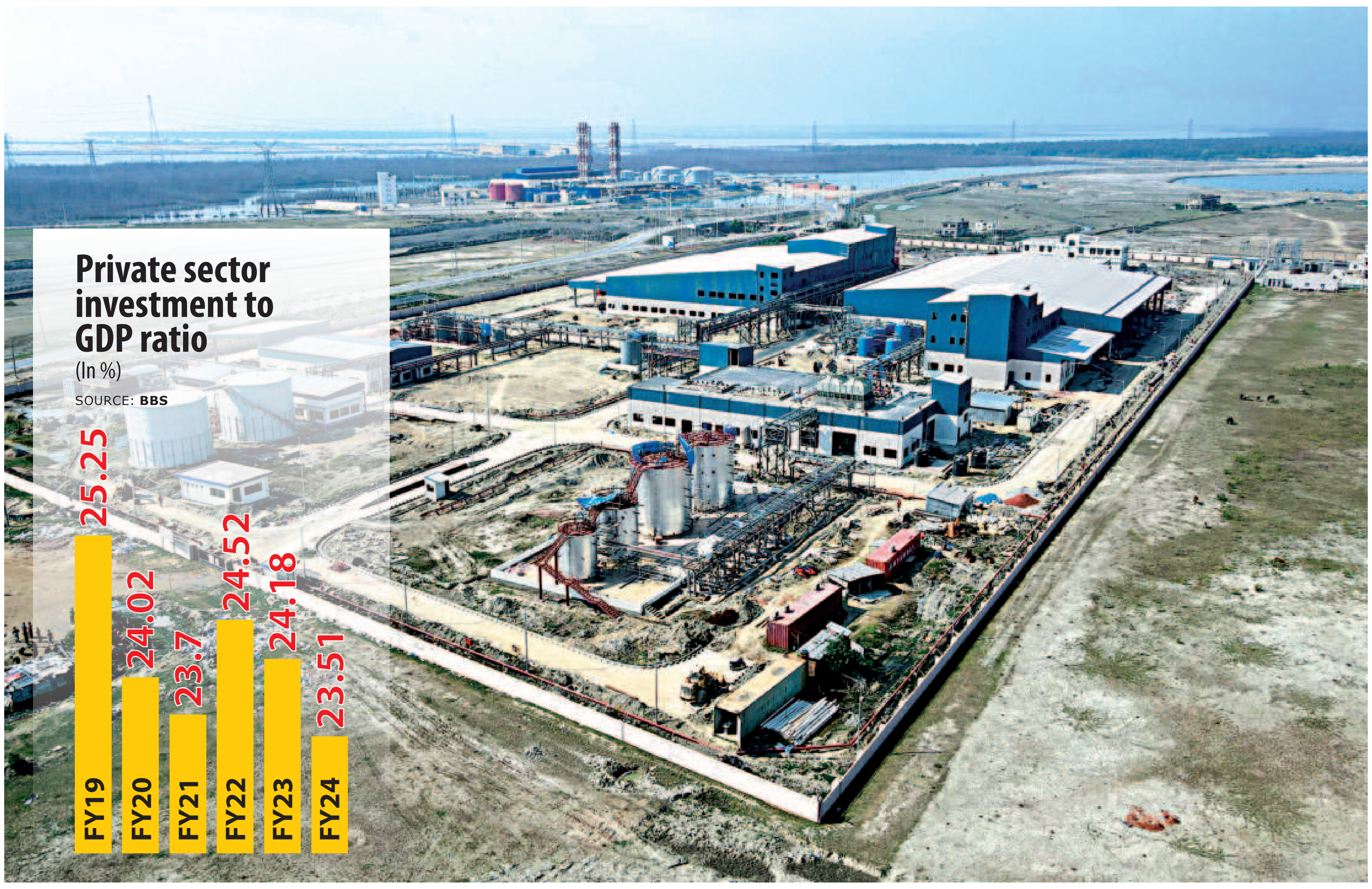


Private investment slows as confidence takes a knock

Experts blame aftereffects of Covid-19, Russia-Ukraine war and recent political turmoil

MD ASADUZ ZAMAN

Private investment as a percentage of Bangladesh's gross domestic product (GDP) has been declining for the past three years due to low investor confidence amid global crises, a persisting US dollar crisis and high inflation.

The private investment to GDP ratio lost 0.67 percentage points year-on-year to stand at 23.51 percent in fiscal year 2023-24, according to Bangladesh Bureau of Statistics data.

With the country already facing slow growth, the recent month-long student protest that culminated in the resignation of Sheikh Hasina from the post of prime minister has created another concern for the economy.

