Star BUSINESS

China has regained its position as India's largest trading partner, overtaking the US after two years

Story on B4

Pressure mounts as currency outflow intensifies

MD MEHEDI HASAN

The pressure on the external sector of Bangladesh has intensified as the financial account deficit widened owing to higher outflows of international currencies compared to inflows.

The deficit in the financial account stood at $9.25 billion in July-March of the current fiscal year, Bangladesh Bank data showed. It was $2.92 billion in the first nine months of the previous fiscal year and $8.46 billion in July-February of 2023-24.

The financial account is a key component of a country's balance of payments (BoP) and records transactions that involve financial assets and liabilities and that take place between residents and non-residents.

It covers claims related to foreign direct investments, medium and long-term loans, trade credits, net aid flows, portfolio investments, and reserve assets.

Industry people have identified a lower short-term foreign borrowing by the private sector as the main factor for the deficit.

The short-term foreign debt stood at $11.04 billion in March against $11.07 billion in February and $11.25 billion in January.

The borrowing has fallen as foreign lenders have lost their confidence in Bangladeshi companies as the country's foreign currency reserves keep falling, deepening economic uncertainty, the industry people said.

The reserves slipped below the $19-billion mark on Sunday after the BB settled $1.63 billion worth of import bills for two months through the Asian Clearing Union, an arrangement for settling cross-border transactions among the central banks of Bangladesh, Bhutan, India, Iran, the Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka.

On the day, the gross forex reserves were $18.26 billion. However, the net forex reserves stood at $13.76 billion, said a BB official. Bangladesh will have to maintain an NIR of $14.77 billion in June in line with the condition of the International Monetary Fund (IMF).

The reserves have declined owing to elevated global commodity prices, supply disruptions, a slowdown in external demand, and a shift in remittance back to informal channels. It was $40.7 billion in August 2021.

"The pressure on the forex reserves will ease if the central bank strictly implements its latest decisions on the interest and exchange rates," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

The economist expects inflation to decrease on the back of the market-based interest rate and the flexible exchange rate. However, remittance will not pick up because of hundi.

The financial account deficit persisted in July-March also because of a $10.39 billion shortage in the "other investment (net)" segment of the BoP.

The trade deficit, which takes place when imports surpass exports, narrowed to $4.74 billion against $14.63 billion during the same period of FY23.

Exports were up 3.99 percent.

Imports dropped 15.42 percent, driven by the austerity measures put in place by the government to stop the depletion of the reserve and the go-slow strategy adopted by industries and businesses when it comes to investment and expansion.

The current account balance returned to the positive territory at $5.79 billion in July-March from a negative $3.29 billion. The overall balance was $4.75 billion negative.

Mansur said the positive current account balance will have to continue to make an improvement from the current economic uncertainty.

Contacted, BB Deputy Governor Md Habibur Rahman said curbing forex reserve depletion is the major focus of the central bank now.

"We have introduced a new exchange rate system named crawling peg to this end," he said, adding that the hike in the exchange rate will help raise export and remittance receipts in the upcoming months.

"Subsequently, the deficit in the financial account will narrow and this will give a boost to the reserves."

Balance of payments (July-March)

- Financial account deficit widens to $**9.25**b
- Trade gap comes down to $**4.74**b
- Export grows by **3.99**%
- Import falls by **15.42**%
- Current account balance stands at $**5.79**b
- Overall balance deficit stands at $**4.75**b

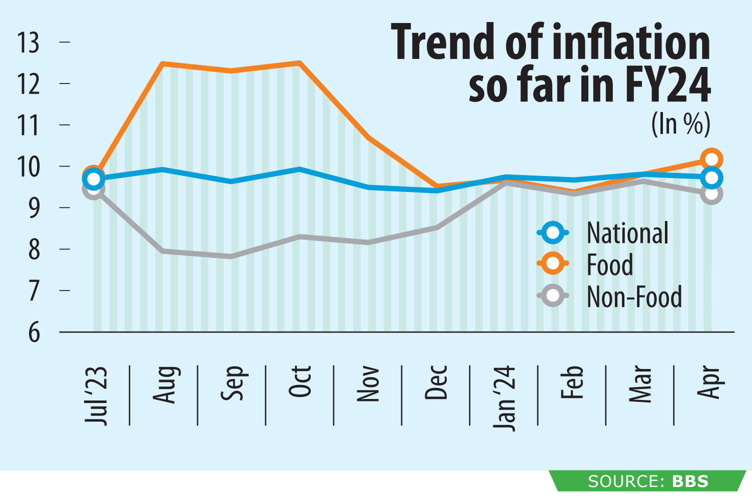
April food prices cross 10%, highest in five months

FACTORS BEHIND HIGHER INFLATION

- A weaker taka
- Continuous depletion of forex reserves
- Higher commodity prices globally
- Elevated energy prices
- Imperfections in the local market
- Late, inadequate responses on the part of govt, BB

KEY POINTS

- Govt aims to limit average inflation to 7.5% in FY24
- IMF projects inflation to remain elevated at 9.4% in FY24
- The CPI surged to a 12-year high of 9.02% in FY23



SOURCE: BBS

REJAUL KARIM BYRON

Food inflation in Bangladesh rose to a five-month high in April as the measures of the government and the central bank aimed at reining in elevated consumer prices are yet to take hold, official figures showed yesterday.

