

Large US banks report higher profits

AFP, New York

JPMorgan Chase reported a jump in first-quarter profits Friday alongside fellow banking giants Citigroup and Wells Fargo, in reassuring news to investors after recent banking sector turmoil sparked contagion fears.

The first substantial look at the sector -- since last month's collapse of Silicon Valley Bank and two other midsized banks -- showed large banks are still benefiting in some ways from the Federal Reserve's shift towards higher interest rates and from a still-healthy US consumer.

But JPMorgan's better-than-expected results came as it warned again of a potential economic downturn while adding \$1.1 billion in reserves in case of bad loans.

Both Citigroup and Wells Fargo also added reserves in light of the uncertain backdrop, with the latter pointing to commercial real estate -- broadly seen as a vulnerable area in finance.

Friday's results significantly boosted shares of JPMorgan and Citi, but several midsized banks declined in trading.

These banks, including First Republic, Zions Bancorporation and Comerica, which have been seen as more at-risk, are scheduled to report results later this month.

JPMorgan, the biggest US lender in terms of assets, reported a 52 per cent surge in profits to \$12.6 billion. This was boosted by record revenues of \$38.3 billion, up 25 per cent from the year-ago level.



A man makes tea at a stall at the Pankhali Ferry Ghat of Dacope in Khulna last night. At the retail level, prices of sugar, widely used in such tea stalls across the country, have increased by Tk 3 to Tk 5 per kilogramme in many areas, said traders.

PHOTO: HABIBUR RAHMAN

Sugar price hike an effect of global market

MOHAMMAD SUMAN

Sugar prices have reached a record high internationally, which has had a ripple effect on Bangladesh's wholesale markets, including those in Dhaka and Chattogram.

In a span of a week, the price of each maund (around 37 kilogrammes) has increased by Tk 200 to Tk 250.

At the retail level, the price increased by Tk 3 to Tk 5 per kilogramme (kg) in some areas, said traders.

A week ago, the government fixed the retail price at Tk 104 per kg for loose sugar and at Tk 109 for packaged sugar.

The prices were supposed to come into effect from April 8.

However, consumers are having to pay at a higher rate than that set by the government.

Importers and traders said raw sugar prices in the global market have surged to a near 10-year high amidst apprehensions of a drop in production in several exporting countries, including India, Brazil and Argentina.

According to International Sugar Organization (ISO), the price of raw sugar has increased by 19 per cent in a span of one and a

half months in the international market.

On Wednesday, the sweetener was sold at \$681.20 from \$569.36 per tonne, meaning the price had gone up by \$112 during the period.

In January, raw sugar was sold at \$537.40 to \$576.90, in February at \$561 to \$570.30 and in March at \$569 to \$624.75, said the data.

"The refinery companies have reduced the supply of the product in the domestic market due to the trend of prices increasing in the international market," Abdur Razib, a wholesaler of Chattogram's Khatunganj market, told The Daily Star.

As a result, the price of the product has increased by at least Tk 5 to Tk 6 per kg in the last few days.

"Although the price of the product was announced to be reduced by Tk 3 per kg, it did not have much impact on the market. Rather, there is an upward trend again," he added.

The wholesaler said sugar was now being sold at Tk 4,180 to Tk 4,200 per maund from Tk 3,950 a week ago.

"Now the refinery companies have reduced their supply and are demanding a price higher than that fixed by the government," Abul

Hashem, vice-president of Bangladesh Sugar Merchants Association, told The Daily Star.

Yesterday sugar sold at Tk 4,250 per maund in Dhaka's wholesale markets, whereas it was sold at Tk 4,100 a week ago, he said. He claims that he was not being supplied 30 per cent to 40 per cent of his demand.

Md Yusuf, manager of Maa Store in Chakbazar, one of the biggest kitchen markets in Chattogram, said he was now selling sugar at Tk 11 to Tk 118 per kg and they were not being supplied sugar as per requirement.

"We reduced the price one week ago, as per announcement from April 8," Biswajit Saha, director for corporate and regulatory affairs at City Group, one of biggest refiners, told The Daily Star in this regard.

"We take into account how much products is being sold every day and at what price is being reported to the Ministry of Commerce. What can we do if someone sells at a higher price in the market?" he asked.

"The price of the product in the international market is currently the highest in the last 10 to 12 years. In most countries of the world, including India, prices of the product are on the rise," he added.

A perfect storm for SMEs

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four-member family. But he always thought of returning to his factory.

The time did come in the middle of 2022 when he saw that Covid-19 caseloads receded drastically. The 42-year-old restarted his factory on a limited scale and started to receive work orders again.

But the economic slowdown caused by the Russia-Ukraine war and unprecedented inflationary pains compelled people to tighten their belts. This has hit the sales of small entrepreneurs like Ahmed.

He is not alone. There are millions of micro, small, and medium enterprises in Bangladesh that have been going through a tough period due to the twin shocks within a span of three years.

According to the United Nations Industrial Development Organisation, SMEs were impacted more than large, medium, and high-tech firms. In terms of employment, layoffs had been the highest at micro firms and SMEs.

