BTRC allows two more firms to make handsets locally

MAHMUDUL HASAN

The telecom regulator of Bangladesh recently permitted two more local companies to manufacture and assemble mobile handsets, with the move coming amid a downturn in overall sales and production.

And with the addition of these two -- Salextra Limited and Halima Mobile Industries -- there are now 17 mobile handset makers in the country.

However, the Cumilla-based Halima Mobile Industries, an arm of Halima Group, is yet to begin production due to difficulties in opening letters of credit.

On the other hand, Salextra Limited is already churning out Nokia-branded smartphones and feature phones at its Gazipur unit.

In 2021, Vibrant Software (BD) Ltd, a joint venture of the UK's Vibrant Software and Bangladesh's Union Group, became the first to get approval for assembling Nokia devices and set up a factory to this end.

And using its arm Cellular Mobile (Pte) Limited (CMPL), Union Group was the first to import Nokia devices to the country in 1996.

However, the company's journey in local manufacturing of Nokia devices came to an end last year due to a dispute between the partnering companies.

Shakib Arafat, managing director at Salextra, said they are a local tech-device manufacturing startup.

"We recently received a license from the BTRC and partnered with HMD Global. We are now a manufacturer and distributor of Nokia-branded phones in Bangladesh," he added.

HMD Global, a company set up by former executives of Nokia and Microsoft, secured a licence for the marketing and manufacturing of Nokia in 2016.

"At our 54,000 square feet plant, we are now assembling Nokia phones and will go for manufacturing soon," Arafat said.

He also said Salextra was launched in 2020 as a startup with only 5 employees and the number has since risen to nearly 500.

Apart from its partnership with Nokia, the company also produces smartwatches, neckband headphones, earbuds and other gadgets.

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Lub-rref suffers massive drop in profit

STAR BUSINESS REPORT

Lub-rref (Bangladesh) Ltd, a lubricant producer, saw its profit nosedive 76 percent year-on-year in the July-December period of the financial year 2023-24.

The company's profit stood at Tk 3.6 crore, down from Tk 15.25 crore in the first six months of 2022-23, according to a filing on the Dhaka Stock Exchange.

Lub-rref also recorded a 22 percent decline in its net operating cash flow per share to Tk 1.40, which was Tk 1.80 in the same period the previous year.

Shares of the company declined 3.69 percent to Tk 26.10 yesterday.

A snapshot of Bangladesh economy

(In FY23)

GDP GROWTH 5.78%

PRIVATE INVESTMENT 21.8% of the GDP

AVERAGE INFLATION Rose to 9.02% from previous year's 6.15%

NET FDI Dropped 5.5% to $3.25b

EXPORTS Up 6.6% to $55.55b

IMPORTS Fell 12% to $78.29b

Recommendations on how Bangladesh can be a trillion-dollar economy

- Adopt smart technologies
- Diversify export products and markets
- Automate tax system and widen tax net
- Reduce corporate tax
- Widen access to finance for CMSMEs
- Provide uninterrupted energy supply at affordable price
- Make long-term, time-bound, sector-specific investment promotion roadmap
- Strengthen economic diplomacy

Entrepreneurs against sudden changes to economic policies

STAR BUSINESS REPORT

A roadmap on economic policy changes is vital for the private sector since it can help them predict the future, plan accordingly and avoid shocks that may stem from a sudden shift in government strategies, said economists and entrepreneurs yesterday.

Their observation was made after the government cut export subsidies for almost all sectors, a move that was praised by experts but came as a surprise for the business community.

"An investor invests for a long time and considers all incentives. If it is cut suddenly, businesses are hit," said Mashiur Rahman, the economic affairs adviser of the prime minister.

"If they knew what would happen after five years, they would be able to plan accordingly. In order to receive more investments, a policy continuity is necessary."

The adviser spoke at a seminar titled "Bi-annual Economic State & Future Outlook of Bangladesh Economy: Private Sector Perspective" at the Dhaka Chamber of Commerce and Industry (DCCI).

Rahman said every incentive package should include a phase-out scheme in order to shield the private sector from any shocks that may emanate from its withdrawal.

"Entrepreneurs always talk about policy support to get funds at a lower rate and incentives. However, they don't seek policy support to raise productivity, but higher productivity can be a good incentive for them."

The adviser said there is a weakness in the transmission mechanism of the monetary policy of the central bank.

