Measures in budget will help contain inflation

Agricultural economists say

STAR BUSINESS REPORT

The proposed budget for fiscal year 2024-25 has enough measures to rein in inflation which has been persistently rising, agricultural economists said at a post-budget seminar yesterday.

"Many economists termed the budget as traditional and said that it would not help to contain inflation. But it is not correct. This is a bold and moderate budget," said Prof Shamsul Alam, an agricultural economist and former state minister for planning.

He made the comments while speaking as chief discussant at an event at Bangladesh Agricultural Research Council in the capital's Farmgate.

On June 6, Finance Minister Abul Hassan Mahmood Ali announced a Tk 797,000 crore budget.

According to the government's 8th Five-Year Plan, the budget was supposed to be Tk 2 lakh crore higher this time. But this year's budget has been kept small to control inflation, he said.

"Usually, the government proposes a big budget to keep people happy. But the government did not do it. That's why it's a bold budget," Prof Alam added.

Similarly, the government has reduced its development budget and cut corporate taxes as well as the source tax on essential products.

The government also plans to impose taxes on cars imported by members of parliament, install electronic fiscal devices (EFDs), and make proof of return submissions compulsory for businesses while taking or renewing licences, he said.

Sajjadul Hasan, chairman of a Parliamentary Standing Committee on the Ministry of Civil Aviation and Tourism, urged Bangladesh Competition Commission to play a proactive role in monitoring the market.

Mohammad Jahangir Alam, a professor at Bangladesh Agricultural University, said the coordinated fiscal measures and contractionary monetary policy would address inflation.

However, the proposed reduction of import duties on various production materials and machinery, including agricultural inputs, may contribute to inflation, he said.

Ahasanul Islam Titu, state minister for commerce, lamented the lack of accurate data on estimations of agricultural production and urged economists to ensure adequate research on the supply chain.

"We often face sudden crises of perishable goods as we don't know the exact amount of production. Many institutions and researchers give different projections," he said.

"But when I go to the warehouse, that is not reflected. If we could be informed earlier, we would know how much will be imported," he said.

The commerce ministry will set up around 10,000 permanent shops to sell essential commodities through the Trading Corporation of Bangladesh, according to Titu.

Speaking as chief guest, Finance Minister Ali said the World Bank is continuing to extend loans to Bangladesh as the global lender thinks the country is on the right track.

The minister was also critical of people who commented that the country would soon go bankrupt.

"How could one say that Bangladesh is going to be bankrupt or has gone bankrupt?" he asked.

He added, "We have proposed a people-friendly budget. Try to understand this. There is still time to revise the budget as it has not yet been passed."

The minister also urged critics to be careful and responsible when commenting on the economy.

PHOTO: STAR

Coordinated fiscal measures and contractionary monetary policy will address inflation, say experts.

Forex reserves rise by $300m in a week

STAR BUSINESS REPORT

Bangladesh's foreign currency reserves went up by $318 million in the span of a week to $19.53 billion, central bank figures showed.

It was $19.21 billion on June 12.

The latest upward movement of the reserves will give much-needed relief to the US dollar supply, which has squeezed sharply in the last couple of years amid higher outflows against inflows.

The rally might continue in the coming weeks as the country is set to receive $1.65 billion from the International Monetary Fund (IMF) and the World Bank before the end of this month.

The IMF may release $1.15 billion in the third instalment of its $4.7 billion loan in the last week of June while the WB is going to provide $500 million in budget support. This may send the reserves above $21 billion.

The latest improvement in the forex reserves situation comes a month after the central bank relinquished its control over the rate-setting mechanism and introduced a more flexible exchange rate regime.

On May 8, the banking regulator introduced the Crawling Peg Mid-Rate to facilitate the purchases and sales of foreign currencies, allowing banks to trade US dollars freely at around Tk 117.

Yesterday, the highest interbank exchange rate stood at Tk 118 per dollar.

The reserves have been declining sharply since the beginning of the Russia-Ukraine war as the conflict sent the prices of commodities such as oil and gas higher, hurting import-dependent nations such as Bangladesh.

