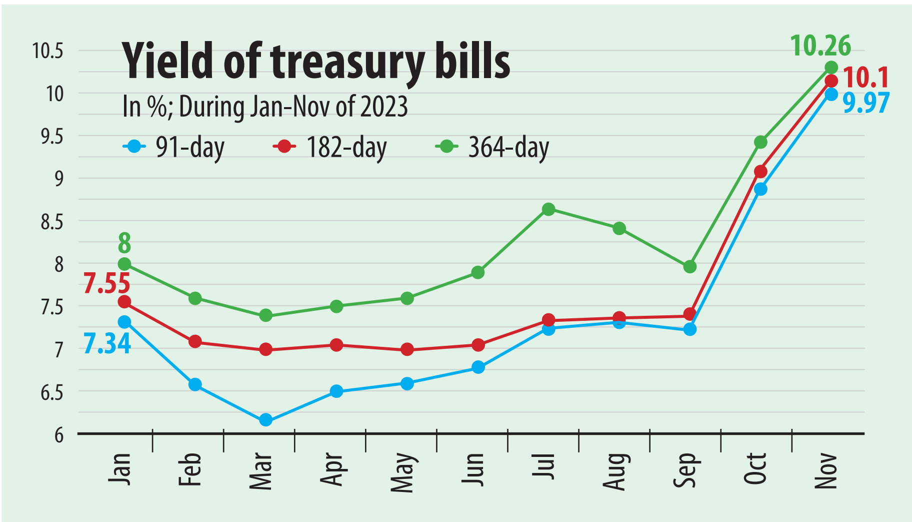
Star BUSINESS

Onion production could reach a record high this year as increased prices are encouraging farmers to expand cultivation.

Story on B4



Interest rates on treasury bills hit record as govt borrows more

STAR BUSINESS REPORT

The interest rate of treasury bills in Bangladesh has spiked in recent months, indicating that the lending rates will rise further in the days ahead.

The yield of treasury bills now stands at a decade high of over 11 percent whereas it was 7 percent to 8 percent a few months back, showed Bangladesh Bank data.

The government is now facing a fund shortage, which prompted the rise in the yield rates of the treasury bills, said industry insiders.

The central bank has suspended printing money for the government since this fiscal year, which was another reason for the government having to borrow money from commercial banks and individuals.

Separate auctions were held yesterday for treasury bills that mature in 91 days, 182 days and 364 days.

The government collected about Tk 6,183 crore from the treasury bills.

The yield of the 91-day bills is 11.15 percent, 182-day 11.20 percent and 364-day 11.50 percent.

Around Tk 4,300 crore was collected from the 91-day bills, Tk 600 crore from the 182-day ones and over Tk 1,200 crore from the 364-day securities.

The last auction for the 91-day bills was held on December 28, when the interest rate was at 11.10 percent. However, in case of the 182 and 364-day securities, the yield rates were the same.

The government generally borrows from the financial sector, including the central bank, by issuing treasury bills and bonds.

The government took around Tk 98,000 crore in loans from Bangladesh Bank in fiscal year 2022-23, which was nearly 73 percent of its total borrowing from banks and non-banks at the time.

The country's experts and economists criticised the borrowing for stoking inflationary pressure. So, the government planned to borrow from commercial banks instead.

Bankers said the higher interest of treasury bills would impact the lending rate of banks because the central bank introduced a new lending rate system linked with the debt instrument.

Bangladesh Bank withdrew the lending rate cap in June and introduced a new interest rate regime to meet conditions attached to a $4.7 billion

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Liquidity crunch widens fault lines in banking system

MD MEHEDI HASAN

A majority of banks in Bangladesh are depending on the call money market and central bank to fund their activities due to an intensifying liquidity crisis in the banking sector.

Even hikes in the interest rate associated with Bangladesh Bank's repo and liquidity support facilities have not deterred the banks from increasing their borrowing, industry people said.

On Wednesday, 32 banks and three non-bank financial institutions (NBFIs) took Tk 20,984 crore under a seven-day tenure repo facility, 14-day Islamic bank liquidity facility and one-day liquidity support facility.

A day earlier, 27 banks and one NBFI borrowed Tk 13,422 crore from the central bank. At the same time, the call money rate hit an 11-year-high.

Call money is any minimum short-term loan repayable on demand with a maturity period of one to 14 days that is used for interbank transactions.

The average overnight call money rate stood at 9.24 percent on Wednesday while it was 6.37 percent on the same day in July last year.

Industry insiders said the call money rate generally increases when banks face a liquidity crisis and then borrow funds from the market.

The crisis in the forex market, slow deposit growth, lack of trust in some shariah-based banks, higher amount of bad loans and slow loan recovery are the main reasons for the liquidity crisis.

However, the liquidity crisis deepened when the central bank recently raised the policy rate to tackle ongoing inflationary pressure in the country, they added.

The call money rate started rising fast after the banking regulator increased the policy rate by 75 basis points to 7.25 percent in October.

Then in November, Bangladesh Bank again hiked the policy rate, also known as repo rate, by 50 basis points to 7.75 percent in an effort to rein in skyrocketing inflation.

