DHAKA THURSDAY JANUARY 18, 2024, MAGH 4, 1430 BS ● starbusiness@thedailystar.net

Star BUSINESS

Although building material makers registered higher sales revenue in 2022-23, their profits were eroded by increasing production costs

Story on B4

BB UNVEILS MONETARY POLICY FOR JAN-JUN

How the crawling peg for currency will work

MD MEHEDI HASAN

The central bank has rolled out a plan to introduce an interim crawling peg system for the taka to regulate abrupt fluctuations of its value, paving the way towards a fully flexible regime in the future.

The system will be tethered to a carefully chosen basket of currencies within a defined band corridor, Bangladesh Bank said in a monetary policy statement yesterday.

A "competitive and representative equilibrium" rate will be established at the midpoint of the corridor, allowing the exchange rate flexibility within these bounds.

And Bangladesh Bank will retain its authority to intervene in the currency market to prevent the exchange rate from breaching the limits.

The new interim measure is a departure from the central bank's earlier promise.

In June last year, Bangladesh Bank pledged to allow the currency to float freely for the first time in Bangladesh's history, a key demand from International Monetary Fund to keep a $4.7 billion loan programme on track.

Since mid-2022, the taka has been depreciating against the dollar, a trend primarily attributed to a balance of payments deficit leading to a significant reduction in foreign exchange reserves over the year.

The weakening of the taka is also blamed for the domestic inflation shock, as the cost of imports has risen.

The central bank came under pressure for a gradual shift towards a market-based exchange rate system.

This transition was advocated to stabilise the exchange rate and prevent further depletion of the country's foreign exchange reserves.

The crawling peg system is "aimed at tempering

READ MORE ON B3

BB's policy stance for coming months

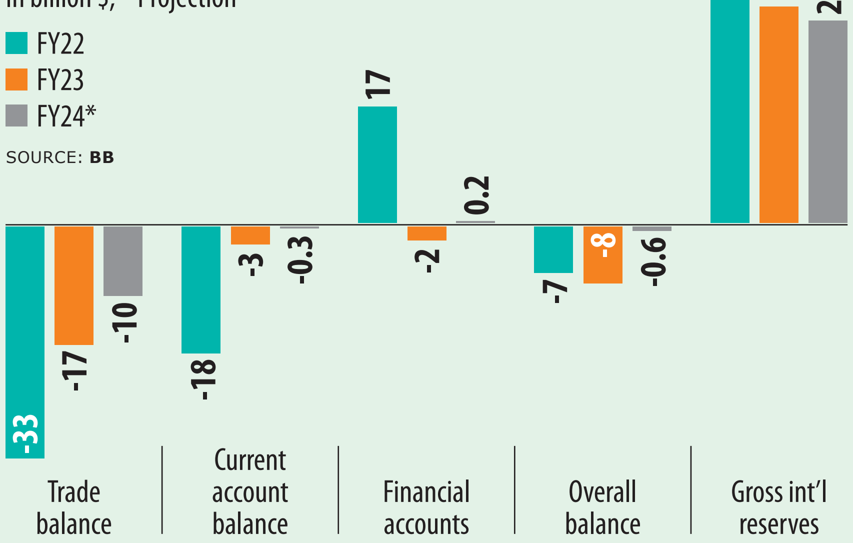
- Will keep monetary policy tight until point-to-point inflation falls to **6%**
- Will implement a crawling peg system for transitioning toward a free-floating exchange rate
- Targets to reduce overall gross non-performing loans ratio to **8%**

Measures taken in the past

- Hiked policy rates
- Sold $**28.7**b to banks over the past two and a half years
- Mopped up Tk **294,000**cr from the market
- Prepared roadmap for reducing defaulted loans
- Bangladesh repaid $**18**b of short-term loan

