

Star BUSINESS

Small businesses have been facing difficulty in opening LCs to import ingredients or inputs to make finished products



Story on B4

Govt to build two fertiliser factories

Says industries minister

STAR BUSINESS REPORT

The government is planning to set up two fertiliser factories for the country to become self-sufficient in fertiliser production, said Industries Minister Nurul Majid Mahmud Humayun yesterday.

One will be established in Ashuganj and the other in Bhola. "We've sketched out a plan to this end after getting a directive from the prime minister," he said.

Humayun was addressing a views-exchange meeting with officials at the ministry, said a press release. The officials later organised a reception marking the minister taking office a second time.

The ministry has taken up another initiative to provide the leather industry incentives similar to those granted to the garment sector to give fresh impetus to the export of leather goods, he said.

"We will work together to implement the prime minister's dream journey of development prioritising our election manifesto and people's expectations," said the minister.

The ministry and its directorate are working to increase employment opportunities and enhance skills development, he said. [READ MORE ON B3](#)

State telcos should be profitable by June: Palak

STAR BUSINESS REPORT

The officials of companies under the telecom division will have to leave their respective entities if they fail to start making profits by June this year, State Minister for Post, Telecom and ICT Zunaid Ahmed Palak said yesterday.

"If they can't become profitable by June 2023, the officials of those companies will no longer be there and we may have to make tough decisions about the companies. There will be no compromise," he said.

Palak made the comments during a meeting with officials from different departments and companies under the Post and Telecom Division at the secretariat in Dhaka.

The companies under the telecom division are Bangladesh Telecommunications Company Ltd, Bangladesh Submarine Cable Company Limited, Teletalk Bangladesh Ltd, Telephone Shilpa Sangstha Ltd, Bangladesh Cable Shilpa Limited, and Bangladesh Satellite Company Limited.

Of them, only two – Bangladesh Cable Shilpa Limited and Bangladesh Submarine Cable Company Limited – are profitable entities, Palak said.

Moreover, the state minister said the profitable two should also work to increase their profits further.

Handset production drops for first time amid currency surprises

CURRENT STATE of mobile manufacturing

- Industry witnessed first downturn in 2023 since 2017
- Local production dropped by 27% in 2023
- Sales declined by over 35%
- New VAT at sales stage raised price
- Costly dollar contributed to price hike



CHALLENGES

- Difficulties in LC opening
- Price spiral
- Expansion of grey market



SECTOR AT A GLANCE

- 17 handset plants set up since 2017
- Local value addition 15% to 20%
- Locally made phones meet 99% demand in formal market

TAX RATES

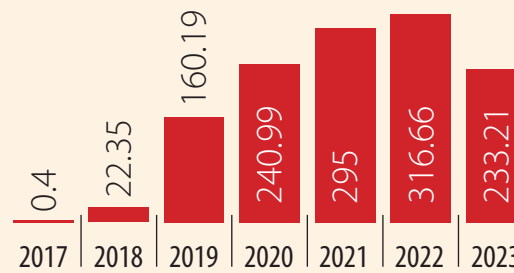
- For imported handsets: 58%
- For locally-made handsets: 15% (VAT on sales stage will be added)

EMPLOYMENT

- Total employment: 15,000
- Over 98% employees are local

Handset manufacturing

In lakh units; SOURCE: BTRC



MAHMUDUL HASAN

The local production of handsets dropped in 2023, the first decline since domestic manufacturing began in Bangladesh in 2017, owing to the higher US dollar rate, an increase in taxes, and lower sales amid an erosion of purchasing power of consumers.

Domestic firms produced 2.33 crore mobile phones last year, down 26.35 percent from the 3.17 crore units manufactured in 2022, according to the Bangladesh Telecommunication Regulatory Commission (BTRC).

Industry insiders attribute the unprecedented decline to a sharp rise in the value of the US dollar and an increase in taxes.

Consumer spending has also tightened significantly owing to persistently higher inflation for the past two years while the expanding grey market poses another significant threat to the industry.

Industry people say external and internal crises have combined to hurt the local mobile manufacturing industry. Besides, the restriction in opening letters of credit (LCs) has impacted the entire supply chain.

They say the price of handsets has increased by about 40 percent in some cases. So, unless people's purchasing power is restored to previous levels, the industry will face difficulties in staging a turnaround and achieving growth.

The slump is so significant that

the number of locally manufactured phones in 2023 was even lower than that in 2020. Over 2.40 crore handsets were made in 2020.

