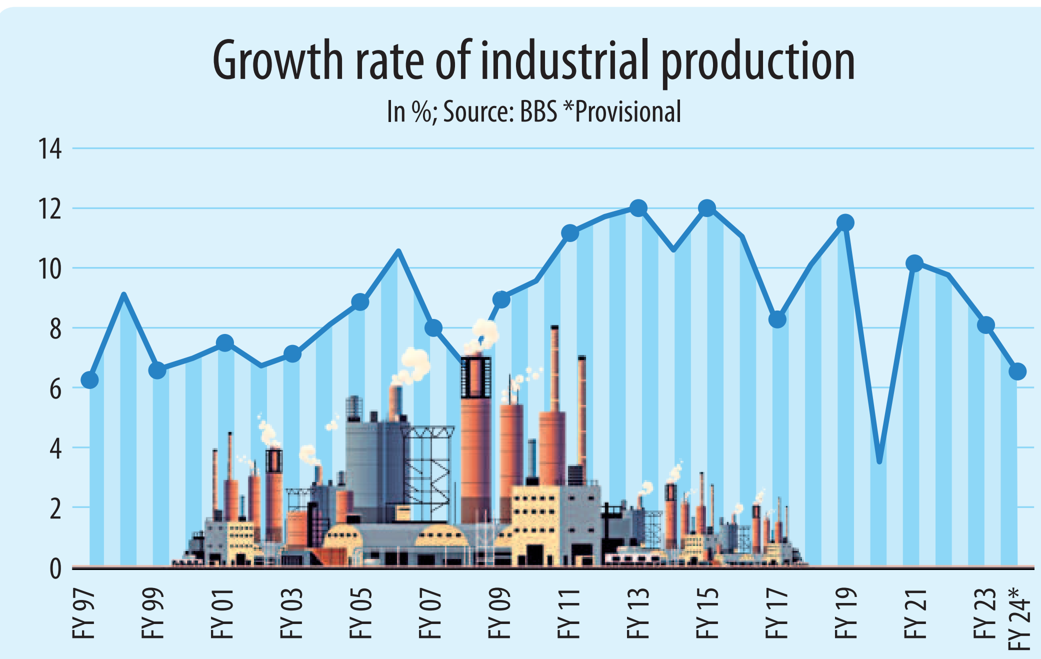
Star BUSINESS

Agriculture credit disbursements in Bangladesh grew 12.46 percent year-on-year to Tk 23,690 crore in the July-February period of the current fiscal year

Story on B4

Industrial output growth lowest since pandemic. Here's why



REASONS BEHIND THE DROP IN INDUSTRIAL GROWTH

- High inflation reduced demand
- Dollar shortage makes raw materials costlier
- Increased energy costs
- Hike in interest rate
- Slow export growth

IMPACT OF SLOW GROWTH

- Job creation will slow down
- GDP growth may be impacted

> The positive side is that the industrial sector is still growing at above 6 percent
>
> **MA Razzaque**
> Research director of PRI

AHSAN HABIB

Bangladesh's factory output grew 6.66 percent in the current fiscal year, the slowest pace of expansion since the Covid-19 pandemic hit the country, as the stubbornly high inflation hurt domestic demand and the shipment of export-oriented goods slowed.

Import controls and increased prices of gas and electricity handed a further blow. As a result, the overall industrial production in 2023-24 was lower than 8.37 percent a year ago.

The Bangladesh Bureau of Statistics (BBS) released the provisional estimate of gross domestic product (GDP) on Monday.

Save for the pandemic that wreaked havoc on the economy, this year's estimate of growth of industrial output would be the lowest since 1996-97 when it stood at 6.39 percent.

In the first year of the pandemic, which was 2019-20, factory production grew 3.61 percent from a year ago.

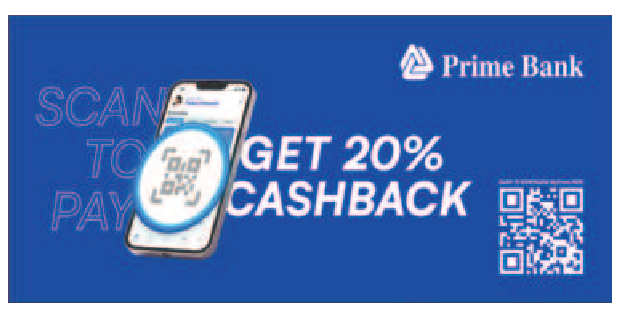
Economists and entrepreneurs blame the lingering US dollar crisis, the rise in energy bills, and the higher consumer prices for the lower growth of industrial output and less than 6 percent GDP expansion for the second year in a row.

Powered by faster growth of the services sector, the economy clocked a 5.82 percent growth in the FY24. This is, however, below the average annual growth rate of 6.6 percent the country recorded in the decade preceding the Covid-19 pandemic.

The overall growth might be lower than the provisional figure when the BBS calculates the GDP based on the full year data. The state-run statistical agency has prepared the interim estimate based on the data available in the first seven months of FY24.

