

Star BUSINESS

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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.

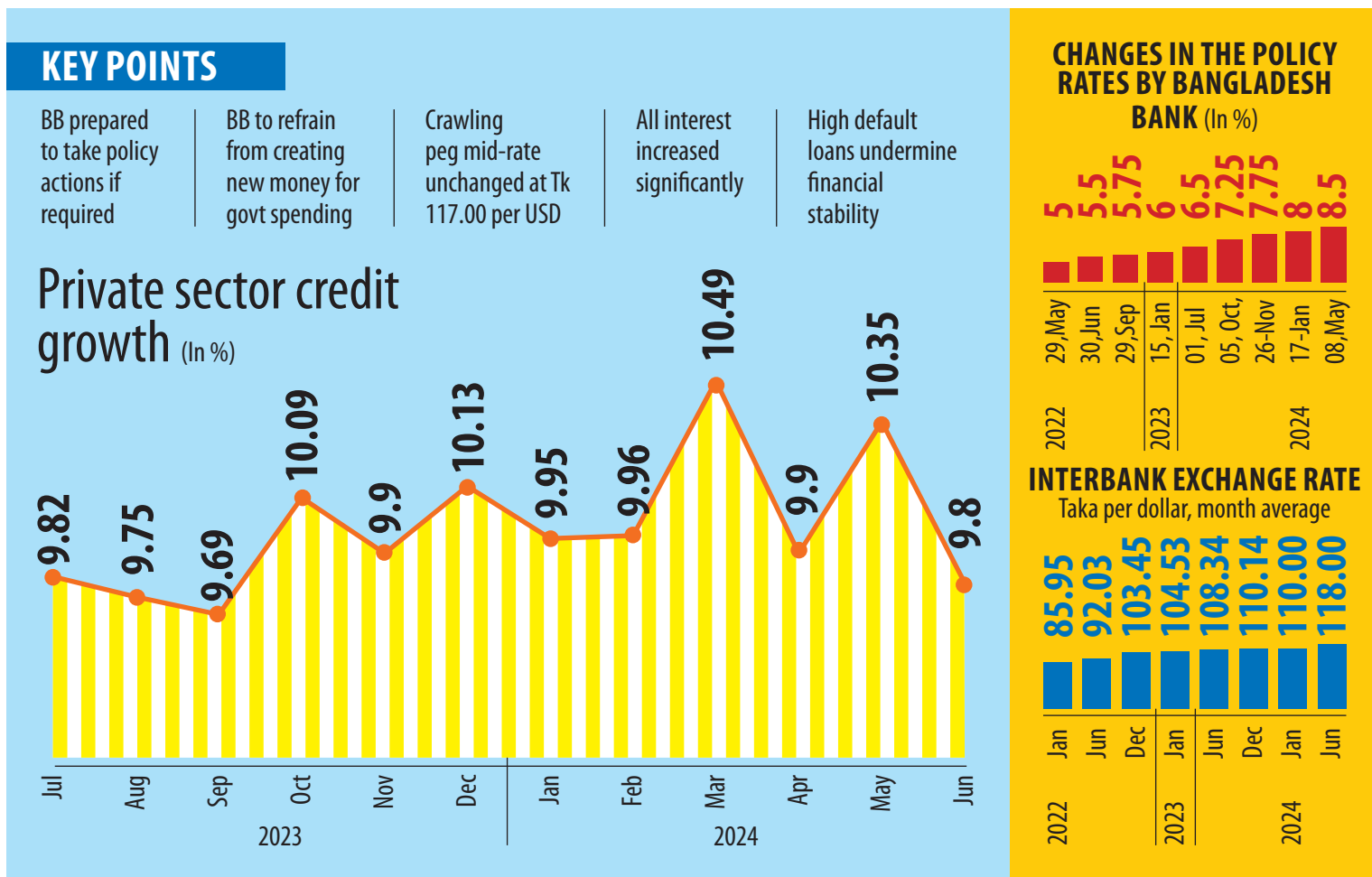
Some changes have been made in the monetary and credit projection for fiscal year (FY) 2025. Though credit growth to the private sector remains the same at 9.8 per cent, credit to the public sector will grow by 14.2 percent till December 2024 and by 17.8 percent by June 2025.

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



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.

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Not much beyond lip service



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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

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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.

