

Star BUSINESS

Motorcycle sales hit a five-year low in 2023 following a gradual decline over the past few years due mainly to inflationary pressure



Story on B4

Investment rises as Bangladesh conquers the world of denim

REFAYET ULLAH MIRDHA

Bangladesh has conquered the global denim market by becoming the top supplier of the popular garment item to both the EU and US, with local investors continuing to pour in funds to capitalise on further growth in global markets.

Bangladesh has been the top denim exporter to the EU since 2017, with one out of three people in the continent donning denim pants produced in the country.

But given that worldwide demand is growing, businesses are looking to enhance their capacity in order to grab a bigger slice of the \$64.5 billion global denim market. Local exporters currently supply denim products worth nearly \$5 billion worldwide.

The global denim market is projected to rise to \$76.1 billion by 2026, growing at a rate of 4.8 per cent annually, according to various estimates.

As such, local entrepreneurs have invested nearly Tk 25,000 crore in the denim segment of the primary textile sector, which already has 42 modern mills capable of supplying over 900 million metres of denim fabrics each year.

Around a decade ago, investment in the denim sector, which had around 12 mills, stood at Tk 8,000 crore. Yet, over the past few years, Bangladesh has overtaken China in denim supply to both the EU and US markets.

A local mill has invested Tk 1,500 crore to establish two denim mills at Habiganj, targeting to export denim worth \$700 million over the next five years, according to data of the Bangladesh Textile Mills Association (BTMA).

Apart from the EU and US, the Indian, Japanese, Chinese, Latin American and Middle Eastern markets are emerging as

INVESTMENT

Investment in denim sector rising rapidly
Total investment now stands at **Tk 25,000cr**
Investment was **Tk 8,000cr** ten years ago

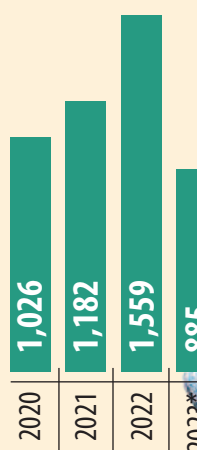
EXPORTS

Bangladesh exports nearly **\$5b** denim in a year
Bangladesh is the No. 1 denim exporter to US and EU
One in every three denim jeans in Europe is made in Bangladesh

Denim export to EU

(In million \$)
*Jan-Sep

SOURCE: EUROSTAT



PRODUCTION

Annual production more than **900m** metres
Total number of denim mills **42**
Number of mills was **12** ten years ago

GLOBAL MARKET

Size is more than **\$64.5b**
Size will be **\$76.1b** by 2026

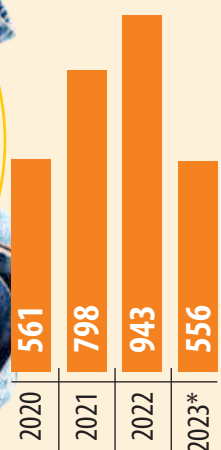
EXPORT MARKET

US, EU, India, Australia, Japan, China, Latin America and Middle East

Denim export to US

(In million \$)
*Jan-Oct

SOURCE: OTEXA



rising export destinations for denim from Bangladesh.

Syed M Tanvir, managing director of the Chattogram-based Pacific Jeans Ltd, one of the largest suppliers of denim jeans in Asia, said they were aiming to increase denim production by more than 12 percent this year compared to 2023, when

they produced 45 million pairs of denim jeans for export.

"The outlook for denim in 2024 is better than last year, so the export of denim items is expected to grow this year," Tanvir told The Daily Star over the phone.

Demand for denim has been rising worldwide because of changes in fashion and because denim is more flexible and comfortable, he said.

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BB to adopt crawling peg. Can it end exchange rate volatility?

MD MEHEDI HASAN

The Bangladesh Bank is going to adopt a new exchange rate regime known as the crawling peg as per the prescription of the International Monetary Fund (IMF), ruling out the possibility of a market-driven exchange rate many have suggested.

The crawling peg is expected after the central bank failed to end the volatility in the foreign exchange market by adopting various tools. Experts allege that the BB has not implemented the tools in a proper way.

The central bank is likely to introduce the new exchange rate system on January 17 when it is expected to unveil its monetary policy statement (MPS) for the January to June period.

