

Star BUSINESS

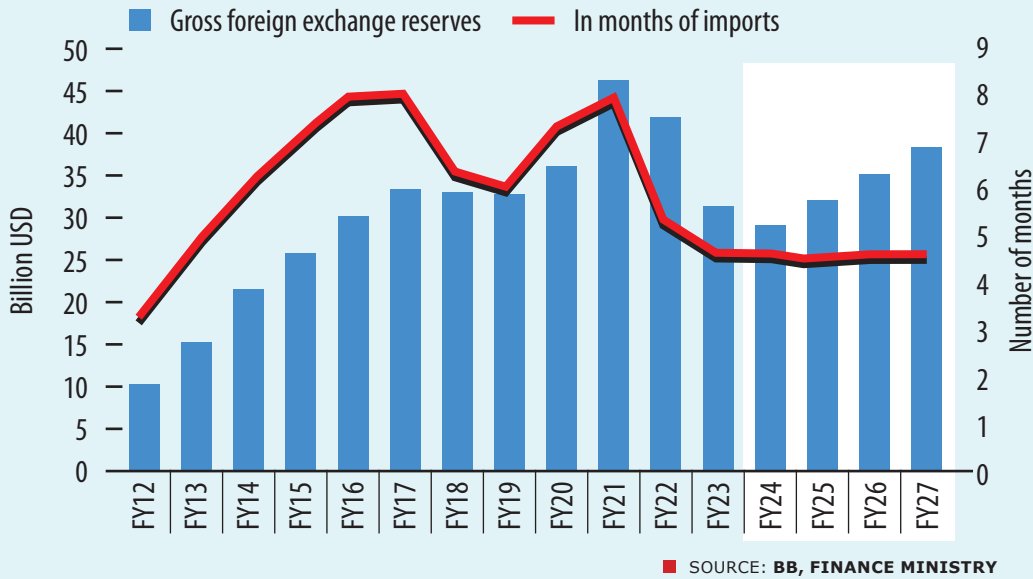
Realtors believe the provision to whiten black money will be beneficial for both the real estate sector and the government



Story on B4

Govt to bank on crawling peg, global interest rate cuts to rebuild reserves

GROSS FOREIGN EXCHANGE RESERVES AND MONTHS OF IMPORT COVER



SOURCE: BB, FINANCE MINISTRY

REJAUL KARIM BYRON and ASIFUR RAHMAN

The crawling peg that has almost made the exchange rate market-oriented as well as the falling global interest rates will help Bangladesh rebuild its foreign currency reserves, the finance ministry said.

The high interest rates prevailing in the advanced economies is one of the major reasons for the dwindling reserves in Bangladesh, said the finance ministry in its medium-term macroeconomic policy statement.

The revised gross forex reserves target for the current fiscal year ending on June 30 was \$29.1 billion. It stood at \$24.23 billion on June 5, according to the traditional calculation of the Bangladesh Bank. To meet the goal, another \$4.87 billion will have to be added to the reserves by this month.

The reserves amounted to \$18.67 billion as per the International Monetary Fund's calculation, more than half of the \$41 billion seen in August 2021.

The good news for Bangladesh is that central banks around the world are either cutting interest rates or have kept them on hold, a positive development for the countries that saw investors pulling their money out of Asian countries in late 2021, triggering currency depreciation in most of the economies.

On Thursday, the European Central Bank reduced interest rates, the first rate cut in nearly five years. On Wednesday, the

Bank of Canada became the first G7 central bank to reduce borrowing costs in the past few years.

Central banks in Switzerland and Sweden have also decreased interest rates this year. The US Federal Reserve will cut its key interest rate in September and once more this year, reported Reuters on Wednesday, citing a poll.

"The interest rates around the world seem to have peaked, and it would come down in the medium-term, which will help rebuild the reserves in Bangladesh," the finance ministry said.

It is also aware that this high-interest rate regime in the advanced countries may continue for a while. Hence, it will be challenging to increase reserves in the coming months.

On May 8, the BB withdrew its traditional fixed exchange rate mechanism and introduced the crawling peg system for spot purchase and sale of US dollars. Under the arrangement, a crawling peg mid-rate has been set to Tk 117 per USD.

"It is expected that the introduction of the crawling peg exchange rate system will help stabilise the exchange rate in the near future. Hence, the reserves are also expected to grow in the following years," the finance ministry report said.

The report has identified seven challenges facing the economy, including higher inflation and classified loans in the banking sector.

The taka has depreciated against the US dollar since the middle of 2022, primarily

due to falling reserves. This depreciation, in turn, fuelling domestic inflation through increased costs of imports.