M Abu Eusuf, a professor at the development studies department at the University of Dhaka, says since micro, cottage, and small industries have lower capacity to cope, they are more vulnerable to any shock.

"They were the main victim of the twin shocks."

In a survey, the economist found that many companies laid off workers and some even shut down during

the pandemic. This was mainly seen among women-headed entities.

The central bank introduced stimulus packages involving Tk 40,000 crore for the CMSME sector to help them ride out the unprecedented crisis. But it was the medium enterprises that benefitted from the assistance. This is mainly because banks prefer medium enterprises to lend.

The SME Foundation and the Palli Karma-Sahayak Foundation disbursed more than Tk 3,000 crore among SMEs, but the fund was found to be inadequate to support their recovery.

"So, the government should focus on differentiating micro, cottage and small from medium enterprises to incentivise small industries properly," Prof Eusuf said.

Under the stimulus packages, the interest rate of the loan, which was given in the form of working capital that carries a repayment period of one year, was 4 per cent. Since the business of the borrowers did not fare well, they could not generate enough profits to pay back the loans.

But when the tenure went past a year, it became a term loan. As a result, the interest rate rose to 9 per cent, Prof Eusuf clarified.

"So, if the target is to incentivise small industries, a different policy is necessary for micro, cottage, and small entrepreneurs."

How SMEs fared in recent years

could not be known as only 12 companies are listed on the SME board of the Dhaka Stock Exchange.

DSE data showed 11 posted lower profits in 2019-20, while six companies logged lower profits in 2020-21 and five in 2021-22. The companies are yet to publish their financial data for the first half of 2022-23.

According to the last Economic Census 2013, the total number of establishments in the industrial sector was 78.18 lakh, of which 78.13 lakh, or 99.9 per cent, were CMSMEs. Of them, 87.5 per cent were cottage industries, 10.99 per cent were small, 1.33 per cent were micro, and 0.09 per cent were medium enterprises.

Due to their labour-intensive nature, more than 2.1 crore people were employed by CMSMEs.

Md Masudur Rahman, chairperson of the SME Foundation, says SMEs have been badly hurt by the unprecedented shocks stemming from the pandemic and the war.

"CMSMEs are particularly vulnerable to any shock since their capital is small and can't avail stimulus loans easily."

Because of the pandemic in 2020 and 2021, the sales of small businesses in five festivals were low as people were concerned about catching the virus, he said, adding that the festivals are the main selling season for many SMEs.

So, they fell into trouble. But many

have bounced back after the pandemic, Rahman said.

"Now, because of the dollar crisis, inflationary pressure, the reduction in the disposal incomes, and the decreasing demand induced by the war have created a perfect storm for CMSMEs."

He also called for policy support for the CMSME sector.

"Financing is the biggest problem facing CMSMEs, so a customised lending policy is necessary for them because many small firms don't have proper documents and follow standard accounting practices."

The chairman of the SME Foundation suggested the government reduce tax and value-added tax for CMSMEs.

"Especially, a local procurement law is necessary to make it mandatory for procurement agencies to buy at least 25 per cent of products from SMEs. This may give a boost to the SME sector."

Md Ali Zaman, president of the SME Owners Association of Bangladesh, says SMEs run their operations on the back of their entrepreneurial spirit.

He thinks marketing products is more challenging for CMSMEs rather than mobilising funds.

"During the pandemic, almost all CMSMEs were impacted. Some companies were closed and many of them are still struggling to resume operations."

Subsidy, interest bills

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is likely to exceed the actual allocation of Tk 56,535 crore in the original budget for the current fiscal year.

In this regard, the government has earmarked an additional Tk 21,000 crore in the revised budget although it had marginally slashed the overall expenditure. For the next fiscal year, the government may present a 12 per cent bigger budget and it has kept over Tk 200,000 crore for interest payment and subsidies.

In case of soaring interest payment pressure, higher expenditures on treasury bills are to blame.

The interest expense was higher than the annual target because of a rise in interest rates for government securities-- treasury bills and bonds, according to the quarterly debt bulletin of the finance ministry released earlier.

"Expenditure on interest is rising rapidly," Hussain said, adding that interest payment on domestic debt accounted for 73 per cent of the total allocation in the current fiscal year of 2022-23.

"This reflects increases in both interest rates on various debt instruments as well as the stock of domestic debt in recent years," he said.

"The share of interest on domestic debt in total operating expenditure has risen from 25.4 per cent in July-February last year to 27.7 per cent in July-February this year, indicating a

rather rapid narrowing of fiscal space," added Hussain.

However, he said, the reported decline in interest on foreign debt from Tk 3,205 crore in the July-February period in fiscal year 2021-22 to Tk 2,734 crore in the July-February period in FY23 is "hard to fathom".

"It is inconsistent with the payment of interest on foreign debt reported by Bangladesh in its July-February balance of payments," he said, adding, "This shows an increase from \$606 million in July-February last fiscal year to \$855 million in July-February this fiscal year."

"Considering the depreciation of the exchange rate, there is no way interest payments on foreign debt can decrease as reported in the monthly fiscal report," he said.

AB Mirza Azizul Islam, former finance adviser to a caretaker government, linked the increase in subsidy bills to higher production cost of energy and power and increase in import cost.

