



Should Bangladesh go for alternative currencies?

SOHEL PARVEZ and AKM ZAMIR UDDIN

The US dollar is currently one of the most talked about issues.

This is because the American greenback, which had been stable against the Bangladeshi taka for several years, has become dearer from the initial months of 2022.

The demand for US dollars has surged to clear mounting import bills, which are much higher than the country's combined earnings through exports and remittances.

This has sent the currency to cross the psychological threshold of Tk 100 for importers last month, up from Tk 90 earlier this year.

The rally has continued even though the Bangladesh Bank took a number of measures, including the pumping of \$7.6 billion in the fiscal year of 2021-22 to cool off the foreign exchange market and more than \$1 billion since July, and tightened imports of non-essential goods.

Yesterday, importers had to settle payments by buying a dollar at as high as Tk 111.

As the volatility in the forex market persists, leading chambers such as the Metropolitan Chamber of Commerce and Industry have urged the central bank to allow multiple currencies, including the Chinese renminbi, for international trade settlements to cut Bangladesh's over-reliance on the US dollar.

The suggestion has evoked debates.

Bankers and economists have described the idea as good in principle but added that the use of other currencies for global trade can be only on a limited scale, but not at this difficult time when the global currency market is volatile.

As per Bangladesh Bank rules, banks are allowed to maintain foreign currency clearing accounts with the



central bank in the US dollar, the pound sterling, the euro, the Japanese yen, the Canadian dollar, and the Chinese renminbi.

This means businesses can already carry out international trade transactions by using the currencies along with the US dollar. But a majority of local exporters show reluctance in settling their global trade using currencies other than the US dollar.

Of Bangladesh's total trade of more than \$130 billion, as much as 99 per cent takes place through the American greenback.

In Bangladesh, local exporters have to import raw materials to manufacture exported-oriented items. The import payments are settled by the US dollar gained from their export earnings.

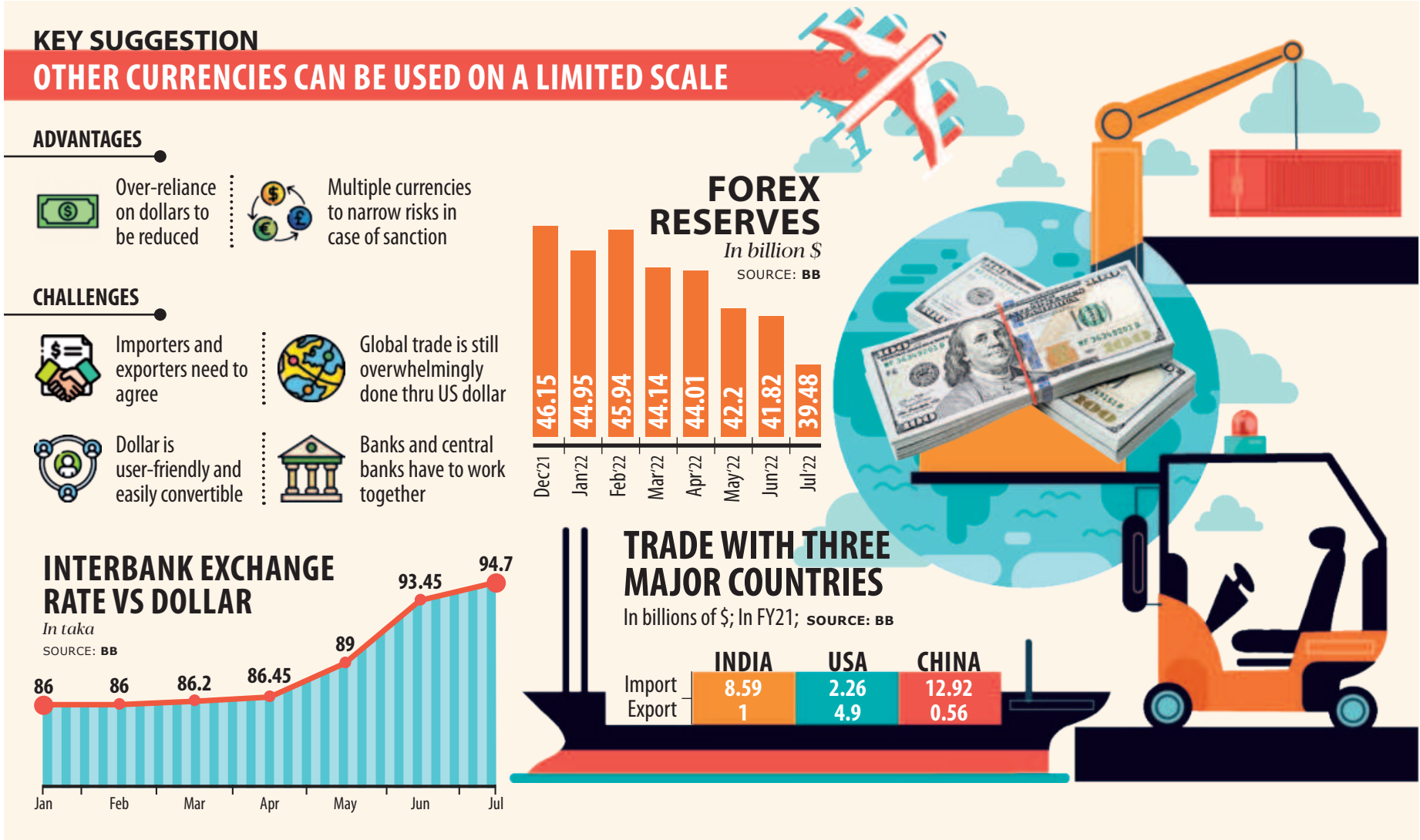
"If they use two separate currencies to settle international trade transactions, businesses may face losses in some cases due to the exchange rate risk," said a central banker.