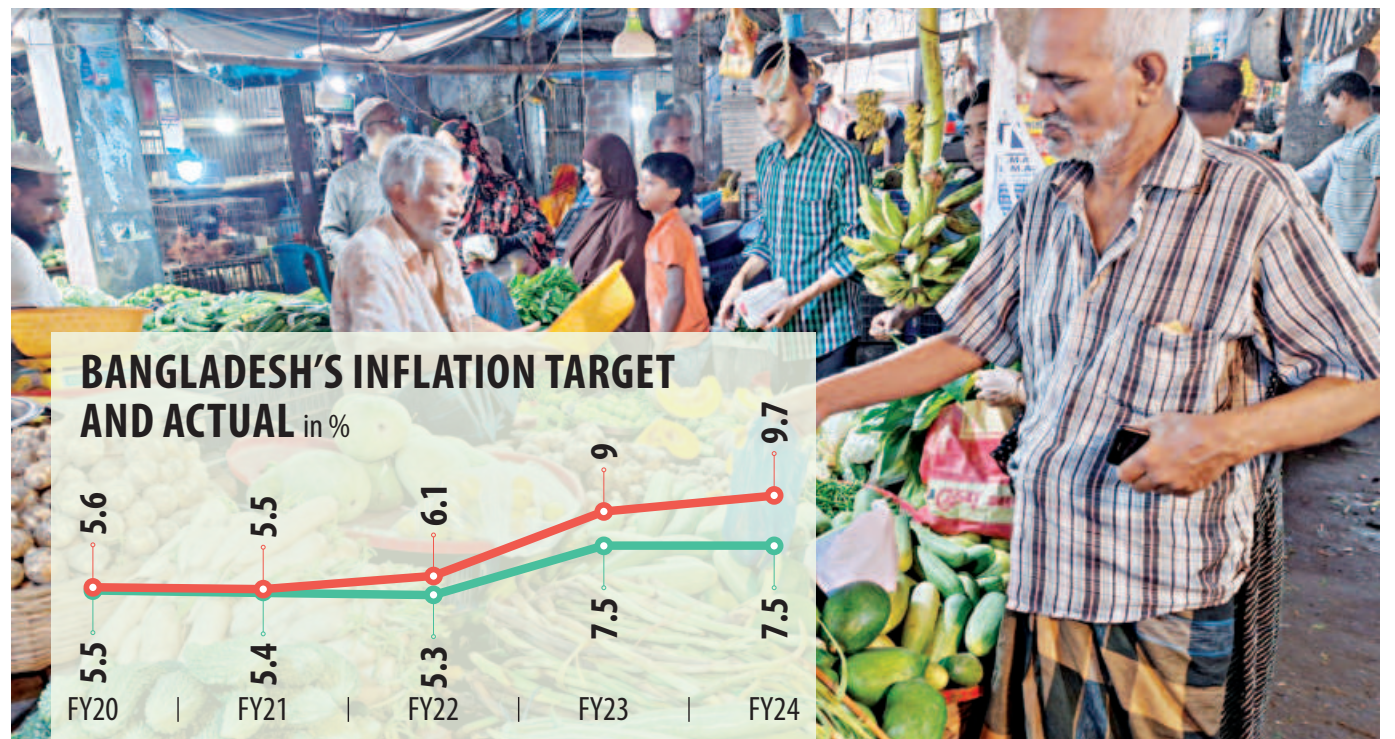
The global economic outlook is positive, but uncertainties persist due to ongoing geopolitical tensions. Policy rate cuts in

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.

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 Nino 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).

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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

FROM PAGE B4

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

FROM PAGE B4

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

FROM PAGE B4

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.

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KEY POINTS

BB prepared to take policy actions if required

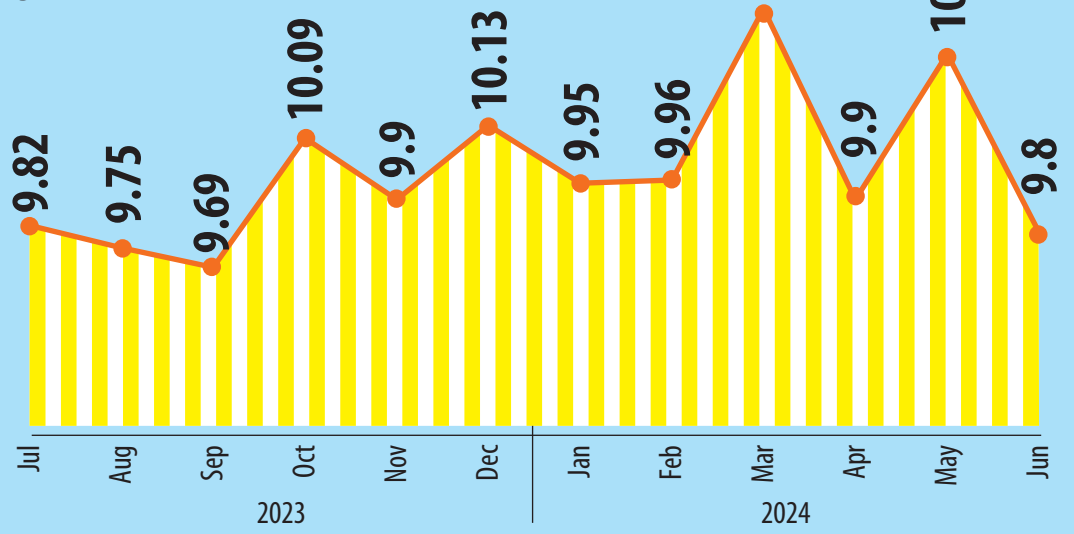
BB to refrain from creating new money for govt spending