"The positive side is that the industrial sector is still growing at above 6 percent," said MA Razzaque, research director of the Policy Research Institute (PRI).

"The growth rate has fallen, and this is not surprising as the inflation rate is higher, which has raised the production cost."



The general index of industrial production (large-scale manufacturing) increased 4.41 percent year-on-year in July-February of FY24 compared to 7.79 percent in the same period of the previous year, according to a monthly publication of the Bangladesh Bank.

Razzaque said the government has unveiled an import control strategy that drove down the purchase of raw materials and capital machinery from international sources. "Therefore, it was expected that the industrial growth would decelerate."

BB data showed that imports slumped 15.42 percent to $45.6 billion in the nine months to March compared to a year earlier. The import of capital machinery, industrial raw materials and intermediate goods also declined.

For example, the import of capital machinery as reflected in the opening of letters of credit decreased 19 percent in July-February. A drop in capital machinery imports indicates that industrial expansion is shrinking.

"As we have had both higher inflation and import restrictions for several months and the foreign exchange reserves situation has not improved, the economy may slow down further," Razzaque said.

He said it is tough to curb higher inflation and boost the reserves simultaneously. "It is a fatal combination. It is tough for the policymakers to control both."

Md Fazlul Hoque, a former president of the Bangladesh Knitwear Manufacturers and Exporters Association, said the lower growth rate of industrial production was logical as factories were struggling for numerous factors.

"The local currency has weakened against the US dollar massively while the prices of gas and electricity have gone up. Other costs in the industrial sector also rose."

Hoque said since the overall inflation has stayed at an elevated level, people are buying less because their purchasing power has eroded.

Consumers prices have remained above 9 percent since March last year.

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Forex with banks on the decline

STAR BUSINESS REPORT

Foreign currencies held by commercial banks in Bangladesh are on the decline due to high demand, indicating growing pressure on the country's external sector.

At the end of April, the gross foreign exchange held by commercial banks stood at $5.04 billion, down 8.19 percent year-on-year, as per the latest data of Bangladesh Bank.

Also, April's figure is 7.21 percent lower compared to the previous month, when the banks collectively held foreign currencies amounting to $5.43 billion.

Forex holding by banks has fallen in recent months owing to high demand, slow remittance inflow and the depreciating trend of the local currency against the US dollar, as per industry insiders.

The remittance inflow in March stood at $1.99 billion, down 1.23 percent year-on-year.

Industry insiders said that Bangladeshi migrants send more money through unofficial channels than banking channels as the former method offers better exchange rates, thereby impacting remittance inflow.

However, Bangladesh Bank's recent initiatives are expected to help boost the country's forex reserves in the coming days.

> **At the end of April, gross foreign exchange held by commercial banks stood at $5.04 billion, down 8.19 percent year-on-year**

On May 8, Bangladesh Bank opted to go for market-driven interest rates and exchange rates following the prescription of the International Monetary Fund (IMF).

As such, banks can fix Tk 117 per US dollar as a mid-rate under the new exchange rate system, called the crawling peg.

Before introducing the new exchange rate system, banks could offer a maximum of Tk 114.5 per US dollar, including the Tk 2.5 government incentive.

At the time, the unofficial rate was around Tk 120 to Tk 122 per US dollar.

Selim RF Hussain, chairman of the Association of Bankers Bangladesh, told The Daily Star that the flexible interest rate and exchange rate will help reduce capital flight from Bangladesh.

The forex shortage is a major challenge for the country and it started to intensify after the Covid-19 pandemic. Besides, Bangladesh's forex market became more volatile in 2022 as supply chain disruptions amid the Russia-Ukraine war elevated global commodity prices.

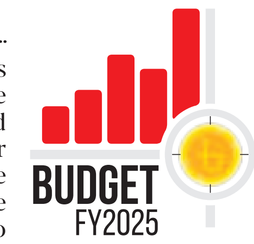
Bankers say mismanagement in the forex market, frequent policy changes by the central bank, and the gap between the official exchange rate and the unofficial one are also to blame.

The country's forex reserves have fallen by $24 billion since August 2021.

As of last Wednesday, the gross international reserves stood at $18.42 billion, which is just enough to pay for imports over three-and-a-half months.

Laptops may be cheaper in FY2025

MD ASADUZ ZAMAN



The government is planning to reduce duties on imported laptops next fiscal year in order to make the devices more affordable and bring relief to freelancers and students.

According to finance ministry sources, the move is aimed to boost freelancing activities and support the software manufacturing industry.

Currently, importers are required to pay a total of 31 percent in import tariffs and taxes, including 5 percent as customs duty.

However, the National Board of Revenue (NBR) is seeking to reduce the total duty and taxes to 21 percent for the next fiscal year.

The revenue authority wants to hike import duty to 10 percent but exempt 15 percent VAT at the import stage, said an official of the finance ministry, seeking anonymity.

Finance Minister Abul Hassan Mahmood Ali is likely to unveil the plan on June 6, when the budget for fiscal year (FY) 2024-25 will be announced.