He reasons that it would be difficult for businesses to carry out trade in the Chinese currency as the trade gap with the world's second-biggest economy is wide, with the balance tilting towards Beijing.

Besides, the central banker says, Chinese exporters usually don't show a willingness to receive payments in their own currency.

"This is because many of them have businesses in a

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Countries in trade with Russia without dollar

AHSAN HABIB

The emerging multi polar world is now trying to reduce the use of the greenback in their trade after the US and EU imposed multilateral sanctions on Russia.

The US, European Union, Canada, Japan, Switzerland and the UK have imposed economic sanctions on Russia since it invaded Ukraine in February.

In March, the US and the EU cut off Russian banks from SWIFT, the global financial artery that allows the rapid transfer of money across borders.

Against this perspective, Russia invited several countries to conduct trade using their own currencies shunning the SWIFT and Bangladesh got the invitation too.

Meanwhile, efforts of Russia and China to pursue non-dollar transactions are a part of a broader de-risking strategy gaining popularity among several emerging markets, according to a Bloomberg report.

Russian coal and oil paid for in yuan is about to start flowing into China as the two countries are trying to maintain their trade amid

the growing international outrage over the invasion of Ukraine.

Several Chinese firms used the local currency to buy Russian coal in March. These will be the first commodity shipments paid for in yuan since the US and Europe penalised Russia and cut several of its banks off from the international financial system.

Meanwhile, Saudi Arabia plans to trade some oil in the yuan, while India is exploring a rupee-rouble payment structure, the report says.

Our New Delhi correspondent Pallab Bhattacharya reports that the Reserve Bank of India (RBI) allowed the country's cross-border trade in Indian rupee on July 11 this year.

The RBI has set up a new, additional template for invoicing, payment, and settlement of exports and imports in the Indian rupee.

Banks will require prior approval from the Foreign Exchange Department of the RBI for transactions under the new arrangement.