"Yet to me, it is not unsustainable. It is within the tolerable limit," he said.

Islam suggested that the government expand coverage of the social safety net to support more of the low-income population.

"But there has to be proper distribution, proper selection of beneficiaries so that people who really deserve can get the support," he said.

Sales at neighbouring

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Police had barricaded the road from the Science Lab intersection to Nilkhet area and from Bata Signal to New Market, primarily to enable the fire service to work uninterrupted.

Moreover, traders said power supply was deliberately kept disconnected as a safety measure.

With the April 4 Bangabazar fire just three kilometres away fresh in memory, this New Super Market blaze caused panic among the traders.

MA Hannan, one of the owners of Shobh Fabrics, a cloth retailer adjacent to Gate No-1 of New Market, said they had to keep their shop shut.

"It's peak time for business. During this period, goods worth Tk 70,000 to Tk 80,000 are sold every day. Missing a day's sales is a great loss for us," he said.

"If we can open the shop on Sunday (today), we doubt whether we will see customers arrive," he added.

Billal Ahmed, a salesman of Jotey Garment at Noor Mansion Shopping Center, was found sitting idle on a stool in front of his shuttered shop around 1:00pm.

"We are waiting to open our shop but we don't know when we can open it," he said.

Another salesman, Mohammad Rana, of Jamdani House at Dhanmondi Hawkers' Market, spoke out about his panic about the fire. "Although the firefighters' sometimes came to the market and alerted us but it's too risky for us," he said.

A 40-year-old female wholesale trader arriving from Rampura area to procure some clothes was candid. "I knew that Dhaka's New Super Market was on fire. But I found the other markets closed," she said, unwilling to share her name.

Talking to The Daily Star over the phone, Abu Obayed Rony, owner of Fire Fashion, a retailer of readymade clothes at Noorjahan Super Market, just opposite to Dhaka College, said he was able to open his shop after 4:00pm.

Over the last few days, they had been able to make sales of around Tk 40,000 to Tk 50,000 every day from dawn to dusk. "But today (yesterday) I could not sell even one product," he said.

The fire might have created panic among the buyers. "It may affect us to some extent," he said.

Similarly, Mohammad Alauddin, a salesman of New Rajdhani Fashion at Nehar Bhaban, said they were able to open after 3:00pm.

Lanka gets more time

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He made the remarks while speaking to a group of journalists at a meeting with P Nandalal Weerasinghe, governor of the central bank of Sri Lanka, on the sidelines of the 2023 Spring Meetings of the World Bank Group and the International Monetary Fund (IMF) in Washington on Friday.

The Sri Lankan governor confirmed that it would need no further extension, Talukder said.

He added: "When a loan repayment period is extended, it is not free of cost.

It adds more interest."

The island nation, which is facing its worst economic crisis in history, borrowed the fund in May 2021.

Colombo could not start repaying the loan and announced its external debt default in April of 2022 amid a deepening crisis. The loan repayment period has been extended thrice.

As per the agreement with Sri Lanka, Bangladesh was supposed to receive an interest payment of Libor plus 2 per cent if the amount was returned in three months.

The Libor, the acronym for London Inter-Bank Offered Rate, is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans. The three-month Libor averaged around 0.53 per cent in 2021.

Libor is being phased out in large part because of the role it played in worsening the 2008 financial crisis, as well as scandals involving Libor manipulation among the rate-setting banks. It will cease to exist by June 30 and will be replaced by the Secured

Overnight Financing Rate (SOFR).

Last month, Sri Lanka secured a \$2.9 billion programme from the IMF to tackle its huge debt burden.

The country owes \$7.1 billion to bilateral creditors, with \$3 billion owed to China, followed by \$2.4 billion to the Paris Club, and \$1.6 billion to India, reports Reuters on Friday.

The government also needs to renegotiate more than \$12 billion of debt in eurobonds with overseas private creditors, and \$2.7 billion on other commercial loans.

crore in taxes, data from the National Board of Revenue showed.

And save for land and flat valuation, about Tk 17,230 crore was whitened in the fiscal year. Some 4,514 land and flat owners whitened their assets by paying a tax of Tk 343 crore, showed NBR data.

The amnesty to legalise illegally earned wealth without question was curtailed in 2021-22. And the NBR has imposed rules that the taxpayers will have to pay 25 per cent tax on the undisclosed amount of money and pay a 5 per cent penalty on the payable taxes.

Amnesty to legalise black money

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questions about the source of the income. But unconditional amnesty does not allow any government agencies to question the source of the income.

"Such a facility offers the scope to legalising illegal incomes," said Rahman.

"Unconditional amnesty is unethical and illegal. This involves deliberate evasion of taxes and dodging of financial regulations."

He said it is the responsibility of

businesses and individuals to pay their fair share of taxes and comply with financial laws and regulations.

The CAB chief suggested addressing the root causes of black money and preventing its harmful effects on society.

The FBCCI demanded allowing investments of black money in the purchase of flats, plots, commercial buildings and shopping malls without any question.

If the opportunity is given, a lot of the country's money will remain inside