Star BUSINESS

Old Dhaka is increasingly losing its reputation as a key trading hub due to severe traffic congestion

Story on B4

Exports top $5b for fourth straight month

REFAYET ULLAH MIRDHA

Bangladesh's merchandise exports stayed above $5 billion for the fourth consecutive month in March, giving much-needed breathing space to an economy struggling to keep its head above water amid the persisting foreign exchange crisis.

Exporters shipped goods worth $5.10 billion last month, an increase of 9.88 percent year-on-year, data from the Export Promotion Bureau (EPB) showed yesterday.

Exports stood at $5.30 billion in December, $5.72 billion in January and $5.18 billion in February and the healthy sales overseas came despite challenges on the global and local fronts.

The shipment crossed the $5-billion milestone for the first time in January last year.

The higher exports in the last four months came on the back of the moderate recovery of garment shipment, which accounts for about 85 percent of national exports, despite slowing demand in western economies because of the lingering impacts of the Russia-Ukraine war, the coronavirus pandemic, and the ongoing Middle East conflict.

Overall exports posted a 4.39 percent growth to $43.55 billion in the July-March period of the current financial year.

Garment shipment rose 5.53 percent to $37.20 billion during the nine-month period of 2023-24 compared to a year ago. Of the sum, $21.01 billion came from knitwear sales, which grew 9.79 percent, and $16.19 billion from the woven sector, which was up 0.47 percent.

"The garment export is expected to continue its current momentum in the coming months as international buyers are coming to Bangladesh with plenty of orders," said Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

The demand for clothing items is on the rise because western retailers and brands have run out of old stocks, he said.

"Bangladesh is also increasingly becoming an important source for value-added garment items."

A few factors like the uncertainty centring the general elections and the increase in the production cost following the upward adjustment of the minimum wage for garment workers emerged as major concerns for the biggest foreign currency-earning sector last year.

However, the BGMEA chief says those worries are now over and normalcy has been restored in the business.

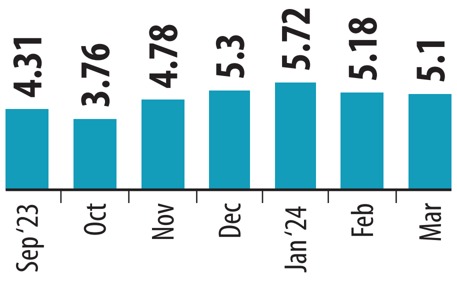
Some other issues such as an inadequate supply of gas and power to the industrial sector, however, continue to hurt the industry while the rising bank interest rate is emerging as a new headache.

Hassan called for an end to harassment businesses experience while carrying out customs procedures and simplifying the bonded warehouse facility.

According to the EPB, the shipment of agricultural products like tea and vegetables grew 5.6 percent to $715.84 million in July-March of FY24. Plastic goods exports increased 18.16 percent to $182.8 million.

MONTHLY EXPORTS

In billions of $: SOURCE: EPB



Cotton waste sales climbed 41.77 percent to $406.45 million, manmade filament export gained 12.98 percent to $246.29 million, and the shipment of specialised textiles rose 16.57 percent to $242.18 million.

Non-leather footwear export was up 7.67 percent to $385.73 million.

However, some potential sectors could not perform well. In July-March, Bangladesh's sales of frozen and live fish in the global markets fell 13.66 percent to $299.2 million.

Similarly, the shipment of leather and leather goods dipped 13.65 percent to $794.19 million and jute and jute goods

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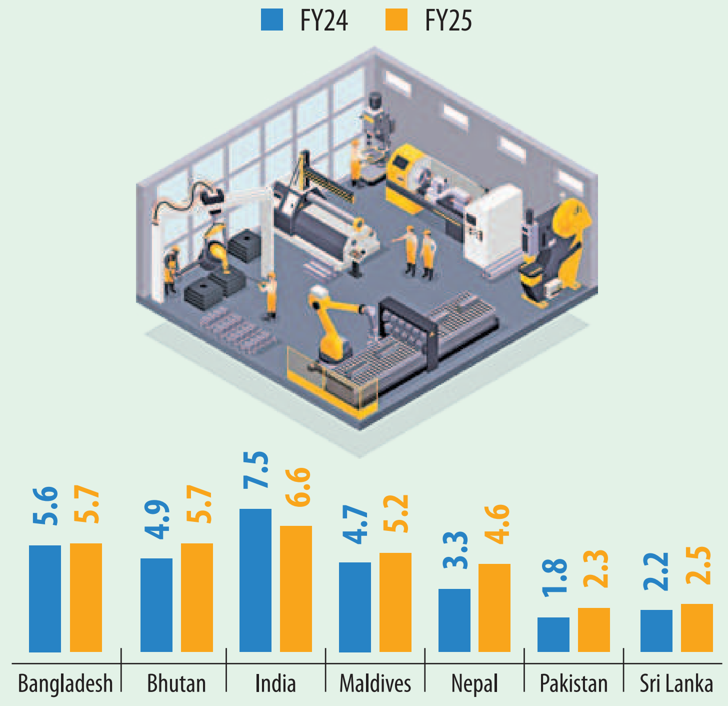
Economy to post subdued growth for at least 3 years

