

Star BUSINESS

Import and sale of reconditioned vehicles have increased in Bangladesh despite suffering from high inflationary pressure and foreign currency crisis.



Story on B4

Govt borrowing from banks to increase



FAHMIDA KHATUN

Broadly, the policy measure to control inflation remains the same in the Monetary Policy Statement (MPS) of the Bangladesh Bank for July-December 2024.

In May 2024, the Bangladesh Bank hiked the policy rate by 50 basis points to make it 8.5 percent. This was a continuation of earlier attempts to increase policy rates.

For example, in January 2024, the policy rate was increased from 7.75 percent to 8 percent. The central bank increases policy rates to hike the interest rates in the commercial banks. This was a welcome move as the interest rate cap on lending and deposit rates during April 2020- June 2023 was a wrong policy tool to contain inflationary pressure.

Following a lot of discussions, the Bangladesh Bank's next attempt to introduce a reference lending rate - the six-month moving average rate of treasury bills (SMART) was also a total failure in bringing down inflation.

On top of that, the Bangladesh bank printed money that further increased inflationary pressure on the people. Even after the policy rate hike in May 2024, the inflation rate is over 9 percent. So, the effectiveness of the increased policy rate is yet to be observed.

The Bangladesh Bank has opted to use policy rates as a tool to control inflation much later than other central banks in the world, including developing countries such as India. As a result, the central banks of those countries have successfully curtailed the inflation rate. Though the policy rate has not been changed, Bangladesh Bank has to remain open to further increases in policy rates to curb inflation.

Some changes have been made in the monetary and credit projection for fiscal year (FY) 2025. Though credit growth to the private sector remains the same at 9.8 per cent, credit to the public sector will grow by 14.2 percent till December 2024 and by 17.8 percent by June 2025.

This implies that the government borrowing from the banking sector will increase. The reliance of the government on bank borrowing risks crowding out of the private sector. If commercial banks are under pressure to provide loans to

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BB keeps key policy rate unchanged but signals further tightening

Inflation can't be curbed without raising the repo rate, say economists

KEY POINTS

BB prepared to take policy actions if required

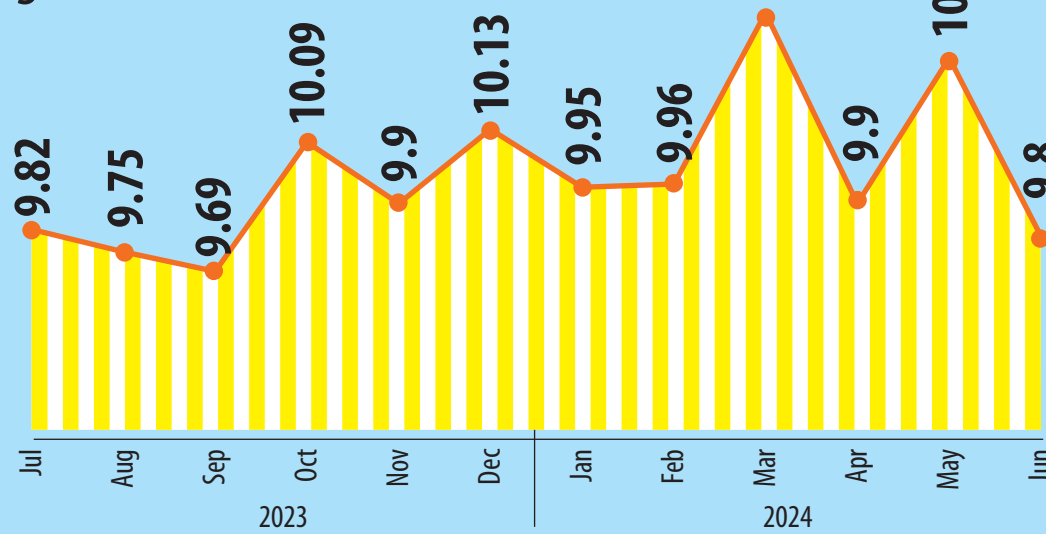
BB to refrain from creating new money for govt spending

Crawling peg mid-rate unchanged at Tk 117.00 per USD

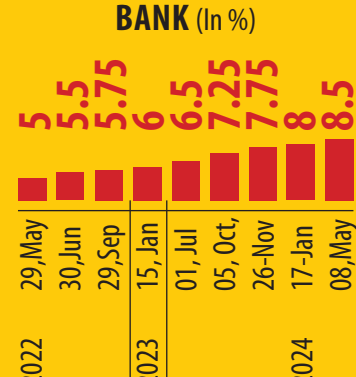
All interest increased significantly

High default loans undermine financial stability

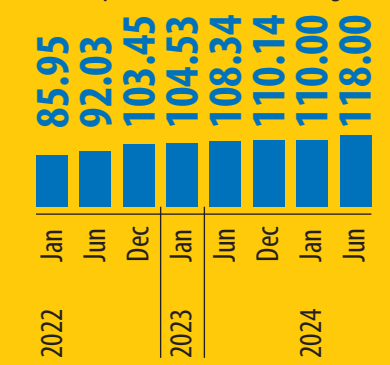
Private sector credit growth (In %)



CHANGES IN THE POLICY RATES BY BANGLADESH BANK (In %)



INTERBANK EXCHANGE RATE



MD MEHEDI HASAN

Despite suggestions for a policy rate hike from the International Monetary Fund (IMF) and economists, the central bank of Bangladesh has kept unchanged the major tool of its monetary policy at 8.5 percent although inflation is running high.

The Bangladesh Bank yesterday unveiled the monetary policy statement (MPS) for July-December of 2024-25. It said that the current tightening monetary policy stance would be maintained, and it will help ease the inflationary pressure.

"However, BB remains prepared to take necessary policy actions if required," it said.

"The major policy reforms that the central bank took on May 8 came into effect, and we see the outcome to tackle economic

challenges, including higher inflation and the forex crisis," Md Habibur Rahman, a deputy governor, told The Daily Star.

Also the head of the monetary policy department of the central bank, Rahman said as the previous policy stance is producing expected outcome, the policy rate and the crawling peg exchange rate system have not been changed.

In May, the banking watchdog took three bold measures in line with the IMF's \$4.7 billion loan programme. It allowed banks to fix the interest rate, brought flexibility to the exchange rate by introducing the crawling peg system, and hiked the policy rate by 50 basis points to 8.5 percent, the ninth straight increase in the span of less than two years.

Yesterday, the BB said that the economy has

begun to respond to these policies.

It, however, said while the upward trend in inflation has moderated recently, it remains stubbornly high owing to food price inflation. The BB aims to bring down inflation to 6.5 percent at the end of FY25.

Annual inflation rose to 9.73 percent in 2023-24, the highest since 2011-12, overshooting the government's target of containing it to 7.5 percent, according to the Bangladesh Bureau of Statistics (BBS). This was the second year in a row, inflation in the country stayed above 9 percent.

On the other hand, most countries, including the US, India and even cash-strapped Sri Lanka, have succeeded in bringing down inflation from their record levels.

As a result, inflation control has remained a top priority for the BB.

