Star BUSINESS

Tannery workers should get a minimum monthly wage of Tk 22,776 considering the current market conditions and high inflation, CPD says

Story on B4

BB likely to discard SMART formula as interest rate surges

MD MEHEDI HASAN

The Bangladesh Bank plans to ditch the SMART formula used currently to fix the interest rate on loans, in line with the prescription of the International Monetary Fund (IMF) that has proposed a market-based rate-setting system.

In July last year, the central bank withdrew the 9 percent lending rate cap and introduced the Six-months Moving Average Rate of Treasury bills (SMART).

Since then, the banking regulator has published the benchmark rate on the last working day of the month. This, however, did not happen on the last working day of April. As a result, banks and non-bank financial institutions (NBFIs) are in the dark and they might have to use the current reference rate to price loans.

The likely suspension of the rate-setting formula comes at a time when a mission of the IMF is in Dhaka to discuss the progress of the $4.7 billion loan programme. It has already met with the different stakeholders, including the BB.

The outcome of the mission will see whether Bangladesh will get the third tranche of the credit.

The SMART formula has been put in place since higher consumer prices showed no sign of cooling despite the unprecedented spike in the policy rate.

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This largely happened because of the cheaper funds owing to the interest rate ceiling and market mismanagement.

Even after the benchmark rate was rolled out and the lending ceiling was scrapped, inflation has stayed at an elevated level for nearly two years.

Local experts and the IMF think an interest rate cap still exists owing to the SMART, said a senior official of the central bank.

The observation has been made because banks are allowed to add as high as 3.75 percentage points to the SMART rate as the margin for lending. Similarly, the central bank has control over fixing the SMART rate.

According to experts, the interest rates of both Treasury bills and bonds are controlled by the central bank.

The BB frequently purchases the securities by bidding at a lower rate compared to commercial banks. However, private banks, other financial institutions, institutional investors and even individual investors are buying government bills and bonds because of higher yields, sending the sales of the tools higher.

Currently, the yield of the 91-day bills stands at 11.35 percent, the 182-day bills at 11.40 percent and the 364-day bills at 11.60 percent. This was up from 6.95 percent, 7.25 percent, and 8.30 percent respectively in June last year.

After the SMART was launched, the World Bank also said the introduction of a benchmark lending rate or reference rate for commercial banks could provide a transition path from rate caps toward market-determined rates.

The BB official said the IMF suggested the BB let the market determine the lending rate since the SMART was not a market-based interest rate.

On the other hand, there is fear among the business community that the rising interest rate could negatively impact the economy and businesses, he added.

Since the rollout of the benchmark rate, loans indeed have become costlier.

The SMART rate for March stood at 10.55 percent. Since banks can add 3.75 percent as margin, the highest lending rate stood at 14.3 percent in April. The SMART rate was at 7.13 percent.

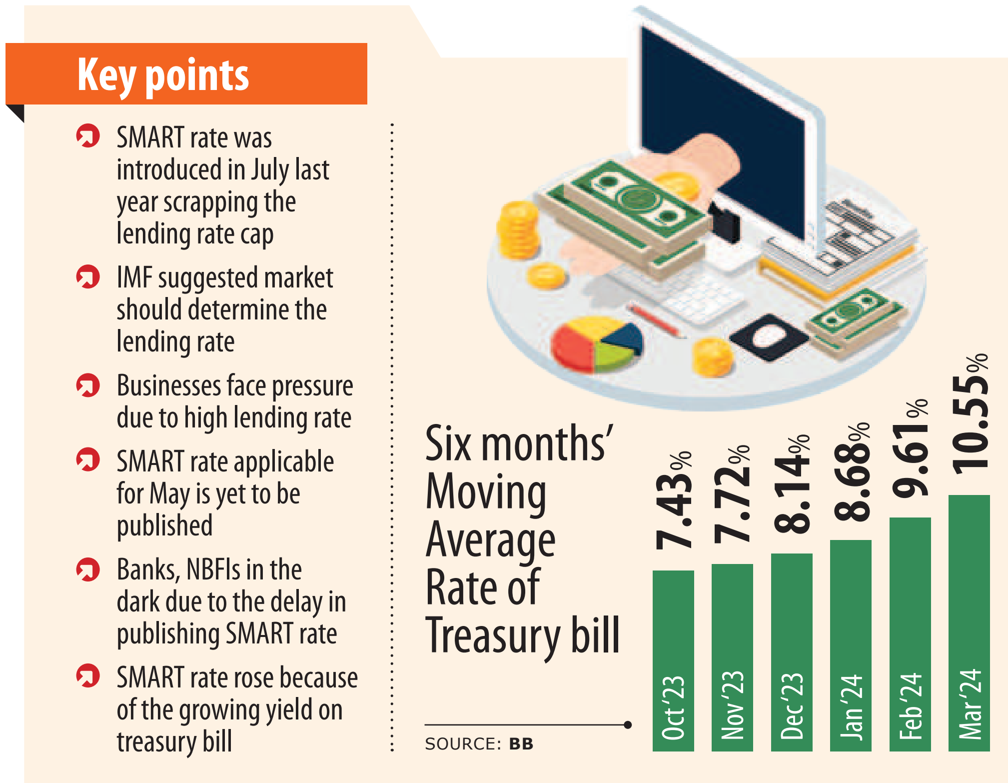
Against the backdrop, the banking regulator has decided to phase out the SMART formula, several central bankers said.

A chief executive of a private commercial bank said there is a discussion on whether the BB will leave the lending rate to the market as there is pressure from the business community against for the formula.

