

Star BUSINESS

Bangladeshi businesses are feeling the heat of the Red Sea crisis due to increasing costs and shipping times



Story on B4

How taka's drop ate away economic output per person

FEDA AL HOSSAIN

The rapid depreciation of the taka against the US dollar has had a noticeable impact on the country's economic growth, as evidenced by recent gross domestic product (GDP) data published by the Bangladesh Bureau of Statistics (BBS).

The GDP per capita, in taka terms, had undergone a steady growth from fiscal year 2020-21 to 2022-23, rising from Tk 208,751 to Tk 262,868.

It was Tk 294,191 in the current financial year, meaning it rose 12 percent year-on-year.

The GDP per capita, in US dollar terms, however, has not followed the same trend.

It rose from \$2,462 in FY21 to \$2,687 in FY22.

However, it fell to \$2,643 in FY23 before slightly recovering to \$2,675 in the current fiscal year, up 1.2 percent year-on-year.

The fluctuation indicates that the growth of the economy, when measured in dollars, has been lower than initially projected,

GDP per capita, in US dollar terms, fell to \$2,643 in FY23 before slightly recovering to \$2,675 in the current fiscal year, up 1.2 percent year-on-year.

due to the weakening of the taka.

A similar pattern is observed in gross national income (GNI) per capita.

It climbed in terms of the taka from Tk 219,783 in FY21 to Tk 306,144 in FY24, meaning that it underwent a rise of 39 percent.

In terms of the US dollar, it went from \$2,591 to \$2,784, meaning an increase of 7 percent during the four-year period.

This suggests that while Bangladesh's economy is growing in terms of the local currency, the sharp depreciation of the taka against the dollar is, in fact, preventing the GDP per capita from swelling.

This also highlights the importance of restoring the exchange rate stability.

Banks sell dollar at more than Tk 118 as pressure mounts

WHY IS THE FOREX MARKET VOLATILE?