This means the struggles for the low-income groups and the poor have continued because of the erosion of purchasing power in the past two years.

According to the Bangladesh Bureau of Statistics (BBS), food inflation jumped 35 basis points to 10.22 percent last month from 9.87 percent in March. This was the first time in five months that food inflation hit double digits.

However, the Consumer Price Index (CPI), a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods and services, fell seven basis points to 9.74 percent in April. It was 9.81 percent in March.

Non-food inflation went down by 30 basis points to 9.34 percent.

Inflation has remained sticky although expectations were high that the government would take appropriate initiatives to tackle it when it took office in January. However, four months have passed since then, but no improvement is in sight.

"We are seeing deficit when it comes to implementation," said Selim Raihan, a professor of economics at the University of Dhaka.

He said higher inflation has been a concern for a while. "However, we are even more concerned about food security of people because higher prices have hit hard poor households since their incomes have not increased in line with price hikes."

"Tackling higher inflation should have been a top priority for the government. However, coordinated efforts are missing."

The economist cited the examples of a sharp spike in egg and meat prices.

In Bangladesh, the inflation surge was initially triggered by supply chain disruptions due to the Covid-19 pandemic and the Russia-Ukraine war.

In 2022, while global commodity prices started to decline, the significant deficits in Bangladesh's current account balance and overall balance of payments led to a sizeable depreciation of the taka.

The pass-through of a sharp depreciation of the local currency accounted for half of the inflation surge in the last financial year of 2022-23, according to the International Monetary Fund (IMF).

Additionally, second-round effects from adjustments in energy prices and imperfections in the commodity market further compounded high inflation, said the Bangladesh Bank in January.

In the past two years, the currency has lost its value by about 35 percent owing largely to a 30 percent decline in the foreign currency reserves.

On Wednesday, the central bank made three major decisions to beef up its fight against inflation. It loosened its age-old grip on the taka as it will now follow the crawling peg, a flexible exchange rate system.

It also made lending rates fully market-based and raised the overnight repurchase agreement rate. The taka has lost its value by 6 percent after the central bank introduced the crawling peg.

Prof Raihan, also the executive director of the South Asian Network on Economic Modeling, said it would take time for the initiatives to take hold.

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Interest, exchange rates to become stable: BAB

STAR BUSINESS REPORT

The interest rate and foreign currency exchange rate will stabilise at a certain point in time after fluctuating due to market dynamics, said Md Nazrul Islam Mazumder, chairman of the Bangladesh Association of Banks (BAB), yesterday.

"No one has the power to control the interest rate and exchange rate as these depend on demand and supply in the market. And there is no instance of fixing these rates in the world," he said.

"So, it needs to function freely. I welcome the Bangladesh Bank's decision to let it go free," he said.

The economy will run at its own pace and the foreign exchange rate and interest rate will hover at a certain range following the kerb market, he said. "Finally, the rates will become stable at a certain point in time," he said.

Mazumder, also the chairman of Exim Bank, was speaking to journalist after holding a meeting at the central bank, chaired by Bangladesh Bank Deputy Governor Nurun Nahar and attended by top central bank officials.

The price of the US dollar surged by nearly Tk 7 to Tk 125 in the kerb market on Thursday, just a day after the Bangladesh Bank announced the adoption of the crawling peg, a flexible exchange rate system.

The price of each US dollar has been hovering between Tk 120.30 to Tk 121 in the kerb market over the past couple of days, according market insiders.

Sharing the outcomes of the meeting with the central bank officials, Mazumder said they discussed the establishment of a hospital under the initiative of Bangladesh Bank.

He said there was a huge crisis of beds for patients during the Covid-19 pandemic. This is why the initiative has been taken to establish a hospital in Dhaka, Mazumder said.

All state-owned, private and foreign banks operating in the country will cooperate with the initiative, he added.

Handset production sees a slight rise amid bleak outlook

MAHMUDUL HASAN

The local production of handsets increased slightly in the first quarter of 2024 while sales dropped as industry people are projecting a grim scenario amidst the recent record devaluation of the taka against the US dollar.

Handset production rose 5.30 percent year-on-year in the first quarter of this year to 60.74 lakh, according to the Bangladesh Telecommunication Regulatory Commission (BTRC).

However, the increase is negligible when compared to the pre-crisis January-March period of 2022, when about 1 crore phones were manufactured locally.

"Although the manufacturing of phones increased slightly in the first quarter as the industry was eyeing good sales during the peak season of Eid-ul-Fitr, we have experienced degrowth (in sales)," said Rizwanul Haque, vice-president of the Mobile Phone Industry Owners' Association of Bangladesh (MPIOAB).

