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Issue bonds, rely less on call money market

BB asks NBFIs

STAR BUSINESS REPORT

Bangladesh Bank yesterday asked non-bank financial institutions (NBFIs) to take initiatives such that they can mobilise funds issuing bonds instead of relying much on the interbank call money market.

Some of the NBFIs are now failing to repay depositors due to a mismatch of the maturity period of funds, according to a central bank notice.

The mismatch arises as the NBFIs usually disburse long term loans among borrowers taking short-term loans from the interbank call money market, it said.

The interbank call money market is a platform through which banks and the NBFIs borrow and lend

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FOREX-RELATED ECONOMIC INDICATORS

LC OPENING
Slumped 14%
in Jul-Dec
(year-on-year)

LC SETTLEMENT
Declined 9%
in Jul-Dec
(year-on-year)

FOREX RESERVES
Dec 29 of 2022: \$33b
Jan 25 of 2022: \$45b

DOLLAR VS TAKA
Jan 25 of 2023: Tk 106
Jan 25 of 2022: Tk 86



Why taka depreciated massively

- War-induced economic turmoil globally
- Higher prices of goods and energy abroad
- Lower remittances and exports
- Illegal capital flight

RECOMMENDATIONS

- Allow market-based exchange rate
- Lift interest rate cap
- Speed up foreign-funded project execution
- Prioritise projects on a need basis
- Ease import of raw materials



Adani loses Asia's richest crown

Stock wipeout reaches \$86b

REUTERS, Bengaluru

Shares in Indian tycoon Gautam Adani's conglomerate plunged again on Wednesday as a rout in his companies deepened to \$86 billion in the wake of a US short-seller report, with the billionaire also losing his title as Asia's richest person.

Wednesday's stock losses saw Adani slip to 15th on Forbes rich list with an estimated net worth of \$75.1 billion, below rival Mukesh Ambani, the chairman of Reliance Industries Ltd who ranks ninth with a net worth of \$83.7 billion.

Before the critical report by US short-seller Hindenburg, Adani had ranked third.

The losses mark a dramatic setback for Adani, the school dropout-turned-billionaire whose fortunes rose rapidly in recent years in line with stock values of his businesses that include ports, airports, mining, cement and power. Now, the tycoon is fighting to stabilise his companies and defend his reputation.

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AHSAN HABIB

As the US dollar shortage persists, businesses in Bangladesh are increasingly finding it difficult to open letters of credit (LCs) since banks can't supply the adequate American greenback needed to finance imports.

This means many companies can't secure the raw materials required to keep their factories up and running, which has forced them to cut production and hampered job creation.

Most of the listed companies representing various sectors that disclosed their financial reports last week said the LC opening problem has hurt their production of goods. As a result, profits have fallen drastically.

Against the backdrop, economists are recommending the government make the foreign exchange rate market-based and allow the depreciation of the local currency gradually against the US dollar in a bid to reduce the demand for the American greenback and draw remittance.

In September, the central bank fixed uniform buying and selling rates of the US dollar in order to contain the volatility in the foreign exchange market, which has been caused by a dollar shortage driven by higher import

bills amid lower export and remittance receipts.

The move eased the volatility initially to some extent but has largely failed to overcome the crisis. Rather, the dollar shortage has deepened and the crunch may linger since the factors responsible for the current

the exchange rate was adjusted, the interest rate cap on loans was not removed.

"A crawling downward adjustment of the local currency against the greenback is a must at the moment," said Bhattacharya.

He thinks that if the government does not allow



situation such as the Russian war in Ukraine and the global energy crisis are still there.

"There are multiple issues in the economy and the government is worried about investment, the banking sector and higher inflation. But a coordinated macro-management is still missing," said Debapriya Bhattacharya, a distinguished fellow at the Centre for Policy Dialogue.

The government has unveiled some policies but they were not inter-lined. So, for example, when

the adjustment, there will be a crash-landing for the taka like it happened recently.

