Bangladesh's apparel shipments to non-traditional markets rose 28.95 per cent to $2.96 billion during the January-April period of the current calendar year. PHOTO: STAR/FILE

Apparel exports to non-traditional markets on the rise

REFAYET ULLAH MIRDHA

Although garment shipments from Bangladesh to major destinations saw negative growth over the past few months due to inflationary pressure stemming from the Russia-Ukraine war, rising exports to non-traditional markets has emerged as a silver lining.

Bangladesh considers all markets other than the US, UK, EU and Canada as non-traditional.

During the January-April period of the current calendar year, apparel shipments to non-traditional markets rose 28.95 per cent to $2.96 billion, which is 19.01 per cent of the country's annual garment exports.

Japan is the top destination among major non-traditional markets, fetching $566.99 million during the four-month period, according to data from the Export Promotion Bureau and Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Exports to other non-traditional markets, such as Australia, India, South Korea and Turkey, are also on the rise but shipments to Russia, the UAE and Chile have declined in contrast, the BGMEA said in a statement.

As Asia turned out to be an increasingly promising market for us, exports to emerging markets such as Japan, India and South Korea are in an upward trend, the association added.

During the January-April period, garment exports from Bangladesh totalled $15.58 billion, of which shipments to the EU contributed $7.7 billion, down 1.55 per cent year-on-year.

Of the 27 member countries that make up the EU, those that posted negative growth in garment shipments from Bangladesh are: Germany, Denmark, Poland, Latvia, Lithuania, Malta, Bulgaria and Slovenia.

Particularly, exports to Germany declined by 21.08 per cent during the first four months of the year while shipments to France and Spain increased by 9.45 per cent and 15.45 per cent respectively.

Likewise, apparel exports to the US fell 17.86 per cent year-on-year to $2.67 billion from $3.25 billion during the January-April period of 2022.

Meanwhile, exports to Canada saw the slightest slump of 0.21 per cent to reach $455.48 million.

On the other hand, exports to the UK showed growth of 9.56 per cent year-on-year, fetching $1.79 billion during the first four months of 2023.

BGMEA President Faruque Hassan said the rising growth of exports to non-traditional markets has been offsetting the declining trend in shipments to major destinations.

For instance, Germany is the second largest export destination for Bangladesh after the US.

But as Germany is going through a recession amid recent crises, garment shipments to the country may not show positive growth any time soon.

Hassan then informed that with the growth of garment exports to Germany and the US now in negative territory, this trend could continue up till December.

But shipments to non-traditional markets, especially some in Asia like Japan, South Korea and India, will keep growing at the same time, he said.

In a statement on May 16, the Washington-based National Retail Federation (NRF) said retail sales bounced back in April, showing both month-on-month and year-on-year growth.

"Retail sales rebounded in April, reflecting consumer resilience in face of elevated economic uncertainty," said Matthew Shay, president and CEO of the NRF.

Moderating price levels, continued labour market strength and wage gains have increased consumers' ability to spend. However, they remain cautious and concerned about the current economic environment.

As such, retailers continue to provide competitive pricing and convenience to help cost-sensitive consumers stretch their budgets," he added.

Jack Kleinhenz, chief economist of the NRF, said consumers remained engaged in April.

"Shoppers are being selective and price-sensitive, but we continue to expect that spending will see modest gains through the course of the year," he added.

Kleinhenz went on to say that while year-over-year growth has slowed partly due to upward revisions of last year's data, it is also an early indication that credit conditions are tightening and excess savings are shrinking.

The NRF is the US's largest private-sector employer, contributing $3.9 trillion to the country's annual GDP and supporting one in four jobs, or 52 million working Americans.

Banks raise dollar buying rate

STAR BUSINESS REPORT

Banks in Bangladesh yesterday decided they will pay Tk 107 for each US dollar purchased from exporters in a bid to implement a single exchange rate system, replacing the existing multiple rate system.