A surge in imports in the post-pandemic period



Supply chain disruptions due to Russia-Ukraine war



Sluggish growth in import



Fall in the inflow of trade credit, loans



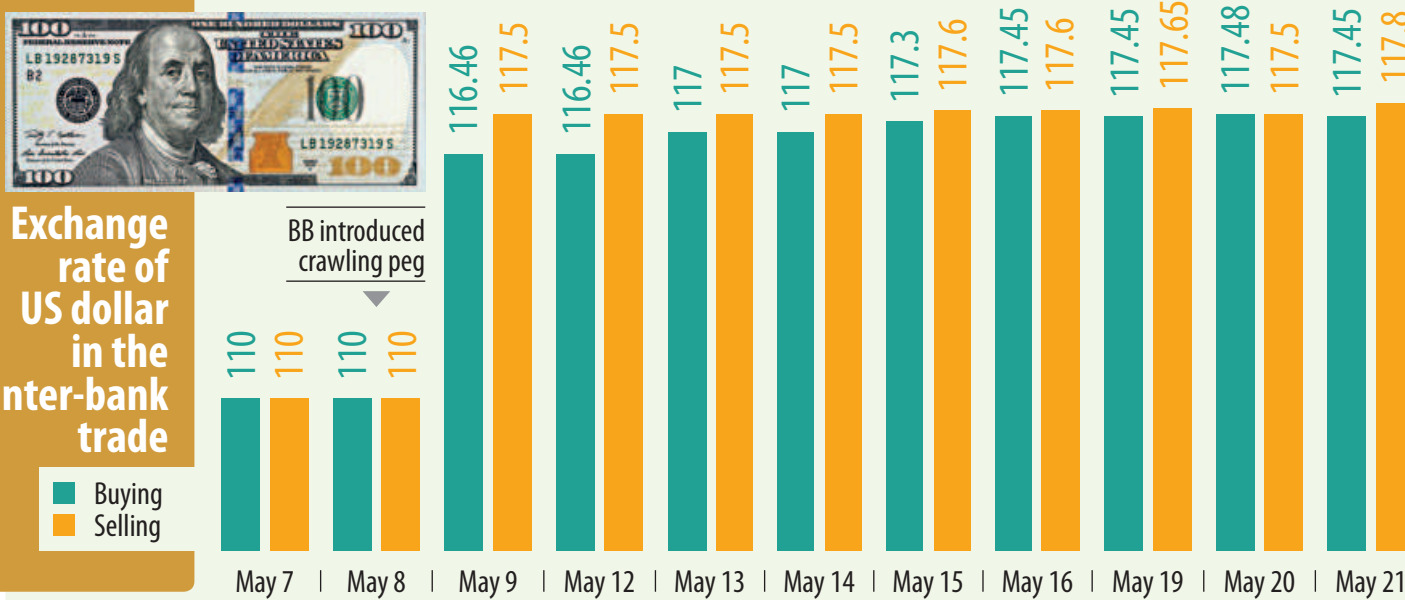
Slowdown in remittance



Mismanagement in the forex market



Frequent policy changes by the BB



MD MEHEDI HASAN

Most banks in Bangladesh are quoting more than Tk 118 per US dollar, which is above the official exchange rate as per the crawling peg system, said bankers and businesspeople.

The Bangladesh Bank introduced the new system to manage exchange rates on May 8 in line with the conditions set by the International Monetary Fund (IMF) with its \$4.7 billion loan programme.

Under the system, a crawling peg mid-rate was set at Tk 117 per US dollar. However, banks are quoting up to Tk 120 per US dollar to open letters of credit. The exchange rate is more than Tk 118 per dollar in the case of collecting remittance and export bills.

The chief executives of at least three private commercial banks told The Daily Star that the BB had verbally allowed them to quote Tk 1 more than the exchange rate to collect US dollars amid the ongoing forex crunch.

As such, banks are unofficially quoting at least Tk 118 per greenback, thereby raising the interbank exchange rate.

The official interbank exchange rate stood at Tk 117.80

on Tuesday, up from Tk 117.50 a week earlier, central bank data showed. The rate was Tk 110 on May 8.

"No US dollars are available in the market at less than Tk 119 to Tk 120," said a senior official of PHP Group, a conglomerate based in Chattogram, adding banks are quoting their previous

price to be given to the buyer in the future. The treasury head also said most banks are now quoting Tk 118.50 to Tk 120 per US dollar in the case of opening LCs and that the banking regulator was aware of the matter.

At the end of April, the gross foreign exchange held by commercial banks in the country stood at \$5.04 billion, down 8.19 percent year-on-year, as per the

banking regulator has unofficially permitted banks to quote a higher rate as forex holdings with banks continue to decline.

Even some Shariah-based banks are offering higher rates when collecting remittances and selling them to importers, he added.

A senior official of the BB said the banking regulator now wants to give a boost to the forex reserves, so it is giving banks some freedom in dealing with foreign currencies.

Bangladesh's forex market became volatile in 2022 as supply chain disruptions caused by the Russia-Ukraine war led to a hike in commodity prices globally.

The reserves have fallen by \$24 billion since August 2021. On Wednesday, the gross international reserves stood at \$18.42 billion, enough to pay for imports for over three and a half months.



latest data of the central bank.

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

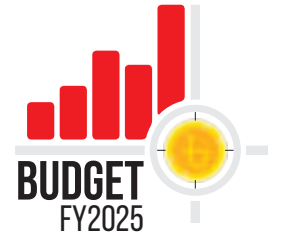
The treasury head of a private commercial bank said most banks have adopted forward selling for US dollars, where the rate is comparatively high.

Forward selling is the practice of selling something at a fixed

Govt likely to announce tax rates in advance

MD ASADUZ ZAMAN

The government is likely to announce income tax rates for individuals and companies in advance in order to allow them to make better investment and tax plans.



