



Farmers harvest potatoes in Gaibandha's Gobindganj upazila. Planting of the tuber runs from mid-September to November whereas harvests from mid-January to March. Some 10,144,835 tonnes were produced on around 1,146,572 acres of land around the country in fiscal year 2021-22, according to the Bangladesh Bureau of Statistics. The photo was taken recently.

PHOTO: MOSTAFA SHABU

BB rate hike may help contain inflation but will impact private credit

Leaders of top chambers say

STAR BUSINESS REPORT

Leaders of the two top chambers said increasing the policy interest rate to contain inflation is likely to affect businesses and could impact banking liquidity available for private credit.

The reactions came after the Bangladesh Bank (BB) hiked the policy rate, or repo rate, by 25 basis points to 8 percent to make borrowing by banks costlier for the January-June period of the fiscal year (FY) 2023-24. The move is designed to curb money supply and inflation.

It was the eighth time since May 2022 that the central bank increased the repo rate.

Kamran T Rahman, president of the Metropolitan Chamber of Commerce and Industry (MCCI), said containing inflation was the most important thing right now.

"We cannot afford to have runaway inflation. Everyone will suffer if inflation continues to remain high," he said.

Rahman said increasing the interest rate would affect businesses. It will also benefit savers, he added.

Ashraf Ahmed, president of the Dhaka Chamber of Commerce and Industry (DCCI), said the policy rate hike would help control inflation to some extent by reducing money supply. But he stressed the need for appropriate supporting fiscal policy, which could have an equally important role in reducing inflation.

He said the increase in the repo rate is likely to impact money supply, and could impact banking liquidity available for private credit.

The DCCI said the public sector credit growth target has been set at 27.8 percent for the January-June period of the FY2023-24, which was realised at 18 percent against a target of 37.9 percent in the July-December period of the same fiscal year.

On the other hand, the private sector credit growth has been set at 10 percent in the January-June period of FY24, down

from actual growth of 10.2 percent in the first half of the year, said the chamber, urging the central bank to explore more options to increase liquidity for the domestic banking system over the next six months.

Ashraf Ahmed, president of DCCI, said that while increasing public sector borrowing is necessary, care must be taken to avoid crowding out the private sector from domestic liquidity

"In this context, while increasing public sector borrowing is necessary, care must be taken to avoid crowding out the private sector from domestic liquidity."

Ahmed sought additional measures to increase credit flow to the private sector by an appropriate financial borrowing strategy.

Focus on enhancing availability of trade credit, use of contingents, factoring and other options may be considered as alternatives to reduce foreign exchange stress as well as increase liquidity, he said.

"We are very happy that the BB has highlighted the need to ensure sufficient liquidity to support the growth sectors," he said.

Regarding exchange rate stability, the DCCI said introduction of a crawling peg system would help the balance of payment challenges.

He said the foreign exchange market should be allowed to operate properly with limited interventions within well-structured parameters.

Ahmed also hoped that the declared monetary policy would contribute to macroeconomic stability.

"We hope the continued focus on controlling inflation and stabilising the exchange rate in the current MPS will bear fruit."

Gold price hits new record in local market

STAR BUSINESS REPORT

The price of gold has hit Tk 112,440 per bhoiri (11.664 grammes), the highest in the history of Bangladesh, as the Bangladesh Jewellers' Association (Bajus) decided to hike prices from today.

The standing committee on pricing and price monitoring of Bajus took the decision at a meeting yesterday, citing a rise in pure gold prices in the local market in a statement.

The previous price of each bhoiri of 22-carat gold ornaments was Tk 1.11 lakh.

In July last year, the price of gold crossed the Tk 1,00,000-mark for the first time in Bangladesh.

Gold prices also hit a new milestone on November 29 last year, when Bajus set the price per bhoiri at more than Tk 1.09 lakh.

Although Bangladesh does not import a significant quantity of gold, prices are almost always linked with international fluctuations alongside volatility in the domestic market.

With an annual demand of 20 to 40 tonnes, 80 percent of the country's demand for gold is met through smuggling.

In August last year, the Bangladesh Bank made it mandatory to keep a 100 percent margin on letters of credit for gold with a view to discouraging imports and saving foreign currency.