Point to point inflation stood at 9.49 percent that month, which was way above the government's target of 6 percent for the current fiscal year.

Syed Mahbubur Rahman, managing director and CEO of Mutual Trust Bank, said it has become very difficult to mobilise funds as the interest rates of government treasury bills and bonds recently rose.

Clients are withdrawing their funds from banks and investing them in government treasury bills and bonds as those offer 2 percent higher interest than the rate on deposits, he added.

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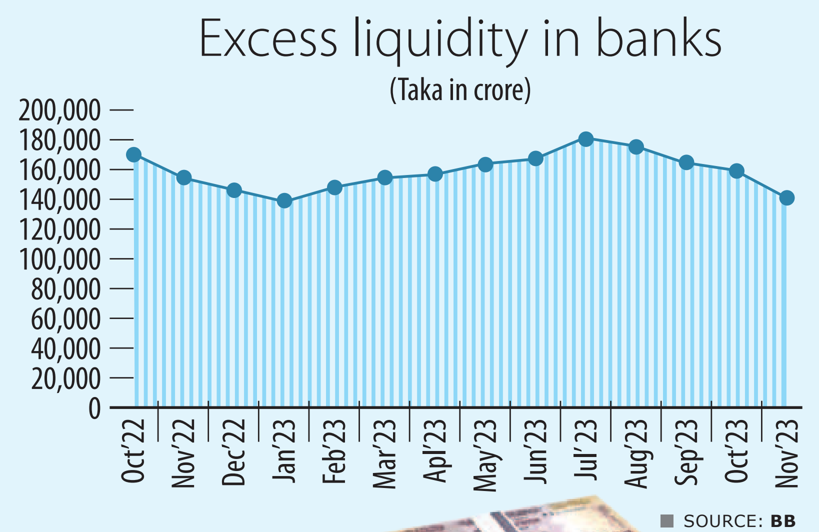
REASONS BEHIND LIQUIDITY CRISIS

- Use of taka by banks for purchasing dollar
- A lack of depositors' trust in some shariah banks
- Hike in policy rate
- Rise in interest rates of govt treasury bills, bonds
- A jump in non-performing loans in banks
- Rising amount of money staying outside banking system



INDICATORS OF LIQUIDITY CRISIS

- Banks continue to take liquidity support from BB
- Call money rate hits 11-year high
- Surplus liquidity continues to fall
- Credit growth slows
- 32 banks and 3 NBFIs borrowed Tk 20,984cr from BB on Wednesday

Facilitate import of 6 Ramadan commodities

Commerce ministry urges BB, NBR

REFAYET ULLAH MIRDHA

The commerce ministry yesterday urged Bangladesh Bank and the National Board of Revenue (NBR) to ensure availability of US dollar in banks so that businesses can import six commodities, which will be essential during Ramadan.

The ministry has sent two separate letters to the banking regulator and the tax administrator to help increase the supply of the six commodities: onions, edible oil, sugar, lentils, chickpeas and dates.

Moreover, the ministry suggested the central bank governor instruct the commercial banks to lower the margin requirement in opening of the letters of credit (LCs) to ease import of the six widely-consumed items during the Ramadan.

Currently, in some cases, the businessmen have to deposit even 100 percent as margin for importing the essential commodities, which also affect their prices in the local markets.

Senior Commerce Secretary Tapan Kanti, however, said this time he did not ask the banking watchdog to set aside US dollar for the essential commodity importers like last year.

"I only asked the central bank to prioritise the availability of dollar in the banking system to facilitate the import of the six consumer items," Ghosh told The Daily Star.

In a separate letter sent to the NBR, the secretary asked the tax authority to reduce the date import duty as the demand of this item rises almost 50

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Biman to buy Tk 1,000cr equipment, body cameras

RASHIDUL HASAN

Biman Bangladesh for the first time has taken an initiative to introduce body-worn cameras for its ground staff to get rid of the long-standing allegations of pilferage of valuables from luggage and harassment of passengers at the Dhaka airport.

The national flag carrier has also taken measures to procure around 3,600 equipment worth Tk 1,000 crore to ensure world-class ground handling services at the newly-built third terminal of the Hazrat Shahjalal International Airport (HSIA).

Biman Managing Director and CEO Shafiul Azim shared the information with the reporters yesterday while showing various ground equipment and commissioning of new ground handling equipment at the airport.

About the introduction of the body cameras, the Biman boss said: "We will be able to record every millisecond of the activities of the ground staff of Biman."

"If any passenger files any complaint, be it for the missing of luggage or theft of valuables from the luggage or harassment, we

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Financial account deficit swells as outflows intensify

SOHEL PARVEZ *and* MD FAZLUR RAHMAN

The deficit in the financial account of Bangladesh widened further in July-November as international currency outflows continued unabated amidst the drastic fall in trade credits and short-term loans, central bank figures showed.

It comes despite a 20 percent fall in imports in the first five months of 2023-24 while exports receipts rose at a snail's pace, loan payments outpaced fresh credits, and the gap in the trade credit grew larger.

