Govt trims food distribution target for FY25 amid high inflation

SOHEL PARVEZ

The government has lowered the distribution target for food grains for the upcoming fiscal year of 2024-25, which economists say is an illogical decision since food inflation has soared above 10 percent in the past two months.

For FY25, the government plans to distribute 30.3 lakh tonnes of rice and wheat among poor and low-income people through cash and non-cash programmes apart from distribution among public sector employees.

The quantity of the planned distribution is 10 percent lower than the revised distribution plan of 33.56 lakh tonnes for the outgoing fiscal year of 2023-24.

The food distribution plan is also below the original allocation for the outgoing fiscal year, according to the finance ministry.

"This is unwarranted given the persistent high prices of essentials, particularly of food," said the Centre for Policy Dialogue (CPD) in its analysis of the proposed budgetary measures for FY25.

Inflation has remained persistently high, hovering over 9 percent for two years, while the Consumer Price Index rose to 9.89 percent in May from 9.74 percent in April.

The think-tank said the total allocation for food support-related social safety net programmes has decreased nearly one percent to Tk 17,363 crore in FY25 from the revised allocation of Tk 17,483 crore in FY24.

For instance, the government has reduced allocations for the Open Market Sales (OMS) and Food Friendly Programme (FFW) by 4 percent to Tk 5,362 crore in FY25 compared to the revised allocation of Tk 5,491 crore of this fiscal year, according to the CPD.

The CPD said the food subsidy has been cut by 20 percent for the next fiscal year starting from July.

Quazi Shahabuddin, a former director-general of the Bangladesh Institute of Development Studies (BIDS), said the government should expand food distribution as prices are high.

The quantity of the planned distribution is 10 percent lower than the revised distribution plan of 33.56 lakh tonnes for the outgoing fiscal year of 2023-24.

"The reduction of the food distribution target does not seem logical. Instead of cutting it, the government should expand food distribution programmes like OMS to cushion poor people from high food inflation," he said.

Mohammad Yunus, research director of BIDS, said the government should provide cash support to the poor and vulnerable which is equivalent to at least the distribution cut.

Mohammad Jahangir Alam, a professor of agribusiness and marketing at Bangladesh Agricultural University, said it has been seen in the past that the government's food distribution increases in the revised budget.

"So, I think we will see higher food distribution later," he said.

Md Habibur Rahman Hosaini, additional secretary to the procurement & supply wing at the food ministry, also said allocations for food distribution for the current fiscal year were lower than this year's revised budget.

"If needed, we will increase allocations," he added.

Almost all garment factories clear salary, bonus

Industrial Police say

STAR BUSINESS REPORT

Almost all garment and textile factories cleared salary payments for their workers and provided festival bonuses marking Eid-ul-Azha yesterday, said Industrial Police.

Also, workers have already started off on their journeys to their village homes as factories are following the government's rules for allocating holidays.

It is true that almost all the factories have paid the salaries and bonuses as of yesterday, but a very small number of factories made a partial salary payment, said Nazma Akter, president of Sammilito Garment Sramik Federation.

Md Towhidur Rahman, president of Bangladesh Garment Workers Federation, echoed Akter's sentiments.

Rahman added that no worker has been laid off ahead of Eid-ul-Azha this year.

Md Nasir Uddin, vice-president of the Bangladesh Garment Manufacturers and Exporters Association, said the factories paid salaries and bonuses timely. He added that there was no untoward incident till yesterday.

In a statement, Industrial Police also said no untoward incident was reported as factory owners paid the salaries and bonuses timely.

India's wholesale prices rise 2.61% in May

REUTERS, *New Delhi*

India's wholesale prices rose 2.61 percent in May, the most in more than a year, mainly driven by food items, government data showed on Friday.

May inflation was higher than the 2.5 percent expected by economists polled by Reuters and up from 1.26 percent in April.

Food prices rose 7.4 percent on year compared with an increase of 5.52 percent in April, while prices of vegetables were up 32.42 percent on year against a 27.94 percent rise in the previous month.

Manufactured product prices rose 0.78 percent year-on-year against a 0.42 percent drop in the previous month. Fuel and power prices rose 1.35 percent compared with a 1.38 percent rise in April.