Despite acute global supply chain disruptions to the mobile device component market due to the Covid-19 pandemic, 2.95 crore handsets were produced in 2021.

In 2022, 3.16 crore handsets were produced locally, which accounted

vice-president of the MPIOAB.

"It's true that the market suffered due to economic impacts and the hike in price of dollars, but the expansion of the grey market is also a major reason," he said, forecasting that the situation may persist as the economy will take time to improve.

"But since the election is over, the fear of instability has disappeared. So, I hope the economy will bounce back," he added.

He said the revival of local mobile manufacturing companies depends on curbing the grey market and mitigating the dollar crisis.

According to him, illegal and informal channels currently capture about 40 percent of the overall handset market in Bangladesh.

Industry stakeholders have called on the government to explore alternative measures to address the grey market if reducing taxes proves impractical.

One proposed solution involves the adoption of a National Equipment Identity Register (NEIR) to safeguard the local mobile phone manufacturing sector.

Introduced by the BTRC in 2021, NEIR aims to ensure the use of legitimate mobile devices in the country by linking their IMEI number with the customer's national identification and SIM numbers.

But although Bangladesh took the lead in introducing NEIR, other countries managed to implement it first.

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Govt hikes interest rate on dollar bonds

STAR BUSINESS REPORT

The government has increased the interest rates on two US dollar-denominated bonds by up to two percentage points to attract investments from non-resident Bangladeshis (NRBs) to boost inflows of the greenback.

The Internal Resources Division of the finance ministry yesterday restructured the interest rate on the US Dollar Premium Bond and the US Dollar Investment Bond.

The upward adjustments are aimed at wooing NRBs in an effort to improve the flows of the greenback and increase foreign exchange reserves, which have slumped over the past two and a half years.

As per the new rates, the interest rate on the investments in the US Dollar Premium Bond up to \$100,000 will range from 6.50 percent to 7.50



percent in the first year to the third year. It is up from 4.50 percent to 5.50 percent.

Investments of up to \$500,000 will fetch 5 percent to 6 percent, which were 3.50 percent to 4.50 percent previously.

The return on investments above \$500,000 will stand at 4 percent to 5 percent, up from 2.50 percent to 3.50 percent.

In the case of the US Dollar Investment Bond, the interest for an investment of up to \$100,000 will range from 5.50 percent to 6.50 percent at maturity in the first year to the third year. It was 4 percent to 5 percent before yesterday's restructuring.

Investments of up to \$500,000 will generate 4 percent to 5 percent in interests, an increase from 3 percent to 4 percent.

The return against investments of more than \$500,000 will be 3 percent to 4 percent, up from 2 percent to 3 percent.

"The interest rates on the dollar bonds have been increased to boost the inflows of the US dollar and attract investments from

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STOCKS	
DSEX ▲	CASPI ▼
0.01%	0.02%
6,302.80	18,660.19

COMMODITIES		AS OF FRIDAY
Gold ▲	Oil ▼	
\$2,048.99	\$72.79	
(per ounce)	(per barrel)	

ASIAN MARKETS				FRIDAY CLOSINGS
MUMBAI	TOKYO	SINGAPORE	SHANGHAI	
▲ 1.18%	▲ 1.50%	▼ 0.03%	▼ 0.16%	
72,568.45	35,577.11	3,191.72	2,881.98	

Inflation eases but stays above 9%

MD ASADUZ ZAMAN

Inflation eased in December but remained at more than 9 percent for the 10th straight month as prices of goods and services shows no signs of falling, straining the purchasing power of consumers.

Last month, the Consumer Price Index (CPI), which measures changes over time in the prices paid by consumers, climbed 9.41 percent compared with 9.49 percent the previous month, according to data released yesterday by the Bangladesh Bureau of Statistics (BBS).

The slight decrease might be attributed to the arrival of winter vegetables as well as some impacts of the contractionary monetary policy.

Since March 2023, inflation has persisted above 9 percent. This year, May witnessed the sharpest jump in consumer prices at 9.94 percent, data from the statistical agency showed.

Food inflation has continued its downward trend while non-food inflation rose slightly. Food inflation rose 9.58 percent in December against 10.76 percent in November.

Non-food inflation increased to 8.52 percent from 8.16 percent.

"The easing of food inflation at this time is not surprising since December is the month when all winter crops are harvested," said Zahid Hussain, a former lead economist of the World Bank's Dhaka office.