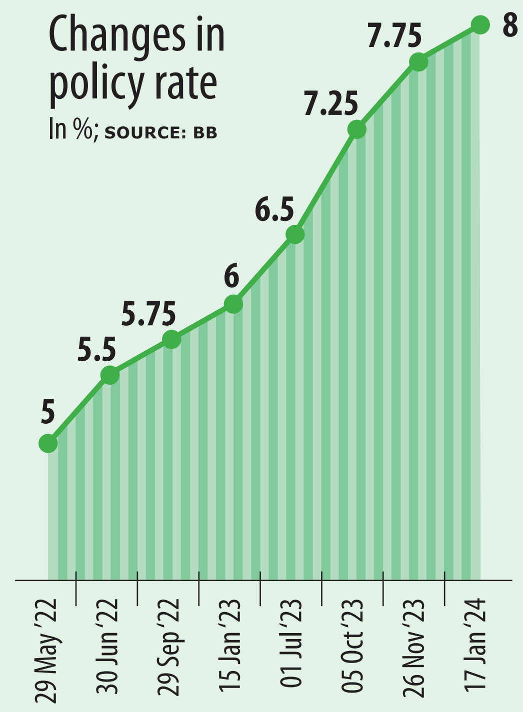
Balance of payments

In billion $; * Projection



Changes in policy rate

In %; SOURCE: BB



We are not concerned about GDP growth. Our main aim is to bring down the inflation rate to the desired level.

Abdur Rouf Talukder
BB governor

Governor defends liquidity support to cash-strapped Islamic banks

STAR BUSINESS REPORT

The Bangladesh Bank is providing liquidity support to cash-strapped Islamic banks as per the power of the governor and as a lender of last resort, said central bank chief Abdur Rouf Talukder yesterday.

When it is not possible to extend support to crisis-hit lenders in any way, liquidity facility is given from the central bank as a lender of last resort, he told reporters at a media briefing organised to unveil the Monetary Policy Statement (MPS) for the second half of the current fiscal year.

"The governor is empowered by the Bangladesh Bank Order to provide the liquidity support, so we provided it."

Banks typically turn to their lender of last resort – the central bank -- when they can't get the funding they need for their daily business.

A same situation has been existing at five Shariah-based lenders -- Islami Bank Bangladesh, Social Islami Bank, First Security Islami Bank, Union Bank and Global Islami Bank -- for a while. Since their current accounts continue to face deficits due to a huge liquidity crisis, the BB came up with the support.

Talukder said the Islamic banks have some structural problems and they don't have enough securities to borrow money like conventional banks.

The BB's outstanding support to the five banks stood at Tk 13,292 crore as of Thursday.

Conventional banks are also borrowing from the central bank because there is tight liquidity in the banking sector.

Throughout the first half of FY24, the banking sector encountered a situation of tightened excess cash reserves due to commercial banks' purchases of the dollars from the BB to satisfy heightened demand for foreign currency and increased investments in Treasury bills and bonds driven by attractive high-return opportunities.

The MPS said the economy is grappling with significant macroeconomic headwinds, including heightened inflation, diminishing foreign exchange reserves, and exchange rate volatility exacerbated by a burgeoning balance of payments deficit. This situation is compounded by ongoing liquidity challenges and persistently high levels of non-performing loans.

READ MORE ON B3

Short on actions

ZAHID HUSSAIN

Expectations were high from the Monetary Policy Statement (MPS) for the second half of FY24. They were high because we no longer have election as an excuse for delaying actions to reduce inflation, stabilise foreign exchange reserves, relax import controls, and alleviate financial sector vulnerability. Bold measures were expected. The challenges are meticulously articulated in the MPS, but they fall short on all fronts in terms of measures concrete enough to yield some visible results within the current fiscal year.

Note that BB has moved from monetary targeting to interest rate targeting since last July. The policy rate along with the Interest Rate Corridor for the money market rates supported by the Standing Landing Facility (SLF) and the Standing Deposit Facility (SDF) constitute the operating framework for interest rate targeting.

The BB has given mixed messages by adjusting the policy rate and the rate corridor. They have increased the policy (repo) rate from 7.75 percent to 8 percent. This is the reason it has described the monetary policy as contractionary. However, the contractionary stance is diluted by decreasing the SLF rate from 9.75 percent to 9.5 percent, thus making it cheaper for banks to borrow

from the SLF. This injects bit of an expansionary element into the policy stance.

The increase in the SDF rate from 5.75 percent to 6.5 percent is academic at a time when there is a liquidity crunch in the banking system. Very few banks, if any, have excess liquidity. Why would the few, who may have such liquidity, put it into the SDF when the interbank money markets and short-term government securities are paying much higher rates? It is not clear what the BB is trying to achieve by reducing the width of the IRC.

The MPS has left the SMART based lending rate policy untouched. There is therefore limited room for the increased policy rate to transmit into increases in bank lending rates which is what ultimately matters for having an impact on inflation.

The SMART based lending rate policy was supposedly an arrangement for transitioning to a fully market-based interest rate regime. It is not clear what BB's plan is in this regard since they have not given any indication of an exit strategy.