The taka against the dollar weakened by 7 percent during July-May of the current fiscal year against a 14.4 percent fall in the identical period of 2022-23. Overall, the taka has lost its value by 36 percent since the Russia-Ukraine war began in February 2022.

According to the report, classified loans and lack of financial discipline have become a concern recently.

"Restoring discipline and painful restructuring, such as mergers, may need to be completed for some banks. The process may be lengthy as well as difficult."

The top priority for the government in FY25 is to contain high inflation.

Last year, it was projected that inflation in Bangladesh would remain around 6 percent in FY24. However, inflation remained high mainly due to the pass through effect of the sharp depreciation of the taka.

In May, inflation, a measure of the increase in the prices of a basket of commodities and services, edged up to 9.89 percent. The trend is likely to continue at least for some months, the report warned.

Although the developed countries have been more successful in reining in consumer prices through appropriate policy measures, developing countries like Bangladesh are still struggling in this regard, it said.

READ MORE ON B3

BB allows new entities to assess credit worthiness of borrowers

MD MEHEDI HASAN

The Bangladesh Bank (BB) decided to allow individuals and private-sector companies to form 'credit bureaus' to assess loan eligibility and verify the repayment capacity of borrowers.

These credit bureaus will work to determine credit standards by analysing borrower data before sharing it with banks, which will help financial institutions make informed decisions, said the central bank guidelines on the licensing, operating and regulating of credit bureaus.

The central bank issued the guidelines last Wednesday.

These bureaus will collect information from various sources, including the BB-maintained Credit Information Bureau (CIB), with the permission of the borrowers and share lenders' credit ratings with financial institutions, central bank officials said.

The guidelines said that the addition of credit bureaus would reduce information asymmetry about borrowers in the financial market.

It said making client information, which is often kept confidential, available to other lenders would increase competition in the credit market and benefit better credit applicants.

In time, credit bureaus will also help to reduce default rates and average interest rates, facilitated by increased credit information which will lead to increased quality of lending.

Industry insiders said that this is a good initiative but the central bank will have to be very careful about any vested quarter forming a bureau to serve their purpose.

The central bank should have done more due diligence before publishing the guidelines, they added.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, told The Daily Star that credit bureaus exist virtually all over the world.

They will make banks' work easier, he added.

Rahman, also a former chairman of the Association of Bankers Bangladesh, said that credit bureaus would help banks assess borrowers' eligibility for loans.

However, he cautioned that the BB would have to be very careful in issuing licences for credit bureaus.

ESTABLISHMENT OF CREDIT BUREAU A company seeking to operate a credit bureau in Bangladesh will have to apply to the central bank. However, an individual or a company shall not operate a credit bureau in Bangladesh unless licensed by BB.

The proposed company must be a limited company. Investment from an individual or business entity incorporated outside of Bangladesh is also allowed, read the guidelines.

The minimum paid-up capital of a credit bureau will be Tk 10 crore.

The central bank guidelines said that the number of directors will not exceed 11. It also stipulated that at least two directors must have 10 years of experience in the banking industry. It added that at least two more directors must have experience and academic background in technology-related businesses.

CONDITIONS for setting up credit bureaus

- ▶ Minimum paid-up capital should be **Tk 10 cr** to form a credit bureau
- ▶ Maximum number of directors will be eleven
- ▶ Two directors must have banking experience of **10 years**
- ▶ Interested individuals or companies will have to apply to BB for licence

A shareholder that owns more than two percent of the total shares of a credit bureau will be eligible to become a director, it said, adding that no individual could be a director at more than one credit bureau at any point in time.

The central bank said that a licensed credit bureau would be allowed to collect relevant information for permissible purposes only on the credit history relating to the commitment of the data subject, in order to determine their overall debt exposure, repayment behaviour and other contractual obligations.

NBR tightens ambulance import rules

MOHAMMAD SUMAN

The National Board of Revenue (NBR) has tightened rules on the import of minibuses used as ambulances since a section of people have been found to have misused the facility.

To prevent misuse, it was decided that the minimum length of a vehicle's passenger cabin must be at least nine feet to be eligible as an ambulance. Currently, mostly Toyota Noah and Toyota HiAce models are imported as ambulances.

However, as per the new rules, Noah can no longer be imported as an ambulance from the current fiscal year as its passenger cabin does not meet the length requirement, according to an NBR official.

The decision was announced last Thursday when Finance Minister Abul Hassan Mahmood Ali unveiled a Tk 7.97 lakh crore budget for 2024-25.

Importers get an average of up to Tk 12 lakh in duty exemptions when importing minibuses for use as ambulances, according to NBR officials.

Some importers were using the facility to import minibuses and registered them as ambulances with the Bangladesh Road Transport Authority, but the vehicles were not used for that purpose. This prompted the NBR to toughen the rules, they said.