However, 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. Since August 2021, forex reserves have fallen by $24 billion.

EU sanctions target Russian gas for first time

REUTERS, *Brussels*

European Union countries agreed on a 14th package of sanctions against Russia over its war in Ukraine, diplomats said on Thursday, including their first restrictions on Russian gas.

The package bans re-exports of Russian liquefied natural gas (LNG) in EU waters but stops short of banning imports as the bloc did in 2022 for Russian seaborne oil. Some EU countries still import pipeline gas from Russia via Ukraine.

However, gas market experts say the measure will have little impact as trans-shipments of gas via EU ports to Asia represent only around 10 percent of total Russian LNG exports.

The package also sanctions three Russian LNG projects and includes a clause designed to allow Sweden and Finland to cancel Russian LNG contracts, diplomats said.

Belgium, which holds the rotating EU presidency until July 1, said on social media platform X that the package "maximises the impact of existing sanctions by closing loopholes".

"This hard-hitting package will further deny Russia access to key technologies. It will strip Russia of further energy revenues. And tackle (President Vladimir) Putin's shadow fleet and shadow banking network abroad," European Commission President Ursula von der Leyen said on X.

Countries debated the new measures for over a month and ultimately watered down one of the Commission's proposals, aimed at preventing even more circumvention, at Germany's prompting.

The dropped measure would have forced subsidiaries of EU companies in third countries to contractually prohibit the re-exports of their

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Oil stable above $85

REUTERS, *London*

Brent oil futures were steady on Thursday, hovering slightly below seven-week highs as the market awaited US inventory data.

August Brent crude rose by 18 cents, or 0.21 percent, to $85.25 a barrel by 1023 GMT.

US West Texas Intermediate (WTI) futures for July, which expire on Thursday, gained 3 cents, or 0.04 percent, to $81.60.

There was no WTI settlement on Wednesday because of a US public holiday, which kept trading largely subdued. The more active August contract was up 1 cent at $80.72.

Oil prices are likely to remain supported around current levels because of a growing geopolitical risk premium driven by conflict in the Middle East, said ActivTrades analyst Ricardo Evangelista.

Brent crude futures had edged higher in early trade on Thursday as the market digested news of Israeli tanks advancing into Gaza, raising concern over oil supplies from the region.

However, expectations of an inventories build appears to be overshadowing fears of escalating geopolitical stress for now, said Priyanka Sachdeva, senior market analyst at Phillip Nova.

Bida identifies 814 vulnerable factories in 2nd phase

JAGARAN CHAKMA

The Bangladesh Investment Development Authority (Bida) has identified 814 more factories as risky under a countrywide initiative as the government looks to prevent avoidable fire incidents and other disasters.

These factories lack necessary fire safety measures and have vulnerable working conditions.

In the first phase, the state-run investment promotion agency named 106 factories in Dhaka, Chattogram, Narayanganj, and Gazipur as risky. The inspection ran between November 2021 and March 2022.

The move comes after more than 50 people died in a fire at the factory of Hashem Foods Ltd in July 2021. This prompted the Prime Minister's Office to form a 24-member national committee, headed by Salman F Rahman, private industry and investment adviser to the prime minister.

In the second phase, 108 teams consisting of officials of the departments of environment, fire service, the district administration, the Department of Inspection for Factories and Establishments (DIFE), and the Bida examined the safety standards and working conditions of 5,001 factories in all 64 districts between March and June last year.

The hosiery industry has been detected as the most vulnerable, with 35 factories out of the 62 inspected found to be highly vulnerable.

"The factories need to comply with fire safety and environmental standards immediately in order to protect their workers from any health hazards," said Abhijit Chowdhury, the national coordinator of the factory inspection initiative.

The hosiery industry has been detected as the most vulnerable, with 35 factories out of the 62 inspected found to be highly vulnerable

The inspectors were moderately dissatisfied with 2006 factories because of their lower-than-expected safety standards, he said.

The Bida already handed over the final report on the second phase to the national committee. A presentation on the final report was also made before the national committee at a meeting organised by the home affairs ministry on May 29.