World Bank forecasts, blaming forex crisis, rising inflation and slower export demand among factors

CHALLENGES FOR BANGLADESH ECONOMY

- Inflation likely to remain elevated in near term
- Pressure on external sector expected to persist in FY24
- Slower GDP growth to persist
- Persistent inflation to weigh on private consumption growth
- Shortages of energy and imported inputs and rising interest rates to dampen investor sentiment
- Inadequate progress in monetary and exchange rate reforms may result in a further decline in forex reserves
- Tighter liquidity conditions could exacerbate vulnerabilities in the banking sector

World Bank's growth forecasts for South Asian countries (In %)



"Elevated inflation, forex shortages, import restrictions and financial sector vulnerabilities weigh on the outlook."

Bernard James Haven
Senior economist of World Bank

SUGGESTIONS

- Expediting structural reforms needed to promote economic diversification
- Critical reforms required to strengthen framework for FDI
- Efficient resolution framework needed to deal with NPLs
- Bolstering domestic revenue generation is critical
- Bangladesh has to move towards a tax structure consistent with an upper middle-income country

STAR BUSINESS REPORT

Bangladesh's economy is projected to grow at less than 6 percent for three consecutive years, including the current fiscal year, said the World Bank, a pace that is slower than the average expansion recorded in the pre-pandemic decade.

The Washington-based lender said the growth of gross domestic production (GDP)—the final value of goods and services produced in an economy for a certain period -- would remain subdued in the short-run with downside risks.

"Elevated inflation, forex shortages, import restrictions and financial sector vulnerabilities weigh on the outlook," said Bernard James Haven, a senior economist of the World Bank, while presenting the key observations on Bangladesh's economy.

"So, the World Bank is forecasting subdued growth. However, with the right policies, the growth can reaccelerate," he said at a press briefing at the WB's Dhaka office yesterday.

The multilateral lender said the economy would grow at 5.6 percent in 2023-24, lower than the South Asian average of 6 percent for 2024. Annual GDP growth averaged 6.6 percent in the decade before the pandemic struck the world in 2020.

Slower growth is projected to persist in 2024-25, it said, forecasting a marginal increase to 5.7 percent, driven by a modest recovery in private consumption supported by a moderation in inflation.

Once again, the forecast for Bangladesh would be lower than its projection of 6.1 percent for South Asia in 2025 though it would grow at the second-highest pace in the region.

India's economy is forecasted to grow at 7.5 percent.

The WB said Bangladesh's economy would improve in 2025-26 and register a 5.9 percent expansion.

Persistent inflation is expected to weigh on private consumption growth, and shortages of energy and imported inputs combined with rising interest rates and financial sector vulnerabilities are expected to dampen investor sentiment.

"Investment recovery will need support from improved implementation of large public investment projects," said the lender, adding that this will be reflected in higher industrial growth, even though services growth is expected to remain subdued.

The growth is forecast to increase gradually over the medium-term as monetary, exchange rate, financial and structural reforms are implemented.

However, there are risks too.

"Even though political uncertainty has diminished with a new cabinet taking oath after the national elections held in January 2024, downside risks to the outlook are significant," the WB said.

"Inadequate progress in monetary and exchange rate reforms may result in a further decline in foreign exchange reserves and persistent inflationary pressure."

Bangladesh's foreign exchange reserves have more than halved to $19.46 billion on March 27 compared to the level seen in August 2021.

The report cautioned that the delay in exchange rate reforms can perpetuate forex shortages and import restrictions.

Headline inflation is expected to remain elevated at 9.6 percent in 2023-24 before moderating to 8.6 percent in the next fiscal year.

"The continued depreciation of the taka and curbs on the imports of consumer and capital

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Stocks fall for second session

STAR BUSINESS DESK

Shares on Dhaka Stock Exchange (DSE) declined for a second consecutive session yesterday as nervous investors continued to clear their portfolios of scrips which account for large amounts in market capitalisation owing to the market's gloomy outlooks.

Market capitalisation refers to the total value of a company's outstanding shares of stock.

Price corrections were witnessed by the most prominent of companies, including Renata, British American Tobacco Bangladesh Company, Pubali Bank, City Bank, Robi Axiata, Al-Arafah Islami Bank, Grameenphone and BRAC Bank.

Market movement was driven by negative changes in the market capitalisation of travel and leisure, paper and printing, and life insurance scrips, said Shanta Securities in its daily market update.