The BB has maintained a contractionary monetary policy for over a year, significantly increasing the policy rate and avoiding new high-powered money issuance for government spending.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, thinks that the central bank was on the right

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Not much beyond lip service



ZAHID HUSSAIN

In their Monetary Policy Statement (MPS) for the first half of FY25, Bangladesh Bank (BB) has stuck to the policy stance already in place. There is no further tightening, no specific measures to enhance liquidity management and transition to a flexible market-based exchange rate regime from the "crawling peg". The MPS recognises the deep stress in the financial sector and provides a long list of legislative measures already passed and regulatory plans announced without committing to a timebound and results-oriented path of action.

Let's begin with the central question to gauge what more this MPS could have done to increase the potency of monetary policy in restoring macro-financial stability.

WHY HAS STABILITY REMAINED ELUSIVE?

Inflation has remained stubbornly close to double digits; foreign exchange reserves are significantly lower than they were a year ago; and financial sector woes appear to be seeking new lows all the time. What explains these performance shortfalls despite monetary tightening, exchange rate reforms and apparently streamlined financial regulation? The short answer is results elude when measures remain less than fully baked.

For most of the monetary tightening cycle that started in May 2022, the transmission of contraction remained confined within the banking system. It could not spillover at the retail level until July 2023 because of the 9 percent cap on retail lending rates. The SMART based retail rate policy subsequently allowed limited room for transmission. The door for transmission opened fully in principle only since May 2024 with the abolishing of SMART. Yet there are perceptions of invisible ceilings.

The tightening lacked consistency. BB has been financing the fiscal deficit indirectly by providing liquidity to banks against their holdings of government bills and bonds. Fiscal austerity has been limited at best. The large budget deficit counteracted monetary contraction by boosting aggregate demand. Tightening is also diluted by BB's so-called "supply-side intervention policy" to enhance production and support employment generation.

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Stocks drop amidst student movement

STAR BUSINESS REPORT

Stocks in Bangladesh fell for a second consecutive day yesterday as skittish investors sold off their shares in panic amidst a countrywide shutdown enforced by students demanding withdrawal of a quota system in government jobs.

As a result, the major index of Dhaka Stock Exchange (DSE), the DSEX, dropped 36.64 points, or 0.67 percent, from that on the day before to close at 5,446.50.

The two other indices of the DSE also ended lower.

The DSES index, representing the Shariah-compliant companies, slipped 10.43 points to finish at 1,191.43 while the DS30 index, comprising the blue-chip firms, dipped 8.10 points to settle at 1,953.27.

Chittagong Stock Exchange (CSE) also saw a similar trend with its all-share price index losing 50.45 points, 0.32 percent, to settle at 15,566.159.

Saiful Islam, president of the DSE Brokers Association of Bangladesh, said the drop in the index was a clear impact of the shutdown.

The uncertainties centring the student movement has been prolonged unexpectedly. So, its impact was evident on the stock market, he said.

Due to the movement, people could not move from one end of the capital to the other and many of them were stuck wherever they were. So, the presence of investors was low, he said.

On the other hand, people were worried over the law and order situation of the country. As a result, the day's turnover at the stock market was low, he added.

The day's turnover, meaning the total value of shares traded at the DSE, stood at Tk 371 crore, a decrease of 34.17 percent compared to the previous day's trading session. This was the lowest turnover in the last one month.

BB identifies risks to economic stability

STAR BUSINESS REPORT

The Bangladesh Bank has identified several macroeconomic challenges that are hurting the economy such as higher inflation and widening income inequality.

"Bangladesh faces several immediate macroeconomic issues that threaten its economic stability and growth," it said. In its monetary policy statement released yesterday for the first half of the current fiscal year, the central bank said these challenges arise from domestic and international factors, creating a complex policy environment.

"Persistently high inflation erodes purchasing power and real incomes, exacerbating income inequalities."

The BB pinpointed some other challenges confronting the country, including the exchange rate volatility, fiscal constraints, and the financial sector instability.

In order to address these issues, the country requires a multifaceted approach involving a prudent monetary policy, effective fiscal management, and structural reforms, it said.

"By navigating these challenges carefully, Bangladesh can sustain economic growth and enhance resilience against external shocks."

Geopolitical tensions, such as the Russia-Ukraine conflict and the unrest in the Middle East, have disrupted global supply chains and driven up the prices for essential commodities like food and energy, hitting import-dependent nations like Bangladesh hard as foreign currency reserves have witnessed a significant depletion.

The BB has adopted a contractionary monetary policy to manage inflation, but balancing this with economic growth re-

mains delicate.

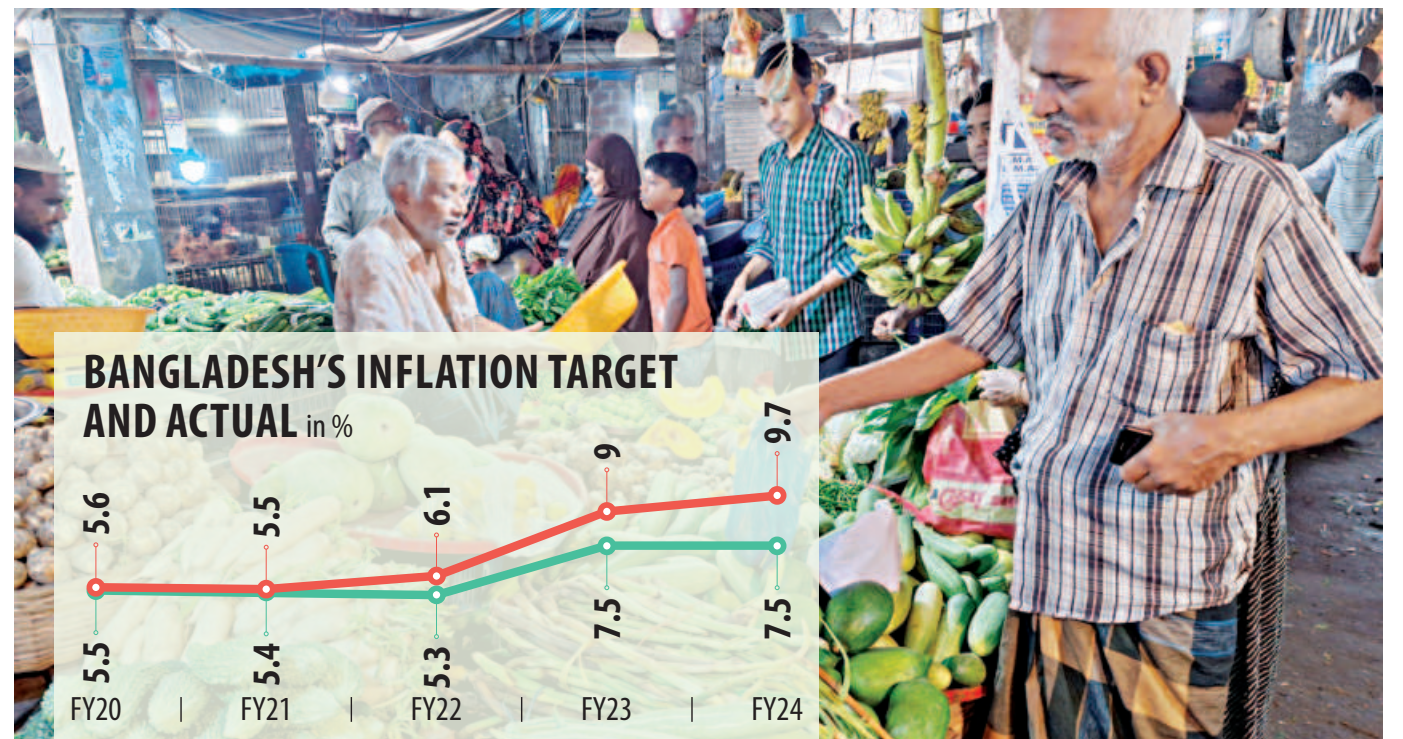
The global economic outlook is positive, but uncertainties persist due to ongoing geopolitical tensions. Policy rate cuts in

about 35 percent against the US dollar in the past two years.