He said the recent devaluation of the taka against the dollar "added insult to injury" for the industry.

Of the 60.74 lakh phones manufactured in the last quarter, 64.59 percent were feature phones.

Over the past two years, the mobile manufacturing sector has been struggling for survival due to challenges in securing an adequate number of letters of credit amidst a dollar crisis and escalating dollar prices.

The industry has also witnessed a significant downturn in sales, coupled with the proliferation of the grey market, further exacerbating its predicament.

The local production of handsets dropped in 2023, the first decline since domestic manufacturing began in Bangladesh in 2017.

In the January-December period of 2023, domestic companies manufactured 2.33 crore mobile phones, marking a decrease of 26.35 percent from the 3.16 crore units produced during the corresponding period the year before.

Consumer spending has also tightened significantly owing to inflation remaining persistently high for the past two years.

The price of handsets has increased by about 40 percent in some cases.

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CURRENT STATE

- Handset production rose slightly during **Q1** of 2024
- Devaluation of taka against dollar will worsen situation
- Local production dropped by **27**% in 2023
- Sales declined by over **35**% in 2023
- New VAT at sales stage raised price

SECTOR AT A GLANCE

- **17** handset plants set up since 2017
- Local value addition **15**% to **20**%
- Locally made phones meet **99**% demand in formal market

TAX RATES

For imported handsets: 58%

For locally-made handsets: 8-20% (VAT on sales stage will be added)

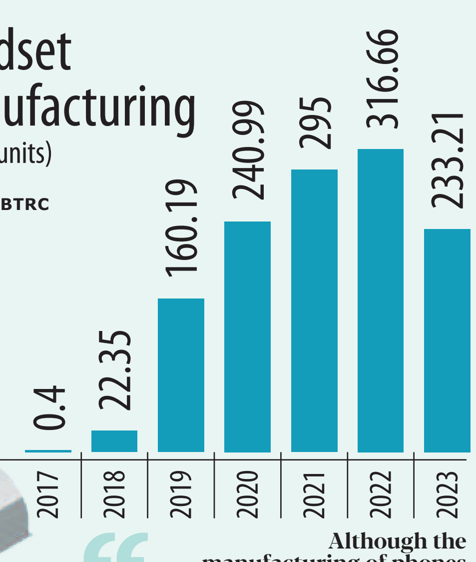
EMPLOYMENT

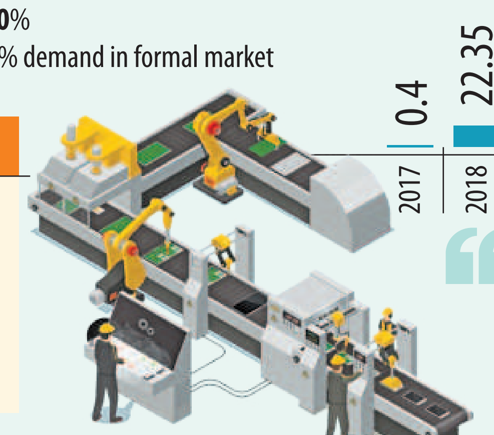
Total employment: 15,000

Over 98% employees are local

Handset manufacturing
(In lakh units)

SOURCE: BTRC





"Although the manufacturing of phones increased slightly in the first quarter, we have experienced degrowth (in sales)

Rizwanul Haque
Vice-president of the sector's trade body

Credit card use up 17% in March

STAR BUSINESS REPORT

Transactions with credit cards rose 17 percent in March compared to the preceding month thanks to higher purchasing tendency among consumers.

Bangladesh Bank data showed that transactions through credit cards increased to Tk 3,490 crore in March.

Of the amount, Tk 2,985 crore was spent within the country while the remaining was spent abroad.

On the other hand, credit card transactions within Bangladesh by foreign nationals declined 6 percent to Tk 226 crore.

In terms of amount, Bangladeshi credit card holders spent more than twice as much abroad as foreign nationals spent in Bangladesh.

Within Bangladesh, credit card transactions at departmental stores increased to Tk 1,381 crore in March.

Similarly, retail service outlets, transactions related to utilities, cash withdrawals, drug and pharmacies, and transportation recorded a slight increase in March compared to the month prior.

In addition, the clothing category experienced a substantial increase from Tk 150 crore in February to Tk 344 crore in March due to the Eid-ul-Fitr festival, according to a monthly report regarding credit card transactions.

The credit card usage pattern reveals that a significant majority, approximately 71 percent of credit card transactions, were facilitated using VISA cards, around 18 percent utilised Mastercard, while about 11 percent were made using AMEX card.

Analysing cross-border transactions, it was seen that the majority of credit card transactions occurred in India, which accounted for approximately 21 percent of foreign transactions.

The rest of the cross-border transactions were distributed across various countries, including the US (13 percent), the United Arab Emirates (10 percent), Saudi Arabia (7 percent), Thailand (7 percent), and Singapore (6 percent).