RBI raises key rate by 50 basis points

REUTERS, *Mumbai*

The Reserve Bank of India's key policy repo rate was raised by 50 basis points on Friday, the third increase in the current cycle to cool stubbornly high inflation that has remained above the central bank's tolerance band for six straight months.

With June retail inflation hitting 7 per cent, economists polled by Reuters had expected the third rate hike in four months, but views were widely split between a 25 bps to a 50 bps increase.

The monetary policy committee (MPC) raised the key lending rate or the repo rate to 5.40 per cent.

"Inflation is projected to remain above the upper tolerance level of 6 per cent through the first three quarters of 2022-23, entailing the risk of destabilising inflation expectations and triggering second round effects," the MPC said in its statement.

With inflation staying elevated more rate hikes are all but inevitable in coming months, economists say

The Standing Deposit Facility rate and the Marginal Standing Facility Rate were adjusted higher by the same quantum to 5.15 per cent and 5.65 per cent, respectively.

The RBI caught markets off guard with a 40 bps hike at an unscheduled meeting in May, followed by a 50 bps increase in June, but prices have shown little sign of cooling off yet.

With inflation staying elevated more rate hikes are all but inevitable in coming months, economists say.

"The RBI today raised the repo rate by 50 bps to 5.40 per cent as we had anticipated, and struck a relatively hawkish tone despite inflation surprising to the downside in recent months," said Shilan Shah, senior India economist at Capital Economics.

"It's clear that the tightening cycle still has legs and we expect another 100 bps of hikes by early 2023," he added.

Spiking pricesfor food and fuel have hammered consumer spending and darkened the near-term outlook for India's economic growth, which slowed to the lowest in a year in the first three months of 2022. The MPC retained its GDP growth projection for 2022/23 at 7.2 per cent while its inflation forecast remained unchanged at 6.7 per cent.

With the 130-kilometre long India-Bangladesh Friendship Pipeline nearing completion, residents and industries across 16 northern districts may soon enjoy uninterrupted fuel supply. Here, a section of the pipes being used are seen laying above ground before being put in place in Badarganj upazila of Rangpur.

PHOTO: KONGKON KARMAKER

INDIA-BANGLADESH OIL PIPELINE

Development works now 90pc complete: officials

KONGKON KARMAKER

Diesel imports from Numaligarh Refinery Limited in India's Golaghat district to an oil depot in Parbatipur upazila of Dinajpur will likely begin at the end of the year if the India-Bangladesh Friendship Pipeline is completed on time, according to project officials.

Md Tipu Sultan, project director of the nearly 130-kilometre transnational pipeline, said almost 90 per cent of the construction has been completed so far.

Besides, development of five sectionalising valve (SV) stations have also been completed.

The SVs, which are used to isolate sections of a pipeline during emergencies such as leakage, have been placed around 30 kilometres apart from each other, he added.

However, development work on the project is currently at a standstill due to rain.

On the other hand, construction of a buffer storage tank at the oil depot of the Bangladesh Petroleum Corporation (BPC) in Parbatipur upazila is ongoing at a normal pace.

Once complete, the new tank will add 29,000 tonnes to the depot's existing 15,000-tonne storage capacity.

Construction of the India-Bangladesh Friendship Pipeline commenced through a formal inauguration in March 2020.

The completed pipeline will help ensure a stable supply of diesel in all 16 northern districts under Rangpur and Rajshahi, facilitating quick fuel transportation at a minimum cost in the region.

At present, imported diesel is supplied to two BPC oil depots, namely the Parbatipur oil depot and Baghabari oil depot in Sirajganj, through wagons and trawlers from the Chattogram and Mongla ports, officials said.

Currently, it costs about $8 to transport each barrel of fuel from the port city, making it a time-consuming and costly affair.

But the rate would drop to around $5 per barrel if the diesel supply starts through the pipeline as it will then take just one hour for the fuel to reach Parbatipur instead of the couple of days needed at present, they added.

Bangladesh currently imports around 2,200 tonnes of diesel each month from Numaligarh Refinery through the West Bengal Railway and the BPC carries the fuel through Bangladesh Railway to the Parbatipur oil depot

Considering all these aspects, the government had taken the initiative to import diesel from Numaligarh Refinery Limited to ensure uninterrupted fuel supply in northern districts.

The governments of India and Bangladesh eventually signed a deal to this end with the project costing an estimated Tk 520 crore.

Of the amount, India is paying Tk 303 crore while Bangladesh is funding the rest.

The project was initially set for completion by June this year.

Bangladesh Prime Minister Sheikh Hasina and her Indian counterpart Narendra Modi had earlier laid the foundation stone via videoconferencing on September 18, 2018.

After 17 months of signing the contract, the first shipment of 22-inch diameter pipes arrived in Bangladesh through Benapole Land Port in February 2020. Officially, work on the pipeline started in early March the same year.

Numaligarh Refinery Limited of India and Meghna Petroleum Limited of Bangladesh are jointly implementing the project, officials said.

Of the 130-kilometre stretch, just 5 kilometres of the pipeline is in India. Of the remainder, 82 kilometres are in Panchagarh, 35 kilometres in Dinajpur and the rest are in the Nilphamari and Badarganj upazilas of Rangpur.

