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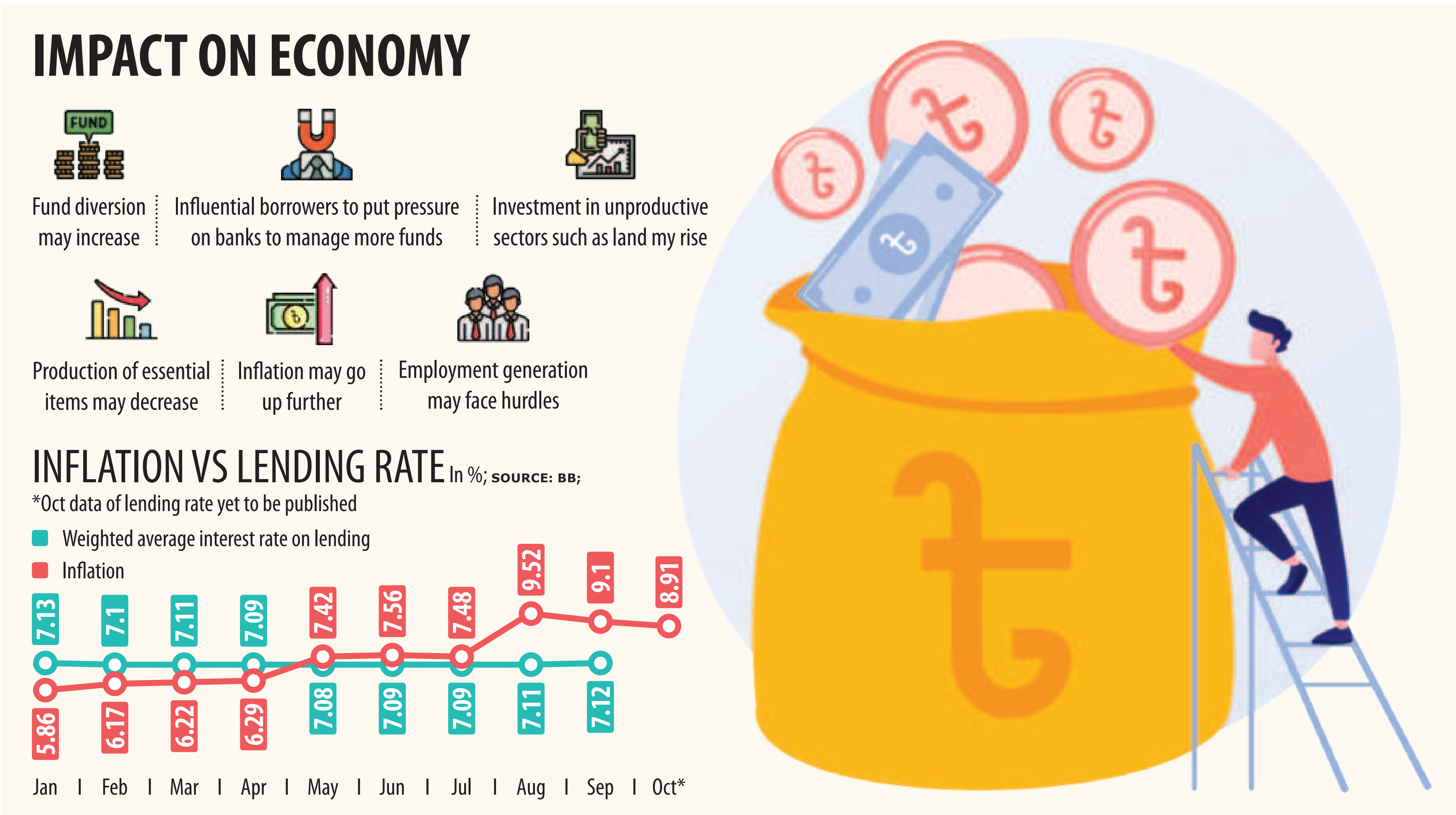


# Economy paying the price of cheap funds

## Fight against inflation not intensifying; funds being diverted to unproductive sectors

AKM ZAMIR UDDIN

The current lending rate, which equals the inflation rate, has brought about major challenges for the economy as a negative interest rate has prompted many large clients to borrow hugely despite subdued demand, giving them the leeway to divert funds to the unproductive sector.

