Govt importing LNG at lower price

STAR BUSINESS REPORT

Bangladesh is getting liquefied natural gas (LNG) at a lower price from the international spot market as global rates are on the decline.

The cabinet committee on government purchase approved the latest cargo, each of which is equivalent to 33.60 lakh million British thermal unit (MMbtu), at a rate of $9.93 per MMbtu yesterday.

It will be supplied by the Singapore-based company Vitol Asia Pte Ltd at a total cost of Tk 429.69 crore.

On January 23, the government had approved another cargo at a rate of $10.88 per MMbtu. It will be supplied by Switzerland-based TotalEnergies Gas and Power Ltd. The total cost for that cargo was Tk 470.48 crore.

Currently, Bangladesh has Master Sale and Purchase Agreements (MSPA) with 22 global entities to purchase and supply LNG in the spot market. In yesterday's meeting, Oman's state owned company OQ Trading Limited (OQT) was enlisted as an LNG supplier.

In December last year, the government had purchased a cargo of LNG at Tk 542.27 crore.

Global market analysts are projecting that the price of LNG will decrease more.

Meanwhile, the project cost for the installation of a Single Point Mooring (SPM) system with double line under Eastern Refinery (ERL) has increased for the fourth consecutive term.

The government has reached a fourth supplementary agreement with the engineering and procurement contractor of the project, China Petroleum Pipeline Engineering Corporation, at a cost of Tk 382 crore.

Besides, the government reached a second supplementary agreement with the German consultancy firm of the project, ILF Consulting Engineers, worth Tk 104.70 crore.

A boat carrying vegetables from Keraniganj upazila of Dhaka is seen travelling along the Buriganga river to reach the capital city, where the produce will be sold to wholesalers at various kitchen markets. Inland waterways such as this are often used as a cheap means of transporting vegetables across the country. The photo was taken recently.

PHOTO: AMRAN HOSSAIN

Stocks keep rising despite bad news for exporters

STAR BUSINESS REPORT

The main index for measuring share price performance in the stock market of Bangladesh continued to curve upwards yesterday even though the government has announced plans to slash export subsidies.

In a notice on Tuesday, Bangladesh Bank declared that cash assistance ranging from 0.5 to 15 percent will be afforded for exports from January 1 to June 30 this year.

The cash assistance mainly aims to make the country's exports more competitive in global markets by allowing producers to sell their goods at subsidised rates.

Earlier, the government provided cash assistance of 1 to 20 percent depending on the type product being exported.

As such, the move to reduce the subsidy is impacting the profits of all export-oriented companies.

However, four export-oriented garment companies listed on the Dhaka Stock Exchange (DSE) saw their share values rise by about 5 percent each by the end of the trading session on Wednesday.

With their contribution, the DSEX, the benchmark index of the country's premier bourse, edged up by 0.05 percent to close the day at 6,153 points.

On the other hand, the DS30, which comprises blue-chip stocks, shed 0.33 percent to 2,103 points while the DSES, an index representing shariah-compliant companies, slumped 1.18 percent to 1,351 points.

"The government's decision to cut the export subsidy has had a direct impact on the profits of many listed companies, so a huge decline in their share values was expected," said a stockbroker.

Four export-oriented companies listed on the Dhaka Stock Exchange saw their share values rise by about 5 percent each by the end of the trading session on Wednesday

"But the stock market was not badly impacted, saving the prime index from a massive fall," he added while pointing out how the trends of local stocks do not usually reflect the overall economic situation.

As per the new cash assistance framework, the export subsidy for all apparel shipments has been halved to 0.50 percent.

Still, the four export-oriented companies that saw rising share values -- Evince Textiles, Malek Spinning Mills, Saiham Cotton Mills and Saiham Textile Mills -- are all garment makers.

Meanwhile, increased investor participation in certain sectors boosted the DSE's daily turnover by 4 percent to Tk 979 crore. The market's turnover is a key indicator of the total value of shares traded.

A merchant banker said the reduced export subsidies are not making that much of an impact on the overall market as not all listed companies are export-based.

Besides, as most companies' stocks are already at a low level, their prices did not fall further, he added.

Among the major sectors, non-bank financial institutions dropped 2.58 percent, fuel and power lost 0.58 percent, and textiles declined 0.57 percent.

The textile sector saw the most trade with transactions amounting to Tk 135 crore followed by the engineering sector with Tk 129 crore and general insurance sector with 121 crore.

Shares in the pharmaceuticals sector also put up a decent performance with trade of Tk 108 crore. Elsewhere, the Chittagong Stock Exchange (CSE) registered a decline in its benchmark index.

The CASPI, the broad index of the port city bourse, edged down by 0.08 percent to 17,427 points at the close of yesterday's trading session.

Garment makers should diversify products to be ready for post-LDC era: experts

STAR BUSINESS REPORT

Local garment makers should diversify their products and invest in human resource development to prepare for any hurdles that may come after Bangladesh graduates from a least developed country (LDC) in 2026, according to experts.

Besides, the government should create a business friendly environment by ensuring timely policy reforms and good governance to address challenges in the post-LDC era, they said.

