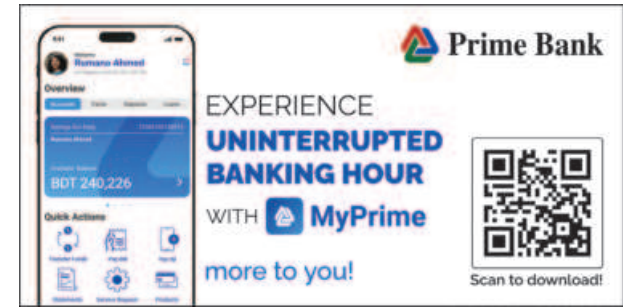


Star BUSINESS



ECONOMISTS SAY...



A hike in repo rate alone can't tackle inflation



Interest rate cap on lending should be removed



Market should be allowed to set exchange rate of dollar



Govt's borrowing from banks should be curbed

REVISION OF POLICY RATE BY BB (In %)



The central bank should stop purchasing T-bills and bonds if it wants to introduce a market-based interest rate in a true sense

Ahsan H Mansur
Executive director of PRI

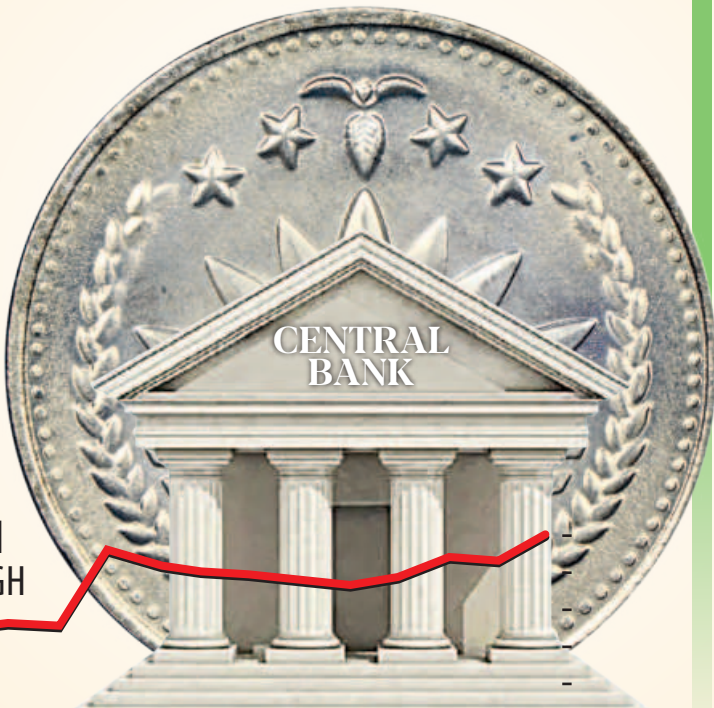


INFLATION HITS 11-YEAR HIGH (In May)

SOURCE: BBS

10%
9%
8%
7%
6%
5%

Jan '22
Feb '22
Mar '22
Apr '22
May '22
Jun '22
Jul '22
Aug '22
Sep '22
Oct '22
Nov '22
Dec '22
Jan '23
Feb '23
Mar '23
Apr '23
May '23



Can new monetary policy crush inflation?

AKM ZAMIR UDDIN

The Bangladesh Bank may today raise its key interest rates to tame inflationary pressure but the attempt might go in vain since the monetary authority may not withdraw the interest rate cap on loans in a true sense.

Usually, central banks hike interest rates to curb inflation and ensure price stability. For example, the European Central Bank hiked its key rate on Thursday, the eighth straight increase since July 2022 for the 20 countries that use the euro currency.

The BB also increased its key interest rates, or the repo rates, several times to squeeze the money supply in a bid to rein in inflation. Still, inflation has not come under control.

The policy rate, which is termed the repurchase agreement (repo), is a pivotal benchmark interest rate that commercial banks follow in fixing the interest rates on both loans and deposits. Quoting the rate, cash-strapped banks also take short-term loans from the central bank and disburse them among borrowers.

The central bank of Bangladesh started to increase

the repo rate in May last year as inflation went up following a sharp increase in the commodity prices driven by the crisis brought on by the Russia-Ukraine war.

It hiked the rate to 5 per cent from 4.75 per cent. The rate has been revised upwards four times since then and now stands at 6 per cent.

"However, the transmission of monetary policy was impaired as a result of an ongoing interest rate cap of 9 per cent for the industrial sector lending," said the World Bank in April.

Today, the BB will unveil its monetary policy for the upcoming fiscal year of 2023-24 and it comes at a time when the economy is facing mounting challenges, stemming from a higher inflation and a declining foreign exchange reserve.

Inflation raced to an 11-year high of 9.94 per cent in May, pushing up the average to 8.95 per cent this fiscal year, way above the revised target of 7.5 per cent.

According to Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, the central bank has recently said that it will introduce an interest rate-based monetary policy and roll

out a system called SMART to determine interest rates on loans.

"But the initiatives may not restore stability in the economy as they will not bring about fundamental changes to the policies the central bank is following now."



Under the existing monetary policy, the central bank now increases or decreases the money supply to achieve its inflation target. But it will focus fully on the key interest rates – repo, reverse repo, and special repo – to tackle higher prices.

The reverse repo, now 4.25 per cent, is a rate at which commercial banks keep funds at the central bank. Banks secure emergency funds from the central bank through the special

repo, the rate of which is 9 per cent now.

But the upcoming changes may not impact the money supply in the market substantially as the new system called SMART – Short-term Moving Average Rate – will not remove the existing central bank policy of fixed

interest rate cap on lending. As per plans, the central bank will initially set a monthly reference rate based on the weighted average rate, which is calculated on the basis of the interest rates of the six-month short-term treasury bill.