Mustafa K Mujeri, a former chief economist of the BB, said that the central bank should find a way to allow the market to set the interest rate in order to give a long-term solution.

Sadiq Ahmed, vice-chairman of the Policy Research Institute of Bangladesh, thinks the lending rate will have to be flexible and the SMART rate should not be allowed to go up further.

"The market still is liquid. Therefore, it will take time to bring down inflation to the desired level."



Garment exports to US continue to decline

American retailers cut back on imports from all over the world

REFAYET ULLAH MIRDHA

Garment shipments to the US, Bangladesh's single largest export destination, continued to decline over the past few months as American retailers and brands cut back on imports of apparel from all over the world.

In the January-March period of the current year, garment shipments to American markets declined by 17.68 percent to $1.75 billion, according to data from the Office of Textiles and Apparel (OTEXA), a body under the American Commerce Department.

In the January-February period, garment exports to the US declined by 19.24 percent to $1.18 billion, according to the data.

The collective shipment of textiles and garments slipped 17.37 percent to $1.81 billion in the January-March period of the current year, the data also showed.

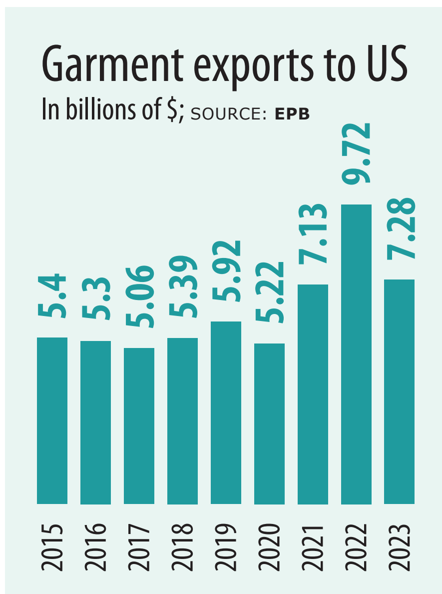
Garment exports to the US have been declining over the past several months as American retailers and brands are importing less garments despite a gradual improvement in inflationary pressure to adjust with higher exports of garments in previous years.

For instance, garment exports from Bangladesh to the US rose more than 53 percent after the Covid-19 pandemic as retailers and brands imported more to meet pent-up demand in 2022.

But garment exports did not increase at same pace last year as American retailers and brands had plenty of old stock of unsold clothing items.

Retail sales began to revive in November last year during the beginning of the festive season while sales peaked in December last year during Christmas. The demand for apparel has been slowly reviving since then, with exports gradually approaching positive territory.

Moreover, many garment factories in Bangladesh have faced long closures due to the wage hike movement, which stretched from September to December last year. Production at many factories was disrupted severely as workers agitated, demanding a wage hike.



AK Azad, managing director of Ha-Meem Group, which exports 95 percent of its garment products to the US, said the demand for the apparel among low-end consumers in the US did not fully recover.

This especially affected Bangladesh because the country mainly exports low-end garment items to the US, Azad added.

Moreover, the interest rate in US banks is still high, which means consumers are busy making interest payments against loans, such as ones taken to purchase houses, he added.

Furthermore, the gas and power crisis in the garment industry has been severely affecting lead times.

As a result, manufacturers cannot ship goods as per commitments to buyers, said Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

The lack of a deep-sea port in the country has also been affecting lead times, Hatem added.

The National Retail Federation (NRF), the largest retailers' platform in the US, said retail sales grew at a steady pace in March.

"As inflation for goods levels off, March's data demonstrates steady spending by value-focused consumers who continue to benefit from a strong labour market and real

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Rancon rolls out six models of Mercedes Benz EVs

STAR BUSINESS REPORT

Rancon Motors, the sole distributor of Mercedes Benz automobiles in Bangladesh, yesterday launched six models of electric vehicles (EVs) to grab the country's EV segment.

The models are the Mercedes-Benz EQS 450 4matic SUV, EQS 450+ Sedan, EQE 350+ SUV, EQE 53 AMG SUV, EQE Sedan 350+, and EQB and were rolled out at the International Convention City Bashundhara in Purbachal.

Rancon Group Chairman Romo Rouf Chowdhury, Divisional Director Imran Zaman Khan, and CEO Redwanul Zia were presented at the launch, according to a press release.

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PHOTO: PALASH KHAN

Romo Rouf Chowdhury, chairman of Rancon Group, speaks during a function at the capital's International Convention City Bashundhara, where Rancon Motors yesterday launched six different models of Mercedes Benz electric vehicles.

HIKE IN POWER PRICES

Will there be any respite from high inflation?

SOHEL PARVEZ

Last weekend began with news that did not provide comfort.

After the spike in March, power prices are expected to be hiked three further times this year.

However, it will not end there as prices will be increased in four rounds next year as the government plans to remove subsidies on the energy sector to comply with a condition for the $4.7 billion loan from the IMF.

THE WEEKLY VIEW

To many, especially salaried and fixed-income individuals, this means they will have no option but to find ways to cut expenditures to bear increased electricity bills.

Incomes have not risen in line with the spiralling cost of living.

Inflation, a measure of the increase in the prices of goods and services consumed by a typical consumer, has been stubbornly high. It rose to 9.81 percent in March after slightly easing the month prior.

The Bangladesh Bureau of Statistics has not published April's consumer prices data yet. But it seems that whatever the inflation in April was, prices may go up in the coming quarters because of the power ministry's plan to increase electricity tariffs.

"Higher prices of electricity may stoke inflation further. We are already squeezed by consistently high inflation. The power price increase will squeeze us further," said Ghulam Rahman, president of the Consumers Association of Bangladesh (CAB).

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