"Fluctuations in global commodity prices, especially for food and energy, pose risks

ability for productive investments.

Default loans in the banking sector hit an all-time high of Tk 182,295 crore in March, central bank figures showed. However, ex-



Shoppers at a kitchen market in Notun Bazar area of Barishal city yesterday. Bangladesh concluded fiscal year 2023-24 in June with inflation at an average of 9.73 percent, the highest in 12 years, showcasing a worsening scenario for real income and a deterioration of living standards of low-income groups.

PHOTO: TITU DAS

advanced economies could affect reverse capital flows and exchange rates.

Bangladesh's forex reserves fell from \$41.7 billion in August 2021 to \$21.79 billion on June 30. The taka has lost its value by

due to Bangladesh's import dependence," the BB said.

According to the central bank, high non-performing loans (NPLs) undermine financial stability and limit credit avail-

ability for productive investments.

perts say the figure would be much higher owing to under-reporting. The BB is implementing measures to reduce NPLs and improve governance with-

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Rupee flat, dollar up

REUTERS

The Indian rupee was nearly unchanged on Thursday as dollar demand from local oil companies offset positive cues from a decline in US bond yields and on broad weakness in the dollar.

The rupee was at 83.5925 against the US dollar as of 10:45 a.m. IST compared with its close of 83.5825 on Tuesday. Indian financial markets were closed on Wednesday for a local holiday.

The dollar index was up 0.1 percent after falling to its lowest in four months on Wednesday, pressured by growing hopes of Fed rate cuts and a rise in the Japanese yen on speculation of intervention by the country's authorities.

Most Asian currencies were slightly weaker on Thursday with the Indonesian rupiah down 0.3 percent and leading losses.

The Indian rupee held its ground when Asian currencies were under pressure earlier in the month so it's unlikely to follow gains in the broad Asia pack either, a foreign exchange trader at a private bank said.

The yen has recovered from the 38-year low hit on July 3 and the offshore Chinese yuan has also risen from its lowest levels since November.



Workers weigh and pack paddy bags at Sitapur market, in the northern state of Uttar Pradesh, India. New Delhi is expected to lower the basmati rice's minimum export price (MEP) to \$800-\$850 a metric tonne, down from \$950 a tonne, to boost shipments.

PHOTO: REUTERS/FILE

US unveils plan to boost semiconductor production

AFP, Washington

Secretary of State Antony Blinken unveiled Wednesday a new plan for countries in the Americas to boost production of semiconductors, which are critical just about everywhere in modern industry and a sector dominated by China.

"This initiative will turbocharge countries' capacity to assemble, to test and to package semiconductors, beginning with Mexico, Panama and Costa Rica," Blinken said as he opened a meeting with counterparts from 11 countries of Latin America.

Blinken said the Americas should play a bigger role in the global supply chain for semiconductors, which these days feature in everything from cell phones to refrigerators to weapons systems.

He also called for more investment in the Americas to promote the energy transition away from fossil fuels, and recalled that it is the previously stated goal of the 12 countries at this meeting to earmark \$3 billion dollars for investment in infrastructure.

India plans to ease rice export curbs as stocks surge to record, sources say

REUTERS, New Delhi

India is likely to cut the floor price for basmati rice exports and replace the 20 percent export tax on parboiled rice with a fixed duty on overseas shipments, government sources said, as rice inventories in the country jumped a record high.

The world's biggest rice exporter imposed various curbs on exports in 2023 and continued them in 2024 in an effort to keep local prices in check ahead of the general elections held in April-May.

New Delhi is expected to lower the basmati rice's minimum export price (MEP) to \$800-\$850 a metric ton, down from \$950 a ton, to boost shipments, said the sources, who didn't wish to be identified as they are not authorised to talk to media.

Lowering the MEP would help India retain its market share against Pakistan, which exported a record amount of rice this year due to New Delhi's export curbs.

India and Pakistan are the leading

exporters of basmati rice. New Delhi exports more than 4 million metric tons of basmati - the premium long-grain variety famed for its aroma - to countries such as Iran, Iraq, Yemen, Saudi Arabia, the United Arab Emirates and the United States.

The country's rice stocks at state warehouses have jumped to 48.51 million metric tons as of July 1, the highest ever for the month and nearly 19 percent more than last year, according to Food Corporation of India.

New Delhi is also expected to drop the 20 percent export tax on parboiled rice and introduce a minimum export tax to stop under-invoicing of shipments, the sources said.

The government was examining possibilities of easing rice export curb, including resuming white rice exports,

Reuters reported last month.

Worried over expectations of lower output due to the El Niño weather pattern, India banned overseas shipments of non-basmati white rice varieties in July 2023 and imposed curbs on other grades.

"With rice supplies significantly exceeding local demand, it's crucial to reduce stockpiles to prevent spoilage. The most effective solution is to lift export restrictions," said BV Krishna Rao, president of the Rice Exporters Association (REA).

The country's rice stocks at state warehouses have jumped to 48.51 million metric tons as of July 1, the highest ever for the month and nearly 19 percent more than last year, according to the Food Corporation of India.

New Delhi would also review the export ban on non-basmati white rice after assessing the progress of rice planting, the sources said.

Farmers have so far planted 11.6 million hectares with rice paddy during the current planting, up 20.7 percent on the same period last year.

US industrial output beats expectations in June

AFP, Washington

US industrial production cooled in June but still exceeded analyst expectations, with manufacturing and utilities output both rising, the Federal Reserve said Wednesday.

Total industrial output rose 0.6 percent from the prior month, down slightly from May's 0.9 percent reading, the report said.

Analysts expect that a slump in factory output that started in 2022 appears to now be in the rearview mirror.

The US central bank in 2022 rapidly hiked interest rates, lifting the cost of borrowing as it sought to ease demand and tamp down surging inflation.

Rates have remained high, taking a toll on businesses, as policymakers fight sticky inflation.

Among sectors, manufacturing output rose 0.4 percent in June, down from a 1.0 percent jump in May, the Fed said Wednesday.

This was helped in part by the auto industry even as other sectors saw declines.

Mining gained 0.3 percent, while utilities increased 2.8 percent, with gains in both electric and natural gas, said the Fed.

For the second quarter, industrial output rose at an annual rate of 4.3 percent, up from the first three months this year.

