Star BUSINESS

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Story on B4

Higher debt to put strain on Bangladesh as revenue remains low

The debt-to-GDP ratio will cross 40% in current fiscal year

REJAUL KARIM BYRON *and* AHSAN HABIB

The debt-to-GDP ratio of Bangladesh is going to cross 40 percent in the current fiscal year as the government continues to borrow to bankroll its expenditures amid lower collections of revenues.

It was 39.8 percent in the fiscal year 2022-23 and is forecast to be 41.41 percent at the end of 2023-24, according to a fiscal monitoring report of the International Monetary Fund (IMF) released last week.

In the last decade, the debt-to-GDP ratio rose by 13 percentage points. The IMF forecasts that the ratio will reach 43.5 percent in 2028-29.

Keeping the ratio below 55 percent is of low risk, according to the IMF.

However, local economists say this could be risky if the revenue growth does not pick up and the existing US dollar crunch prevails.

Due to the growing debt, interest payment costs are rising for Bangladesh.

While the debt burden is rising for the South Asian country every year, revenue earnings are forecast to be low.

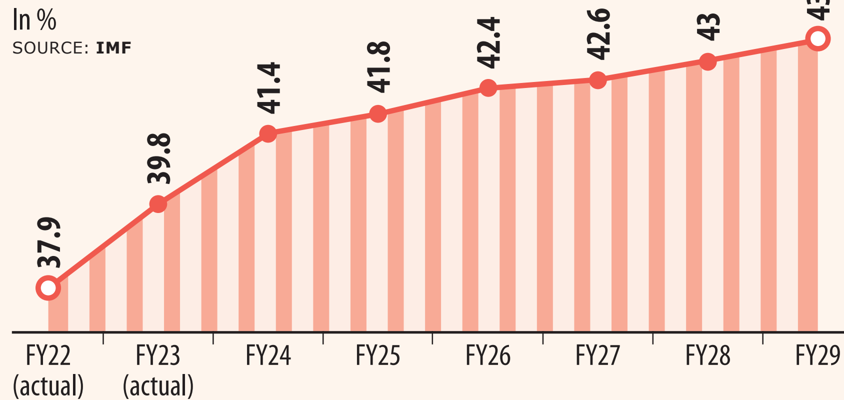
The revenue-to-GDP ratio has ranged between 8 percent and 9 percent over the last one decade. The IMF forecasts that it would be 8.8 percent in FY24 and increase to 10.2 percent in FY29.

Although the debt-to-GDP ratio is higher in neighbouring India compared to that of Bangladesh, its revenue-to-GDP ratio is higher.

In India, the debt-to-GDP ratio is projected to stand at 82.5 percent in FY24, which was 82.7 percent in the previous fiscal year. The revenue-to-GDP ratio was 20.2 percent in FY23.

Zahid Hussain, a former lead economist of the World Bank's Dhaka office, said whether the existing debt-to-GDP ratio of Bangladesh can be deemed risky depends on how the GDP was rising with the loans, how revenue was growing, and on the availability of foreign exchange.

The revenue earnings of the country more or less have remained stagnant and the crisis of US dollars has been prevailing for the past one and a half years.



"So, the loan repayments may create some pressure although the GDP is growing," he said.

Since revenue earnings are not rising at a higher pace, the country needs to borrow to meet the budget deficit.

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Edible oil market now controlled by big four

