

Doreen halts Narsingdhi power plant as contract expires

STAR BUSINESS REPORT

Private electricity producer Doreen Power Generations and Systems Ltd said it has closed its 22 megawatt plant as the government has yet to extend the contract on power purchase.

The previous power purchase agreement between Doreen and the Bangladesh Power Development Board expired on December 20, the company said in a filing to the Dhaka Stock Exchange yesterday.

Doreen's power plant is one of the three plants it operates. Other plants are in Tangail and Feni.

The company said it had applied for an extension of the contract for supplying electricity to the Power Division on April 9, which is 'under consideration.'



Sweets produced from buffalo milk being sold at Jorgach Haat in a char on the Brahmaputra river under the Chilmari upazila of Kurigram. The photo was taken around a week ago.

PHOTO: S DILIP ROY

Three reforms needed for a balanced economy

Expert says during discussion

STAR BUSINESS REPORT

Three important measures, including implementation of the financial act, and exchange rate and interest rate reforms, are needed to restore balance to the economy within one or two years although there may be growing pains, a noted economist said yesterday.

Bangladesh has a good financial act and banking law, but implementing those laws to ensure good governance in the banking sector is a major challenge, said Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue (CPD).

Another reform that Rahman proposed was to ensure the foreign currency exchange rate is market-oriented. He also recommended a reform in the interest rate.

He suggested that if these three reforms could be implemented, the economy would find a stable footing within one or two years.

But implementation will be painful, Rahman added during a discussion, titled "Conversation with Mustafizur Rahman", organised by the Economic Reporters' Forum (ERF) at its office in Dhaka yesterday.

Rahman discussed different economic issues during the conversation.

He said the salaries of workers, including garment workers, should be increased to a decent level as the real income of workers

did not increase over the years. For instance, real income in Bangladesh increased by 74 percent since independence up to the year 2006, but the real income of workers increased by only 4 percent.

He also suggested that providing different facilities to workers in factories would act as a kind of incentive since Bangladesh will not be able to give direct subsidies to exporters after graduating from least developed country (LDC) status in 2026.

Politics and the economy are interrelated, he said. Good politics means a good economy and a good economy indicates good politics. For instance, increasing tax collection from the consumers is a political decision which cannot be ignored, he added.

Regarding concerns about a sanction from the US, Rahman said it was difficult to say exactly what the American government would impose on other countries.

Instead, Bangladesh should focus on reforms so that working conditions in the garment sector can be improved and other nations are convinced not to

impose any trade restrictions. He questioned why other countries needed to always put pressure for reforms, saying the country and garment sector should adopt reform themselves so no nation can speak about sanctions.

Bangladesh has three important goods, including garments, pharmaceuticals and leather and leather goods, through which the country can diversify and earn foreign currency.

The global market for garment items is worth more than \$700 billion and Bangladesh's share of the pie is nearly eight percent.

This share should be increased to at least 15 percent through diversification within garment items, such as by making more non-cotton items. And it is possible to meet that target as China, which has 31 percent of the global market share, is losing its market share rapidly, he said.

Another important sector is pharmaceuticals, which has a trillion-dollar market globally. Bangladesh needs to complete the active pharmaceuticals ingredient (API) industrial park sooner rather than later to grab a bigger chunk of the global market share.

He also stressed that the government needs to focus more on the leather and leather goods sector so that local entrepreneurs and exporters can gain more of the global market share.

On the banking issue, Rahman said the sector was witnessing a vicious cycle of corruption and money laundering due to lax monitoring by the Bangladesh Bank.

The central bank should have more independence in terms of proper monitoring of other scheduled banks, although reforming the banking sector is not possible overnight, he added.

A CPD report published on Sunday stated that the amount of money embezzled from the banking sector through loan scams since 2008 had reached Tk 92,261 crore. But Rahman added that the sum could be much higher.

He also opined that inflation may reduce to some extent, but warned that consumers would feel the pinch of purchasing goods at higher rates in the coming months.

Replying to a query, the CPD distinguished fellow said there was no possibility of famine in the country in March next year as the production of crops was good.

He added that the risk of a famine would not arise due to lower production of crops, but because of mismanagement in the distribution of crops.



BBS, WFP in deal to strengthen national statistics

STAR BUSINESS DESK

The Bangladesh Bureau of Statistics (BBS) and World Food Programme (WFP) signed a memorandum of understanding (MoU) yesterday to collaborate on poverty, undernutrition and food security surveys.