> **The National Board of Revenue is seeking to reduce the total duty and taxes to 21 percent for the next fiscal year**

"Due to the gradual hike in the price of US dollars and the existing tax structure, prices of imported laptops have gone beyond the purchasing limit of general consumers," the official said.

As a result, imports of counterfeit or refurbished laptops have increased significantly.

The NBR plans to reduce the overall duties to facilitate the implementation of the government's vision for a "Smart Bangladesh" and ensure the availability of laptops at affordable prices, he added.

Subrata Sarker, president of the Bangladesh Computer Society (BCS), welcomed the move.

"If it really happens, the price will definitely reduce at the consumer level," he said.

He added that they had demanded the removal of the 15 percent VAT at the import stage on laptops and printers in the budget proposal for FY25.

The NBR imposed the 15 percent VAT in FY23, according to the budget proposal of BCS.

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STOCKS

DSEX ▼	CASPI ▼
0.41%	0.3%
5,371.1	15,558.31

COMMODITIES

Gold ▼	Oil ▼
$2,418.1 (per ounce)	$78.58 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.04%	▼ 0.31%	▼ 0.41%	▼ 0.42%
74,041.17	38,946.93	3,300.42	3,157.97

BB asks banks, NBFIs to inform of wilful defaulters

STAR BUSINESS REPORT

Bangladesh Bank yesterday asked banks and non-bank financial institutions (NBFIs) to inform Credit Information Bureau (CIB) of wilful defaulters the moment they are identified.

The central bank issued a notice yesterday saying that the banks and NBFIs have been instructed to provide all information they have of wilful defaulters to the CIB database on a real time basis from July this year.

In March of this year, the banking regulator issued a guideline on ways to identify wilful defaulters.

> **Banks and NBFIs will have to provide all information they have of wilful defaulters to the CIB database on a real time basis**

The following month, the BB asked banks to form a unit to dedicatedly carry out the task of identifying wilful defaulters as per the guideline.

Once a customer turns into a loan defaulter, the unit must identify whether the client was a wilful loan defaulter or not within 30 days, as per the BB guideline.

The BB also instructed that once a person was confirmed to be a wilful defaulter, the banks and NBFIs must also decide on the measures they would take against that person.

21 life insurers fail to comply with securities investment rule

SUKANTA HALDER

Twenty-one life insurance companies in Bangladesh have failed to comply with the rule that makes it mandatory for them to invest 30 percent of their assets in government securities, the regulator has found.

The companies are Akij Takaful, Alpha Islami, Baira, Bengal Islami, Best Life, Chartered Life, Diamond Life, Fareast Islami, Golden Life, Meghna Life, and Mercantile Islami.

Others are NRB Islamic Life, Padma Islami, Popular Life, Prime Islami, Protective Islami Life, Sonali Life, Sunflower Life, Sunlife, Trust Islami Life, and Zenith Islami Life Insurance.

The findings are based on the companies' unaudited financial reports for 2023, said an official of the Insurance Development and Regulatory Authority (Idra).

The Life Insurer's Asset Investment and Preservation Regulations 2019 state that insurance companies must invest at least 30 percent of their assets in treasury bills and bonds.

The Idra probe said the companies had been violating the law "for a long time". It did not specify any period.

KEY POINTS

- Life insurers are obligated to invest 30% of their assets in govt securities
- 21 companies have been flouting the rule
- Govt securities are safe for both companies and policyholders
- Instead of govt securities, the insurers invested in land, share market and fixed deposits

> It's a regulatory failure because companies have been violating rules for many years
>
> **Md Main Uddin**
> A professor of the Department of Banking and Insurance at Dhaka University

INDUSTRY
There are **36** life and **46** non-life insurance companies in Bangladesh

BRIGHT SPOT
MetLife Bangladesh, out of the **36** companies, invested **80.65%** of its total assets in govt securities

CLAIM SETTLEMENT
Around **65.19%** of all claims were settled in 2023, below the global average of **97-98%**

COMPANIES THAT INVESTED THE LOWEST AMOUNT IN GOVT SECURITIES

Akij Takaful Life, Fareast Islami Life, Golden Life, Mercantile Islami Life, NRB Islamic Life, Prime Islami Life, Protective Islami Life, Sonali Life, Sunlife Insurance, Trust Islami Life

If life insurance companies invest sufficiently in government securities, it is safe for both companies and policyholders, the regulator's report said.

The government can also use the funds for development purposes, so this needs to be given priority, it added.

However, instead of picking treasury bills and bonds, the 21 insurers chose land and properties, the stock market, and savings instruments of banks to park their funds, said a senior official of the regulator.

Of the 21 companies, nine ploughed less than 5 percent of their assets into government instruments while four have an investment of less than 15 percent and another four less than 25 percent.

The companies cited various reasons for the lack of investments.

Alpha Islami Life's investment in treasuries stood at 17.27 percent.

Nura Alam Siddikie Ovee, CEO of the company, said the company didn't do well from its inception in 2014 to 2019, hence investing was impossible.

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