WPI inflation for March was revised to 0.26 percent from 0.53 percent earlier.

India's retail inflation rate eased slightly in May to 4.75 percent, partly helped by a fall in fuel prices although food prices remained elevated, government data showed on Wednesday.

Food inflation is worrying and that will put pressure on retail food inflation, said Paras Jasrai, an economist at India Ratings & Research. The retail food inflation is expected to be above 8 percent in June, he said. Food inflation could decline if forecasts of a normal monsoon play out.

Well-distributed rainfall would be crucial to support the timely onset of summer crop sowing across Indian states, said Aditi Nayar, an economist at ICRA.

US import prices drop for first time in 5 months

REUTERS, *Washington*

US import prices fell for the first time in five months in May amid lower prices for energy products, providing another boost to the domestic inflation outlook.

The unexpectedly benign report from the Labor Department on Friday combined with data this week showing tame inflation readings last month to keep a September interest rate cut from the Federal Reserve on the table.

Signs that inflation is subsiding have, however, failed to lift spirits among Americans, with a survey on Friday showing consumer sentiment dropping to a seven-month low in June. The US central bank on Wednesday pushed out the start of rate cuts to perhaps as late as December, with policymakers projecting only a single quarter-percentage-point reduction for this year.

"Fed officials did not see what they were hoping for in the inflation trend when they met earlier this week, but the winds of change are coming for those bearish inflation outlooks," said Christopher Rupkey, chief economist at FWDBONDS.

"We would not rule out a first rate cut in September. The decline in imported goods prices will surely be welcomed by inflation-weary consumers."

Import prices dropped 0.4 percent last month after an unrevised 0.9 percent surge in April, the Labor Department's Bureau of Labor Statistics said. That was the first decline in import prices since December. Economists polled by Reuters had expected import prices, which exclude tariffs, to edge up 0.1 percent.

In the 12 months through May, import prices increased 1.1 percent, matching April's rise. Imported fuel prices dropped 2 percent in May after advancing 4.1 percent in April. There were sharp decreases in the prices of crude petroleum and natural gas.

Private ICDs face an influx

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Until Saturday noon, over 4,000 trucks and covered vans carrying export goods from Dhaka and other parts of the country were seen waiting in queues to enter different ICDs.

Around 90 percent of the country's total export cargoes shipped through Chattogram port are stuffed into containers in these ICDs before being sent to the port.

The remaining 10 percent are sent from the Kamalapur ICD as well as directly from export processing zones.

Nasir Uddin Chowdhury, chairman of the standing committee on port and shipping of Bangladesh Garment Manufacturers and Exporters Association, said most garment factories will remain closed for a week or more for the Eid-ul-Azha festival.

So, they plan to send their export cargoes to the ICDs before the vacation starts in order to ensure timely shipment during the vacation.

He admitted that the number of export cargoes has risen since May.

The covered vans are facing additional delays because of a lack of labourers at the ICDs to handle the containers, forcing exporters to bear the extra cost of overstays, he said.

Refuting the allegation, Ruhul Amin Sikder, secretary general of the Bangladesh Inland Container Depots Association, said ICDs face an unusual increase in export cargoes before Eid vacations and they are working round the clock to cope with the pressure.

He said a number of export containers which are ready for shipment cannot be timely sent to the port due to delayed arrivals of vessels, which is further choking the ICDs.

Moreover, there are shortage of empty containers required for stuffing the export cargoes, mainly due to a container backlog at transshipment ports resulting from the Red Sea crisis.

Muntasir Rubayat, a leader of the Bangladesh Shipping Agents Association, said there is a delay in the arrival of feeder vessels due to a two-three day berthing delay in Singapore and Malaysia.

There is a shortage of empty containers as mother vessels are taking almost a month of additional time to make the round trip between the transhipment ports and Europe as they are forced to reroute through the Cape of Good Hope in Africa as they are avoiding passage through the Red Sea, he said.

However, executives of different leading ICDs said the pressure already started receding from Saturday and the situation would improve within the next few days.

High inflation

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The same applied to the international market, he said.

"These are fashionable products. Given the situation, people will buy fashionable products only after buying essential products. That's normal. Because of this, both buyers and traders are in a tight situation," he said.