The organisations will also work together on policy advocacy studies for an upcoming 9th five-year plan, said a press release issued after the MoU signed at an event in Dhaka.

Mohammed Mizanur Rahman, director general (DG) of the BBS, and Dom Scalpelli, country director of Bangladesh at the WFP, inked the MoU.

The MoU aims to mobilise "Data for Life" and strengthen official statistics, focusing on achieving zero hunger and supporting sustainable development goals (SDGs) 2 and 17.

"We have jointly produced poverty and undernutrition maps and have been involved in policy research, like the Urban Socioeconomic Assessment Survey 2019 and the Vulnerable Group Development Survey," said Scalpelli.

The MoU aims to mobilise "Data for Life" and strengthen official statistics, focusing on achieving zero hunger and supporting sustainable development goals (SDGs) 2 and 17

"Our latest endeavour, the Food Security Assessment and Food Insecurity Experience Scale (FIES) Survey 2023, where the WFP supported in training, analysis, and report writing, is a testament to our combined efforts towards addressing hunger and undernutrition in Bangladesh," the country director added.

BBS DG Rahman said the MoU is a step forward in integrating food security indicators into surveys, like the Sample Vital Registration System Survey.

"This collaboration is essential for informing the government's 9th Five-Year Plan and enhancing our efforts to monitor progress towards the SDGs," he said.

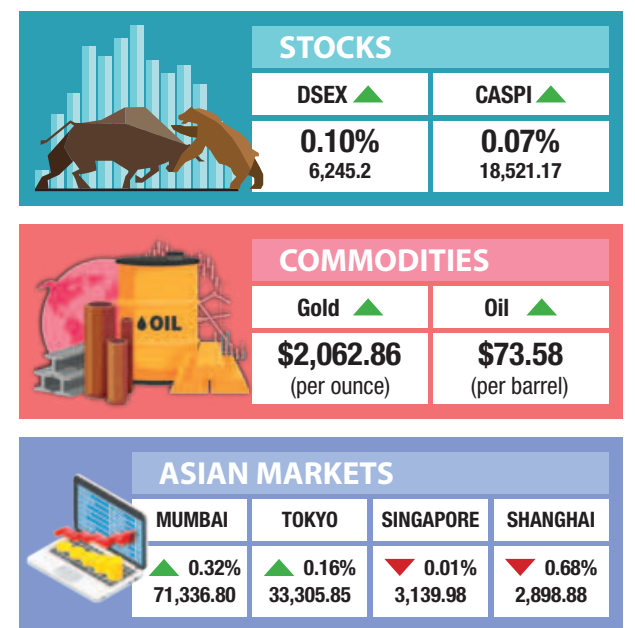


PHOTO: SONALI BANK

Md Afzal Karim, managing director and CEO of Sonali Bank PLC, Subhash Chandra Das, deputy managing director, and other officials of the bank take a photo at its head office in Dhaka yesterday with an award and a certificate which the bank won at a "SAFA Best Presented Annual Reports Award-2022" in New Delhi, India recently.

Trade in rupee

FROM PAGE B1 said, adding that Bangladesh was trying to secure rupee-linked loans from India to boost the two-way commerce.

The trade is being done through the lenders' nostro accounts, which are essentially bank accounts held in another country by domestic banks and denominated in the currency of the overseas country.

Bangladeshi exporters are receiving their proceeds in rupees in those accounts and that balance is being used to pay for imports from India.

In short, import bills equivalent to export proceeds can be settled under the mechanism. The exchange rate used is market-determined.

A senior official of the central bank says similar applications are being scrutinised by six more banks: Trust Bank, Social Islami Bank, AB Bank, NCC Bank, Prime Bank, and Premier Bank.

Industry insiders say cutting reliance on the US dollar is not possible at present since around 90 percent of foreign trade is conducted

through the global currency. Although the use of other currencies continues to rise, the growth is not fast.

"The US dollar is considered the most sustainable foreign currency in overseas trade," said Mirza Elias Uddin Ahmed, managing director of Jamuna Bank, recently.

Unlike the US dollar, the value of other foreign currencies can fluctuate very quickly against the local currency. Therefore, the US dollar is the most trusted currency, he said.

This is not only the case for Bangladesh.

The oil ministry told a parliamentary standing committee that it had not found any takers to pay for the import of crude oil in the rupee as suppliers expressed concerns about the repatriation of funds and high transactional costs, according to the Press Trust of India.

In a bid to internationalise the Indian currency, the Reserve Bank of India on July 11, 2022, allowed importers to pay with the rupee and exporters to receive proceeds in the currency.