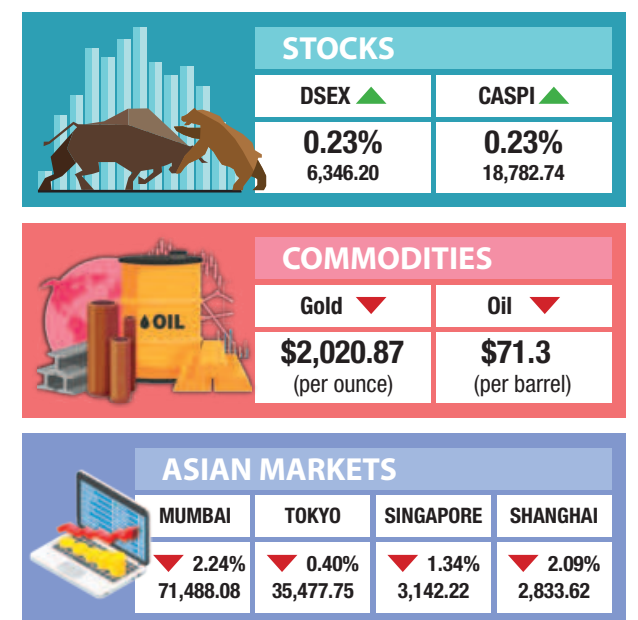
Oil price falls

REUTERS, London

Oil fell more than \$1 on Wednesday as economic growth in China, the world's second-largest crude user, slightly missed expectations, raising concerns about future demand, while US dollar strength dented investor's risk appetite.

Brent crude futures fell \$1.19, or 1.5 percent, to \$77.10 per barrel by 0902 GMT. US West Texas Intermediate crude futures (WTI) were down \$1.21, or 1.7 percent, at \$71.19.

Even the ongoing naval and air conflicts in the Red Sea have not been enough to support oil, despite increased concerns about tankers having to pause or reroute, increasing shipping costs and slowing deliveries.



Governor defends

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The high incidence of NPLs significantly attributed to a prevalent willful default culture and requires immediate and focused attention, the policy statement said.

In recent times, the central bank also fell short of taking drastic measures against irregularities in the banking sector, raising questions about the independence of the BB.

When asked whether he was afraid of taking measures against frauds and influential bank directors, Talukder said various measures were taken to prevent irregularities.

Talukder also talked about various aspects of the MPS. He said the central bank had no other option but to impose import control measures since there was a wide gap between demand and supply of the US dollar.

Import payments rose 35.9 percent year-on-year to a record \$82.5 billion in FY22. It declined 15.81 percent to \$69.5 billion in FY23 following the BB move to cut foreign purchases.

Negative import growth impacted the price of imported goods and essential commodities.

But the governor defended the move, saying: "We know that the

How the crawling peg

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unusual fluctuations in the currency's value", the central bank said.

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 International Monetary Fund.

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, said the IMF.

At the same time, maintaining a crawling peg imposes constraints on monetary policy like a fixed peg system, it said.

Bangladesh is one of 24 nations that follow crawl-like arrangements. Other nations include Algeria, Gambia, Kenya and Sri Lanka, according to an IMF report.

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, compared with \$40.7 billion in August 2021.

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

For the second half of this fiscal year, Bangladesh Bank's strategic directives are centred on "upholding a vigilant, hawkish approach to monetary policy until inflation rates are effectively reined into a desired

level".

Selim RF Hussain, chairman of Association of Bankers, Bangladesh, said the BB introduced the new concept of crawling peg to formally manage the exchange rate.

"This would be a relatively transparent mechanism and much more aligned with the market. It would establish transparency and bring stability in the forex market. We expect that the BB would enforce its rule properly," said Hussain, also managing director and chief executive at BRAC Bank.

Naser Ezzaz Bijoy, chief executive officer of Standard Chartered Bangladesh, said, "We need to wait for details of construct of the benchmark or reference rate. However, it is clear that the intention is to move to a market-based rate over time and this is a step in the right direction."

"This framework is expected to be transparent and credible," he said.

Since this framework would be implemented by the BB itself, it can create a legally binding obligation for compliance on the commercial banks, Naser said.

"Hence, punitive measures can be enforced on non-compliance with any legal challenges. We shall be looking forward to the early implementation of such a framework which will have better reflection of the market and enforcement of punitive measures against non-compliance," he said.

Short on actions

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BB appears to have changed its stance on the exchange rate. It is "contemplating" the implementation of a crawling peg exchange rate whose design is not yet done and the timeline unspecified.

Same goes for NPL resolution. The MPS recognises the problem very clearly and lists the legislative reforms undertaken to address it. Yet it is short on announcing a specific set of immediate measures to translate the legislative reforms into regulatory actions.

The author is an economist

Corruption remains

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"The government's outlining of a long-term vision is the sole positive thing here. We also welcome it like businesses," Moazzem said.

Businessmen also opined that there has been a slight improvement in the situation related to bribes in the last three years, although the culture of undocumented extra payments persists.

Bribes are largely common in connection with imports and exports, tax payments, and awarding of public contracts and licenses.

