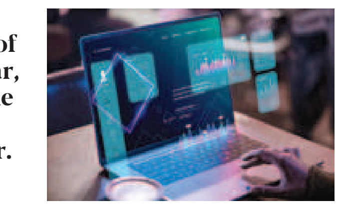
DHAKA MONDAY JUNE 24, 2024, ASHAR 10, 1431 BS ● starbusiness@thedailystar.net

Star BUSINESS

Bangladesh's IT exports declined in July-March of the current financial year, highlighting the struggle to gain a foothold in the global technology sector.

Story on B4



FY25 budget won't ensure energy sustainability: CPD

STAR BUSINESS REPORT

The budget for the next fiscal year may not be able to end the chronic gas shortage, cut import reliance and guarantee credible supply of electricity as it has fallen short of taking up sufficient measures needed to ensure energy sustainability, the Centre for Policy Dialogue (CPD) said yesterday.

Instead, it encourages anti-sustainability measures by backing coal-based power generation and setting overly ambitious power demand targets, it said.

The observations are the outcome of a CPD study on the power and energy sector. The findings were presented at an event styled "Power and Energy Sector in the National Budget FY2025: Can the Proposed Measures Address the Challenges?" at the BRAC Centre Inn in Dhaka.

The budget was present at a time when Bangladesh is struggling to produce enough gas from local fields to meet domestic demand despite significant hydrocarbon potentials, both onshore and offshore.

In recent years, as a result, it has been forced to turn to international markets to buy expensive liquefied natural gas (LNG). However, when LNG prices surged globally, the government was compelled to cut its purchase in order to save foreign exchanges, dealing a massive blow to factories.

Furthermore, despite sitting on a huge stockpile of coal, it is buying the fuel from external markets to run the coal-fired power plants.

"This budget is not the kind of budget needed for sustainable energy and energy transition," said CPD Research Director Khondaker Golam Moazzem while presenting a keynote paper.

"We think a big change is needed in the budget where energy transition and energy sustainability issues will be given more importance. This is because without proper planning, allocation, implementation and monitoring, energy sustainability and energy transition will not be achieved."

Moazzem described the government's decision of not

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RECOMMENDATIONS

- Stop funding for any new fossil fuel-based power plants
- Enhance allocation for drilling more gas wells
- Extend tax holidays from 5 years to 10 years for renewables-based power plants
- Budget for power and energy sector needs to be structured from energy sustainability and energy transition point of view

OBSERVATIONS

- The target set for drilling 48 wells by 2025 cannot be met unless the priority is shifted from LNG import to domestic gas exploration
- Relying heavily on imported LNG could make Bangladesh more vulnerable

ADB to lend $20.8b to Bangladesh in four years

PROJECTS AND FINANCING PLAN OF ADB

	Number of projects	Loan
Transport	18	$5.9b
Social and human development	15	$3.1b
Water and urban development	18	$2.9b
Energy	14	$2.9b
Finance	10	$2.5b
Agri, food and rural development	12	$1.8b
Public sector management	5	$1.7b

DEVELOPMENT CHALLENGES

- Infrastructure deficit
- Low private sector competitiveness
- Climate change vulnerability
- Regional disparity
- Employment generation
- Human capital development

TUHIN SHUBHRA ADHIKARY

The Asian Development Bank (ADB) is expected to provide $20.8 billion in loans to Bangladesh in the next four years as the country looks to accelerate economic growth and attain the upper-middle-income status in less than a decade.

The amount is 42.3 percent higher than the $12 billion the country received in the previous four years, documents from the Manila-based lender showed.

Of the expected financing, $16.4 billion, or 78.85 percent of the total, will be extended as ordinary capital resources (OCR) loan, since the country's capacity to pay back has gone up.

The interest rate for the OCR portion is near market-based. The rest of the loan will be concessional.

The loans at near-market terms have a repayment period of 25 years and a grace period of five years. The interest rate is SOFR plus 0.75 percent.

The Secured Overnight Financing Rate (SOFR), which is replacing the London Interbank Offer Rate (LIBOR), was 5.32 percent on Thursday, data from the Federal Reserve of Bank of New York showed.

The concessional loans have the same repayment schedule, but the interest rate is fixed at 2 percent.

The ADB has set a loan pipeline for 92 projects in seven sectors from 2024 to 2027, the documents related to its country programme showed.

The projects included Mass Rapid Transit (MRT) Line-5 (Southern Route); SASEC (South Asia Subregional Economic Cooperation) Dhaka-Chattogram Highway Improvement Project; SASEC South Corridor Improvement Project (Faridpur-Barishal Highway); and Dhaka Power System Expansion and Strengthening Project.