The BB will also set another weighted average rate for every six months based on the monthly weighted average rates of the T-bill. The rate will be called SMART, which will be adjusted

every month considering the interest rates of the treasury.

The central bank will allow banks to add a maximum of 3 per cent to the weighted average rate.

Currently, the interest rate of the six-month T-bill is 7.10 per cent, meaning that the interest rate on loans may be a maximum of 10.10 per cent, up from the 9 per cent ceiling that the BB has maintained since April 2020.

Mansur says that the central bank controls the interest rates of T-bills and T-bonds.

Since the central bank offers lower rates during the auctions of government securities, commercial banks don't get the opportunity to buy them.

"The central bank should stop purchasing T-bills and bonds if it wants to introduce a market-based interest rate in a true sense," said Mansur, also a former official of the International Monetary Fund.

The central bank's stance has given a clear indication that the interest rate on loans may go up to a little over 10 per cent.

In January, the BB increased the lending rate cap for consumer credit to 12 per cent and removed caps on credit card

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FOREIGN TRAVELS

Wealth statement may not be needed

SOHEL PARVEZ

The government is likely to discard its plan to ask for wealth statements from the people who travel abroad, according to officials of the finance ministry.

The move may come in line with the recommendation of the parliamentary standing committee on the finance ministry.

The standing committee is expected to suggest the removal of the provision in the Income Tax Bill 2023, which is seeking to make the filing of wealth statements compulsory for persons who will visit other countries except for treatment and religious purposes.

The National Board of Revenue placed the Income Tax Bill in parliament on June 8 to modernise the existing income tax system and replace the Income Tax Ordinance 1984, which is currently in force.

Besides, people who have more than Tk 10 lakh credit balance in their bank accounts are unlikely to be needed to file income tax returns. Instead, those with over Tk 10 lakh in fixed deposits may require to file returns and show proof of submission of returns in line with the recommendation of the standing committee.

Besides, the proposed rule regarding the filing of audited financial statements by firms, associations of persons and various



types of funds may be relaxed.

Firms and associations of persons with up to Tk 3 crore in annual turnover may be exempted from filing audited accounts, up from the proposed Tk 2 crore, according to an official of the finance ministry.

The proposal to allow legalising investments of undisclosed income in land is also likely to go.

However, wealthy people may see a spike in the specific amount of tax rate in the case of investments in more than 200 square metres of building spaces or apartments in Gulshan Model Town, Banani, Baridhara, Motijheel commercial area, and Dilkusha.

The amount of tax may rise to Tk 6,000 for each square metre from the proposed Tk 5,000. In the municipalities in district towns, the amount may go up to Tk 800 from Tk 700.

National BUDGET FY2023-24

Electrical equipment makers ignored

Says CEO of Energypac Engineering

JAGARAN CHAKMA

The proposed national budget for the next fiscal year does not address the interests of electrical equipment makers, which goes against the government's aim of establishing Bangladesh as an industry-intensive nation, said an official.

The government should have declared favourable policies, soft duty structures, incentives and subsidies that inspire local producers of electrical equipment, especially transformers, said Rabiul Alam, chief executive officer of Energypac Engineering Limited.

This would improve their economic contribution and ensure quality supply of power, he added.

Alam made these comments during a recent interview with The Daily Star, where he shared his thoughts on the proposed budget for fiscal year 2023-24.

He alleged that local manufacturers are always ignored despite their efforts to provide a reliable and uninterrupted supply of electricity while reducing imports of key equipment, such as transformers.

To become a developed nation, Bangladesh needs a strong backbone for its electrical power and equipment industries as this would fuel the country's economic growth, Alam added.

He said the government will likely withdraw the supplementary and regulatory duties on imported electrical equipment in the upcoming fiscal year, which will negatively impact local producers.

The market size for products used in power generation, transmission and distribution is valued at more than Tk 21,000 crore, with the

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Furniture export below potential

Manufacturers blame high tariff on raw materials

STAR BUSINESS REPORT

The wooden furniture industry in Bangladesh has not flourished as market players are unable to export their products at competitive prices amid the high tariff on imported raw materials and subsequent dearth of quality components, speakers said at a discussion.

The wooden furniture business is considered a promising sector due to the abundance of labourers, flow of capital and technological facilities available in the country, they said.

These comments came at a discussion, styled "Future of the Furniture Industry in Bangladesh", jointly organised by Hatil and The Daily Star at The Daily Star Centre in Dhaka yesterday.

The popularity of wooden furniture is increasing day by day but most raw materials, including quality wood and chemicals, have to be imported, said Salim H Rahman, chairman of the Bangladesh Furniture Industry Owners Association (BFIOA).

"By importing raw materials for export products, we lag behind in competition as the production cost is high," he added.

Rahman also said that furniture exports would increase if the sector is granted partial bonded warehouse facilities.

Local entrepreneurs currently meet about 95 per cent of the demand for wooden furniture, according to industry people.

READ MORE ON B3



PHOTO: STAR/FILE

Furniture exports will increase if the sector is granted partial bonded warehouse facilities, said an expert.

STOCKS		WEEK-ON WEEK
DSEX	CASPI	
1.15% 6,280.02	1.07% 18,560.73	

COMMODITIES		AS OF FRIDAY
Gold	Oil	
\$1,957.84 (per ounce)	\$71.84 (per barrel)	

ASIAN MARKETS				FRIDAY CLOSINGS
MUMBAI	TOKYO	SINGAPORE	SHANGHAI	
0.74% 63,384.58	0.66% 33,706.08	0.53% 3,260.03	0.63% 3,273.33	