"We doubt that manufacturing will continue to grow as rapidly as it did last quarter, partly because the manufacturing surveys remain so subdued," said Oliver Allen, senior US economist at Pantheon Macroeconomics.

"A continued manufacturing boom probably requires either much lower interest rates or a more significant recovery in external demand, neither of which is materializing just yet," Allen added.

Since late 2023, the Fed has held interest rates at a high level. But inflation readings have edged down, raising the likelihood that the central bank will soon signal the start of rate cuts.

"Lower interest rates as the Fed starts easing policy as well as ongoing investment in domestic manufacturing capacity should provide support to factory activity over time," said economist Rubela Farooqi of High Frequency Economics.

PRICES OF KEY ESSENTIALS IN DHAKA CITY			
	PRICE (JULY 16, 2024)	% CHANGES FROM A MONTH AGO	% CHANGE FROM A YEAR AGO
Fine rice (kg)	Tk 62-Tk 78	-4.11	3.70 ↑
Coarse rice (kg)	Tk 50-Tk 54	0	16.67 ↓
Loose flour (kg)	Tk 40-Tk 45	1.01	-10.98 ↓
Lentil (kg)	Tk 105-Tk 110	0	13.16 ↑
Soybean (litre)	Tk 145-Tk 155	1.01 ↑	-10.98 ↓
Potato (kg)	Tk 56-Tk 65	5.22 ↑	42.35 ↑
Onion (kg)	Tk 110-Tk 120	35.29 ↑	76.92 ↑
Egg (4 pcs)	Tk 46-Tk 50	-10.28 ↓	0

SOURCE: TCB

Midland Bank awards winners of 'Feedback & Win' programme

STAR BUSINESS DESK

Midland Bank recently awarded prizes to winners of its quarterly online customer service feedback survey programme, styled "Feedback & Win".

Md Ahsan-uz Zaman, managing director and CEO of the bank, handed over prizes to winners as chief guest at the bank's head office in the capital's Gulshan, read a press release.

A total of 12,855 customers were selected randomly and their feedback was sought to assess the bank's service standards and product quality. Of them, the 441 who responded were included in the lottery for taking the time to provide their valuable feedback.

The bank launched the programme on a quarterly basis.

On July 10, the lottery draw programme of the June Quarter Survey was held at the bank's Gulshan branch.

Md Zahid Hossain, deputy managing director of the bank, was also present.



Md Ahsan-uz Zaman, managing director and CEO of Midland Bank, poses for photographs with winners of the June quarter of the Online Customer Service Feedback Survey Programme, styled "Feedback & Win" at the bank's head office in the capital's Gulshan recently.

PHOTO: MIDLAND BANK

Meghna Bank, Mana Bay sign MoU on services benefits

STAR BUSINESS DESK

Meghna Bank recently signed a memorandum of understanding (MoU) with Splash Works Water Parks Ltd, also known as Mana Bay, a premium water park in the Gazaria upazila of Munshiganj.

Kimiwa Saddat, deputy managing director of the bank, and Salim Khan Surattee, assistant vice-president of the water park, penned the MoU at the bank's head office in the capital's Gulshan.

Under this agreement, the bank cardholders will enjoy 'Buy 3 Get 1' facilities on entry tickets at the water park.

Moksedur Rahman, head of cards (in-charge) of the bank, Sultanul Arefin Sunny, head of alliance, and Arifa Afroz, senior marketing manager of the water park, along with other senior officials from both organisations were also present.



Kimiwa Saddat, deputy managing director of Meghna Bank, and Salim Khan Surattee, assistant vice-president of Mana Bay, pose for photographs after signing a memorandum of understanding at the bank's head office in the capital's Gulshan recently.

PHOTO: MEGHNA BANK

US considers China

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American technology, the US government has the power to stop it from being sold - including products made in a foreign country.

The US is presenting the idea to officials in Tokyo and the Hague as an increasingly likely outcome if the countries don't tighten their own China measures, the Bloomberg report added.

ASML declined to comment on the discussions, and Electron said it wasn't in a position to comment on "geopolitical issues", Bloomberg reported.

Tokyo Electron, ASML Holding, and the US Department of Commerce did not immediately respond to Reuters' requests for comment.

US Fed flags

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reporting flat or slight growth, said Wednesday's report.

The Fed has been focused on reining in runaway inflation in the wake of the pandemic, but is now also closely eyeing its mandate of promoting maximum employment, Fed Chair Jerome Powell said this week.

"If we were to see an unexpected weakening in the labor market, then that might also be a reason for reaction by us," Powell said.

On Tuesday, Federal Reserve Governor Adriana Kugler noted that if the labor market cools too much, with layoffs driving a continued rise in unemployment, it might be apt to cut rates sooner.

Oil prices steady

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rates unchanged on Thursday, but it signalled that its next move is likely to be a cut.

However, Chinese economic growth remains a concern. Chinese leaders signalled on Thursday that Beijing would stay the course with economic policy, though few concrete details were disclosed. Together, those helped to check investor hopes of a push to boost consumption in the world's second-largest economy.



Shops at Elephant Road in the capital were kept shut all throughout the day yesterday for a nationwide student movement and road blockades demanding reform of the quota system in government jobs.

PHOTO: PALASH KHAN

COUNTRYWIDE SHUTDOWN Cargo transport between ICDs and Ctg port slows

DWAIPAYAN BARUA, Ctg

Cargo transport to and from the Chattogram port experienced a slowdown yesterday as a result of the ongoing unrest and enforcement of a countrywide shutdown by quota reform activists.

Transport owners and workers pointed out that many trucks and covered vans bound for Chattogram port were stuck at exit points in Dhaka, including the Shonir Akhra area, and on the Dhaka-Chattogram highway, where clashes between protesters and police have been taking place since Wednesday noon.

Vehicular movement in Jatrabari was also halted after a fire broke out at the toll plaza on the Mayor Hanif Flyover.

Businesses faced a shortage of vehicles while fares rose by 30 to 40 percent in Chattogram as owners and drivers were unwilling to ply their vehicles in fear.

Even though loading, unloading and other operations at the port jetties went on as usual, cargo delivery from the port yards progressed slowly.

"While cargo and container handling from anchored vessels went on as usual, entry of vehicles for deliveries was slower, considering Thursday is a busy day for the port," said Md Omar Faruk, secretary of Chittagong Port Authority (CPA).

According to different private inland container depots (ICDs), the arrival of trucks and covered vans carrying export cargo from Dhaka and different parts of the country was poor till yesterday afternoon.

An official of KDS Logistics, a leading private ICD at Sonaichhari in Sitakunda upazila, told The Daily Star that only 33 trucks and covered vans had arrived until 2 pm, while a total of 411 vehicles entered the depot the previous day.

However, transport of export and import containers between the depot and the port was normal, he said.

An operation manager at Nemsan Depot, another nearby ICD, said that import delivery was delayed due to a shortage of vehicles.

The scenario was similar in other depots.

Kazi Mahmud Imam Bilu, general secretary of Chattogram Custom C&F Agents Association, said transport fares were hiked by 30 to 40 percent due to a shortage of vehicles as many trucks and covered vans from Dhaka failed to reach Chattogram.