DROP IN THE NUMBER OF REFINERS

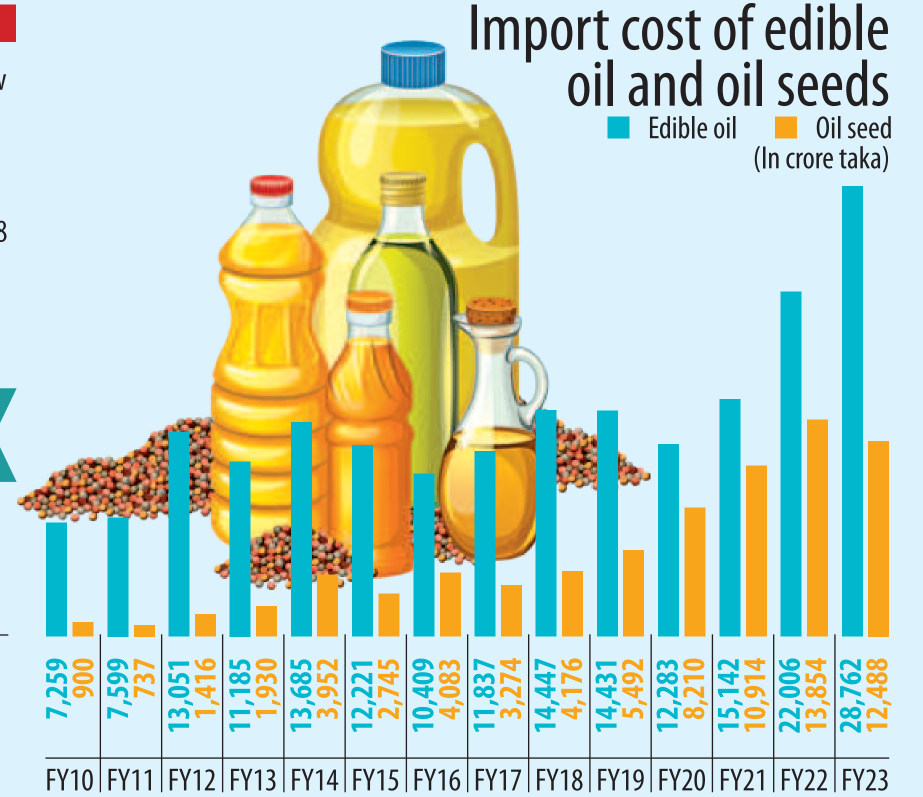
- Number of oil refiners has declined to around **11** now from **30** in the past
- TK Group, City Group, S Alam and Meghna Group of Industries control **80**% of the market of imported oil
- **17** out of **32** factories were forced to close in 2007-08
- Half a dozen major companies including Noorjahan Group, SA Group, Eliash Brothers, and Mustafa Group were shut down in 2012-2015

DEMAND AND IMPORT

- Over the last two decades, demand for edible oil more than doubled to **30** lakh tonnes per year
- Nearly **25.7** lakh tonnes of soybean and palm oil were imported in 2023

MAJOR IMPORT SOURCES

- About 84% of palm oil is imported from Indonesia and the rest from Malaysia
- About **92**% of soybean oil is imported from Argentina and Brazil



SOURCE: BB

MOHAMMAD SUMAN

The edible oil industry in Bangladesh has seen massive change over the past two decades on the back of the consumption of the key cooking ingredient in line with the country's growing population and increasing purchasing power.

However, the number of refiners has declined by a third during the period as many could not sustain their business, leaving just 11 companies to currently operate in the edible oil market.

"As a result, the market has turned oligopolistic in nature and major players can influence prices in a way that affects consumer interests," said Ghulam Rahman, president of the Consumers Association of Bangladesh (CAB).

Among the 11 companies, TK Group, City Group, S Alam Group and Meghna Group control a majority of the imported edible oil market.

Data from the National Board of Revenue (NBR) shows that nearly 25.7 lakh tonnes of soybean and palm oil were imported in 2023, with the four companies accounting for 80 percent of the total amount.

The four companies collectively catered to about a fourth of the demand for edible oil just 10 years ago, meaning their collective market share has tripled since then.

So why did such a change take place?

The foremost reason is price instability in the global commodities market, on which Bangladesh relies heavily to meet its requirements.

"Many failed to sustain their edible oil business as they suffered losses amid price volatility in the international market," said

Part: 1
Commodity conundrum

Golam Mawla, a trader at Moulvibazar in Dhaka, one the country's largest wholesale kitchen markets.

However, this alone does not tell the whole story.

"A section of businesspeople had taken bank loans to buy land and set up oil refining facilities expecting high returns," said AKM Fakhrul Alam, a former regional manager of the Malaysian Palm Oil Council.

"But they did not get that [profit] and rather suffered losses," he added, while informing that unhealthy competition among market players also drove a number of them out of business.

The annual requirement for edible oil in Bangladesh more than doubled to 30 lakh tonnes over the past two decades. But still, many importers and traders suffered heavy losses over the years due to price volatility in the international market, particularly in 2008 and 2012, market players say.

Businesses in Chattogram, a vital region for the edible oil trade given its access to port facilities, said the trouble began when the caretaker government forced them to sell the product for less than its import cost in 2007-08. As a result, 17 of the 32 local edible oil processors were forced to shut down.

The industry saw another significant setback between 2012 and 2015 when more than half a dozen of the major edible oil processors, including Noorjahan Group, SA Group, Eliash Brothers, and Mustafa Group were closed.

Abul Hashem, an edible oil wholesaler at Moulvibazar, said the industry requires huge capital and entails a lot of risk.