On the one hand, the central bank is raising the policy rate. On the other hand, it is lending money to the government at a higher volume, he pointed out.

Rahman recommended reducing the gap between the real effective exchange rate and the nominal exchange rate so that the central bank's planned crawling peg becomes easier.

Last month, the BB announced that it is going to adopt the crawling peg as per the suggestion of the International Monetary Fund.

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.

DCCI President Ashraf Ahmed said if entrepreneurs had favourable guidelines, they could have planned accordingly.

Shams Mahmud, a former president of the chamber, said the government has cut incentives on exports suddenly.

"There should have been a prior announcement about when the incentive would be phased out."

> **Every incentive package should include a phase-out scheme in order to shield the private sector from any shocks, says an analyst**

Mahmud said most garment companies are keeping 40 percent of their production lines shut as they are finding it difficult to open letters of credit to import raw materials owing to the foreign exchange shortage.

"The cost of production has risen as wages have increased and the interest rate of loans has gone up. The cost of energy has surged though gas is not available at full pressure."

The entrepreneur said the National Board of Revenue is heaping pressures on businesses in order to give a boost to its revenue collections.

"How can we run businesses if it continues? Sometimes, it seems that we have made a mistake by investing in the country."

Mohammad Yunus, a research director of the Bangladesh Institute of Development Studies, blamed extortion in the retail market as one of the main reasons for the higher inflation.

He said there should be better coordination between the Bangladesh Economic Zones Authority and the Bangladesh Export Processing Zones Authority to attract foreign direct investments.

Md Habibur Rahman, chief economist of the central bank, said the BB has not issued any new taka in the market in the last six months.

"Rather, it has reduced the balance sheet of the central bank through the contractionary monetary policy."

In the six months to December, the balance sheet of the central bank was narrowed by 2.03 percent to Tk 372,315 crore.

"Many people are making sweeping comments that the central bank is printing money to lend to the government," he said.

The chief economist said printing money is a routine work of the central bank. "But it has printed money that is lower than the amount that has been withdrawn from the market."

To facilitate the private sector, DCCI President Ahmed called for a lower corporate tax, a complete automation of the taxation system, widening tax nets, and reforming the Value Added Tax and Supplementary Duty Act, 2012.

"A reduction in the cost of doing business, an uninterrupted energy supply at an affordable price, and a developed logistics sector will help the private sector re-invest."

He said that the CMSME sector needs not only access to finance but also access to technology to grow.

Ashikur Rahman, a senior economist of the Policy Research Institute of Bangladesh, said macroeconomic instability is not good for the private sector.

He added non-performing loans always have a negative impact on businesses, so it is time to take serious decisions against NPLs.

He said the tax-to-GDP ratio is not up to the expected level and stressed skill development and reforms of the financial sector.

Inflation's obduracy reflects the inadequacies of the policy response

ZAHID HUSSAIN

The spike in inflation from 9.41 percent in December to 9.86 percent in January was driven entirely by the rise in non-food inflation.

Food inflation was stable at an elevated 9.6 percent level. Remarkably, non-food inflation increased in both rural and urban markets across all non-food categories.

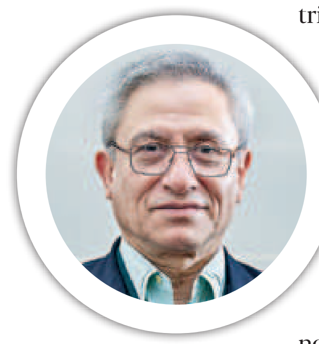
Food inflation declined from 9.66 percent in December to 9.41 percent in rural markets while increasing from 9.46 percent in December to 9.98 percent in January in urban markets. Pervasive inflation is deeply entrenched.

There are three, not necessarily mutually exclusive, explanations:

First, monetary tightening has not been long enough and tight enough. Maximum lending rates have been allowed to increase by less than 350 basis points since last July. Countries where monetary tightening seems to be working have done much larger tightening for longer. It is, therefore, premature to judge the effectiveness of recent monetary tightening.

Second, foreign exchange shortage, exacerbated by policy uncertainty on Bangladesh Bank's stance on future exchange rates, has not eased. There may have been some second order improvements such as a decline in the rate of decline of forex holdings in the banking system. Consequent increase in parallel market rates have increased the cost of producing and importing goods and services.

Third, one remarkable fact about recent inflation is its volatility driven by greater volatility in food inflation. Prices of some essential food items such as onions, sugar and edible oil tend to be more volatile than others.