He said transport owners charged over Tk 25,000 for a truck or covered van against the usual Tk 16,000 to Tk 17,000 for Chattogram to Dhaka.

Student movement affects goods transport

SUKANTA HALDER

The countrywide shutdown enforced by the quota reform movement yesterday affected business and economic activities as it disrupted the transportation of goods in the country.

The blockade of Dhaka-Chattogram highway, which is considered to be the economic lifeline of the country, for over 24 hours not only seriously hampered the transport of export-oriented products but also affected local supply chains, businesspeople said.

Supply of vegetables and essential goods to Dhaka has also been disrupted as the number of goods-laden trucks entering the capital fell sharply yesterday and the day before, they said.

The situation will worsen if the conflicting situation prevails for a few more days, they added.

"We couldn't transport our raw materials due to the protests all over the country," said Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association.

Besides, the closure of the Dhaka-Chattogram highway has hampered the export shipments. All in all, the matter has now become quite complicated. Now, the exporters are trying to find a solution, he told The Daily Star.

At least nine people were killed and several hundred injured during a clash

between quota protesters, police and pro-government men in Dhaka and other parts of the country yesterday.

Taslim Shahriar, deputy general manager at the Meghna Group of Industries, one of the biggest commodity importers and processors in the country, said the Dhaka-Chattogram highway has been closed since Wednesday night.

If it continues, there will be problems in the internal supply chains. No goods came to Dhaka from factories yesterday due to the closure of the road, he said.

It will not be a problem for a day or two. But there will be problems from then on. Due to fears over the overall situation, vehicle drivers do not want to take their vehicles anywhere, he added.

Besides, cargo transport to and from the Chattogram port, Bangladesh's premier seaport, slowed down a bit yesterday.

Transport owners and workers said many Chattogram port-bound trucks and covered vans got stuck at some exit points of Dhaka including Shanir Akhra and some spots on the Dhaka-Chattogram highway following clashes since Wednesday noon.

Businesses faced a shortage of transport vehicles while transport fares rose by 30 percent to 40 percent in Chattogram yesterday as owners and drivers were unwilling to ply their vehicles in fear of obstacles on the ways.

An official of KDS Logistics, a leading

private inland container depot (ICD) at Sonaichhari, Sitakunda upazila, informed The Daily Star that they received only 33 trucks and covered vans carrying export cargoes from Dhaka till 2:00pm yesterday.

A total of 411 vehicles entered the depot in the 24 hours on the previous day, he said.

An operation manager at Nemsan Depot, another nearby ICD, said import deliveries from their depot have started to face delays due to a shortage of vehicles.

The scenario in other depots was also the same.

Meanwhile, bank branches in the capital and many parts of the country were almost empty as there were very few customers. Considering the ongoing situation, many banks have allowed their employees to work from home.

A senior official of Pubali Bank's New Market branch said while officials came to the office on time, customer numbers were very low due to the ongoing shutdown.

"We mostly depend on the businesspeople of the area, but due to the closure of shopping malls there hasn't been much activity from them. The customer situation will be fixed when the business activities are started," the official added.

An official of another private bank in Panthapath in the capital echoed the same regarding the presence of very few customers.

The capital was virtually empty yesterday as people mostly stayed away from venturing outside.

Visiting the capital's Mirpur, New Market, Elephant Road and Bashundhara City Shopping Mall, this correspondent found that the presence of customers was almost zero.

In New Market and Elephant Road areas, shops were closed.

Asif Khan, a trader at New Market, said he opened his store in the morning, but as the situation kept worsening, he later closed his store. "It is heartbreaking to have to face such a situation as the business situation is already bad," he said.

Sales have dropped significantly, said Sajjad Khan, a retailer of cosmetics products at Bashundhara City Shopping Mall in the capital, claiming that goods worth around Tk 20,000 are usually sold between morning and 2:00pm.

Yesterday it was Tk 1,500 due to the low presence of buyers in the market, he said, adding that he knew of some traders who did not open shops at all.

Abu Raihan, general secretary of Bangladesh Bus Truck Owners Association, said on Wednesday 50 percent of their vehicles did not go on calls and all were kept garaged on Thursday.

"Today (yesterday) none of our vehicles could enter or leave Dhaka," he said.

Passengers and goods are not being transported ultimately. People can not get to their destinations. In the case of goods, the supply chain is being disrupted. If it continues, there will be a crisis of products in the market, he added.

Govt borrowing

FROM PAGE B1

the public sector, the loanable funds to the private sector will be reduced, which could further increase interest rates. As it is, the cost of doing business is high in Bangladesh due to factors such as a hike in electricity prices, lack of adequate and smooth infrastructure and technology, lack of skilled human resources and corruption. To control inflation successfully through using interest rate tools, the government must create an enabling business environment and fix these problems so that the private sector does not have to blame high interest rates as a barrier.

The net foreign assets (NFA) are projected to grow by 2.3 percent by December 2024 and by 17.8 percent by June 2025. Bangladesh Bank says that this increase will be due to an anticipated surplus in the overall balance of payment. Bangladesh Bank predicts a moderate growth of exports and imports and a substantial growth in remittance. However, the

performance of the external sector in FY2024 has been poor. Indeed, due to data reconciliation, export growth has been negative. With ongoing dampened global demand there is not much expectation on export growth. The balance of payments situation cannot be fixed by that much of an extent relying on remittances only, which also did not pick up substantially.

The MPS for July-December 2024 also discusses banking sector governance and provides a roadmap for reducing non-performing loans (NPL) by 2026. Banking sector problems have been widely discussed. They are also wide-ranging and include institutional, regulatory, and legal issues. Unfortunately, the solution to these problems is not only technical but also political in nature. Dr Fahmida Khatun is the executive director at the Centre for Policy Dialogue and non-resident senior fellow of the Atlantic Council. Views are personal.

BB keeps key policy rate

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bank had missed the opportunity to correct the policy rate.

"As things stand, it is visible that Bangladesh Bank remains committed to a contractionary monetary policy to tame inflationary pressure."

The economist said by keeping the policy rate at 8.5 percent, the central bank is allowing commercial banks to borrow at 8.5 percent from the central bank and buy treasury bills that are promising a 12 percent return.

"This is prolonging the liquidity crisis in the money market as funds are diverted from businesses to treasury bills. Consequently, this scope for arbitrage must be addressed by raising the policy rate to 10 percent."

Mansur said that the higher government borrowing from the banking sector will narrow the scope for loans to the private sector.

Ashikur Rahman, principal economist at the PRI, said the central

bank had missed the opportunity to correct the policy rate.

"As things stand, it is visible that Bangladesh Bank remains committed to a contractionary monetary policy to tame inflationary pressure."

The economist said by keeping the policy rate at 8.5 percent, the central bank is allowing commercial banks to borrow at 8.5 percent from the central bank and buy treasury bills that are promising a 12 percent return.

"This is prolonging the liquidity crisis in the money market as funds are diverted from businesses to treasury bills. Consequently, this scope for arbitrage must be addressed by raising the policy rate to 10 percent."