The protest brought economic activities to a standstill since mid-July as a curfew was enforced across the country to contain unrest.

However, the imposition of a curfew and the government's move to implement an internet blackout painted a grim picture for private investment as Bangladesh was disconnected from the rest of the world.

Although the country witnessed the formation of an interim government, it will likely face challenges in speeding up private investment amid the existing economic slowdown.

"The recent political unrest definitely disrupted private investment," said Masrur Reaz, chairman of the Policy Exchange of Bangladesh.

However, it may lead to new opportunities for investors if better policies and fairness are ensured, he said.

"Foreign investors always want political stability to ensure the security of their investments. So, some of their fears may be eased in the aftermath of the protest despite the temporary disruption at present," Reaz said.

However, he criticised the internet blackout, which was aimed at reining in the student protests, saying it painted the country in a bad light, especially among investors.

"The complete cut off of communication might have raised many questions in investors and traders' minds regarding the country's business climate," he said.

Reaz also urged the authorities concerned to focus on ensuring good governance and working to improve the ease of doing business.

On July 28, the Foreign Investors' Chamber of Commerce & Industry (FICCI) met with Salman F Rahman, the former prime minister's private industry and investment adviser, to inform him of the monetary value of economic losses stemming from the volatility.

The recent shutdown has significantly impacted Bangladesh's economy, with losses estimated to be over $10 billion, according to the trade body.

"Numerous existing investors are currently in uncertainty as they aim to resume regular operations, but challenges and inefficiencies in releasing goods (from ports) and running operations are driving up the cost of business," said FICCI President Zaved Akhtar.

"If we fail to prioritise the ease of doing business, we will discourage potential investors from considering Bangladesh as a likely investment destination," he added.

The FICCI president also said investors are the most powerful advocates for attracting foreign direct investment.

"There has never been a more important moment than now to protect their needs," he said, urging the authorities to address the issues.

The imposition of a curfew and the government's move to block the internet have painted a grim picture for private investment as Bangladesh was disconnected from the rest of the world

Bangladesh needs to overcome barriers to increase private investment, according to the Bangladesh Business Climate Index 2024, released by the Metropolitan Chamber of Commerce and Industry (MCCI) and Policy Exchange Bangladesh (PEB).

Year-on-year private sector credit growth fell short of the government target of 11 percent in June, it said.

In December 2023, it experienced year-on-year growth of 10.2 percent compared to its growth rate of 10.9 percent the previous year, it said.

Ashikur Rahman, principal economist of the Policy Research Institute (PRI) of Bangladesh, opined that investment possibilities have been generally undermined over the last three years due to the economic realities brought on by the Covid-19 pandemic and the Russia-Ukraine war.

Prolonged import compression, sharp energy price adjustments, steep currency depreciation and rising interest rates have deeply undermined the business climate, he said.

"These problems were amplified by increasing political uncertainty, acute governance deficits in the banking sector and frequent gas shortages," he said.

Overall, there has been a noticeable degradation in the investment climate, which policymakers have either not truly understood or accepted, he said.

Moreover, these issues need recognition before policymakers can articulate a comprehensive policy response, Rahman added.

He also said it was essential to underscore that while big businesses have found ways to communicate their problems with policymakers, small and medium enterprises have been left orphaned in this regard.

"This must change if we want a balanced policy response to address current pressures in the investment climate," Rahman added.

In the national budget for FY25, the government set a target to take private sector investment to 27.34 percent of the GDP, up from an estimated 23.51 percent.

Reforms the only way to restore high growth

SALEKEEN IBRAHIM

Bangladesh, which economic analysts previously touted as an emerging Asian Tiger, is at a critical juncture of its development journey.

The recent unrest driven by a student movement and public frustration has led to significant political change.

So, it is extremely fortunate that renowned Nobel laureate Muhammad Yunus is heading the interim government, which has the unenviable task of navigating the country through its current economic turmoil.

Bangladesh needs immediate and effective reforms for stabilising its economy and improving investor confidence both at home and abroad.

One major frustration that prompted so many people to actively participate in the mass uprising is the persisting high inflationary pressure. The higher inflation rate is reducing people's purchasing power, intensifying poverty and disparity.

As such, the central bank must embrace a more aggressive stance for taming inflation. This may include tightening the money supply and imposing price control measures.

Also, reducing bottlenecks in the supply chain would lower transport costs. This involves remodelling the country's logistics system by reducing bureaucratic red tape and abolishing industry syndicates.