Inflation, driven by higher commodity prices globally, surged to a 10-year high of 9.52 per cent in August and stood at 9.10 per cent in September before falling slightly to 8.91 per cent in October.

The weighted average rate of lending -- which is calculated based on the interest rate of all types of loans offered by banks -- stood at 7.12 per cent in September. This means the real interest rate was negative 1.98 per cent.

"The real cost of funds for borrowers is below zero, which is absurd," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

The real interest rate for borrowers is determined by excluding the inflation rate from the interest rate. The Bangladesh Bank publishes the weighted average rate of deposits every month. The data for October is yet to be released.

Bangladesh is particularly facing a tough situation as it has kept the lending rate capped at 9 per cent since April 2020, undermining its ability to fight the raging inflation by way of reining in the money supply.

Mansur says that the interest rate on loans may be lower than the inflation rate in an economy for a time being if the market force is allowed to determine the cost of funds.

But the lending rate will supersede the inflation rate within a couple of months in line with the characteristics of any economy, he said.

"But in Bangladesh, policymakers are artificially trying to manage the interest rate. As a result, the financial sector has started to face negative consequences."



The move to support the large borrowers with a lower interest rate has emerged as a bane for savers since banks were compelled to bring down the deposit rate below 6 per cent to ensure a handsome margin as well.

The weighted average rate of savings stood at 4.09 per cent in September, meaning that the real deposit rate was negative 5.01 per cent.

The lending cap is now ignoring the "time value of money (TVM)" as funds have become too cheap, said Mansur, also a former economist of the International Monetary Fund.

TVM is the concept that a sum of money is worth more now than the same sum will be at a future date due to its earnings potential in the interim.

Both borrowers and depositors generally tend to invest in unproductive sectors such as land when an economy faces stagnation.

The price of land in Bangladesh has already gone up, meaning that funds are going to the speculative sector, Mansur said.

If funds are invested heavily in the unproductive sector, the manufacturing of essential goods gets hampered. Under such a situation, inflation rises amid the lower production of essential items.

The outflow of funds from the banking system, alongside banks' need to buy the US dollar in exchange for the taka to settle import bills, has also contributed to the liquidity crunch in the banking sector, crowding out small and medium enterprises.

The central bank has injected more than $5 billion into the banks so far in the current fiscal year, which began in July, after supplying a record $7.62 billion in the last fiscal year.

"The demand for products is low as a large amount of the local currency has gone to the central bank," Mansur said.

"Large borrowers can manage loans using their influence and they invest the fund in the speculative sectors in many cases."

Salehuddin Ahmed, a former governor of the central bank, says employment generation faces a setback when funds are channelled into the unproductive sector.

He blamed the BB for the current situation, saying it is not monitoring the use of funds properly.

The former governor called for the withdrawal of the interest rate cap immediately in the interest of the economy.

"The common people are facing adversities deriving from the high inflation. The lending cap may fuel it further," he said.

Syed Mahbubur Rahman, managing director of Mutual Bank, says that the government has imposed the cap to gear up the productive sector.

"But small entrepreneurs are not getting expected support from banks thanks to the liquidity stress in the banking system. Large borrowers mainly manage funds since they can meet conditions."

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# BB relaxes rules for funding coal-fired power plants

STAR BUSINESS REPORT

Bangladesh Bank yesterday relaxed its rules to facilitate lending for the establishment of coal-based power plants and buying the dirty fuel to generate electricity.

As per central bank guidelines, lenders cannot disburse more than 25 per cent of their capital.

Now though, the upper limit will not be applicable for the next five years for financing coal-fired power plants, Bangladesh Bank said in a notification.

However, the central bank will determine the upper ceiling beyond 25 per cent for this period, it added.