Not much beyond lip service

FROM PAGE 1

BB has continued supporting cash starved insolvent banks, Islamic banks in particular, without requiring them to take immediate corrective actions. Given the significant size of Islamic Banks, such liquidity support on a continuous basis dilutes transmission of monetary tightening.

Note that the 9 percent penalty rate charged for under fulfillment of CRR is lower than the 10 percent rate of the Standing Lending Facility, which does not make sense. CRR non-compliance penalty should be above the Standing Lending Facility (SLF) rate.

The foreign exchange constraint has not eased durably. Forex reserves have shown some signs of stabilizing recently at a precariously low level. Dollar inflow from remittances have been robust at around \$2 billion per month on average and some budget support from development partners disbursed.

Forex market volatilities triggered often by policy mood swings during September 2022 to May 2024 nurtured foreign exchange shortage. The pause in forex reserve decline is only recent and uncertain to last long enough to allow broad based easing of import compression measures.

Production disruptions and market manipulation exacerbated inflationary pressure. These include a decline in productivity due to gas rationing, loadshedding, and foreign exchange shortage leading to disrupted supply in markets for goods and services.

Unbridled use of market power to reap excess profits through opportunistic behavior kept prices of essentials highly volatile around a rising trend. BB's "supply side measures" made little difference!

CONTINUATION OF THE CONTRACTIONARY STANCE IS A NECESSITY
BB could signal a resolute

commitment to inflation reduction by increasing the policy rate further by at least 50 basis points.

However, the bigger challenge, which this policy has not quite addressed, is the operationalisation of interest rate targeting with the ultimate objective of switching to an inflation targeting framework.

Recall that BB announced transition from a monetary targeting to an interest rate targeting framework in its July-December 2023 MPS. It introduced an Interest Rate Corridor; adopted the overnight call rate as the intermediate policy rate target; and, in May 2024, abolished ceiling on banks' retail lending rates that used to be indexed to the Six Months Moving Average Rate for T-bill (SMART).

BB has missed the opportunity to move monetary policy modernization forward. Multiple BB policy rates are a major source of confusion. Such a multiplicity of "official" rates complicates communications on the stance of monetary policy, thus undermining monetary policy transmission.

There are several variants of the Repo Rate at which BB lends to banks under various liquidity support facilities and the call rate designated as the target policy rate under the new interest rate targeting regime.

There is also the Bank Rate which BB applies to rediscount bills of exchange or other commercial paper eligible for purchase and to set the penalty rate for banks for under fulfillment of the CRR.

Access to the standing deposit and lending facilities is not automatic. Foreign-owned banks with substantial liquidity surplus keep involuntary excess reserves in their accounts with BB because of limitations to depositing funds at the Standing Deposit Facility. Access to these facilities is supposed

to be automatic if the borrower has sufficient collateral. The MPS does not address this issue. These facilities are designed to fulfill the role of buffering interest rate volatility.

NO OSTENSIBLE URGENCY FOR FINANCIAL REFORMS

Higher for as long as inflation remains high must be the mantra. BB must allow full transmission of rising money market rates to the retail level while keeping in mind rate hike is not a panacea.

It must also stop unconditional liquidity support to cash starved and insolvent banks through accelerated implementation of the Risk Based Supervision and the Prompt Corrective Action framework. Monetary policy effectiveness is contingent on the health and governance of the banking system.

The roadmap to reduce NPLs lacks a careful sequencing of milestones. BB reintroduced the obligation to treat exposures as non-performing when they are more than 90 days past due in February and March 2024; reduced the time needed for a bank to write off bad loans from five to two years; and mandated the set-up of a "write-off debt recovery unit" in each bank.

Building on this progress, BB has provided a wish list of reforms in the MPS without committing to time-bound actions except reiterating the timelines already deemed to be too slow.

For instance, the implementation of the Prompt Corrective Action framework will not start before March 2025 and unpaid installment will have to wait to be considered past due after 90 days till March 31, 2025. Conducting an asset quality review to accurately evaluate the state of banks' balance sheets before setting NPL targets is not even on the cards.

Words are not backed by concurrent actions. **EXCHANGE RATE REFORMS AT A**

STANDSTILL

Following the introduction of crawling peg, BB is expected to readjust the band to facilitate progress towards a flexible, market based, transparent exchange rate regime.

It needed to widen the band gradually to allow for greater exchange rate flexibility. Restoring the proper functioning of the interbank foreign exchange market is critical to ensuring the success of the new exchange rate arrangement.

Except for ceasing swaps among banks and BB, none of these priorities have figured concretely in the MPS.

Yet BB has projected a 17.8 percent growth in net foreign assets of the banking system by June 2025 on the back of a 17 percent decline in FY24 and a 23.4 percent decline in FY23. Such a turnaround would require a drastic reduction in the current account deficit coupled with a larger financial account surplus. None of these looks plausible without greater exchange rate flexibility, lower inflation and faster structural reforms.

The MPS alludes to a draft "comprehensive foreign exchange intervention strategy to support the effective functioning of the newly introduced crawling peg exchange rate regime."

It looks like BB is striving to reinvent a path to "smoother transitions and maintaining stability". Do we really need such diversions?

Widening the band around the Tk 117/USD exchange rate could pave the way for advancing towards a fully flexible market-based exchange rate. Stability could be ensured through enhanced transparency of the foreign exchange market by developing a system of rate disclosures in real-time.

The author is a former lead economist of the World Bank's Dhaka office.

Star BUSINESS

Import and sale of reconditioned vehicles have increased in Bangladesh despite suffering from high inflationary pressure and foreign currency crisis.



Story on B4

Govt borrowing from banks to increase



FAHMIDA KHATUN

Broadly, the policy measure to control inflation remains the same in the Monetary Policy Statement (MPS) of the Bangladesh Bank for July-December 2024.

In May 2024, the Bangladesh Bank hiked the policy rate by 50 basis points to make it 8.5 percent. This was a continuation of earlier attempts to increase policy rates.

For example, in January 2024, the policy rate was increased from 7.75 percent to 8 percent. The central bank increases policy rates to hike the interest rates in the commercial banks. This was a welcome move as the interest rate cap on lending and deposit rates during April 2020- June 2023 was a wrong policy tool to contain inflationary pressure.

Following a lot of discussions, the Bangladesh Bank's next attempt to introduce a reference lending rate - the six-month moving average rate of treasury bills (SMART) was also a total failure in bringing down inflation.

On top of that, the Bangladesh bank printed money that further increased inflationary pressure on the people. Even after the policy rate hike in May 2024, the inflation rate is over 9 percent. So, the effectiveness of the increased policy rate is yet to be observed.

The Bangladesh Bank has opted to use policy rates as a tool to control inflation much later than other central banks in the world, including developing countries such as India. As a result, the central banks of those countries have successfully curtailed the inflation rate. Though the policy rate has not been changed, Bangladesh Bank has to remain open to further increases in policy rates to curb inflation.

Some changes have been made in the monetary and credit projection for fiscal year (FY) 2025. Though credit growth to the private sector remains the same at 9.8 per cent, credit to the public sector will grow by 14.2 percent till December 2024 and by 17.8 percent by June 2025.