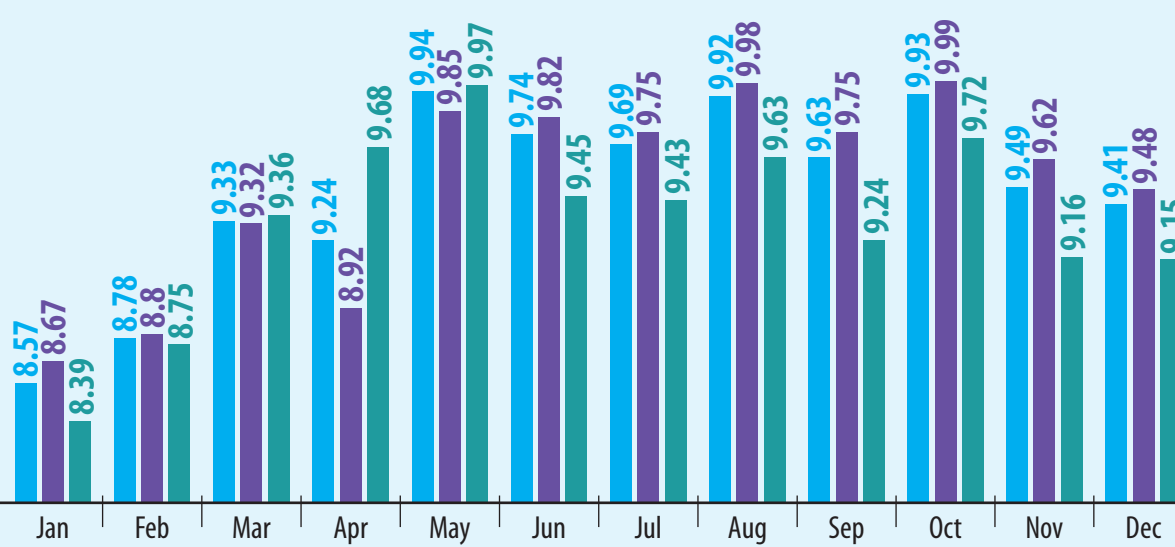
"So, the price of food has not fallen. Rather, the rate of price increase has slowed down. It's entirely a supply-side factor."

Inflation in 2023: National, rural and urban trends

(Value in %)

Legend: National (Blue), Rural (Purple), Urban (Green)

SOURCE: BBS



As the non-food price is increasing, it means the underlying inflationary trends are still stronger, he points out.

"The easing of inflation is a good sign, but it is still high," said Fahmida Khatun, executive director at the Centre for Policy Dialogue, a think-tank.

She credited the changes in the monetary policy for the lowering of inflation to some extent.

Among notable initiatives, the central

bank has raised the benchmark policy rate eight times in the past 20 months, scrapped the ceiling on the lending rate after more than three years, and introduced a new rate-setting mechanism.

Fahmida says seasonal factors like an adequate supply of winter vegetables may have contributed to the deceleration of consumer prices.

Mustafa K Mujeri, executive director of the Institute for Inclusive Finance and

Development, also thinks the higher food supply in the winter season was behind the slight decline in inflation.

He, however, says had the monetary policy worked properly, inflation would have declined to a larger extent, especially non-food inflation.

A former chief economist of the central bank, Mujeri thinks supportive management from the commerce ministry and other concerned ministries is key to keeping the supply system smooth.

Fahmida says until inflation reaches the targeted level, the central bank should keep raising interest rates even if the economic growth slows temporarily.

The central bank has targeted a 6 percent inflation growth for the current financial year, which ends in June, against 9.02 percent a year earlier.

"The monetary policy can't tame higher inflation alone. This is because if the fiscal policy becomes expansionary, the contractionary monetary policy may not work properly."

The CPD's executive director gave the example of rising public spending while discussing the expansionary fiscal policy.

"If public expenditures remain high in the form of unnecessary cost-overrun of projects and operating costs, the fiscal policy does not remain contractionary."

She also blamed the weak market management for the higher prices and urged the government to pay heed to the fallout of the external factors, including the Red Sea turmoil, and the Russia-Ukraine war.

Zahid Hussain does not see any impact of the monetary policy in controlling inflation.

"However, it was not expected either because we have done too little too late."

He suggested keeping the upcoming monetary policy, likely to be unveiled on January 17, contractionary.

"The monetary policy should be kept tightened for a longer period. If necessary, the policy rate may be increased."