Export restrictions in various forms in supplying countries, India in particular, often trigger such volatility. Market manipulation, popularly believed to be through "syndicates", may be operative at least some of the time. The same goes for opportunistic price gouging in response to export restrictions in supplying countries.

Reduction in global inflation have had no impact on inflation in Bangladesh, notwithstanding fading of energy price shocks and their associated pass-through to inflation. The message from the data is loud and clear. Inflation reduction in Bangladesh can't count on global forces.

Inflation has been falling faster than expected in most regions of the globe with the unwinding of supply-side bottlenecks and restrictive monetary policy. Bangladesh has remained immune to these declines.

The Red Sea conflict is unlikely to have been a major factor so far. It could disrupt the global oil supply and cause prices to surge. However, oil prices have not moved much and soaring transportation costs are yet to change the game for global inflation.

Those thinking the Red Sea conflict contributed to the January spike in inflation in Bangladesh should note that the inflation rate in India was stable at 5.69 percent in December 2023 and January 2024, showing little impact of the conflict. What is so special about Bangladesh in this respect?

Course corrections in exchange rate management, greater interest rate flexibility, and complete abstinence from any kind of monetisation of government bonds and private sector bailouts are overdue. Market policing or setting price ceilings don't work. Ensuring market competition, contestability and transparency do. Capricious and ill-prepared legal actions against alleged manipulators will not deliver results and could, in fact, boomerang.

The Bangladesh Bank must remain nimble and steadfast in its tight stance despite growing pressures from the business community to pause rate hikes. Higher financing costs challenge firms refinancing their debt and make credit availability tighter, thus weakening business and residential investment and compounding pre-existing structural challenges. But with inflation so stubborn, borrowing costs can't ease. We can't have our cake and eat it too.

Unrealistic optimism on the part of policymakers does not help either. So much for the overconfident forecasts about inflation falling to 8 percent by December 2023! When policymakers overestimate the likely effects of what they have already done, they fail to take the additional measures needed to get to where they want to be.

The author is an economist

Stocks open week in the red amidst drop in turnover

STAR BUSINESS REPORT

Dhaka Stock Exchange witnessed a 13.96 percent decrease in turnover yesterday from that on the previous day of trade last week.

The turnover, an indicator of the volume of shares traded, came to stand at Tk 924 crore at the end of the day.

It was the lowest since January 31 of this year when the turnover amounted to Tk 979 crore.

The DSEX, the benchmark index of the premier bourse of the country, declined 53 points, or 0.83 percent, from that on the last day of trade before settling at 6,283.

Similarly, the DSES, which represents Shariah-compliant companies, dipped 13.38 points, or 0.96 percent, to close the day at 1,368.

On the other hand, the DS30 Index, an index comprising blue-chip stocks, plunged 27.77 points, or 1.28 percent, to close at 2,129.

Of the issues traded at the DSE, 107 closed higher, 256 ended lower and 29 remained unchanged.

Market movement was driven by negative changes in the market capitalisation of travel and leisure, paper and printing, and bank scrips amid positive changes in the market cap of telecommunication, life insurance, and jute scripts, said Rajesh Saha, chief executive officer of CAL Securities.

"Basically, I will mention two things about the recent situation of the share market. First one is investors have been on the sidelines after a short time profit gaining," he said.

READ MORE ON B2

This wholesale market for bananas sits very early in the morning at Safdarpur Rail Station in Jhenaidah's Kotchandpur upazila, drawing traders from around the country. Every 80-piece cluster sells anywhere from Tk 130 to Tk 350 depending on the quality and variety. The photo was taken recently.

PHOTO: HABIBUR RAHMAN

Doreen stops running Feni power plant

STAR BUSINESS REPORT

The Doreen Power Generations and Systems yesterday informed that it had stopped running its 22-megawatt power plant in Feni as its contract with Bangladesh Power Development Board had expired on February 15.

The government is yet to extend the power purchase contract, the private electricity producer said in a statement on the Dhaka Stock Exchange website.

The company said it had applied with Power Division in February 2023 for an extension of the contract for supplying electricity and the application was "under consideration".

This is one of the Doreen's three plants. Of the other two, it had halted operations of the Narsingdi plant in December citing the same reason. The remaining plant is in Tangail.

Shares of the company declined 2.05 percent from that on the preceding trading day to Tk 42.9 as of noon yesterday.