Md Masudur Rahman, managing director of Meghna Petroleum, told The Daily Star that more than 90 per cent of the work is complete and the remainder will be done after the end of the monsoon season.

However, he refused to give any set date for the start of diesel imports.

Sources say that a tentative date would be set by a joint meeting between officials of Numaligarh Refinery and Meghna Petroleum after the project is complete.

Through the pipeline, around one million tonnes of diesel can be imported from India to Bangladesh each year.

Initially, Bangladesh will purchase around 2.5 lakh tonnes of diesel and the volume will be increased up to 4 or 5 lakh tonnes in the following years.

Under the contract, Bangladesh will import diesel for 15 years from the day supply begins.

Bangladesh currently imports around 2,200 tonnes of diesel each month from Numaligarh Refinery through the West Bengal Railway and the BPC carries the fuel through Bangladesh Railway to the Parbatipur oil depot before it is supplied at the consumer level.

Crisis and measures: past and present

KHONDAKER GOLAM MOAZZEM

Bangladesh has been confronting a major economic crisis for several months.

Macroeconomic stability has weakened, owing to the volatility in the global energy and commodity markets for a rise in demand during the post-Covid recovery period and the sanctions over Russia's energy and commodity trade since the Ukraine war started in February.

This economic crisis is characteristically different from those Bangladesh faced in earlier decades: first, the crisis owing to the global financial and economic crisis during 2008-09, and second, the covid-related economic crisis during 2020-22.

Bangladesh has successfully overcome the previous crises either because of its less integration with the global economy or because of prudent measures. How well would Bangladesh be able to overcome the crisis this time? Will the measures that have been undertaken appropriately address the crisis-related concerns? Will the measures undertaken during the previous crisis be effective in addressing the present crisis? A simple answer is: No.

Previous crises had adverse impacts mainly on the micro and meso levels of the economy. On the other hand, the present crisis has an adverse impact mainly at the macro level and partly at the meso level. Hence, the measures that were taken up earlier to address the micro and meso levels are likely to have a limited positive impact in addressing the adversity of the present crisis.

A major area of focus of policy and operational measures during this time should be to ensure macroeconomic stability, which has been affected due to the crises in the foreign currency reserves.

Bangladesh should target both stabilising the forex market and undertaking reform measures responsible for weakening the forex reserves. This is mainly related to the energy market where medium to long-term reform measures are essential

GLOBAL FINANCIAL AND ECONOMIC CRISIS IN 2008-09

During the global financial and economic crisis in 2008-09, Bangladesh's economy had been adversely affected in the external sector, mainly export and remittances. Due to the limited integration with the global market, the impact was rather limited mainly in the case of loss of employment and income in selected export-oriented sectors and there was lower demand for migrant workers.

Both micro and meso levels of the economy were affected, though at a limited scale. Hence, the policy measures that had been undertaken during that time to create new jobs in rural areas, particularly in agriculture, were considered to be timely.

Though fiscal support was announced for the export sector, particularly targeting SMEs, that was not required to use at that time. The macro impact was rather limited and the domestic economy had recovered quickly. Major global economies took individual and collective measures, which lessened the adversity though a few of the major economies needed time to recover fully.

COVID-INDUCED CRISIS IN 2020-22

During the covid-linked crisis in 2020-22, Bangladesh's economy has been adversely affected both through internally and externally.

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Global rice supplies at risk amid harsh weather

REUTERS, *Singapore*

Adverse weather across top rice suppliers in Asia, including the biggest exporter India, is threatening to reduce the output of the world's most important food staple and stoke food inflation that is already near record highs.

Rice has bucked the trend of rising food prices amid bumper crops and large inventories at exporters over the past two years, even as Covid-19, supply disruptions and more recently the Russia-Ukraine conflict made other grains costlier.

But inclement weather in exporting countries in Asia, which accounts for about 90 per cent of the world's rice output, is likely to change the price trajectory, traders and analysts said.

"There is an upside potential for rice prices with the possibility of production downgrades in key exporting countries," said Phin Ziebell, agribusiness economist at National Australia Bank.

"An increase in rice prices would add to already major challenges for food affordability in parts of the developing world," Ziebell told Reuters.

Patchy rains in India's grain belt, a heatwave in China, floods in Bangladesh and quality downgrades in Vietnam could curb yields in four of the world's top five rice producers, farmers, traders and analysts told Reuters.

"Rice has remained accessible even as overall food prices reached record levels earlier this year," said UN's Food and Agriculture Organisation economist, Shirley Mustafa.

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Farm labourers extract paddy saplings into bunches before transplantation in a field for rice cultivation on the outskirts of Bangalore on July 28.

PHOTO: AFP

More grain leaves Ukraine

AFP, *Kyiv*

Three bulk carriers loaded with grain set sail from Ukraine on Friday under a landmark deal to free up shipments brokered by Turkey, as its leader met his Russian counterpart for talks on Moscow's invasion of its neighbour.

Months of efforts by President Recep Tayyip Erdogan saw Moscow and Kyiv agree in Istanbul last month to resume the shipments from Ukrainian ports in a bid to relieve a global food crisis caused by the assault launched in February.

The government in Kyiv said on social media that two ships carrying Ukrainian maize -- the Maltese-flagged Rojen and the Turkish Polarnet -- had set off from Chornomorsk while the Panama-flagged Navistar departed from Odessa.