Until today, banks paid exporters Tk 106 per US dollar. In addition, the lenders decided they will pay Tk 108.50 for each US dollar purchased from remitters instead of the Tk 108 at present.

The decision was taken at a meeting of the Association of Bankers' Bangladesh (ABB) and Bangladesh Foreign Exchange Dealers' Association, according to Selim RF Hussain, chairman of the ABB. He said the new rates would become effective from today.

"We are moving towards establishing a single exchange rate instead of a multiple rate system. As a part of the move, we are reducing the exchange rate gap between remittance and export," Hussain added.

He then said that remitters would be able to enjoy up to Tk 111.25 for each US dollar if the government incentive of 2.5 per cent is included.

Experts have long been requesting the central bank to establish a uniform exchange rate system to bring back stability in the country's foreign exchange market.

DSE turnover hits seven-month high

STAR BUSINESS REPORT

Turnover at the Dhaka Stock Exchange (DSE) increased 22 per cent from the previous day and rose to almost Tk 1,200 crore yesterday after a break of nearly seven months.

However, the DSEX, the benchmark index of the DSE, fell 6 points, or 0.09 per cent, to 6,339. The DS30, the blue-chip index, dropped 0.21 per cent to 2,198 and the DSES, the shariah-compliant index, up 0.09 per cent to 1,376.

DSE's turnover, an important indicator of the market, ended at Tk 1,198 crore yesterday, up from the previous day's Tk 976 crore.

Of the traded securities, 64 advanced, 115 declined and 182 did not show any price movement.

Agni Systems increased the most posting a 10 per cent rise followed by Trust Islami Life Insurance that rose 9.94 per cent, ADN Telecom 9.93 per cent, Pragati Life Insurance 9.07 per cent and Northern Insurance 8.74 per cent.

Eastern Insurance topped the list of losers by shedding more than 9 per cent. Jute Spinners, Islami Commercial Insurance, Metro Spinning, and Prime Islami Life Insurance suffered substantial losses as well.

Are tax policies addressing inequality?

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Islam said some policymakers have started to recognise inequality as an issue only recently.

"Now it is important to move from there to real action. If the government is serious about the matter, it can undertake necessary measures that are well-known."

He suggested raising the tax rates on higher income groups, increasing corporate tax rates, doing away with exemptions that fatten the pockets of the rich, plugging loopholes in the tax system, and introducing wealth and inheritance taxes.

Sadiq Ahmed, vice-chairman of the Policy Research Institute of Bangladesh, said international research suggests that tax policy alone may not have a strong positive impact on income distribution.

"However, a combined tax and expenditure policy package may have significant positive effects in reducing income inequality."

The use of a redistributive fiscal policy is a solution to the rising inequality.

"The best examples of successful use of redistributive fiscal policies come from the experience of countries in Western Europe. These countries raise considerable tax revenues based on a progressive income tax system and combine this with a strong social expenditure programme focused on the poor, the vulnerable and low-income groups," Ahmed said.

By contrast, Ahmed said, the tax system in Bangladesh is not geared to reducing income inequality.

"While there is a progressive personal income tax system in place, due to weak implementation, the rich tend to substantially escape the tax net through various exemptions, tax loopholes, and negotiated settlements with tax officials."

Citing the Household Income and Expenditure Survey 2016, Ahmed said it showed that the top 10 per cent of the population owns 35 per cent of the national income.

Even with an effective tax rate of 10 per cent, tax revenue from personal income taxes should amount to 3.5 per cent of GDP. But actual tax collection from personal income is about 1.4 per cent of GDP, which suggests that the effective tax rate at present is about 4 per cent, he said.

"This is very low and suggests a huge non-compliance."

He said the share of personal income taxes in total taxes is very low at less than 20 per cent.

On the expenditure side, he said, the government policy is to give priority to spending on health, education, and social protection that tends to benefit the poor and has the potential to improve income distribution.