This implies that the government borrowing from the banking sector will increase. The reliance of the government on bank borrowing risks crowding out of the private sector. If commercial banks are under pressure to provide loans to

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BB keeps key policy rate unchanged but signals further tightening

Inflation can't be curbed without raising the repo rate, say economists

KEY POINTS

BB prepared to take policy actions if required

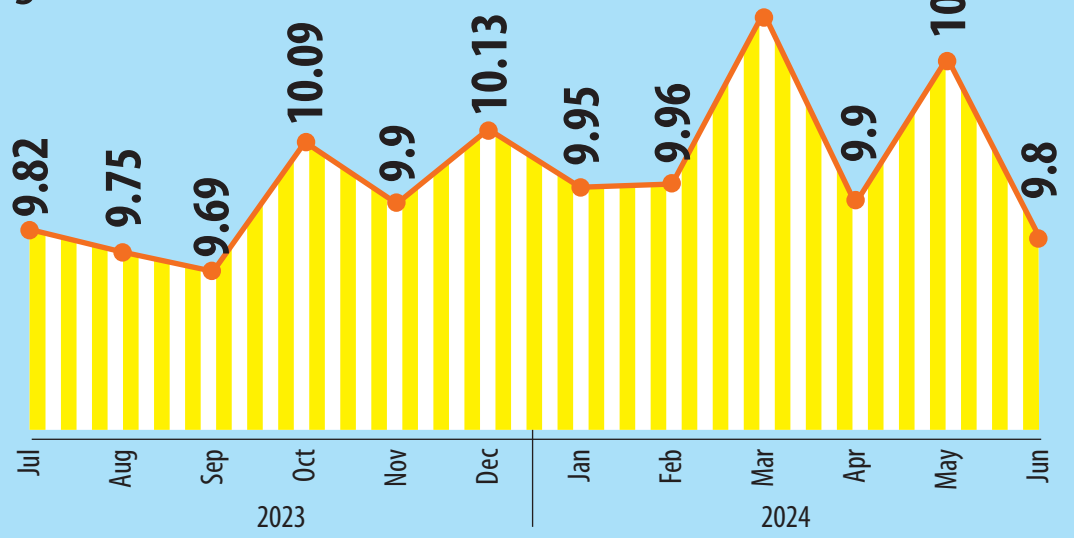
BB to refrain from creating new money for govt spending

Crawling peg mid-rate unchanged at Tk 117.00 per USD

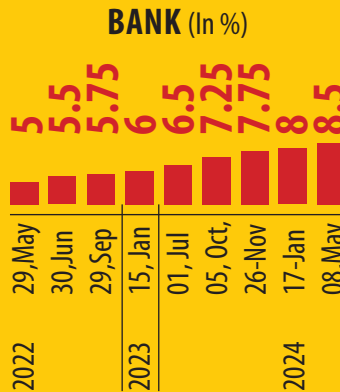
All interest increased significantly

High default loans undermine financial stability

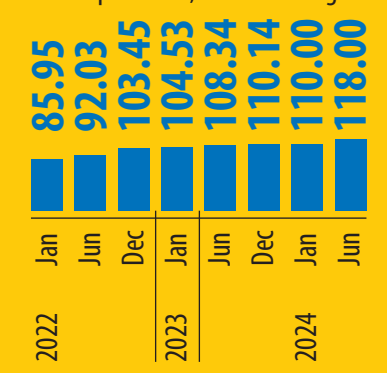
Private sector credit growth (In %)



CHANGES IN THE POLICY RATES BY BANGLADESH BANK (In %)



INTERBANK EXCHANGE RATE Taka per dollar, month average



MD MEHEDI HASAN

Despite suggestions for a policy rate hike from the International Monetary Fund (IMF) and economists, the central bank of Bangladesh has kept unchanged the major tool of its monetary policy at 8.5 percent although inflation is running high.

The Bangladesh Bank yesterday unveiled the monetary policy statement (MPS) for July-December of 2024-25. It said that the current tightening monetary policy stance would be maintained, and it will help ease the inflationary pressure.

"However, BB remains prepared to take necessary policy actions if required," it said.

"The major policy reforms that the central bank took on May 8 came into effect, and we see the outcome to tackle economic

challenges, including higher inflation and the forex crisis," Md Habibur Rahman, a deputy governor, told The Daily Star.

Also the head of the monetary policy department of the central bank, Rahman said as the previous policy stance is producing expected outcome, the policy rate and the crawling peg exchange rate system have not been changed.

In May, the banking watchdog took three bold measures in line with the IMF's \$4.7 billion loan programme. It allowed banks to fix the interest rate, brought flexibility to the exchange rate by introducing the crawling peg system, and hiked the policy rate by 50 basis points to 8.5 percent, the ninth straight increase in the span of less than two years.

Yesterday, the BB said that the economy has

begun to respond to these policies.

It, however, said while the upward trend in inflation has moderated recently, it remains stubbornly high owing to food price inflation. The BB aims to bring down inflation to 6.5 percent at the end of FY25.

Annual inflation rose to 9.73 percent in 2023-24, the highest since 2011-12, overshooting the government's target of containing it to 7.5 percent, according to the Bangladesh Bureau of Statistics (BBS). This was the second year in a row, inflation in the country stayed above 9 percent.

On the other hand, most countries, including the US, India and even cash-strapped Sri Lanka, have succeeded in bringing down inflation from their record levels.

As a result, inflation control has remained a top priority for the BB.

The BB has maintained a contractionary monetary policy for over a year, significantly increasing the policy rate and avoiding new high-powered money issuance for government spending.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, thinks that the central bank was on the right

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Not much beyond lip service



ZAHID HUSSAIN

In their Monetary Policy Statement (MPS) for the first half of FY25, Bangladesh Bank (BB) has stuck to the policy stance already in place. There is no further tightening, no specific measures to enhance liquidity management and transition to a flexible market-based exchange rate regime from the "crawling peg". The MPS recognises the deep stress in the financial sector and provides a long list of legislative measures already passed and regulatory plans announced without committing to a timebound and results-oriented path of action.

Let's begin with the central question to gauge what more this MPS could have done to increase the potency of monetary policy in restoring macro-financial stability.

WHY HAS STABILITY REMAINED ELUSIVE?

Inflation has remained stubbornly close to double digits; foreign exchange reserves are significantly lower than they were a year ago; and financial sector woes appear to be seeking new lows all the time. What explains these performance shortfalls despite monetary tightening, exchange rate reforms and apparently streamlined financial regulation? The short answer is results elude when measures remain less than fully baked.

For most of the monetary tightening cycle that started in May 2022, the transmission of contraction remained confined within the banking system. It could not spillover at the retail level until July 2023 because of the 9 percent cap on retail lending rates. The SMART based retail rate policy subsequently allowed limited room for transmission. The door for transmission opened fully in principle only since May 2024 with the abolishing of SMART. Yet there are perceptions of invisible ceilings.

The tightening lacked consistency. BB has been financing the fiscal deficit indirectly by providing liquidity to banks against their holdings of government bills and bonds. Fiscal austerity has been limited at best. The large budget deficit counteracted monetary contraction by boosting aggregate demand. Tightening is also diluted by BB's so-called "supply-side intervention policy" to enhance production and support employment generation.