The crawling peg is a system of exchange rate adjustments in which a currency with a fixed exchange rate is allowed to fluctuate within a band of rates. The method fully uses the key attributes of the fixed exchange regime, as well as the flexibility of the floating exchange rate regime.

Currently, only three countries – Botswana, Honduras, and Nicaragua – use a crawling peg, according to the IMF.

In 2022, some 13.4 percent of the IMF members used the hard peg, 46.9 percent the soft peg, which includes the countries using the crawling peg, and 34 percent floating exchange rates.

Crawling pegs are often used to control currency moves when there is a threat of devaluation due to factors such as inflation or economic instability. At the same time, maintaining a crawling peg imposes constraints on monetary policy like a fixed peg system, the IMF said.

According to the IMF's annual report on exchange arrangements and exchange for 2022 released in July last year, Bangladesh is one of 24 nations that follow crawl-like arrangements. Other nations include Algeria, Gambia, Kenya and Sri Lanka.

Bangladesh's foreign exchange regime has been facing serious volatility for the past two years, with the stock of forex reserves halving and the taka losing its value by about 28 percent.

The reserves stood at \$20.18 billion on January 10 from \$40.7 billion in August 2021.

The reserves have been declining for the

lower receipts in the form of exports and remittances and higher outflows through an elevated level of imports. Capital flight is also blamed for the drying up of reserves.

Currently, the Bangladesh Foreign Exchange Dealers Association (BAFEDA) and the Association and Bankers Bangladesh (ABB) are fixing the dollar rate. Experts say the rate-setting model is not working.

Officially, banks can buy US dollars at Tk 109.5 and sell them at Tk 110. But the unofficial rates are Tk 8 to Tk 10 higher per USD. The exchange rate was less than Tk 90 before the eruption of the Russia-Ukraine war.

Still, importers struggle to secure an adequate supply of the US dollar at the official rate.

Yesterday, the central bank's monetary policy formulation committee held a meeting to decide the next course of their policy to fight higher consumer prices.

According to an official, there will not be a market-based exchange rate. "Rather, the crawling peg will be introduced with assistance from the IMF."

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What is a crawling peg?

STAR BUSINESS REPORT

A crawling peg is a system of exchange rate adjustments in which a currency with a fixed exchange rate is allowed to fluctuate within a band of rates.

The par value of the stated currency and the band of rates may also be adjusted frequently, particularly in times of high exchange rate volatility, according to Investopedia.

Crawling pegs are often used to control currency moves when there is a threat of devaluation due to factors such as inflation or economic instability. Coordinated buying or selling of the currency allows the par value to remain within its bracketed range.

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Foreign debt falls to \$96.55b

REJAUL KARIM BYRON

Bangladesh's foreign debt decreased 1.5 percent to \$96.55 billion in the first quarter of the current fiscal year as repayments by the private sector outpaced new borrowings.

The country's overall foreign debt stood at \$98.11 billion as of June 2023. In July-September of 2023-24, foreign debt in the private sector fell by \$0.98 billion to \$21.28 billion.

In December 2022, overall foreign debt in the private sector amounted to \$24.31 billion before declining to \$22.26 billion in June last year.

Of the private sector borrowing, short-term debt accrued in January-November of FY24 was \$4.45 billion less compared to the \$11.96 billion availed during the same period in 2022-23.

However, the decrease emerged as a challenge for the central bank to maintain its foreign currency reserves.

As per calculations by the International Monetary Fund, the reserves were \$24.75 billion in June. On January 10 this year, it stood at \$20.18 billion.

Zahid Hussain, a former lead economist of the World Bank's Dhaka office, said the decrease in short-term private external financing could be a result of lower demand resulting from increased financing costs in international markets and the depreciation of the taka.

