially if global markets calm and the IMF rows in with support, but these are the countries at risk.

ARGENTINA

The sovereign default world record holder looks likely to add to its tally. The peso now trades at a near 50 per cent discount in the black market, reserves are critically low and bonds trade at just 20 cents in the dollar - less than half of what they were after the country's 2020 debt restructuring.

The government doesn't have any substantial debt to service until 2024, but it ramps up after that and concerns have crept in that powerful vice president Cristina Fernandez de Kirchner may push to renege on the International Monetary Fund.

UKRAINE

Russia's invasion means Ukraine will almost certainly have to restructure its $20 billion plus of debt, heavyweight investors such as Morgan Stanley and Amundi warn.

READ MORE ON B2

Workers produce stuffed toys for export at a factory in Lianyungang in China's eastern Jiangsu province on July 7. PHOTO: AFP

China's economy brakes sharply

REUTERS, *Beijing*

China's economic growth slowed sharply in the second quarter, highlighting the colossal toll on activity from widespread Covid lockdowns and pointing to persistent pressure over coming months from a darkening global outlook.

Friday's frail data adds to fears of a global recession as policymakers jack up interest rates to curb soaring inflation, heaping more hardship on consumers and businesses worldwide as they grapple with challenges from the Ukraine war and supply chain disruptions.

Gross domestic product in the April-June quarter grew a tepid 0.4 per cent from a year earlier, official data showed on Friday. That was the worst showing for the world's second-biggest economy since the data series began in 1992.