These comments came at a "Validation Workshop on Final Draft Study Reports on Market Access, Comparative Advantage and Export Diversification and Upscaling the RMG Sector".

The event was organised by the Support to Sustainable Graduation Project (SSGP) of the Economic Relations Division (ERD) at the NEC Conference Room in Dhaka yesterday as shown in a press release.

The government is attaching the highest priority to ensuring a smooth and sustainable LDC graduation. As such, several in-depth studies are being carried out by the SSGP to formulate relevant strategies.

Against this backdrop, yesterday's workshop was held to disseminate and review the major findings of these studies among relevant stakeholders, the press release said.

Speaking as chief guest, M Tofazzel Hossain Miah, principal secretary of the Prime Minister's Office, urged the country's garment makers to focus on product diversification.

He also emphasised the need to explore new markets for local apparel products and develop a skilled workforce in the industry, particularly for managerial positions.

Mohammad Abdur Razzaque, research director of the Policy Research Institute, pointed out that global demand for manmade fibre (MMF) and blended garment items is increasing faster than that of cotton. This calls for adopting a dual-track strategy to consolidate the country's position in the cotton apparel market while expanding its share in the MMF segment, he said citing the studies.

The findings also underscored the need to devise a "fibre security strategy", ensure duty-free access for all fibres and establish a dedicated low-cost investment fund to support MMF investments.

"Local apparel makers could move towards a multi-fibre arena by ensuring duty-free access for all fibres," said Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association (BTMA).

ERD Secretary Md Shahriar Kader Siddiky presided over the meeting.

Tapan Kanti Ghosh, senior secretary of the commerce ministry, AHM Ahsan, vice-chairman of the Export Promotion Bureau, and Sharifa Khan, adviser of the SSGP, were present at the event.

Mohammad Belal Hossain Chowdhury, director general of the Duty Exemption and Drawback Office, and Abdullah Hil Rakib, director of the Bangladesh Garment Manufacturers and Exporters Association, were among the panellists.

BB asks banks

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governance to the banking sector by any means necessary and while ensuring no political or influential groups obstruct the central bank.

The source added that the central bank has 17 action plans to bring good governance to the banking sector and those plans would be discussed at the central bank's board meeting on February 4.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, told The Daily Star that they welcomed reforms.

"Reforms in the banking sector are very essential now," he said.

Meanwhile, Selim RF Hussain, chairman of the Association of Bankers, Bangladesh, and managing director of BRAC Bank, said after the meeting, that reforms adopted by the central bank were already having an impact.

"We expect that we will see stability in the forex market due to the crawling peg, which will be introduced by the banking regulator."

After the meeting, BB Executive Director and Spokesperson Md Mezbaul Haque told journalists that bringing good governance to the banking sector was a widely discussed issue in the meeting.

He said that bringing good governance to the banking sector was a part of the new government's election manifesto and the central bank was working towards it.

He added that the central bank had already introduced a Prompt Corrective Action (PCA) Framework, aimed to bolster financial stability and instill public confidence in the banking sector.

The PCA will be applicable from March, 2025.

If needed, the central bank will take action for the merger and acquisition of weak banks under the framework, as per the BB spokesmen.

Haque also said that the governor asked banks to take preparations to manage their liquidity because the central bank will continue to tighten its monetary policy until inflation cools.

Incentive cuts will hurt exports

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However, the garment sector's journey might not remain smooth going forward as exporters may see an end to the duty-free export benefit once the country moves out of the LDC category to become a developing nation in November 2026.

In order to prepare the export industry for a shock that could emanate from a sudden withdrawal of export subsidies two years later, the government on Tuesday cut the incentive to a large extent. But the move was unexpected.

The government used to give cash assistance ranging from 1 percent to 20 percent on export earnings. On Tuesday, the maximum rate was set at 15 percent and the minimum at 0.5 percent and it would be applicable for January 1 to June 30 this year.

Currently, 43 sectors are eligible for the aid, with the government spending about Tk 9,025 crore annually in the past three years.

Before Tuesday, a garment supplier used to enjoy a 4 percent incentive on exports if they use local fabrics, an additional 2 percent in the eurozone, 4 percent in emerging markets, which exclude the EU, the US, Canada and the UK. The incentive is 1 percent in all markets.

Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said the impact would be felt in three forms.

First, the latest decision came into effect retrospectively from January 1. But exporters have already calculated their cost of business based on the rates that were at least supposed to be in place up to June this year as stated in the budget.

Second, the subsidy has been reduced for three promising destinations, namely Japan, India and Australia. Of the $8.5 billion garment shipment to the non-traditional markets, the three countries account for half.

"Exporters should have been rewarded for finding out the new export destinations. But by cutting the incentive, exporters are being punished," said Hassan.

Third, he said, the cash support has been significantly reduced for the top five garment items that make up more than 70 percent of the total shipment from the sector.

The BGMEA chief says the incentive cut comes at a time when exporters are running businesses even at less than the production cost amid volatility in the global and domestic economies.