Iran announced on July 26 that the US dollar had been officially ditched in the country's trade relations with Russia while the greenback was

replaced with the Russian rouble. The west Asian country also has a plan to trade in that way with Turkey, China and India.

Russia trading in other currencies is very common. In 2019, Russia moved to euros for oil supplies to China National Petroleum Corporation (CNPC) under long-term contracts.

Now, however, the oil exports to the CNPC will be fully paid in Chinese yuan amid the sanctions from the EU.

Reuters reported recently that trading firms used by state-controlled Rosneft, a Russian oil company, for supplies to Indian refiners started asking for the dollar equivalent in dirhams this month as its government officials decided the country did not need large sums of the Indian currency for external trade.

The BRICS countries, a group of major emerging economies comprising Brazil, Russia, India, China and South Africa, are also in a discussion for expanding national currency settlements and lending to counter the weaponisation of the dollar by the US, according to a Global Times report.

India, Russia trying to resolve payment issues

PALLAB BHATTACHARYA, New Delhi

Amid the ongoing Russia-Ukraine war and sanctions imposed by the West on Moscow's nine major banks, India and Russia are trying to resolve the issue of payment for a large quantity of oil bought by India from Russia avoiding the Western sanctions.

While India's purchase of oil from Russia has so far not attracted any sanction, what the two countries are struggling to put in place is a mechanism for payment.

To ensure smooth flow of trade without violating the economic sanctions on Russia at the same time, the officials and representatives of Indian and Russian banks met in New Delhi in June.

At the meeting, it has been suggested that Indian banks open accounts with their Russian counterparts which are not under any sanction and vice versa. Nearly a dozen Russian banks not under sanctions.

While there is no official word on what transpired at the meeting, sources said the Russian banks suggested at the June meeting that transactions in the Indian rupee could be conducted and urged the Reserve Bank of India to allow them to invest in Indian assets in return.

Another mechanism being explored by both countries is that if there is a problem in converting India rupees into Russian rouble, some Russian banks can invest in Indian financial assets via a dedicated route to earn yields on the idle money.

Whatever is finalised as the final arrangement for

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How dollar became global reserve currency

REFAYET ULLAH MIRDHA

The Second World War changed almost everything in the world. Or in short, we can also say that after WWII, the world changed in a way it had not changed for many years.

So, WWII also reshaped the global financial system. The moment when WWII was coming to an end, the global leaders started thinking about a stable financial system for international transactions.

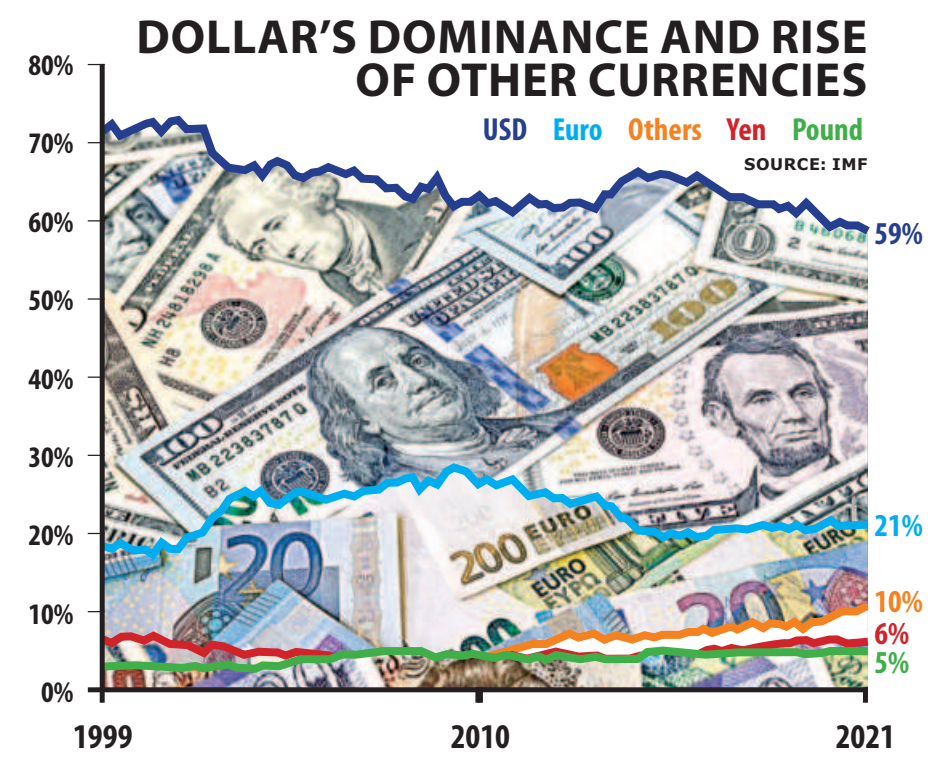
Because the then global gold standard of trade was affected greatly by the severe fallout of the Great Depression of 1930.

