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BUSINESS

Importers seek wider access to loans as currency slides

MD MEHEDI HASAN

The devaluation of the taka has squeezed the import capacity of industries, particularly essential commodity importers and exporters.

As dollars become more expensive, they can buy less of the greenback with the same amount of loans from banks. Consequently, they can import less goods.

Under the circumstances, edible oil importers and processors have urged the Bangladesh Bank to relax the single borrower exposure limit, which restricts banks from putting all their funds in one entity.

The Bangladesh Vegetable Oil Refiners' and Vanaspati Manufacturers' Association (BVOVMA) sent a letter to Bangladesh Bank Governor Abdur Rouf Talukder on November 12 saying their capacity to import decreased nearly 50 percent because of the devaluation of the taka.

The trade body said that the local currency devalued by 45.34 percent against the US dollar in the last two years, which adversely impacted import of goods.

As per the Bank Company (Amendment) Act, 2023, the aggregate principal amount of funded and non-funded exposure to a single person or counterparty or a group shall not exceed 25 percent of the capital of a bank at any point in time.

And the aggregate principal amount of funded exposure to a single person or counterparty or a group shall not exceed 15 percent of the capital at any point of time, according to the central bank's rules.

Importers of commodities and other goods said that they were unable to get bank loans because most of them have exceeded the single borrower exposure limit due to the local currency weakening sharply against the US dollar.

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The BVOVMA said in the letter that depreciation of the taka had led to 31.20 percent lower worth of goods being imported than before.

The price of essential goods and commodities has increased by 18-20 percent in the international market due to the Russia-Ukraine war, which is also negatively impacting imports, showed the letter.

The letter, signed by Md Hasan, president of the association, said the price of essential commodities is increasing gradually as supply is lagging behind demand.

The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) also requested the BB to revise the single borrower exposure limit on behalf of BVOVMA.

The apex trade body sent a letter signed by its president Mahbulul Alam to Abdur Rouf Talukder on November 16.

It said that the import of essential industrial raw materials had been disrupted because of the decreased loan limit, which is negatively impacting manufacturing industries and reducing economic activities.

Shafiul Ather Taslim, director for finance and operations at TK Group, one of the largest cooking oil processors, said the sector is suffering due to the taka's devaluation.

The central bank should revise the limit immediately. Otherwise the import of essential goods and commodities will fall drastically, he added.

The Ministry of Commerce on November 20 asked the central bank to revise the limit on behalf of BVOVMA.

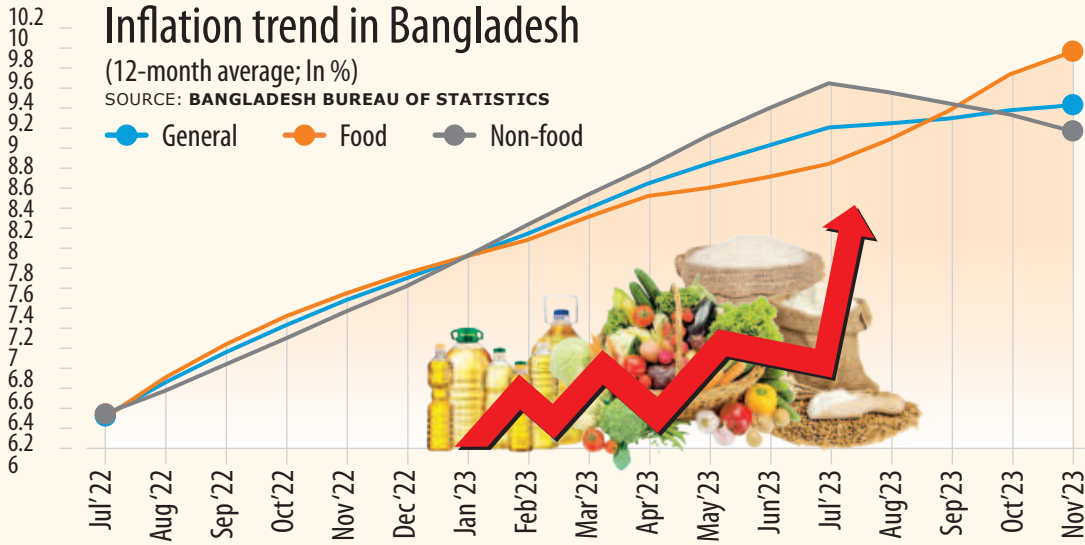
Md Shahidullah Azim, vice-president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said that not only essential goods importers, but also export-oriented industries had been adversely impacted because of the decreased single borrower exposure limit.