The Economic Relations Division will hold a meeting with the ministries and divisions today to finalise the projects under the pipeline.

While there is no specific allocation for regular OCR loans, the ADB expects to commit around $16.4 billion between 2024 and 2027, subject to the readiness of the proposed projects.

It expects to commit around $2.3 billion for 2024, $4.2 billion for 2025, $4.9 billion for 2026, and $5 billion for 2027.

As per its pipeline, the ADB will provide $1.8 billion for 2024-2027 for 12 projects in the agriculture, food, nature and rural development sector; $2.9 billion for 14 projects in the energy sector; and $2.5 billion for 10 projects in the finance sector.

Some $3.1 billion will be given to 15 projects in the human and social development sector, $1.7 billion for five projects in the public sector management and governance sector, $5.9 billion for 18 projects in the transport sector, and $2.9 billion for 18 projects in the water and urban development sector.

The projects are in response to the bottlenecks confronting Bangladesh.

The main development challenges that Bangladesh faces include infrastructure deficit, low private sector competitiveness, climate change vulnerability, and regional disparity, said the ADB.

It is also experiencing challenges in the areas of employment generation, human capital development, social protection, and governance, it said.

Responding to these challenges and aligning with the government's growth plans, the ADB's country partnership strategy (CPS) 2021-2025 aims to boost competitiveness, employment, and private sector development, promote green growth and climate resilience, and strengthen human capital and social protection.

Currently, the government is preparing the Ninth Five-Year Plan to successfully graduate from the group of the least-developed countries in 2026 and attain the upper-middle-income country status by 2031.

The ADB said the public sector management and governance sector programme will address the economy's fundamental development challenges by mobilising domestic resources,

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BB monetary policy likely in the 3rd week of July

STAR BUSINESS REPORT

Bangladesh Bank (BB) is likely to make public the monetary policy for the first half of fiscal year 2024-25 in the third week of July, aiming to bring down inflation which has persistently remained high.

Inflation in Bangladesh has been hovering at over 9 percent since March last year and the central bank's existing tight monetary policy stance is yet to help cool down consumer prices.

The BB is preparing to announce the new monetary policy sometime between July 15 and July 20, said a member of the monetary policy committee.

As a part of the preparations, the monetary policy department of the BB will start holding meetings with stakeholders and economists from July 7.

The monetary policy department set a meeting with central bank officials of the executive director grade and above on July 7 to avail opinions on the preparation of the new monetary policy.

Then, they will hold meetings with other stakeholders and economists until July 15.

The central bank has taken a series of initiatives to tackle ongoing economic challenges, especially to rein in skyrocketing inflation, all but to no avail.

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What's in the budget to boost private investment?

TARGETS AND ACHIEVEMENTS

- Private sector investment target set at 27.34% of GDP for FY25
- Estimated private investment is 23.51% of GDP in outgoing fiscal year
- On an average, private sector investment was 24.19% of GDP in the last 6 years
- As per the 8th Five Year Plan, the overall investment target is 36.59% of GDP in 2025

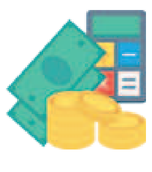
CHALLENGES FOR ACHIEVING THE TARGETS

High bank interest rate | Price hike of dollar | Rising cost of doing business | High inflation rate

JAGARAN CHAKMA

The government's target in the proposed budget for 2024-25 on increasing private sector investment is ambitious and will be difficult to achieve, said businesspeople and experts citing high bank interest rates and a shortage of US dollars.

Finance Minister Abul Hassan Mahmood Ali aims to take private sector investment to 27.34 percent of the GDP in the upcoming fiscal year, up from an estimated 23.51 percent in the current year.



Part: 1 BUDGET IN FOCUS

The last six years' average was 24.19 percent, which is 3.15 percentage points lower than the target, according to the Bangladesh Bureau of Statistics.

According to businesspeople, opening letters of credit for importing raw materials and capital machinery was still a challenge alongside accommodating an increase in associated prices due to a hike in the price of the US dollar against the taka.

Against this backdrop, making big investments is a big gamble, they said.

The banking sector last month returned to a market-driven interest rate regime with the rate reaching as high as 14 percent. The foreign currency reserves stood at $19.52 billion, as of June 20. Meanwhile, inflation has been persistently high, reaching 9.81 percent last May.

"Now businesses are faced with different drawbacks, including a high cost of business due to high bank interest rates and appreciation of the US dollar," said Ahsan Khan Chowdhury, chairman and chief executive officer of Pran-RFL Group.

"As a result, coming up with investments will be a very big challenge," he said.

He said the present reality

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