BB asks Islami Bank to explain

FROM PAGE B1 foreign exchange houses at a higher rate than the rate declared by the BAFEDA," the central bank said in the letter.

According to the letter, when contacted over the phone, the head of treasury of Islami Bank said some foreign currencies had been purchased at a higher rate as per the advice of the high ups.

The treasury head was advised to refrain from such anti-market activities, but he did not contact the central bank informing it about its steps. The bank is still buying foreign currencies at a higher rate, the letter said.

BB Spokesperson Md Mezbaul Haque and Islami Bank Managing Director Mohammed Monirul Molla could not be reached for comments.

Between December 1 and December 22, Islami Bank received \$582 million in remittances, the highest in the banking sector.

South Asian nations succeeded

FROM PAGE B1 monetary tools like the way other central banks across the world did. The government's delayed response also drew criticism since it did not ensure an adequate supply in the market.

A Daily Star analysis of the CPI data of South Asian countries showed that Sri Lanka's inflation has plunged while Pakistan's consumer price remains flat at 30 percent.

Prices dropped in India, Bhutan, the Maldives, and Nepal. Afghanistan's inflation slipped to the negative territory.

In January this year, Sri Lanka witnessed an inflation of 51.7 percent and it was 73 percent in September 2022.

The Island nation managed to bring it down to 3.4 percent in November, according to the Department of Census and Statistics. The International Monetary Fund (IMF) attributed responsive monetary policy, strong base effects, weak demand, an appreciating rupee, and muted second-round effects for the decline.

Pakistan's CPI fell to 29.23 percent last month from a 12-month high of 37.97 percent in May, data from the central bank of the country showed.

Thanks to appropriate policy measures, India's brought down inflation to 5.55 percent in November from 6.52 percent in January, while it fell to 5.38 percent in Nepal from 7.26 percent in January.

The Maldives reported inflation of 2.64 percent in October from 3.99 percent in January. Bhutan experienced a small spike as inflation rose to 5.07 percent in October from 4.99 percent in the first month of 2023.

"Bangladesh's policymakers took too long to respond to inflationary pressures," said Zahid Hussain, a former lead economist of the World Bank Bangladesh.

"As a result, an elevated level of

inflation existed in both urban and rural areas throughout the year."

The central bank started monetary tightening in July this year although inflation has been at a higher level since June last year. It stepped up its efforts in October.

In November, the central bank raised the repo rate -- the rate at which the BB lends money to commercial banks and financial institutions -- by 50 basis points to 7.75 percent to make loans costlier and give better returns to savers.

This was the eighth hike since the start of the tightening cycle in May 2022.

The central bank started monetary tightening in July this year although inflation has been at a higher level since June last year. It stepped up its efforts in October.

A day after hiking the policy rate, the central bank also increased the lending rate to tame the skyrocketing inflation. But the 9 percent cap on lending rates between April 2020 and June this year kept the hike in the policy rate largely ineffective.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, said, "While many countries have managed to reduce inflationary pressures by using the monetary tools, Bangladeshi policymakers have shied away from doing the same."

Zahid Hussain described the BB measures as "too little and too late." He pointed out that the government financed the budget deficit by borrowing money from the BB. He likens it to printing money.

He also blamed the big market players for supply chain disruptions. "Big players in the food supply chain misused the market power to gouge prices evading the watch of the

regulators. Import controls and dollar shortage also inhibited supply."

"The shortage of foreign exchange continued as did the opportunistic use of the market power in the markets of essential food items."

The central bank has moved towards a market-driven lending rate by withdrawing the lending rate cap. But Fahmida says monetary policies will not work properly if the fiscal policy is expansionary.

"There should be coordination between monetary and fiscal policies."

Selim Raihan, executive director of the South Asian Network on Economic Modelling, a think-tank, said: "None of the steps taken so far to control inflation are working since the decisions have come belatedly and taken a while to implement."

He also said only implementing monetary policies is not enough as fiscal policies play a big role.

Raihan said the lack of proper market management has been one of the main reasons for the escalated inflation.

According to a report of the IMF, the pass-through of the sharp depreciation of the local currency accounted for half of the inflation surge seen in Bangladesh in the last financial year of 2022-23.

It said 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."

Inflation is expected to ease in the coming months on continued contractionary monetary policy, measures taken to secure a market-based exchange rate, lower global commodity prices, and a better crop outlook, according to the Asian Development Bank.

Recently, BB Governor Abdur Rauf Talukder said inflation would come down to 6 percent by June.