READ MORE ON B3

INFLATION SHOCK

A weaker taka accounts for half of it

IMF assesses links between currency depreciation in Bangladesh and surging consumer prices



A modern monetary policy will have to be formulated by targeting inflation and interest rates

Zahid Hussain
Former lead economist
World Bank Bangladesh

CPI rose **9.02%** in FY23, the highest average inflation rate in 12-yrs

CPI averaged **9.42%** in Nov

BB raised the policy rate by **250** basis points since May'22

REJAUL KARIM BYRON and MD FAZLUR RAHMAN

The pass-through of a sharp depreciation of the local currency accounted for half of the inflation surge seen in Bangladesh in the last financial year, according to the International Monetary Fund (IMF).

The worsening current account and significant tightening of the global monetary conditions have put significant pressure on the taka. To stem foreign exchange reserves losses and help restore external balance, the central bank allowed the taka to weaken by close to 20 percent over 2022-23.

The Consumer Price Index (CPI) rose 9.02 percent in FY23, the highest average inflation rate in 12 years. The price trend has continued in the current financial year of 2023-24, averaging 9.42 percent in November, figures from the Bangladesh Bureau of Statistics showed.

To estimate the pass-through of the exchange rate depreciation to inflation, an IMF paper uses the QPM (Quarterly Projection Model) to decompose inflation into the contribution of individual shocks. The exchange rate pass-through (ERPT) is then estimated as a relative contribution of uncovered interest rate parity (UIP) premia

shocks to overall inflation over the course of FY23.

The short-run ERPT ratio is estimated at 0.25, implying that the 20 percent taka depreciation in FY23 contributed to an increase in the overall price level by about 5 percent.

"In other words, of the total CPI increase of close to 10 percent in FY23, about half of it can be attributed (directly and indirectly) to exchange rate depreciation," said the IMF in a report on inflation and the exchange rate policy.

Although initially triggered by temporary cost-push factors, higher inflation has over time gotten more entrenched as second-round effects emanating from multiple sources, including rising global commodity prices, bouts of the taka depreciation, and hikes in domestic fuel and energy prices took hold.

Responding preemptively to the adverse shocks, the Bangladesh Bank (BB) has been raising the interest rates since the middle of last year.

On October 4, the central bank raised the policy rate by 75 basis points, the highest one-time increase in a decade, marking a cumulative increase of 250 basis points since the start of the tightening cycle in May 2022.

However, the gradual pace of the monetary tightening appears to not be enough to stem the second-round

inflationary pressures.

"A further tightening of the monetary policy stance is needed to bring inflation to the authorities' target range over the medium term," the IMF said.

Speaking to The Daily Star, Zahid Hussain, a former lead economist of the World Bank's Dhaka office, says there is no disagreement that depreciation has driven up inflation. However, other factors that were responsible for the elevated level of consumer prices were not cited by the IMF.

He said one of the factors was the higher credit growth, caused especially by the printing of new money to finance the budget deficit. Another factor is the US dollar shortage, which has forced the government to limit imports and caused a sharp depreciation.

Hussain said historically, the BB drew up monetary policies by targeting the broad money and the reserve money. "However, a modern monetary policy will have to be formulated by targeting inflation and interest rates."

He said inflation had surged in many countries owing to global shocks brought on by the fallout of the coronavirus pandemic and the Russia-Ukraine war.

"Inflation has fallen in most countries. But Bangladesh has not been able to bring prices

READ MORE ON B2

PRAN-RFL investing Tk 700cr to make opal glassware

JAGARAN CHAKMA

PRAN-RFL Group is investing Tk 700 crore to set up factories for the manufacture of opal glassware and polystyrene sheets.

Opal glassware refers to decorative opalescent glass articles made by the addition of fluorides and often designed for everyday use such as bowls, drinking containers and ornaments.

Annual local sales amount to approximately Tk 1,200 crores and is growing by 10 percent, according to market insiders.

Currently, there is only one manufacturer in the country, Nasir Opal Glass & Crockeries Industries Limited. Demand is mostly met through imports largely from China.

Polystyrene is a transparent thermoplastic which can be melted into a liquid at high temperatures and re-hardened into different forms, via plastic injection molding, such as polystyrene sheets.

It can be used in a myriad of applications such as food and beverage packaging, medical supplies and appliances, panels and casings.

Annual local sales amount to around Tk 150 crore and is growing by over 10 percent, according to market insiders.

Presently, it is being manufactured by Bangladesh Insulation Products, Shimu EPS Industries Ltd and Diamond Insulation Ltd for local sales whereas Walton and Samsung produce it for their own use.

Three production lines for opal glassware and one for polystyrene sheets have already been set up at Habiganj Industrial Park-II, informed Kamruzzaman Kamal, marketing director of PRAN-RFL Group.