Lack of independence of the judicial system, low ethical standards of politicians, and difficulty for private businesses to challenge government actions or regulations through the legal system was also commonly observed.

Performance has further deteriorated in 2023 in the case of bribes for imports and exports, and in terms of the ethical standards of politicians, according to the survey findings.

"Bribes create greater inequality. A businessperson told me that the amount of bribe sought for a simple connection was larger than what he had budgeted for the entire cost of business operations," Moazzem said.

The study also identified a set of risks that could impact the economy and society over the next two years. About 66.2 percent of the business owners anticipated that Bangladesh would face an energy supply crisis in the next two years, disrupting their production.

"If the government had started gas exploration, the gas crisis would not have been this severe. But the government opted for import-dependent LNG gas, leading to this crisis," Moazzem said.

In terms of economic risks, inflation posed the biggest threat as identified by half of the respondents, followed by an economic downturn such as recession or stagnation. Yet, the most persistent issue in the nation over the years has been corruption.

The government needs to strengthen institutional mechanisms to combat corruption, according to Moazzem.

Bribes remain common across various sectors and it is crucial to develop and promote easily accessible digital payment systems to address this issue, he added.

The new government, based on its election manifesto, should disclose its strategies on how its different ministries and departments will address corruption in terms of public procurement, registration, licensing, permissions and official orders.

Meanwhile, about 48 percent of respondents agreed that the soundness of banks was extremely low while 53.5 percent somewhat agreed that the financial system was unable to respond to crises.

Major institutions of the banking sector such as Bangladesh Bank, the Ministry of Finance, Bangladesh Securities and Exchange Commission and commercial banks have largely failed to curb the deceleration in the banking sector.

Most public entities are averse to major reform measures aimed at improving the soundness of the banking sector, Moazzem said.

The study recommends that the government take the initiative to set up independent offices of ombudspersons with proper legal, institutional and operational responsibilities and facilities.

All public offices should introduce an ombudsperson to address governance-related issues.

The financial sector should also introduce banking ombudspersons and others such as securities ombudspersons, tax ombudspersons, law enforcement ombudspersons and trade ombudspersons, it added.

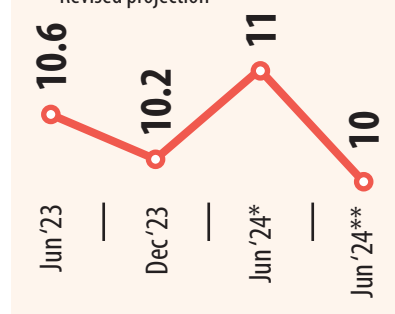
On another note, Bangladesh demonstrated considerable progress in infrastructural development last year, specifically in road and transportation.

The air transport system has notably improved while innovativeness-related physical resources, particularly digital infrastructure facilities, have shown positive trends, according to survey findings.

There has been increased use of digital platforms to avail professional services, including hotels, restaurants, leisure activities and financial services.

Private credit growth and projections

In %; SOURCE: BB
 *Previous projection
 ** Revised projection



"I am not afraid of anyone," he added. "The central bank has initiated moves against loan irregularities and influential bank directors. The intervention at National Bank is one of the examples."

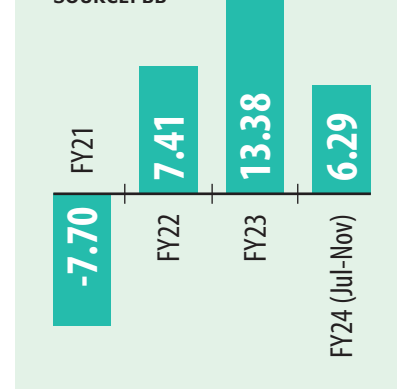
In December, the central bank dissolved the board of the private commercial bank following a recommendation from the Bangladesh Securities and Exchange Commission.

In August 2022, the central bank identified 10 banks as a problem and weak lender. Their financial health has not improved yet.

When pointed out, the BB chief said: "It is right that their financial health has not improved. But we have been able to stop further deterioration."

Net sales of dollar

In billion \$
 SOURCE: BB



common people are facing difficulties due to the import control measures. But it has been the only option for us to save forex reserves."

The reserves stood at \$20.18 billion on January 10, down from \$40.7 billion in August 2021. Amid the drying up of reserves, the taka has weakened by more than 27 percent in the past two years, making imports costlier.

"In the upcoming days, we will have to increase the US dollar inflow at any cost," Talukder said.

In order to ensure good governance in the financial sector, the amended Bank Company Act 1991 aims to enhance governance structures by limiting the maximum number of directors from the same family to three, down from four, said the MPS.