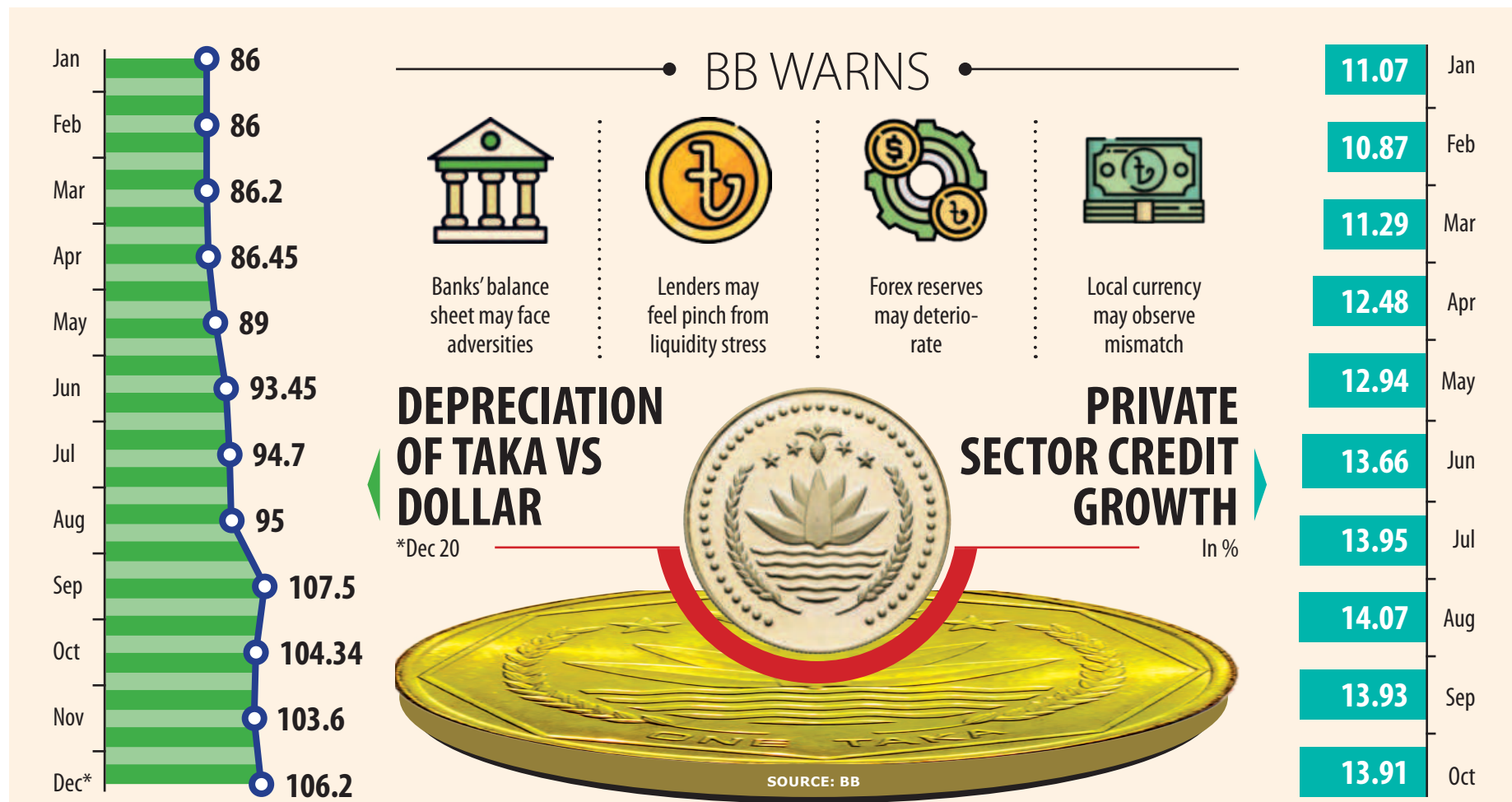


Star BUSINESS



Only two options left for macroeconomic stability

Cutting imports, making exchange rate flexible: BB report

AKM ZAMIR UDDIN

Bangladesh does not have too many policy options other than reducing consumption of goods and services and making the exchange rate flexible in order to ensure macroeconomic stability, said a central bank report.