"We will start trial production of opal glassware in January 2024," said Kamal.

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Prime Bank

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STOCKS		
	DSEX ▼	CASPI ▼
	0.16% 6,238.98	0.17% 18,507.88

COMMODITIES			AS OF FRIDAY
	Gold ▲	Oil ▼	
	\$2,052.99 (per ounce)	\$73.47 (per barrel)	

ASIAN MARKETS					FRIDAY CLOSINGS
	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	
	▲ 0.34% 71,106.96	▲ 0.08% 33,169.05	▲ 0.89% 3,140.32	▼ 0.13% 2,914.78	

Regulator bars four life insurers from spending until claims are cleared

SUKANTA HALDER

The Insurance Development and Regulatory Authority (IDRA) has ordered four life insurance companies to not spend any amount from their income through premiums, investments and life funds unless they settle claims of policyholders by the end of December.

The companies are Progressive Life Insurance Company Limited, BAIRA Life Insurance Company Limited, Swadesh Islami Life Insurance Company Limited and Golden Life Insurance Limited.

"Despite repeated instructions to pay insurance claims, there has been no improvement in the settlement of claims of the company," IDRA said in separate letters sent to the companies between December 6 and 20.

An IDRA official told The Daily Star that the major hurdle was a lack of willingness among companies to settle claims. Besides, he added, companies are unable to settle insurance claims due to an ongoing liquidity crisis.

Until the third quarter of 2023,

CLAIM SETTLEMENT SCENARIO			
As of Sep 2023			
PROGRESSIVE LIFE INSURANCE Claim: Tk 170cr Settlement: Tk 2.25cr	BAIRA LIFE INSURANCE Claim: Tk 70.43cr Settlement: Tk 53 lakh	SWADESH ISLAMI LIFE INSURANCE Claim: Tk 86 lakh Settlement: Tk 31 lakh	GOLDEN LIFE INSURANCE Claim: Tk 35.88cr Settlement: Tk 1.24cr
REGULATOR ON THE INSURERS			
Bars insurers on spending until claims settlement	Companies unwilling to settle claims	Liquidity crisis hampers ability to settle claims	Experts' View
» Lack of good governance			
» Confiscate company's properties			
» IDRA should consider filing criminal case			

Progressive Life had settled only 1.33 percent of insurance claims.

In other words, it paid Tk 2.25 crore against claims amounting to Tk 170 crore, according to the letter, which termed the settlement

ratio "very unsatisfactory" and "very disappointing".

Progressive Life has been asked not to pay more than 20 percent of first-year premiums as commission to its agents, said the letter, despite

the law stipulating that over 35 percent cannot be paid.

Payment of the remaining 15 percent will have to be deferred and adjusted with the commission on premiums of the following year, the

letter added.

If documents are required for settlement of an insurance claim, the claimant should be contacted by telephone quickly and the necessary papers should be collected to ensure quick settlement, it said.

If the documents are already available, the claim settlement should not be delayed by more than 90 days, the letter said. The insurance law stipulates that insurance claims must be settled within 90 days.

The IDRA gave similar orders in a letter sent to Golden Life on December 20.

Until the third quarter of 2023, Golden Life had settled only 3 percent of claims, paying Tk 1.24 crore against claims amounting to Tk 35.88 crore.

Meanwhile, until the third quarter of this year, BAIRA Life settled only 1 percent of insurance claims, paying Tk 53 lakh against claims amounting to Tk 70.43 crore.

Swadesh Islami Life settled 37 percent of claims until the third quarter of 2023, paying Tk 31 lakh against claims amounting to Tk 86 lakh.

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Intraco shares rise on its CNG supply move

STAR BUSINESS REPORT

Intraco Refuelling Station Ltd, a listed refuelling service provider, saw its shares rise 8.6 percent to Tk 38.9 yesterday while the main index of the Dhaka Stock Exchange (DSE) fell by 10 points to 6,238.98.

Intraco's shares were boosted after the company disclosed its plan to start commercial operations under a project for supplying compressed natural gas (CNG) from Bhola to Dhaka on December 27.

Intraco expects this move to sell gas from the southern district will increase its revenue and ensure better services for clients as per their demand, according to a company disclosure on the DSE website.

With paid-up capital of Tk 98 crore, Intraco announced 10 percent cash dividends for fiscal 2022-23.

On May 21 earlier this year, Intraco signed a contract with the state-owned Sundarban Gas Company to supply gas to different industries in Dhaka and its adjoining areas, including Gazipur and Tangail.

Under the 10-year contract, Intraco will bring CNG from Bhola using large trailers that have a carrying capacity of 5,000 cubic meters. Industries will then buy the fuel for Tk 47.60 per 1,000 cubic metres.

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