The elephant in the room for monetary policy at this juncture is the exchange rate regime. BB made an explicit commitment in the MPS for the first half of FY24 to switch to a market-based regime by September 2023 following the rate unification in July. It did not make the switch and the rate unification was partially reversed by allowing the authorised dealers to offer a higher than export dollar rate for remittances.

READ MORE ON B3

Risks abound for dragging Red Sea crisis: Moody's

STAR BUSINESS REPORT

The dragging Red Sea crisis has risks abound as production and transportation of vital industrial raw materials between Asia and Europe will face challenges for the use of the alternative Cape of Good Hope route, stated a report of the Moody's yesterday.

A series of attacks on shipping lanes in the Red Sea has caused the most significant disruption to Asia-Europe trade since the Covid-19 pandemic.

Traffic along one of the world's busiest waterways has fallen more than two-thirds since Yemen-based Houthi rebels began targeting commercial shipping, data from early January shows.

The Red Sea, which connects to the Mediterranean via the Suez Canal, is a vital conduit for Asia-Europe container shipments that represent up to 15 percent of global trade.

Recent disruptions have prompted shipping companies to reroute vessels around the Cape of Good Hope in Africa, doubling shipping costs and lengthening delivery times by as much as 25 percent.

In addition to impaired external demand, supply chain hiccups are a key risk in Asia from the crisis, said the report of Moody's.

Western European exports to Asia are concentrated in higher value-added goods such as specialised machinery and chemicals, said the study of the report.

"Disruptions, if significant enough, could impair production in Asia's advanced manufacturing hubs,

READ MORE ON B2

Corruption remains main hurdle for businesses: CPD survey

Energy crisis poses biggest threat

STAR BUSINESS REPORT

Similar to previous years, corruption was the top problematic factor for businesses in 2023 while inadequate supply of energy poses the highest risk to the nation's economy over the next two years, found a survey conducted by the Centre for Policy Dialogue (CPD).

A majority of respondents, around 67.6 percent, complained about the high levels of corruption.

A lack of effective measures to curb corruption as well as a dearth of transparency and accountability in public agencies is causing the business environment to weaken, said Khondaker Golam Moazzem, research director at the CPD.

He was speaking at a briefing titled "Bangladesh Business Environment 2023" at the CPD office in Dhaka, which incorporated findings from the "Executive Opinion Survey" carried out between May and July of 2023. It surveyed 71 senior officials of small, medium and large companies of different sectors.

Among the top three problematic factors, inefficient government bureaucracy came in second as 54.9 percent of respondents identified it as a problem area while foreign currency instability ranked third, with 46.5 percent complaining about it.

Before 2022, foreign currency instability ranked among the bottom three factors that presented a hurdle to businesses, with less than 10 percent of respondents identifying it as a barrier. But it jumped into the top five over the past two years.

In the same vein, inflation, which was in the bottom three of problematic factors in the previous years, jumped to fifth among problematic factors over the past two years.

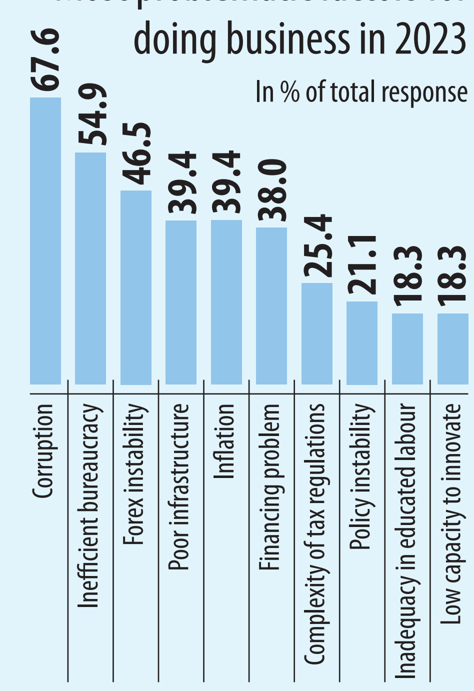
On a positive note, businessmen's perception regarding inadequate infrastructure, which was considered one of the top three problematic factors over the past two years, slightly improved, ranking as the fourth-most problematic factor.

According to the CPD, the performance of institutions during the past six years, from 2018 to 2023, has been negative or stagnant.

READ MORE ON B3

Most problematic factors for doing business in 2023

In % of total response



Top risks for the economy in the next two years

In % of total response