"Despite these good intentions, actual outcomes have not been very positive. Huge shortfalls in tax revenue collections over the past several years have forced the government to cut spending to contain the fiscal deficit."

In Bangladesh, the Gini coefficient is rising steadily. It was 0.36 in 1983-84 and rose to 0.46 in 2010 and 0.49 in 2022.

Selim Raihan, executive director of the South Asian Network on Economic Modeling, said Bangladesh's tax policy is in no way inequality-reducing. "It is rather enhancing."

He said reforms efforts were taken earlier but they were not successful as the beneficiary of the inequality enhancing tax system resisted the change through different ways.

"Tax policy is an important tool for redistribution of wealth. Redistribution is not taking place. Rather money is flowing into the pockets of the rich."

Raihan suggested raising tax on the rich and increasing expenditures on health, education and social protection.

Towfiqul Islam Khan, a senior research fellow of the Centre for Policy Dialogue, said although one of the key roles of tax policies is to facilitate economic and social justice, in Bangladesh, it is overlooked.

"Our overreliance on indirect tax is the primary reason for not opting for more redistributive tax measures."

Khan said the repeated failures to mobilise the targeted tax revenue set in the budget and the tax-GDP being one of the lowest in the world make it even more difficult.

"At the same time, extending direct tax exemptions has been very common. Indeed, the overall tax policy is often a victim of vested groups."

Budget stuck

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Finance ministry data showed the average implementation rate of development projects was 81 per cent in the 13 years to 2020-21. In the case of operating expenditures such as salaries for public officials and interest on loans, the execution rate was 88 per cent between 2008-09 and 2020-21.

"It is okay if the budget is not implemented in one or two years. But it can't go on year after year. It means that there are some problems. It is necessary to identify them and sort them out," Mujeri said.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, says the budget is stuck in the vicious cycle of non-implementation.

"It is a matter of sorrow although there is nothing to be surprised. It has become business as usual."

She said the factors behind the implementation failure are not discussed in parliament.

According to Fahmida, ensuring development expenditure is necessary as it will give a boost to economic activities, attract investment, create jobs, and raise incomes.

"The quality of life will improve if fiscal measures are executed properly. Then, we will see a lot of positive effects."

Moody's cuts ratings for six local banks

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that the credit rating for local banks slipped by one notch automatically as the country's sovereign rating has been downgraded.

"The cost of doing international business is likely to increase due to the downgrade of the sovereign credit rating."

Local banks will have to pay more in charges, fees, and commissions while settling letters of credit with foreign banks, said Hussain, also the managing director of Brac Bank.

The downgrade of the sovereign rating was driven by Bangladesh's heightened external vulnerability and liquidity risks that are persistent, and the sovereign's institutional weaknesses uncovered during the ongoing crisis.

Moody's said that the downgrade of the ratings of Brac Bank, City Bank, DBBL, and EBL is driven by the cut in the sovereign rating, which measures the country's capability to provide support to banks in times of stress.

The confirmation of Brac Bank's rating of b1 reflects its better asset quality and capital compared to peers, strong deposit base and access to funding and good liquidity, said Moody's in the report.

The confirmation of City Bank, DBBL, and EBL's b2 has reflected their moderate asset quality, profitability, and capitalisation, supported by their stable deposit bases and adequate liquidity. The lowering of rating for Premier Bank and NCC Bank to b3 from b2 points to their deteriorating asset quality.

Kazi Akram Uddin Ahmed, chairman of Standard Bank, presides over its 377th board meeting at the bank's head office in Dhaka on Tuesday. Among others, Md Habibur Rahman, managing director, Md Touhidul Alam Khan, additional managing director, Mohammad Rafiqul Islam and M Latif Hasan, deputy managing directors, Md Mohon Miah, head of business development, and Md Ali Reza, acting company secretary, were present. PHOTO: STANDARD BANK