"During volatile times, the incentive offered major support to us."

"If the government subsidy does not continue, attaining the targets of raising apparel exports to $100 billion by 2030 and grabbing a 12 percent global market share by 2026 will be difficult."

Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association, said the cash incentive has been cut for top garment items that are also related to the local yarn, fabrics, weaving, spinning and dyeing sectors.

"The $25-billion primary textile sector will face a difficult time because of the decision."

"What will happen to the goods that have already been shipped taking into account the previous incentive rates?"

The leaders of the Federation of Bangladesh Chambers of Commerce and Industry, the BGMEA, the BTMA and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) are scheduled to meet with the finance secretary on Sunday to keep the rates in the previous form for at least up to 2026.

Mohammad Hatem, executive president of the BKMEA, said many may argue that exporters are benefiting from the devaluation of the taka.

"But it is also true that exporters need to buy US dollars at Tk 123 to import raw materials although they receive Tk 112 when they sell dollars."

Md Saiful Islam, managing director of Mazeda Jute Industries Ltd, said the jute sector will not revive if the cash incentive reduction remains in place.

"The jute and jute goods sector need more subsidies and loans at a lower interest rate."

Ahsan H Mansur, executive director of the Policy Research Institute, welcomed the government move, saying World Trade Organisation (WTO) rules don't support direct cash support to developing nations.

"The government can subsidise different sectors indirectly and the garment sector does not need any financial support because it is a matured industry already."

The garment industry also enjoys a lower corporate tax: it is 10 percent for green initiatives and 12 percent for non-green factories.

Mansur said garment exporters have benefited from a nearly 30 percent fall in the value of the taka against the dollar.

"However, the government should think about non-garment sectors and they really need support to grow."

Prof Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue, also supported the move, calling for other measures so that exporters become more competitive.

The exporters' competitiveness could be raised through better institutional support, less harassment, improvement in the business environment, and a reduction in the cost of doing business, he said.

Padma Bank

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pulling out money from Padma Bank when allegations of corruption against Alamgir, the then board chairman, and Md Mahabubul Haque Chisty, chairman of the audit committee respectively, started coming to light.

The two were forced to resign in November 2017.

The next year, the government stepped in to rescue the bank when state-owned Investment Corporation of Bangladesh, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank bought a 60 percent stake in Padma Bank for Tk 715 crore.

Padma is now struggling to repay the depositors' money as Tk 3,550 crore out of the bank's total outstanding loans of Tk 5,740 crore became defaulted loans at the end of 2023.

Interest rate predicted

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Once the taka reaches equilibrium after the depreciation, there will not be any fresh depreciation pressures as no new money will be printed under the tightened monetary policy, forecasted the report.

Substantial money printing has led to a sharp currency depreciation, said Siddique, adding that the currency may become stable with the tightening of money printing.

CAL said money printing is very much associated with inflation as well.

In the first half of 2024, it said, a possible electricity price hike is likely to be the driver of inflation, which has been running at more than 9 percent since March last year.

Inflation may decline to 8 percent by June 2024 amid tight liquidity and lower commodity prices, yet the currency depreciation and energy price will keep it elevated, CAL expects.

The investment bank said amid tight monetary conditions, high inflation and reduced consumption, Bangladesh's economy may grow 5 percent in 2023-24, which is lower than the forecast of international financial agencies such as the World Bank and the International Monetary Fund.

Higher lending rates are expected to dampen private investment activity, leading to a decrease in private sector credit growth, said CAL.

For companies, the interest rate may dampen consumer demand, Pushparajah said, adding that the lending rate may go up to 17 percent.

And market pricing of energy will increase the production cost, he said.

To navigate, CAL suggested businesses aggressively reduce inventory holding period and working capital cycle.

It recommended businesses factor in low demand through the first half of 2024 when evaluating new projects. It also suggested issuing debt securities at a floating rate, not fixed.

It called for prioritising liquidity through 2024 and raising the capital buffer it required. Businesses should be prepared for opportunities to buy distressed assets, it said.

The report said demand and investment to remain weak in the second half of 2024 but inflation is likely to see a gradual decline.

"There are many clouds on the horizon. But some rainbows are there," said Pushparajah.

Novoair to spread

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"Some leasing companies question whether we (Novoair) will be able to pay the lease properly if they give us aircraft on lease due to the dollar crisis in Bangladesh. We assured them that we need to buy different parts for our aircraft every month, for which we need around 2 million dollars, and we are making these payments," he added.

The Novoair boss said they are planning to expand their flights to routes including Bangkok, Kuala Lumpur, Singapore, Dubai, Sharjah and Muscat with the three additional A321 aircraft.

A member of the Airbus A320 family, the A321 aircraft is popular for operating flights over medium- and short-haul destinations. It carries 185 to 236 passengers.

Novoair started its journey on January 9, 2013 by operating flights from Dhaka to Chattogram.

After nearly three years of operating on domestic routes, the airline launched flights to Yangon, Myanmar. However, in 2017, Novoair stopped flying on this route.

Currently, Kolkata is the only international route that the airline operates on.