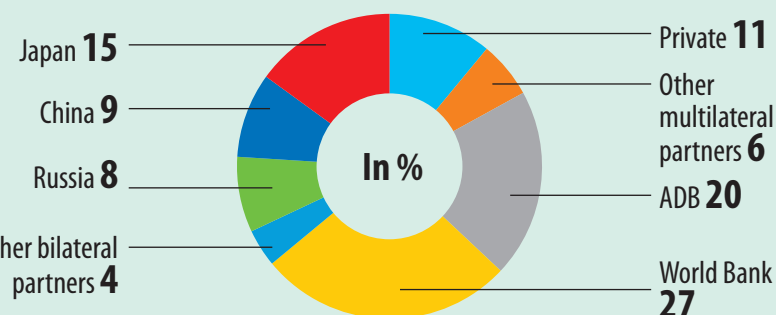
"The outstanding loans are mostly variable rate loans linked either to the Libor or SOFR. These have been rising and the taka has depreciated significantly."

"The London Interbank Offered Rate (Libor) was the global reference rate for unsecured short-term borrowing before it was replaced in June by the Secured Overnight

Bangladesh's debt by creditor and creditor type

(Including IMF credit)
In 2022

SOURCE: WORLD BANK



Countrywise external debt and their ratios in 2022

	Bangladesh	India	Pakistan	Sri Lanka	Vietnam
Total external debt stocks (In billions of \$)	97	617	127	59	147
External debt stocks (In % of export)	160	78	320	358	38
Debt services (In % of export)	11	8	42	19	7

Financing Rate (SOFR).

Hussain also said that before 2021, the interest rate on private sector foreign debt was less than 1 percent while it now ranges between 8 and 9 percent.

"If the base rate of the SOFR is considered, the interest rate will be 5.5 percent. Another 3 to 3.5 percent will be added to this if various charges are considered."

Hussain went on to say that there may be a confidence problem in rolling over of debts owing to uncertainty about the ability of Bangladeshi borrowers to make timely repayments.

"I think this is the key factor behind the decrease in private sector foreign debts," he said, adding that repayments remain higher than borrowing as a result.

Due to the US dollar shortage, it has become hard to settle letters of credit while it is not possible to make foreign payments for the energy sector on time.

Another reason could be that international rating agencies have downgraded Bangladesh's credit outlook, he added.

"Considering all these, foreign creditors' confidence on the private sector's ability to repay has reduced."

According to the World Bank's international debt report for 2023, which was released in December, Bangladesh only lags India among South Asian countries in terms of overall external debt.

But when it comes to gross national income (GNI), Bangladesh's foreign debt servicing is less than India.

In 2022, Bangladesh's debt

servicing was just 1 percent of GNI while the total external debt was 20 percent of the GNI. On the other hand, India's debt servicing was 2 percent of the GNI and the country's total external debt was 19 percent.

Hussain said Bangladesh's foreign debt remains at a comfortable level as it is still low compared to the national income.

"This means the country's debt dynamics are still favourable."

However, there are concerns as cited in the joint debt sustainability report of the World Bank and the IMF.

"The concern is if there are no foreign currencies, how can the debt be repaid?" asked Hussain.

"So, if for some reason the country's export sector faces risk, there might be problems in the case of debt repayment."

NBR lifts advance tax on import of computer accessories

STAR BUSINESS REPORT

The National Board of Revenue (NBR) has lifted Advance Tax (AT) on import of parts and accessories for computers to be made locally, according to a notification.

The revenue administration removed the AT, a kind of Value Added Tax, two and half years after it granted a VAT exemption on the import of computer accessories to encourage domestic manufacturing in July 2021.

At present, 3 percent AT is applicable on raw materials and accessories for items made locally.

Following removal of the AT on import of computer parts, domestic manufacturers will not need to pay the tax, which is refundable after adjustment of the payable VAT.

A senior official of the NBR said there is no VAT for local manufacturing of computers.

As a result, they cannot readjust the AT. So, they have to wait for the refund of their capital, which remains blocked for months.

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WEEKLY INTERVIEW



'Gas, dollar crises derail business expansion plans'

STAR BUSINESS REPORT

Demand for credit has not increased as businesses have had to suspend their investment and expansion drives for the natural gas and dollar crises.

"Expansion is difficult without energy security," said Mir Nasir Hossain, managing director of Mir Akhter Hossain Ltd, one of the major construction companies in Bangladesh.

"Another problem is the US dollar shortage for which we are facing difficulties to import spare parts and capital machinery," he told The Daily Star in an interview yesterday.

Dealing with civil and building construction works including five-star hotels, roads, bridges, flyovers, power

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