Although the government has tightened rules to contain imports since May after foreign currency reserves began sliding in the face of escalated import bills driven by the Russia-Ukraine war and supply disruptions, there has not been a significant decline in the purchase of goods and services from the international markets.

On the other hand, the Bangladesh Bank has not allowed the exchange rate of the taka against the dollar to be determined by market forces despite repeated calls from local think tanks and economists long before the impacts of the war hit Bangladesh hard.

In September, the BB was compelled to adjust the exchange rate to a large degree in line with demand and supply to protect the reserves but the situation has not come under control completely.

Owing to the dollar shortage, the taka has lost as much as 25 per cent of its value against the US dollar since the war began in February.

Now the central bank report says: "In view of tackling external factors driven imported inflation, there are not many policy options available other than making appropriate supply-side interventions while managing the exchange rate adversities requires market-oriented flexibility."

It made the observation after carrying out a study titled "Impact of Exchange Rate and Global Commodity Price Inflation on Private Sector Credit in Bangladesh."

The BB yesterday published the research work carried out by its Chief Economist's Unit where it

cited various risks emanating from the ongoing volatility in the country's foreign exchange sector.

The report said the unprecedented depreciation of the taka has contributed to the increase in the private sector credit growth at higher rates in recent times.

It, however, said the actual private sector credit growth is lower if the depreciation is considered. This is because the calculated weighted average growth rate of the exchange rate-adjusted private sector credit was much lower than the observed growth rates of credit.



Private sector credit growth stood at 13.91 per cent in October against the current fiscal year's target of 14.1 per cent set by the BB. The credit growth was 9.44 per cent in October last year.

Import payments stood at \$25.5 billion in the first four months of this fiscal year, up 6.7 per cent a year ago.

Overall, adverse commodity price shocks and exchange rate volatility can create challenges to the economy through credit channels which ultimately impact the bank's balance sheet, the BB report warns.

A surge in import payments compared to export earnings leads to an increase in bank credit to the trade, which may create a potential liquidity

mismatch.

The shocks could unfavourably impact economic activity and the ability of agents, including the government, to meet their debt obligations, thereby potentially deteriorating banks' balance sheets, the report said.

Large commodity price shocks can also affect bank balance sheets by weighing on the reserves and increasing the risk of currency mismatches.

A currency mismatch refers to how a change in the exchange rate will affect the present discounted value of future income and expenditure flows.

On top of that, a sharp increase in global commodity prices can impact commodity importers' budgetary balance, which may drive the government to adjust its budget to contain any such budgetary imbalance.

Speaking to The Daily Star, Md Habibur Rahman, chief economist of the central bank, says that both high import payments and private sector credit growth are largely influenced by global inflation.

The local currency has faced a remarkable depreciation in recent times, playing a significant role in pushing up both import payments and private sector credit growth.

"The central bank is now moving towards allowing the flexible exchange rates to tackle the situation," Rahman said.

"In addition, making appropriate supply-side interventions is also important to make the economy vibrant."

Under the supply-side intervention, import payments will be contained through the purchase of a lower volume of goods and services from the external sources, which may go on to cut consumption.

A central banker says that the government may face difficulties in providing subsidies in a consistent manner due to the imported inflation, which will subsequently create budgetary imbalance.

BSEC lifts floor price of 169 firms

Experts welcome the move

STAR BUSINESS REPORT

The Bangladesh Securities and Exchange Commission has lifted the floor price for 169 companies in order to make the stock market vibrant.

The regulator has set the circuit breaker in a way such that the companies' stock prices would now be allowed to drop more than 1 per cent based on the previous day's closing price.

However, the limit for a rise will remain unchanged at 10 per cent, the BSEC said in an order issued yesterday.