**A senior official of Bangladesh Bank said it has relaxed the rule as coal-fired power plants require large amounts of finance**

A senior official of Bangladesh Bank said it has relaxed the rule as coal-fired power plants require large amounts of finance.

As such, the limit has been relaxed, he added while declining to comment further.

The move comes at a time when Bangladesh is producing just half of its 25,700-megawatt (MW) electricity generation capacity due to gas shortages, leading to load-shedding.

At present, two coal-based power plants are in operation while one unit of the 1,320 MW Maitree super thermal power project at Rampal in the southwest division of Khulna is expected to start operations this year.

Besides, public sector power companies are establishing three more coal-based power plants with a combined capacity of 3,840 MW in Patuakhai, Matarbari and Chattogram.

In addition, a 1,320 MW capacity coal-fired plant is being constructed by S Alam Group's SS Power in a joint venture.

M Tamim, a professor of the department of petroleum and mineral resources engineering at Bangladesh University of Engineering and Technology, said the government may be thinking it will be necessary to generate more electricity through coal-fired plants.

It may be an indirect policy decision and the financing relaxation is mostly likely for facilitating coal purchases for Rampal's power plant.

"Construction of a project usually starts after financial closure. Other than cost overrun, an

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**STOCKS**

| DSEX ▼ | CASPI ▲ |
| --- | --- |
| 0.13% | 0.10% |
| 6,384.09 | 18,899.86 |

**COMMODITIES**

| Gold ▼ | Oil ▼ |
| --- | --- |
| $1,671.7 | $90.61 |
| (per ounce) | (per barrel) |

**ASIAN MARKETS**

| MUMBAI | TOKYO | SINGAPORE | SHANGHAI |
| --- | --- | --- | --- |
| ▲ 0.39% | ▲ 1.25% | ▲ 0.14% | ▼ 0.43% |
| 61,185.15 | 27,872.11 | 3,145.83 | 3,064.49 |

# Wheat flour prices keep rising

SUKANTA HALDER

The price of wheat flour has kept rising in the retail market of Bangladesh due to a decrease in imports amid higher costs of the staple in the global markets, handing a fresh blow to the consumers already struggling to make ends meet.

Consumers in three markets in Dhaka had to pay Tk 65-66 for each kilogramme of loose flour on Thursday. It was Tk 55-58 last Sunday.

A two-kg packet of branded flour was selling at Tk 130-132, up from Tk 120-125.

Loose flour retailed at Tk 52 to Tk 55 per kg a month ago, while the packaged ones at Tk 58 to Tk 60, with the latter up 10.28 per cent, data from the Trading Corporation of Bangladesh showed.

"Prices have gone up in the last few days," said Riaz Hossain, a retailer in Karwan Bazar, one of the biggest kitchen markets in Dhaka.

The prices of wheat, the second-most consumed cereal after rice, have hit a record high in Bangladesh for the decline in imports and persistently higher prices in the international market.

The global wheat market has become volatile since the beginning of Russia's war in Ukraine in February as both countries are among the world's largest wheat exporters.

Local businesspeople say wheat imports have decreased in the past eight months.

Yesterday, traders in the Khatunganj wholesale market

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Workers unload wheat from a vessel in Chattogram. Consumers in Dhaka had to pay Tk 65-66 for each kilogramme of loose wheat flour on Thursday though it was Tk 55-58 last Sunday.

PHOTO: STAR/FILE

# Loans from export fund get costlier

STAR BUSINESS REPORT

Bangladesh Bank yesterday raised the interest rate for loans from its export development fund (EDF) by 1 percentage point to make borrowing costlier and save foreign currencies from falling, a move that comes in less than four months since it increased the rate for loans under this special fund.

From now on, exporters will have to pay 4 per cent interest annually for foreign currency loans under the special fund from banks, up from 3 per cent earlier.

Accordingly, the central bank hiked its interest rate on EDF loans to banks to 2.5 per cent from 1.5 per cent.

The development coincides with the time when foreign exchange reserves are falling gradually as imports surpass total inflows into Bangladesh because of falling exports and remittances. The local currency taka has lost its value to a large extent against the US dollar since January this year.