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Stocks drop amidst student movement

STAR BUSINESS REPORT

Stocks in Bangladesh fell for a second consecutive day yesterday as skittish investors sold off their shares in panic amidst a countrywide shutdown enforced by students demanding withdrawal of a quota system in government jobs.

As a result, the major index of Dhaka Stock Exchange (DSE), the DSEX, dropped 36.64 points, or 0.67 percent, from that on the day before to close at 5,446.50.

The DSEX index, representing the Shariah compliant companies, slipped 10.43 points to finish at 1,191.43 while the DS30 index, comprising the blue-chip firms, dipped 8.10 points to settle at 1,953.27.

Chittagong Stock Exchange (CSE) also saw a similar trend with its all share price index losing 50.45 points, 0.32 percent, to settle at 15,566.159.

Saiful Islam, president of the DSE Brokers Association of Bangladesh, said the drop in the index was a clear impact of the shutdown.

The uncertainties centring the student movement has been prolonged unexpectedly. So, its impact was evident on the stock market, he said.

Due to the movement, people could not move from one end of the capital to the other and many of them were stuck wherever they were. So, the presence of investors was low, he said.

On the other hand, people were worried over the law and order situation of the country. As a result, the day's turnover at the stock market was low, he added.

The day's turnover, meaning the total value of shares traded at the DSE, stood at Tk 371 crore, a decrease of 34.17 percent compared to the previous day's trading session. This was the lowest turnover in the last one month.

Block trades, meaning high-volume transactions in a

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BB identifies risks to economic stability

STAR BUSINESS REPORT

The Bangladesh Bank has identified several macroeconomic challenges that are hurting the economy such as higher inflation and widening income inequality.

"Bangladesh faces several immediate macroeconomic issues that threaten its economic stability and growth," it said.

In its monetary policy statement released yesterday for the first half of the current fiscal year, the central bank said these challenges arise from domestic and international factors, creating a complex policy environment.

"Persistently high inflation erodes purchasing power and real incomes, exacerbating income inequalities."

The BB pinpointed some other challenges confronting the country, including the exchange rate volatility, fiscal constraints, and the financial sector instability.

In order to address these issues, the country requires a multifaceted approach involving a prudent monetary policy, effective fiscal management, and structural reforms, it said.

"By navigating these challenges carefully, Bangladesh can sustain economic growth and enhance resilience against external shocks."

Geopolitical tensions, such as the Russia-Ukraine conflict and the unrest in the Middle East, have disrupted global supply chains and driven up the prices for essential commodities like food and energy, hitting import-dependent nations like Bangladesh hard as foreign currency reserves have witnessed a significant depletion.

The BB has adopted a contractionary monetary policy to manage inflation, but balancing this with economic growth re-

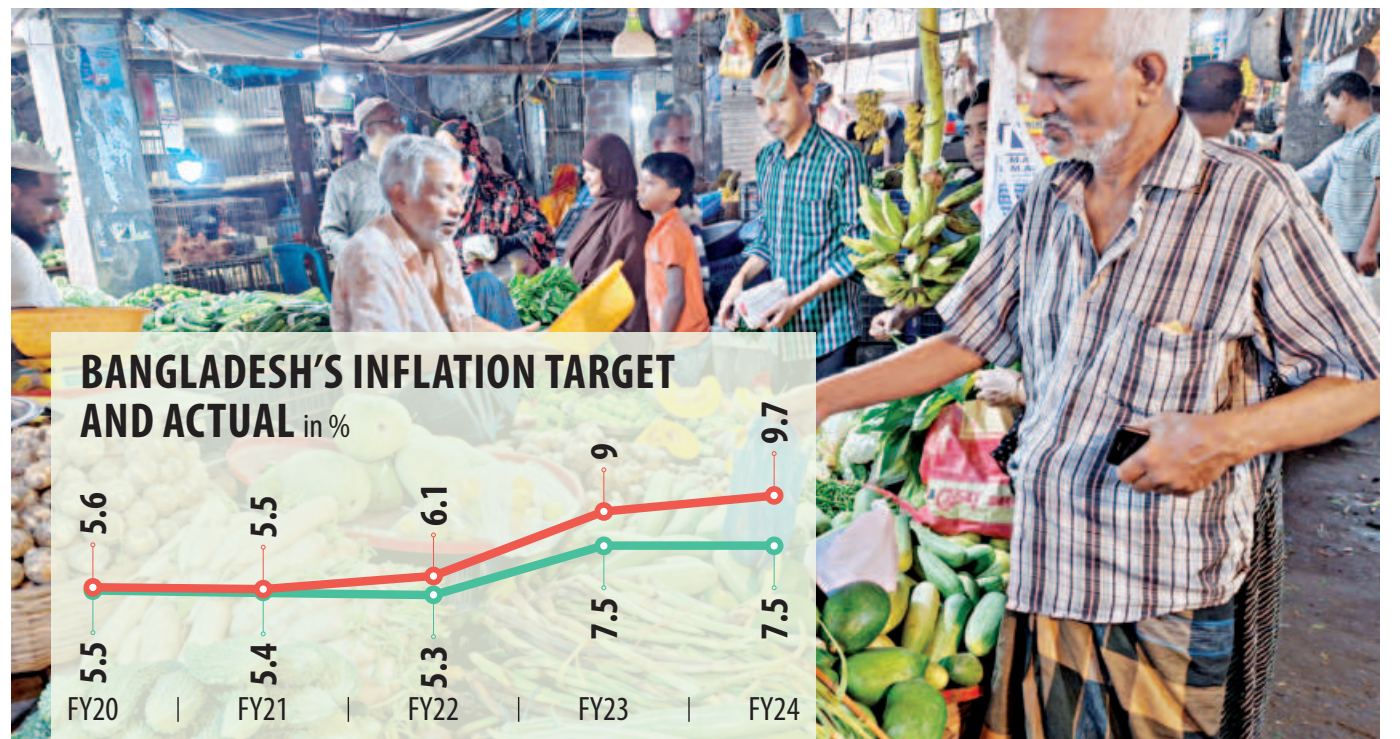
mains delicate. The global economic outlook is positive, but uncertainties persist due to ongoing geopolitical tensions. Policy rate cuts in

about 35 percent against the US dollar in the past two years.

"Fluctuations in global commodity prices, especially for food and energy, pose risks

ability for productive investments.

Default loans in the banking sector hit an all-time high of Tk 182,295 crore in March, central bank figures showed. However, ex-



Shoppers at a kitchen market in Notun Bazar area of Barishal city yesterday. Bangladesh concluded fiscal year 2023-24 in June with inflation at an average of 9.73 percent, the highest in 12 years, showcasing a worsening scenario for real income and a deterioration of living standards of low-income groups.

PHOTO: TITU DAS

advanced economies could affect reverse capital flows and exchange rates.

Bangladesh's forex reserves fell from \$41.7 billion in August 2021 to \$21.79 billion on June 30. The taka has lost its value by

due to Bangladesh's import dependence," the BB said.

According to the central bank, high non-performing loans (NPLs) undermine financial stability and limit credit avail-

ability for productive investments.

perts say the figure would be much higher owing to under-reporting. The BB is implementing measures to reduce NPLs and improve governance with-

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