The inspectors noticed faults in structural designs, fire safety measures, and power connection lines in the factories, which pose a risk to the workers, said Chowdhury, also an executive member of the Bida.

The national committee has instructed the inspection initiative to send letters to the owners of the vulnerable factories with a corrective action plan (CAP) within three months. The moderately vulnerable factories will be given a six-month CAP.

The initiative will hold a meeting tomorrow to send letters. The DIFE will start sending the letters by the end of June, he said.

The inspection initiative has recommended setting up separate zones for the hosiery industry to rehabilitate the vulnerable factories.

"Besides, we have suggested regular inspections of the factories and legal actions if any negligence is found," the Bida senior official said.

Under the third phase, the 58 teams will look at 2,900 labour-intensive heavy industries in 16 districts. The inspection is expected to start in July.

Global tensions hit investments again in 2023: UN

AFP, *Geneva*

Worldwide foreign direct investment fell for a second consecutive year in 2023 amid a global economic slowdown, coupled with swelling trade and geopolitical tensions, the United Nations said Thursday.

Foreign direct investment (FDI) fell by two percent to $1.3 trillion last year, according to a fresh report from the UN Trade and Development agency.

But excluding a few exceptions, the report showed a far sharper decline of more than 10 percent in FDI for the second consecutive year, it cautioned.

UNCTAD said the prospects for FDI remained "challenging" in 2024 but highlighted some positive developments.

It cited the easing of financial conditions and concerted efforts towards investment facilitation, "a prominent feature of national policies and international agreements".

"We think that 2024 will be better," UNCTAD chief Rebeca Grynspan told reporters in Geneva.

"There are signs that there will be a modest growth 2024," she said.

"It's a modest growth, but it's a change of tendency, and so we are more optimistic towards 2024."

Falling direct investment hurts developing countries in particular, because it tends to be their largest external source of financing.

Last year, FDI flows to developing countries fell by seven percent, to $867 billion, UNCTAD said, reflecting an eight-percent decrease to developing countries in Asia.

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India economic inequality to persist despite roaring GDP growth

REUTERS, *Bengaluru*

The Indian economy is likely to remain the fastest-growing major one in coming years, but a majority of independent economists and policy experts polled by Reuters are not confident it will make any difference in narrowing stark economic inequality.

Despite over 8 percent economic growth last fiscal year and a roaring stock market in Mumbai that is easily one of the world's most expensive, New Delhi still distributes free food grains to more than 800 million of its 1.4 billion people.

Prime Minister Narendra Modi, sworn in for a third term with the support of regional parties after a shock election where his Bharatiya Janata Party lost its sizeable majority in parliament, has retained most ministers from his second one.

Yet rising economic inequality - around its highest in decades - and high youth unemployment were widely reported as reasons for the electoral drubbing after securing sweeping victories in 2014 and 2019 on development and economic reform platforms.

A nearly 85 percent majority of development economists and policy experts, 43 out of 51, in a May 15-June 18 Reuters poll, said they were not confident economic inequality would significantly reduce over the next five years, including 21 who said they had no confidence at all.

Only six said they were confident and two said very confident. These are separate from private economists who regularly forecast economic data and interest rates.

"Acknowledging that it is a problem will be a good first step ... Currently, reduction of economic inequality is not a policy objective of decision-makers," said Reetika Khera, a development economist at the Indian Institute of Technology in New Delhi.

"Inequality is not something that will go away on its own ... it needs proactive government interventions."

Even for a developing economy, income inequality in India is too extreme, according to a March report from the World Inequality Lab.

"I don't think the inequality metrics are meaningful for India. The key issue is not inequality but how the bottom of the pyramid fares economically. This is not a function of how the top does," said Nagpurnanand Prabhala, a finance professor at Johns Hopkins University.

India has the second-highest number of billionaires in Asia but has tens of millions who depend on the government's 100 days minimum guaranteed wage employment programme, digging wells, building roads, and filling potholes for about $4 a day.

PHOTO: REUTERS/FILE

Customers buy fruits and vegetables at an open-air evening market in Ahmedabad.

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