Crawling peg mid-rate unchanged at Tk 117.00 per USD

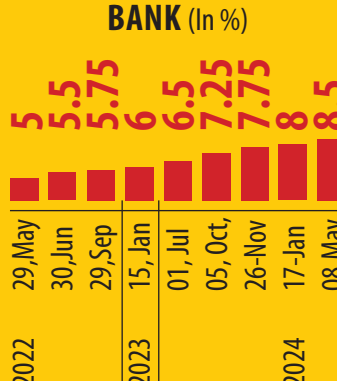
All interest increased significantly

High default loans undermine financial stability

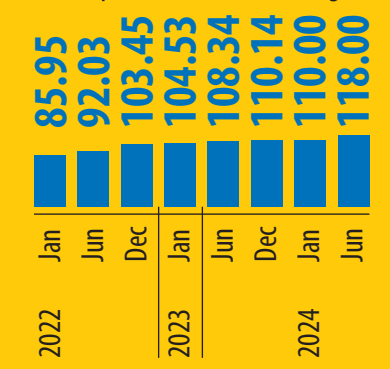
Private sector credit growth (In %)



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



INTERBANK EXCHANGE RATE Taka per dollar, month average



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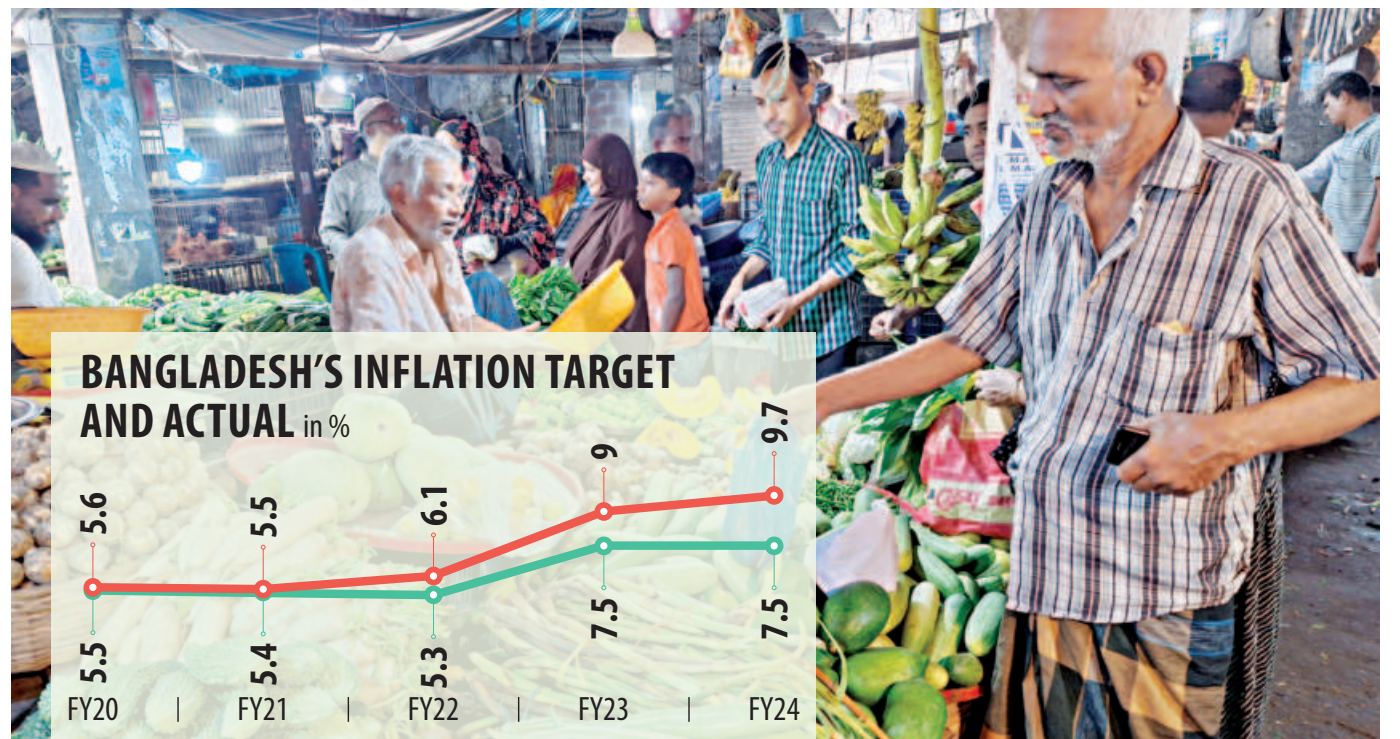
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ability for productive investments.

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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