India's forex reserves fall, now $563.5b

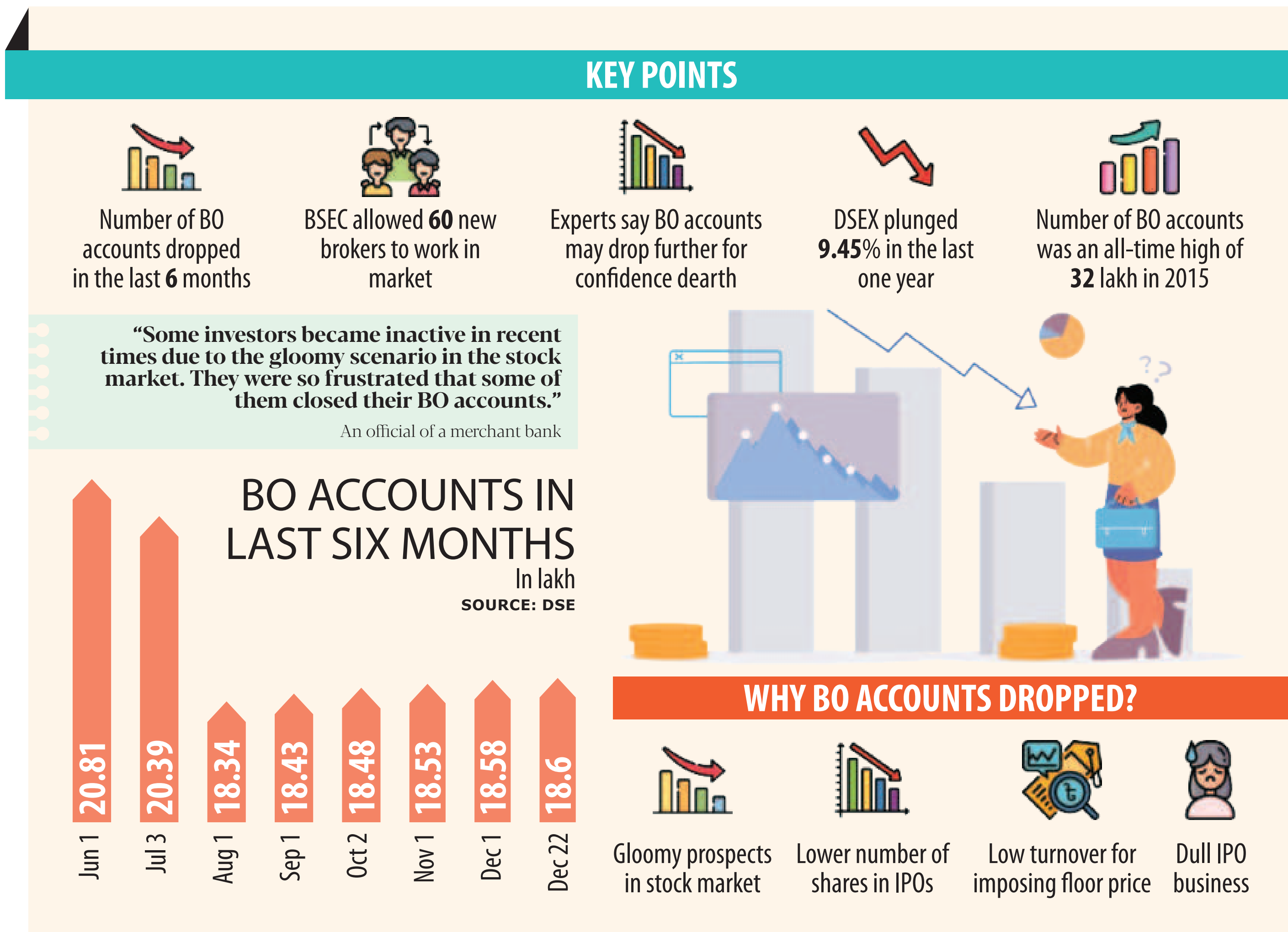
REUTERS, *Mumbai*

India's foreign exchange reserves snapped a five-week rising streak and fell to $563.5 billion in the week through December 16, the Reserve Bank of India's (RBI) statistical supplement showed on Friday.

For the week ended December 9, the country's reserves were at $564.07 billion. Overall, they have declined from $632.7 billion at the beginning of this year. The central bank has been intervening in the spot and forwards market to protect the rupee and preventing a rapid depreciation.