The economic situation of countries which collect leather from Bangladesh is also not good. They are also going through high inflationary pressure and various economic crises. So, they have reduced order quantities, he said.

Due to these reasons, the target of rawhide collection has been reduced this year, he added.

During the July-May period of the current fiscal year, exports of leather goods totalled $961 million, marking a decline of 14.17 percent compared to the corresponding period in the previous fiscal year.

On June 3, the government set the price of salt-cured cowhides at Tk 55-60 per square foot (sqft) in the capital and Tk 50-55 per sqft outside the capital.

Last year, the price was Tk 50-55 per sqft in Dhaka and Tk 47-52 per sqft outside the capital.

"Even three to four years ago, we did not buy so many rawhides. But it was found that middlemen make profits of over Tk 300 per piece, which affects the market," Ahamed said, adding that tannery owners were interested in buying rawhides in order to keep the market stable.

"We now directly contact madrasas and orphanages in advance. Later we give them the price of the rawhides according to the market price," he said.

Tanners will get about Tk 270 crore in loans from banks to procure and preserve rawhides during the upcoming Eid-ul-Adha.

Last year, traders sought loans of around Tk 500 crore but received Tk 259 crore.

Banks' surging investments

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The demand for fresh loans has also declined as there has been a slowdown in the economy for the past two years owing to the lingering impacts of the coronavirus pandemic and the Russia-Ukraine war.

Recently, borrowers have adopted a go-slow approach in expanding their footprint amid the climbing interest rate.

Customers enjoyed a maximum 9 percent lending rate between April 2020 and June last year after the central bank introduced the ceiling to keep the cost of funds lower with a view to spurring industrialisation. However, amid lingering inflation, it was forced to scrap the cap in July last year, and on May 8, it even left the interest rate in the hands of the market.

Sector-wise surplus liquidity

The surplus liquidity in the banking sector has been rising gradually since November. The amount stood at Tk 1,40,979 crore in the month.

In April this year, private commercial lenders, excluding shariah-compliant banks, had the highest excess liquidity of Tk 84,758 crore.

State-run banks were sitting on Tk 52,733 crore surplus liquidity while foreign banks had Tk 37,396 crore.

Islamic banks had the highest volume of additional cash as of 2021. However, in the subsequent years, they started to face a huge liquidity crisis because of alleged loan irregularities at half a dozen shariah-based banks.

Eight state firms had Tk 183cr default loans

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There are 49 state-owned non-financial enterprises in the country.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, suggested the government privatise SOEs to make them profitable.

"This is because it is not possible to turn them into profit-generating entities due to a lack of operational skills among management."

The government runs these enterprises by giving subsidies and repaying loans with money coming from taxpayers, he said.

Speaking to The Daily Star last week, AB Mirza Azizul Islam, a former adviser to a caretaker government, recommended ensuring accountability at the SOEs so that they can make profits while giving services to the people.

State enterprises' loan

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analysis, was that their loans exposed the state to potential financial loss, said the finance ministry statement.

Moreover, the government has had to inject additional capital to keep many of the enterprises afloat, it said.

Economists suggest privatising loss-making entities instead of running them by spending taxpayer money.

As of February, 30 state-owned enterprises had Tk 65,089.48 crore in debt with state-owned commercial banks, read the Bangladesh Economic Review 2024.

Of the amount, Tk 183.62 crore has been classified.

Up until now there has been no default of loans backed by sovereign guarantees, said the finance ministry statement.

However, the government plans to amend the existing guidelines to streamline the process and further strengthen the debt repayment capacity of the state-owned enterprises, it said.

Loan default of state-owned enterprises is a serious issue in terms of preserving the confidence and image of the country as it generally does not happen anywhere in the world, said M Masrur Reaz, chairman of Policy Exchange of Bangladesh.

When state-owned enterprises default on loans, the impact falls on the private sector and raises questions about the capability of the government, he said.

Most public enterprises are incurring losses, but the government does not shut those down on political grounds, said Ahsan H Mansur, executive director of the Policy Research Institute.

Instead, the government continues to run these enterprises by providing subsidies and repaying their loans by spending taxpayer money, he said.

According to him, the ultimate solution is to privatise the state-owned enterprises to avoid the liabilities of debt for years on end.