The financial account, a key component of a country's balance of payments (BoP), records transactions that involve financial assets and liabilities and that take place between residents and non-residents.

It covers claims or liabilities related to foreign direct investments, medium and long-term loans, trade credits, net aid flows, portfolio investments, and reserve assets.

Figures from the Bangladesh Bank showed that the deficit in the financial account stood at $5.39 billion in the five-month period of FY24, which was $4.03 billion in July-October.

The situation was a stark reversal from the identical period of the last financial year when the financial account was in surplus at $1.26 billion. But the apparently sound health in the financial account could not be maintained at the end of 2022-23 as foreign currency outflows outpaced inflows.

Consequently, in FY23, the financial account was $2.1 billion in deficit, in contrast to a $15.5 billion surplus a year earlier.

Md Habibur Rahman, chief economist at the BB, said a decline in the flow of short-term loans in the banking sector widened the deficit in the financial account.

The financial account witnessed an outflow of 0.5 percent of gross domestic product (GDP) in FY23, compared to inflows historically averaging about 2.5 percent of GDP, signaling capital flight, according to the International Monetary Fund (IMF).

The financial account experienced a sharp reversal owing to faster than anticipated global monetary tightening, lower than estimated project finance disbursements, significant delays in repatriation of export proceeds, decline in trade credit and private external credit inflows and higher repayments than new loans owing to a spike in global financing costs, the IMF said.

The same situation appeared to have persisted in FY24.

For example, the trade deficit, which takes place when imports surpass exports, narrowed to $4.76 billion in July-November, against $11.82 billion during the same period last year.

Exports rose 1.19 percent year-on-year to $20.96 billion whereas imports plunged 20.94 percent to $25.72 billion.

The deficit in trade credit, the difference between export shipments and export receipts, rose nearly five-fold to $5.38 billion in July-November from last financial year's $1.09 billion. It was $3.73 billion negative in July-October.

The lower export receipts raised eyebrows in recent times as the foreign currency reserves are not picking up owing to the phenomenon.

Unrealised export proceeds -- the difference between export shipments and realised export proceeds -- increased to $9.6 billion amounting to 2.1 percent of GDP in FY23, according to the IMF.

Foreign fund disbursements declined 14 percent in July-November.

Gross FDI inflow declined 14.50 percent to $1.85 billion, while the net portfolio investment stood at $37 million negative, up from $16 million during the five-month period of FY23.

Investment by non-resident Bangladeshis slipped 2.04 percent to $48 million.

Net aid flows improved to $1.05 billion in July-November from $901 million in July-October. It was $1.67 billion in the first five months of FY23.

Medium and long-term loans from the external sector declined 20.70 percent to $1.87 billion. On the other hand, repayments rose 20.5 percent to $823 million.

It comes as central banks globally have unleashed the steepest series of interest-rate increases in decades during their two-year drive to tame inflation—and they may not be done yet, according to a writeup of the IMF in October.

Central banks have raised rates by about 400 basis points on average in advanced economies since late 2021, and around 650 basis points in emerging market economies. As a result, frontier and low-income countries are having a harder time borrowing in hard currencies like the euro, yen, US dollar and UK pound.

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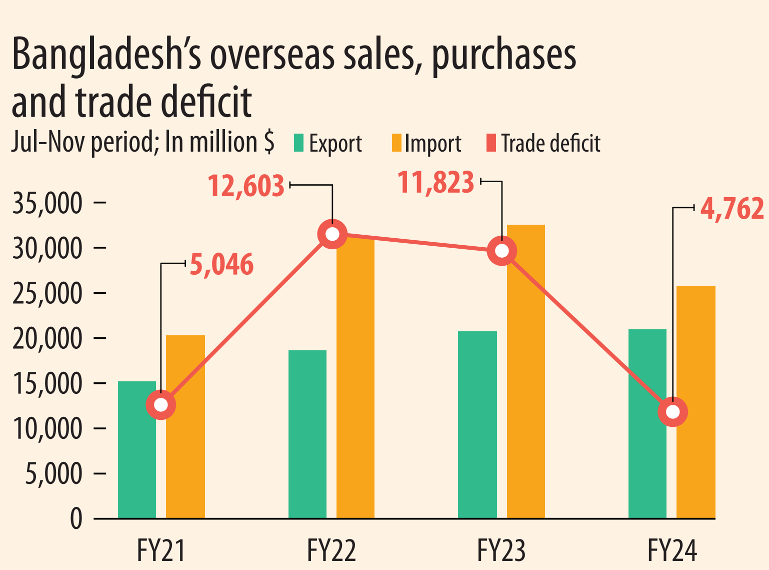
Why financial account experienced a sharp reversal in FY23

- Faster than anticipated global monetary tightening
- Lower than estimated project finance disbursements
- Significant delays in repatriation of export proceeds
- Decline in trade credit and private external credit inflows
- Higher repayments than new loans



> The financial account is expected to improve, including through timely repatriation of export proceeds, in the current fiscal year.
>
> THE IMF SAYS