About 6,570 minibuses have been imported as ambulances since 2019-20, customs data from Chattogram and Mongla ports showed. The government provided duty exemptions of about Tk 820 crore to the sector during the period.

According to a report from the NBR's Central Intelligence Cell in January, these vehicles are used by

READ MORE ON B3



AHSAN HABIB

The Dhaka Stock Exchange (DSE) welcomed the proposed national budget for fiscal 2024-25 even though certain measures could further deteriorate investor confidence as the market has been facing a bear-run for the past four months.

For example, the National Board of Revenue (NBR) has proposed reintroducing a tax measure for large investors and reducing the corporate tax gap between listed and non-listed companies in some cases.

The one positive for investors is that the government included a provision that would allow the use of undisclosed income for purchasing stocks by paying 15 percent tax.

However, the move could have little effect on revitalising the market in the past as it was seen that black money holders do not prefer parking funds in stocks when the amnesty was in place.

This is because the stock market is a riskier investment compared to bank deposits or real estate, according to experts.

Still, the country's premier bourse issued a press release on June 7 welcoming the budget, saying that it would guide the economy towards enhanced development and productivity.



DSE welcomes budget but investors don't

Budget measures that hurt general investors

- ▶ Govt reintroduced at least **15%** capital gains tax if income crosses **Tk 50 lakh**
- ▶ Raised capital gains tax to **10%** for sponsors and directors
- ▶ Reduced gap of corporate tax for listed and non-listed firms in some cases

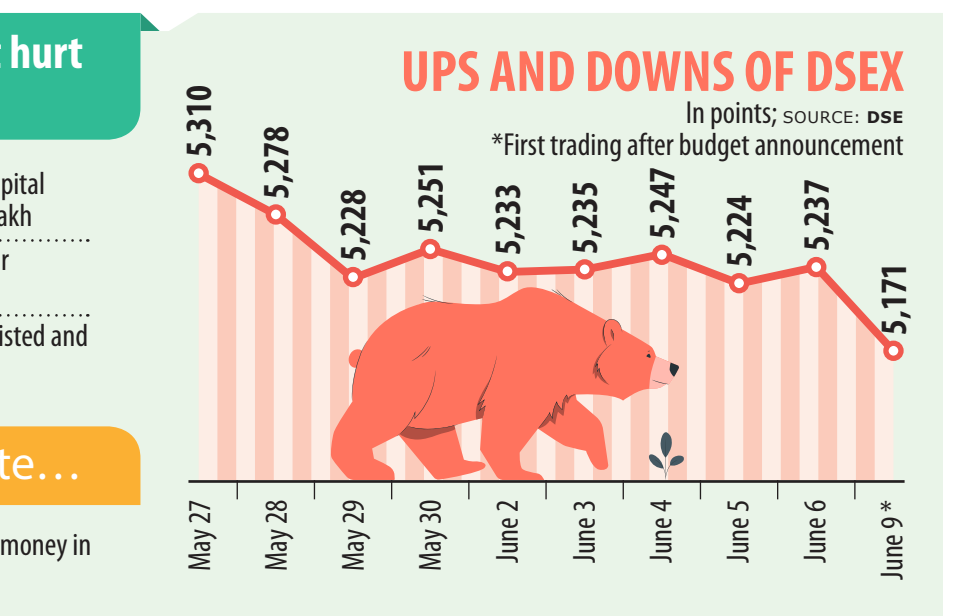
Investors appreciate...

- ▶ Govt allowed investment of black money in stock market

However, the DSE did not mention anything about the government's decision to reinstate capital gains tax of at least 15 percent on investors' income of more than Tk 50 lakh.

After the measure was announced, most market analysts urged the government not to impose it for now as they fear it will hurt the market further amid the ongoing bear-run.

Yesterday, the first trading day since the proposed budget was unveiled last Thursday, the DSE's benchmark index DSEX plunged by 1.25 percent to a 38-month low of 5,171 points.



Similarly, the DSES, an index that represents Shariah-compliant companies, dropped by 1.4 percent to 1,120 points while the DS30, comprising blue-chip stocks, declined by 1.21 percent to 1,835 points.

A top official of a stock brokerage said the capital gains tax will impact large investors.

So, these investors are now shaky about keeping their funds in the market, which is already risky to invest in. And although small investors will not be impacted by the capital gain tax, the selling pressure from large investors may affect them, the

official added. "We are not against the capital gain tax, but this is not the right time as it will spread a negative sentiment among investors while the market has been suffering for the last four years," said Md Saiful Islam, president of the DSE Brokers Association of Bangladesh.

The situation has only intensified in recent months as major market indices have been falling continuously. So, the move may fuel the negative sentiment among investors, he added.

The benchmark index of the DSE

READ MORE ON B3