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Migrant workers stare at uncertainty as global crises deepen

ANALYSIS

MD ASADUZ ZAMAN

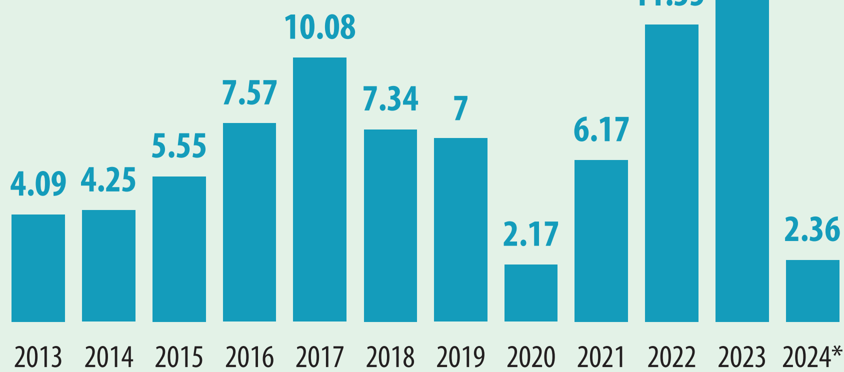
Bangladesh witnessed a record outflow of migrant workers last year due to the reopening of the Malaysian market and expansion of the Saudi market, but it may not be sustainable unless a number of factors are addressed.

And the recent escalation of tensions in the Middle East due to the Iran-Israel confrontation has raised grave concerns.

Last week, Iran launched hundreds of drones as well as cruise missiles towards Israel in response to a strike on an Iranian diplomatic building in the Syrian capital, Damascus, on April 1. In response, Israel carried out a strike on the Iranian city of Isfahan on Friday.

Moreover, further setbacks are posed by Malaysia's decision to freeze new foreign worker recruitment in March as well as Oman suspending the issuance of visas to Bangladeshi citizens at the end of 2023 due to an oversupply of workers from the South Asian nation.

In the first three months of this year, 2.36 lakh migrants left Bangladesh, with 26,850 going to Malaysia and 302



to Oman, as per data of the Bureau of Manpower Employment and Training (BMET).

Bangladesh is already contending with the fallout from the ongoing Red Sea crisis, the conflict in Gaza, and the Russia-Ukraine War.

Rising tensions in the Middle East are a big problem for Bangladesh because the region is home to a majority of migrant workers from the country. Major destinations include Saudi Arabia, the United Arab Emirates, Oman, Jordan, Qatar, Kuwait, and Lebanon.

In 2023, around 13.05 lakh migrants left Bangladesh, with Saudi Arabia alone welcoming 4.97 lakh, or 38 percent, according to BMET data.

Malaysia, which reopened its labour market in 2022 after a four-year hiatus, emerged as the second-largest employer with 3.51 lakh Bangladeshis recruited.

Oman hired 1.27 lakh workers from Bangladesh in 2023.

"There will be huge losses for Bangladesh if the Iran-Israel crisis spreads," said Ali Haider Chowdhury, general secretary of the Bangladesh Association of International Recruiting Agencies (Baira).

"Not only that, if any crisis hits a Muslim-majority nation, it will definitely hurt Bangladesh economically by reducing remittances."

Chowdhury termed Oman and Malaysia's decisions to freeze on new foreign worker recruitment as "concerning".

"We expect this Iran-Israel crisis will not expand anymore. But still, we have to depend on the Middle Eastern market, including Saudi Arabia," said Chowdhury, also director of East West Human Resource Center Limited.

Syeda Rozana Rashid, a professor of international relations at the University of Dhaka, expressed deep concerns, saying: "2024 may witness the reverse of the situation that we saw last year."

The escalation of tensions in the Middle East coupled with Malaysia and Oman's recruitment restrictions will have major impacts on Bangladesh, she said.

"The migration cost will rise and remittances may fall in the coming days."

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Airlines against move to adjust jet fuel price under new BPC formula

RASHIDUL HASAN *and* ASIFUR RAHMAN

Airlines in Bangladesh will not benefit from an initiative of the Bangladesh Petroleum Corporation (BPC) to start adjusting the price of jet fuel on a monthly basis using a new formula, according to industry people.

As per the new formula, the price of jet fuel will be calculated each month by adding the average rate quoted by the Platts Asia Pacific/Arab Gulf (APAG) Marketscan for the preceding month with other expenses.

These include the average premium cost, lighterage and financing charges. However, no value-added tax or other duties will be imposed when selling jet fuel for international flights.

On the other hand, the price of jet fuel for domestic flights will be subject to the same formula with the addition of VAT and other duties.

The Ministry of Power, Energy and Mineral Resources issued a notification on April 8, announcing the new formula for setting jet fuel prices for both international and domestic flights.

The notification said the BPC will set the price of jet fuel using the new formula by the first week of each month.

Mofizur Rahman, managing director of Novoair, said the move will be of no benefit to them as the market situation will remain the same.

"We wanted the price to be adjusted in line with its rate in the international market. But the BPC has added various costs with the international price, so the result will be the same as before."

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