The rupee has been volatile against the dollar over the last few trading sessions. In the week to December 16, the Indian unit fell 0.7 per cent and traded in an 82.3975 to 82.8900 range. So far in 2022, the rupee has declined more than 11 per cent and is on course to log its worst yearly performance since 2013.

The RBI had wound down much of its forward dollar holdings by the end of October, according to data released in the central bank's monthly bulletin.



1.7 lakh BO accounts closed in 6 months for stocks gloom

AHSAN HABIB

The number of beneficiary owners (BO) accounts has decreased over the last six months in spite of the advent of 60 new stockbrokers in the stock market amidst expectations that the number of investors would increase.

There are now 18.6 lakh BO accounts, a drop of 8.7 per cent from what was in mid-July, according to Central Depository Bangladesh.

The Bangladesh Securities and Exchange Commission (BSEC) has been giving the approvals for the new brokers in phases since 2021. There are now 291 in total.

While existing stockbrokers had been criticising the arrival of the newcomers, the regulator had responded saying that the approvals were given so that they could bring new investors to the market.

However, the opposite occurred.

The number of BO accounts is reducing as the business is being squeezed, both in the primary and secondary markets, said Mostaque Ahmed Sadeque, former president of DSE Brokers' Association (DBA).

Investors could not sell shares in the last three months due to the presence of the floor price, so their confidence dropped, he said.

The number of BO accounts will reduce further as confidence has not grown among people, he added.

At the end of July this year, 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.

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.

Though the floor price was lifted for 169 companies last week, the circuit breaker's lower limit was set to allow stocks to fall by at most 1 per cent in a day, which is too little to turn the market vibrant, said Sadeque.

The BSEC should ensure support from institutional investors and then lift the floor price and set the circuit breaker's lower limit at 10 per cent as had been earlier, he said.

This may primarily cause the stock market index to fall, it would later rise again, added Sadeque, also managing director of the Investment Promotion of Services.

Actually, stock investors are not happy now with the business as the index was still almost round the year. Some of them do not want to continue maintaining their BO accounts, he said.

The DSEX, the benchmark index of Dhaka Stock Exchange (DSE), dropped 9.45 per cent this year, shows the DSE data.

As the market index is not also performing well, initial public offerings (IPOs) are also slow to come by and it was another reason of the reduction in the number of BO accounts, added Sadeque.

In 2022, nine companies and one mutual fund issued shares or units in the stock market to raise funds whereas 13 companies had got listed in the previous year, shows the DSE data.

Many investors became inactive in recent times due to the gloomy scenario in the stock market and some of them are frustrated, so they closed their BO accounts, said a top official of a merchant bank, preferring anonymity.

Most of the BO accounts that had been closed were previously being utilised for gaining IPO shares, he said.

However, now the BSEC has included some conditions to the IPO process so the IPO hunters closed their accounts to save on the maintenance costs, he added.

Investors get a very small number of shares through IPOs but still have to keep an investment of at least Tk 50,000.

The BSEC introduced a pro-rata share allocation system in 2020 replacing a lottery system, enabling whatever is being allocated to be distributed in equal portions, resulting in everyone who subscribes to an IPO getting shares.

Some of the BO accounts were closed in July as investors did not pay their account fees on making low profits in the primary market, the merchant banker added.

The number of BO accounts stood at an all-time high of around 32 lakh in 2015.

India should prepare for headwinds: IMF

REUTERS, *New Delhi*

India's future interest rate hikes should be carefully calibrated and its intervention in the foreign exchange market should be limited to managing volatility, the International Monetary Fund (IMF) said on Friday.

The Reserve Bank of India (RBI) has raised its key policy rate by 225 basis points since May, taking the rate to the highest in over three years.

"Inflation pressures have led to an appropriate shift towards policy tightening," IMF said in an annual consultation report. The report is prepared by IMF staff in accordance with Article IV of Agreement, which requires the fund to hold annual consultations with officials from member states about economic development and policies.

"Additional tightening should be carefully calibrated and communicated," it added.

Last week, minutes of the RBI's monetary policy meeting showed a majority of rate-setters were concerned about elevated inflation and felt the central bank could not afford to prematurely pause its rate tightening cycle.

The IMF projected inflation at 6.9 per cent for the current fiscal year that ends on March 31, 2023 and said price gains would moderate gradually.

The world's fifth-largest economy is broadly tipped to outperform its major global peers in the year ahead, supported by pent-up post-pandemic domestic demand, investment and credit growth, analysts say.