The global leaders were in trouble in finding out a good solution to the volatile global trade.

After more than one decade of the Great Depression, in 1944, more than 700 representatives from 44 countries gathered in a meeting at Bretton Woods, New Hampshire of the US to peg the US dollar as the medium of exchange for all currencies, as at that time America held the largest reserve of gold.

Government representatives who participated in the gathering at Bretton Woods promised to redeem their currencies for their value in gold upon demand.

This agreement allowed other countries to back their currencies with dollars rather than gold. This is the beginning of the journey of the US dollar to be the main convertible currency in the world and the reserve currency of the world.



The US fixed the value of the dollar to gold at \$35 an ounce.

Other countries then fixed their exchange rate in tune with the dollar, making it the central mode of exchange of the system,

according to NPR, an independent, nonprofit media organisation.

However, as the US started racking up huge deficits and running out of its gold

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Businesses for using multiple currencies

REFAYET ULLAH MIRDHA

Bangladesh should cut its over-reliance on the US dollar and increase the use of other currencies such as the Chinese renminbi (RMB) in international trade to ease pressure in the foreign currency market, businesses said.

The suggestion came after the demand for US dollars from importers surged in the domestic market to settle imports, sending the reserves of the foreign currencies below \$40 billion recently and driving up the value of the greenback to as high as Tk 112 per dollar recently from Tk 94 a few days ago.

"We have the option. We can use the Chinese currency at least for a temporary period to stabilise the forex market," said Md Saiful Islam, president of the Metropolitan Chamber of Commerce and Industry.

Islam submitted a proposal to the central bank governor last week asking him to introduce the Chinese RMB as the second currency in settling international payments.

"It will help save a lot of dollars that can be used in the normal time," he said.

In fact, the central bank in 2018 allowed banks to open foreign currency clearing accounts with the BB in the Chinese renminbi. Banks can open such accounts in the US dollar, the pound sterling, the euro, the Japanese yen, and the Canadian dollar as well.

Businesses argue that many countries are using the RMB in international trade as the currency has become convertible. Besides, some countries like Bhutan and Nepal are already using the Indian rupee as their second option to trade with India.

The recommendation from the businesses to use the RMB comes largely because China is the largest import destination for Bangladesh.

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BB gives banks another \$40m

AKIM ZAMIR UDDIN

Bangladesh Bank yesterday supplied \$40 million to banks operating in the country in a bid to ensure stability in the local foreign exchange market.

With this move, the central bank has injected about \$1,200 million into the market in the last 34 days. It had supplied a record \$7.62 billion in the last fiscal year to reduce the depreciation of the taka against the US greenback.

Md Serajul Islam, spokesman of Bangladesh Bank, said the central bank took this decision as a part of its efforts to calm the market down.

The exchange rate of taka stood at Tk 94.70 per dollar in the interbank platform in contrast to Tk 84.80 a year ago.