Currently, the National Board of Revenue (NBR) announces tax rates for firms and individuals after the end of an income year.

For instance, the current income year begins in July 2023 and will end in June 2024.

Based on the announced rates, taxpayers file their income and wealth statements and pay taxes on their incomes in the next year, termed as the assessment year.

But in the coming year, the NBR may announce tax rates that will not only be applicable for the outgoing income year 2023-24 but also for the next income year 2024-25.

In effect, this will allow individuals to know the income tax rate prior to the start of income year 2024-25 and pay the tax once the year ends in June 2025.

In response to longstanding demands of taxpayers, the NBR is expected to bring about the new system to replace the existing "retrospective system", a finance ministry official, requesting anonymity, told The Daily Star yesterday.

A retrospective tax is a tax imposed on a transaction or deal that was conducted in the past.

"In the next budget for fiscal year 2024-25, the NBR is planning to move to a new system, which is also called the prospective tax system. We are working on it," the official said.

This system will help build confidence of individuals and investors and they can pre-plan their tax management and investment plan, he added.

On May 14, Prime Minister Sheikh Hasina also gave the nod to this proposal and it might be integrated into the next finance act, the official said.

Investors and tax analysts welcomed the NBR's move, saying it would boost investor confidence and encourage local and foreign investment.

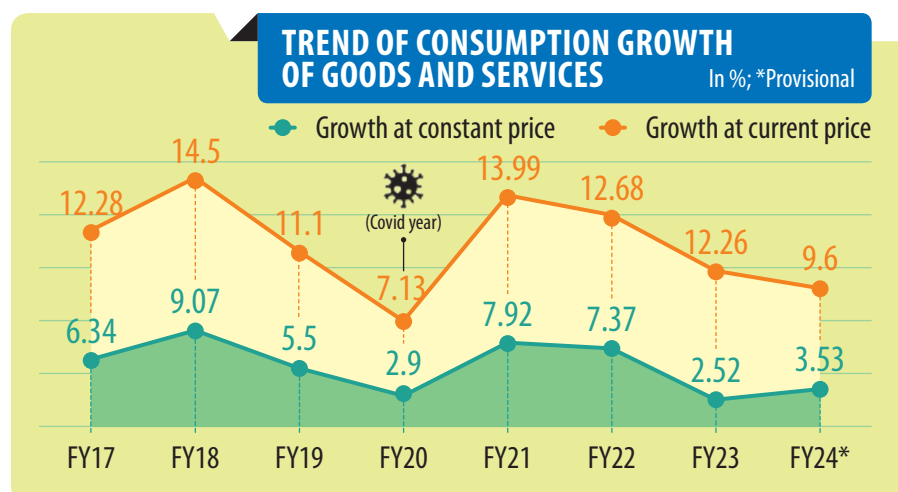
"It will have a positive impact on the domestic and foreign investment," said Md Humayun Kabir, chairman of a taxation and corporate law committee at the Institute of Chartered Accountants of Bangladesh (ICAB).

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COMMODITIES	
Gold ▼	Oil ▼
\$2,413.84 (per ounce)	\$78.04 (per barrel)

ASIAN MARKETS			
MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.23% 74,121.14	▼ 0.85% 38,617.1	▼ 0.19% 3,307.9	▲ 0.01% 3,158.54

Consumption stays low for two straight years



AHSAN HABIB, SUKANTA HALDER and MD ASADUZ ZAMAN

The consumption growth in Bangladesh remained low in the last two fiscal years as people witnessed one of the biggest falls in their spending power owing to stubbornly high inflation.

According to a provisional estimate of the Bangladesh Bureau of Statistics (BBS),

consumption of goods and services grew 3.53 percent in 2023-24, up from 2.52 percent in the last fiscal year.

Except for the pandemic-hit 2019-20, when the consumption growth rate was 2.9 percent, it was above 6 percent since at least 2016-17.

In Bangladesh, the economy has been under pressure for the last two years

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