However, the IMF expects India's economic growth to moderate reflecting a less favourable outlook and tighter financial conditions, projecting 6.8 per cent growth for the current fiscal year and 6.1 per cent for the next fiscal year that starts on April 1.

"Uncertainty around the outlook is high, with risks tilted to the downside," the Washington-based fund said.

A sharp global growth slowdown in the near-term would affect India through trade and financial channels. It projected the current account deficit to widen to 3.5 per cent of GDP in the current fiscal year as a result of both higher commodity prices and import demand.

STOCKS (WEEK-ON WEEK)

DSEX ▼	CASPI ▼
0.87%	0.64%
6,202.21	18,327.51

COMMODITIES (AS OF FRIDAY)

Gold ▲	Oil ▲
$1,798.58 (per ounce)	$79.40 (per barrel)

ASIAN MARKETS (FRIDAY CLOSINGS)

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 1.61%	▼ 1.03%	▼ 0.36%	▼ 0.28%
59,845.29	26,235.25	3,257.70	3,045.87

Lift anti-dumping duty

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amount being offered the duty-free facility was what Bangladesh was exporting to India before the duty came into effect on January 5 of 2017.

"However, we want full removal of the anti-dumping duty...as Indian is one of the biggest markets for the local jute and jute goods," Rahman told The Daily Star over the phone.

Regarding the Cepa, Rahman said the Indian side demanded more than one month for conducting studies before formally starting negotiations.

They reasoned that signing of a Cepa between Bangladesh and India was a big deal as it includes not only tariff issues but also matters pertaining to investment and services.

On the seven commodities, India deemed that more time would be required to conduct further studies, said Rahman.

Bangladesh has been looking for alternative sources of the seven commodities because of volatility in the global food supply chain stemming from the severe fallouts of the Russia-Ukraine war.

Jute and jute goods shipment to India stumbled for the anti-dumping duty, which varies based on the item from 5 per cent to 30 per cent, by New Delhi.

During an earlier visit of Prime Minister Sheikh Hasina to India in September, she and Prime Minister Narendra Modi announced in a joint statement that the Cepa negotiations would start from December this year.

Last fiscal year, Bangladesh imported goods worth $16.19 billion from India, the second biggest source of imports after China.

In August this year, a joint study said Bangladesh might not make a large gain from a Cepa. This was due to the fact that Bangladesh would lose duty-free market access provided for it being a least developed country (LDC).

Comparatively, India will make a larger gain from the trade deal primarily through the removal of high tariff rates it currently faces in Bangladesh, said the study.

The Cepa is part of Bangladesh's preparations for retaining duty benefits once it makes the United Nations status graduation from an LDC to a developing nation in 2026.

However, Bangladesh should slowly liberalise or maintain a list of sensitive products which is widely practised in the signing of such deals worldwide, said experts.

The trade relationship with India is dominated by imports, said the study. If goods and services through informal channels are considered, imports from India will increase substantially.

If Bangladesh signs a free trade agreement (FTA) with India leaving the current high tariff rates unchanged, trade diversion effects will be substantial, experts said earlier.

The proposed deal, which calls for a withdrawal of duties, is expected to boost Bangladesh's exports by 190.15 per cent and more if transaction costs are also reduced through improved connectivity, according to the study.

India's exports to Bangladesh are expected to increase by 188 per cent. The Cepa will increase Bangladesh's GDP by 1.72 per cent and India's by 0.03 per cent, the study found.

Currently, India is Bangladesh's second biggest trading partner after China. In fiscal 2021-22, Bangladesh's exports to India hit $2 billion for the first time, while imports through the official channel stood at about $10 billion.

However, if imports through unofficial channels is factored in, the figure would stand at about $14 billion.

On average, imports from India are subjected to tariffs of about 20 per cent, fetching the state coffer about $2 billion.

It has been estimated that an FTA or agreements like the Cepa with India alone could result in trade diversion worth $700 million.

Tesla suspends production at Shanghai plant

REUTERS, *Shanghai*

Tesla suspended production at its Shanghai plant on Saturday, according to an internal notice and two people with knowledge of the matter, bringing ahead a previous plan to pause most work at the plant in the last week of December.

The US automaker cancelled the morning shift and told all workers at its most productive manufacturing hub they could start their break, said the people and the notice seen by Reuters. The company did not give a reason.

Reuters reported earlier this month that the electric car giant planned to suspend Model Y production at the plant from December 25 to January 1.