As the foreign exchange reserves depleted fast, the local currency lost its value by about 25 per cent against the US dollar in the last year and the major depreciation took place between August and September.

Bhattacharya said the government thinks that the downward adjustment of the currency may stoke inflationary pains.

"But the government should

reduce the money supply by raising the interest rate in a bid to contain the inflationary pressure."

Inflation eased for the fourth consecutive month in December as it slipped to 8.71 per cent. In August, inflation surged to a 10-year high of 9.52 per cent.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, also thinks that the exchange rate and the interest rate should be left to the market instead of being determined by the central bank.

In April 2020, the central bank set the lending rate at 9 per cent. The lending rate was adjusted upwards to 12 per cent in January for only consumer loans.

With a market-based exchange rate, the local currency may weaken further, but it will be helpful in bringing stability in the demand and supply of dollars, Mansur said.

"If the government keeps the rate low artificially, there will be a point when it would have to be adjusted drastically and the consequences of such drastic adjustment would be much dire."

For a proper macroeconomic situation, an environment needs to be created where demand and supply should be market-based.

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DOLLAR SHORTAGE

Let taka depreciate further: economists

Fresh impetus to contactless payment

STAR BUSINESS REPORT

Bangladesh Bank yesterday widened the scope for contactless payments in order to further boost touch-and-go transactions and push the country towards a cashless economy.

From now on, contactless payments of up to Tk 5,000 per transaction can be done using debit and prepaid cards apart from credit cards, the central bank said.

Earlier, up to Tk 5,000 payment could be done through contactless credit cards. In case of debit and prepaid cards, the limit was Tk 3,000 per transaction.

"It is a revolutionary step at a time when the world is moving towards contactless payment. The more people use contactless cards, the more cashless the economy will become," said Syed Mohammad Kamal, country manager of Mastercard, a global payment technology company.

The development comes at a time when the use of cards, including contactless ones, is increasing gradually thanks to efforts by the financial institutions to popularise tap-and-pay technology, which allows users to make payments digitally and avoid close contact with salespersons during purchases.

Bangladesh Bank allowed the rollout of contactless cards since 2018, and its popularity has accelerated because of the coronavirus pandemic both locally and globally.

As of November 2022, banks have issued 3.49 crore cards, including 2.94 crore debit cards and 20.87 lakh credit cards. Card users transacted over Tk 39,000 crore in November, according to Bangladesh Bank data.

Kamal said contactless payment technology is present in more than 60 per cent of the credit cards issued in Bangladesh so far.

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CARD TRANSACTION

(As of Nov 2022)

	DEBIT	CREDIT	PRE-PAID	TOTAL
Cards	2.95 crore	20.87 lakh	32.79 lakh	3.49 crore
Transaction amount (In crore taka)	36,356	2,459	301	39,117

SOURCE: BB

TRANSACTION LIMITS

- Limit for contactless payment for debit, pre-paid cards raised to Tk 5,000 from Tk 3,000
- For transaction over Tk 5000, users have to use their PIN
- More than 60pc credit cards are contactless in Bangladesh

Loans from export dev fund made costlier

STAR BUSINESS REPORT

Bangladesh Bank yesterday raised the interest rate on loans availed from its export development fund (EDF) by 50 percentage points to make borrowing costlier in an effort to save foreign currencies.

As per the new decision, if manufacturers and exporters take loans from the EDF, they have to pay interest at the rate of 4.5 per cent whereas previously it was 4 per cent.

Meanwhile, commercial banks have to pay 3 per cent whereas it was 2.50 per cent earlier, according to a BB notice.

Banks first take money from the EDF and then use it to disburse loans among businesses.

The central bank started to increase the interest rate in July last year, when clients had to pay 2 per cent.

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Increased electronic transactions would enhance transparency and boost the state's revenue collection

A senior official of Bangladesh Bank