There were also positive changes in the market capitalisation of food and allied, engineering, and telecommunication scrips, it said.

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Bangladesh lost Tk 2 lakh crore in potential VAT

World Bank says in a report

STAR BUSINESS REPORT

Bangladesh missed out on about Tk 2 lakh crore VAT in the fiscal year (FY) 2018-19 due to a lack of compliance by firms, the prevalence of exemptions, and truncated rates below the 15 percent uniform rate, said the World Bank (WB).

The multilateral lender said the amount of VAT that the country missed out on was more than twice the revenue that it logged during the year, which amounted to Tk 85,000 crore.

Most of it was caused by policy choices, the WB said in its latest report on Bangladesh's economy, released yesterday.

The WB measured VAT losses based on an analysis of the VAT gap -- an estimate of the overall difference between theoretical VAT revenue and the amount actually collected.

The VAT gap analysis is based on the methodology introduced for the International Monetary Fund's Revenue-Administration Gap Analysis programme.

"Bangladesh currently collects approximately half of its potential revenue, given its economic structure, level of development, and trade openness," said the report.

"If there were no policy and compliance gaps, there is potential to collect over three times more VAT revenue," said the report.

Besides, the compliance gap is relatively high in Bangladesh compared to other nations.

"Bangladesh's estimated compliance gap is 42 percent while it ranges from 5-10 percent in South Africa and 28-31 percent in Costa Rica," said the report.

In terms of policy gap, Bangladesh is less of an outlier. Policy gaps range from 25-32 percent in South Africa and 64 percent in Sri Lanka, with Bangladesh's policy gap estimated at 49 percent of reference revenue.

Overall tax

- Bangladesh collects about half of its potential revenue
- Revenue-GDP ratio one of the lowest in the world

VAT

- VAT gap was estimated at Tk **2** lakh crore in FY19; more than twice the actual revenue
- Compliance gap in Bangladesh is **42**%, highest among its comparator nations

Direct tax

- Bangladesh only generates two-thirds of the potential personal income tax
- Collects less than **60**% of the predicted amount in corporate taxes
- Over **56**% of firms don't have Taxpayer Identification Numbers (TINs)
- More than **55**% of the firms having TINs do not pay taxes

The WB report said Bangladesh only generates two-thirds of the predicted amount in personal income tax and less than 60 percent of the predicted amount in corporate taxes.

"For the latter, Bangladesh is among the worst-performing middle-income countries."

About major bottlenecks, the report said the government is deprived of large amounts of tax revenue due to money laundering, tax evasion, and illicit capital flows.

Most of these challenges have persisted for at least the last decade despite being recognised by the government. They are yet to be resolved, said the report.

Besides, corporate tax compliance is poor. According to NBR data, more than 56 percent of firms do not have a TIN and over 55 percent of TIN-holding companies do not pay corporate taxes.

Only a handful of telecom operators, tobacco companies, and banks account for the bulk of the collection.

In the FY22 budget, the corporate tax rates for non-listed companies and listed companies have been reduced by 2.5 percentage points to 30 percent and 22.5 percent, respectively.

"Yet, the rates are still higher than in many competitor countries and aspirational peers in South-East Asia."

World Bank said, "Improving revenue mobilisation is critical to increase public resources to support growth and development of Bangladesh".

It added that despite rapid economic growth in recent years, Bangladesh struggled to strengthen its domestic resource mobilisation.

Form a cell to fix prices of construction materials

Realtors urge govt

STAR BUSINESS REPORT

The Real Estate and Housing Association of Bangladesh (REHAB) has demanded the formation of a "monitoring cell" to determine the prices of construction materials and ensure the quality of products.

REHAB leaders made the demand at a view exchange meeting with State Minister for Commerce Ahasanul Islam Titu at the secretariat in Dhaka yesterday.

The real estate sector has been facing a deep crisis due to the increasing prices of construction materials, including rods, cement, and cables, they said.

"The price of flats in Dhaka has been out of the reach of common people due to the sharp rise in the price of construction materials and some other reasons, putting the housing sector on the verge of destruction," REHAB said in a press release.

REHAB President Md Wahiduzzaman, Senior Vice-President Liaquat Ali Bhuiyan, and Vice-Presidents M Ashraful Islam, Md Awal, Mohammad Akhter Biswas, and Abdur Razzak were present at the meeting.

They said companies were in a deep crisis regarding the projects that began earlier as the prices of construction materials have increased but they are unable to collect extra money from buyers due to contractual obligations.

"The rate at which the prices of construction materials are increasing has made it difficult to keep our promise to buyers of flats," they said.

They explained that developers take up projects in partnership with landowners and sell houses at the beginning of a project at a fixed price.

Due to the sales agreement, the price of the flat cannot be increased even if the prices of construction materials rise later, they said.

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