The suspension comes among a rising wave of infections after China eased its zero-Covid policy earlier this month, an abrupt move welcomed by businesses and the public but heavily disrupting business operations in the short term.

One of the people said workers at Tesla and its suppliers have also been falling sick as part of this wave, posing challenges to operations in the past week.

Tesla is also grappling with elevated inventory levels as its second largest market braces for a downturn.

The Shanghai plant has been focused on making models for export in the last week, the person added.

A media representative at Tesla China did not immediately respond to request for comment.

Non-bank deposits

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inflation-adjusted interest rates to attract deposits, NBFIs can't do the same. So, we are facing tremendous competition from banks when it comes to attracting funds. This has negatively impacted the ability of NBFIs to disburse fresh loans," Saha said.

"Unless the interest cap for banks and NBFIs is withdrawn, the problem of the financial sector to attract deposits will persist."

Saha said the growth in revenue collection by the government and its borrowing through savings certificates are not encouraging.

Under this circumstance, the government will not have other alternatives but to depend on the financial sector to borrow a huge amount of money in the coming months, especially in the last few months of the fiscal year.

"The single action of the government will be more than enough to soak up the excess liquidity in the financial sector," he said.

Saha warned that the current challenges in the overall business environment are likely to further increase the non-performing loans (NPLs) in the financial sector. The ratio of NPLs was 24.6 per cent of the total loans of around Tk 70,000 crore given by the NBFIs as of September.

BB data showed that the flow of private sector deposits, which made up 93 per cent of the total funds, declined 3 per cent year-on-year in the July-September period and 1 per cent from the previous quarter.

This was largely because of a decline in fixed deposits, which represented 97.3 per cent of the total amount in September, down from 97.47 per cent a year ago.

Shah Md Ahsan Habib, a professor at the Bangladesh Institute of Bank Management, does not think that the decline in deposits at the NBFIs is unusual since people's savings power has shrunk for the escalated prices of goods and services.

"The overall trend is that deposits in the financial sector are falling and NBFIs also operate in the same segment. Money circulation has dropped in the economy as a whole."

The investment flow to NBFIs will be affected unless deposits grow, he said, urging policymakers to take note of the development and take steps accordingly.

People's confidence in NBFIs has received a serious blow owing to several loan scams affecting the flow of funds from savers to financial institutions. M Jamal Uddin, CEO of IDLC Finance Ltd, however, said his company had not seen any dip in deposit flow even after the central bank imposed the interest rate cap.

"NBFIs that ensure good governance and have goodwill don't see any shortage of deposits."

Remittance outflow crosses

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Their salaries are paid fully in cash or to bank accounts abroad, depriving the government of tax too, said the TIB.

The estimates made by the KNOMAD demand close scrutiny to fully comprehend policy implications and priorities, said Iftekharuzzaman, executive director of the TIB, yesterday.

He said at least $3.1 billion were illicitly transferred out of Bangladesh annually by expatriate workers. In addition, the estimated amount of related annual tax evasion was at least $1.3 billion.

"This has been going on over the years due to policy gaps as well as lack of proper oversight and compliance of whatever regulatory provisions and mechanisms exist."

Particularly worrying, Iftekharuzzaman said, is the almost absence of accountability for non-compliance that involves collusion of employers and employees as well as lack of capacity and connivance of a section of relevant officials.

"There is no strategically designed business model and policy framework for the sector, no specific oversight authority, nor the necessary level of coordination among various relevant organisations."

Last year, Bangladesh received $22.20 billion in remittances but it might fall to $21 billion this year, the World Bank estimated.

Remittance sent home by more than 1.2 crore Bangladeshis living abroad represents 4.6 per cent of the GDP and thus is an important pillar of the economy.

High-income countries were the main source of remittances globally, according to the KNOMAD report.

The United States is by far the largest, with an estimated $200 billion in outward flows in 2021. Saudi Arabia ranks as the second largest, followed by the United Arab Emirates, Germany, the United Kingdom, Russia, Canada, France, Spain, and Australia.

The six Gulf Cooperation Council countries accounted for about $134 billion in outward remittance flows in 2021, and indeed, as a share of GDP or on a per capita basis, the GCC region is by far the top source region for outward remittances worldwide.

Low- and middle-income countries (LMICs) receive about 56 per cent of their remittances from high-income Organisation for Economic Co-operation and Development (OECD), 27 per cent from the GCC and other high-income countries (outside the OECD), and about 17 per cent from the other LMICs.