At the end of last July, the BSEC set the floor price of every stock to halt the free fall of the market indices amidst global economic uncertainties.

The floor price was the average of the closing prices on July 28 of this year and the preceding four days.

AB Mirza Azizul Islam, a former chairman of the BSEC, backed the decision, reasoning that any intervention in the price mechanism dents investors' confidence in the long term

Due to the presence of the floor price, the turnover of the stock market dropped to less than Tk 350 crore and most of the stocks failed to attract investors.

AB Mirza Azizul Islam, a former chairman of the BSEC, backed the decision, reasoning that any intervention in the price mechanism dents investors' confidence in the long term.

Normally, big investors and analysts do not like application of the floor price. Moreover, they prefer to let the market run at its own pace, he said.

However, the participation of general investors is higher in Bangladesh's stock market and people make investments paying heed to rumours, he said.

On this logic, the BSEC set the floor price, he said, adding that if the market underwent any continuous, unjustified fall, the regulator can consider reinstating it.

"But now, the decision of lifting the floor price is okay," he said.

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| STOCKS | |
|----------|-----------|
| DSEX ▼ | CASPI ▼ |
| 0.44% | 0.41% |
| 6,198.82 | 18,308.14 |

| COMMODITIES | |
|-------------|--------------|
| Gold ▲ | Oil ▲ |
| \$1,818.5 | \$77.90 |
| (per ounce) | (per barrel) |

| ASIAN MARKETS | | | |
|---------------|-----------|-----------|----------|
| MUMBAI | TOKYO | SINGAPORE | SHANGHAI |
| ▼ 1.03% | ▼ 0.68% | ▲ 0.07% | ▼ 0.17% |
| 61,067.24 | 26,387.72 | 3,256.19 | 3,068.41 |

Formal talks kick off this week for Ceps with India

REFAYET ULLAH MIRDHA

Formal negotiations for signing a comprehensive economic partnership agreement (Cepa) with India are expected to begin this week during a visit of Tipu Munshi, the commerce minister of Bangladesh, to the neighbouring country.

Munshi is scheduled to leave today or tomorrow as prime ministers of both countries have agreed on signing this trade deal which not only includes matters pertaining to tariff but also bilateral investment and services.

"This is the beginning of the negotiations," Senior Commerce Secretary Tapan Kanti Ghosh told The Daily Star over the phone.

The initiative for negotiations has been taken in the interest of both countries, he said.

During the visit, Munshi is scheduled to discuss two more important issues.

One is the withdrawal of an anti-dumping duty on import of Bangladeshi jute and jute goods as India is a major export destination, Ghosh said.

The other is the import of seven to eight essential commodities like rice, lentil, wheat and sugar from this alternative source in times of crisis, he said.

The minister will also discuss issues related to non-tariff barriers, Ghosh said.

Leading a Bangladeshi delegation comprising some senior government officials, Munshi is scheduled to hold meetings with the Indian commerce and finance ministers to launch the Cepa negotiations.

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Farmers clear weeds from a seedbed of onion in Poshchim Khoar village of Faridpur's Saltha upazila. Around Tk 65,000 was spent behind planting 9 kilogrammes of seeds and the farmers estimate that another investment of Tk 1.80 lakh would be needed to grow the seedlings on a separate piece of land of 2.5 acres. After three months, they expect to harvest around 11,200 kilogrammes of onion, which, according to current market rates, will have a value of Tk 560,000. The photo was taken recently.

PHOTO: SUZIT KUMAR DAS

Now loan repayment relaxed for NBFIs borrowers

STAR BUSINESS REPORT

The Bangladesh Bank yesterday relaxed its term loan repayment policy for non-bank financial institutions (NBFIs), days after it extended more time to the borrowers of banks to pay back loans.

Borrowers who have taken up term loans, leases or investments from NBFIs will not be classified as defaulters if they repay, by this year, at least 50 per cent of the instalments payable as of September, according to a notice of the central bank.

The rest of the instalments could be repaid on a monthly or quarterly basis within one year after the current repayment period of the loan.

On Sunday, the BB said

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