The banking sector needs urgent attention considering the growing amount of bad loans. Many banks lack proper risk management systems and have poor lending practices. Besides, poor market monitoring has led to the rise of non-performing loans (NPLs) to the point that many banks now find themselves at risk of insolvency. It is now essential to strengthen the regulatory framework for reducing NPLs and ensuring that banks operate on sound financial principles.

This involves major policy reforms, restructuring existing debt, negotiating better terms with international creditors and limiting new borrowing to sustainable projects.

In the past, Bangladesh has shown a tendency to put various development projects on hold. But now, the country should identify and prioritise implementing projects that have significant long-term benefits.

For example, projects to improve connectivity by establishing more transport systems and infrastructure that support economic activities must move on.

Increasing the tax base horizontally, curbing tax evasion and streamlining tax administration could increase government revenue without burdening the poor.

In addition, expanding access to banking services, particularly for rural and unbanked people, could stimulate economic activity and reduce poverty.

The interim government should also focus on ensuring clear and transparent governance to rebuild investor confidence and draw foreign direct investment. This necessitates stable law and order and better ease of doing business in the country.

Corruption has long been a barrier to Bangladesh's development. To ensure that the next government is more transparent and efficient, the interim administration must enforce anti-corruption laws and establish a strong anti-corruption body.

To improve efficiency in the public sector, the government should implement performance-based evaluations for bureaucrats and reduce unnecessary administrative layers.

Meanwhile, the US dollar crunch is a significant challenge that requires multidimensional solutions, such as further incentivising the use of legal channels.

Beyond the garments sector, boosting other export-oriented industries like pharmaceuticals, IT services, freelancing and agro-processing could also enhance the country's forex earnings.

In order to ensure that local apparel exporters can access the global markets, the government must make local producers comply with international standards and production practices.

The coming economic reforms must be inclusive and strengthen social safety nets, ensuring that the benefits reach to all segments of society.

This can be achieved by increasing support for vulnerable groups through targeted cash transfers, food security programmes and healthcare subsidies.

Also, investing in education and healthcare could drive long-term economic growth.

So, with Bangladesh standing at a crossway, the interim government could implement bold economic reforms to stabilise the economy and ensure sustainable development.

By addressing inflation, managing debt, combating corruption and fostering innovation, the country could revive its growth momentum and pave the way for a prosperous future.

The writer is a banker.

Gold firms

REUTERS

Gold prices inched higher on Monday on US interest rate cut optimism and brewing geopolitical tensions, while traders looked to key US inflation data due later this week for more monetary policy cues.

Spot gold rose 0.5 percent to $2,442.38 per ounce as of 0856 GMT. US gold futures gained 0.3 percent at $2,481.50.

Investors are pricing in a 49 percent chance of a 50 basis points (bps) rate cut by the Federal Reserve in September, as per the CME Group's FedWatch tool. The US producer and consumer prices numbers due on Tuesday and Wednesday will be scanned for further cues.

"The inflation point, will, in my view, define if is a 25 bps or 50 bps cut. So the outcome of the inflation data will result in some higher volatility in gold prices," UBS analyst Giovanni Staunovo said.

"For gold to reach a new record high, inflation needs to be below market expectations."

Zero-yield bullion is more appealing to investors in a low-interest rate environment.

Fed Governor Michelle Bowman on Saturday softened her usually hawkish tone ever so slightly, noting some further "welcome" progress on inflation in the last couple months even as she said inflation remains "uncomfortably above" the Fed's 2 percent goal.

Heightened geopolitical risk and volatility in other markets remains supportive for gold, Mike Ingram, market analyst at Kinesis Money, said.

"Gold's technical position appears to be more constructive than that of silver with the next major resistance level near all-time highs at $2,468," he added.

Billions in dollar and euro notes reach Russia despite sanctions

REUTERS, *London*

Around $2.3 billion in dollar and euro bills have been shipped to Russia since the United States and EU banned the export of their banknotes there in March 2022 following the invasion of Ukraine, according to customs data seen by Reuters.

The previously unreported figures show Russia has managed to circumvent sanctions blocking cash imports, and suggest that dollars and euros remain useful tools for trade and travel even as Moscow strives to reduce its exposure to hard currencies.

The customs data, obtained from a commercial supplier that records and compiles the information, shows cash was transported to Russia from countries including the UAE and Turkey, which have not imposed restrictions on trade with Russia. The country of origin for more than half the total was not stated in the records.

The US government in December threatened penalties for financial institutions that help Russia circumvent sanctions and has imposed sanctions on companies from third countries throughout 2023 and 2024.

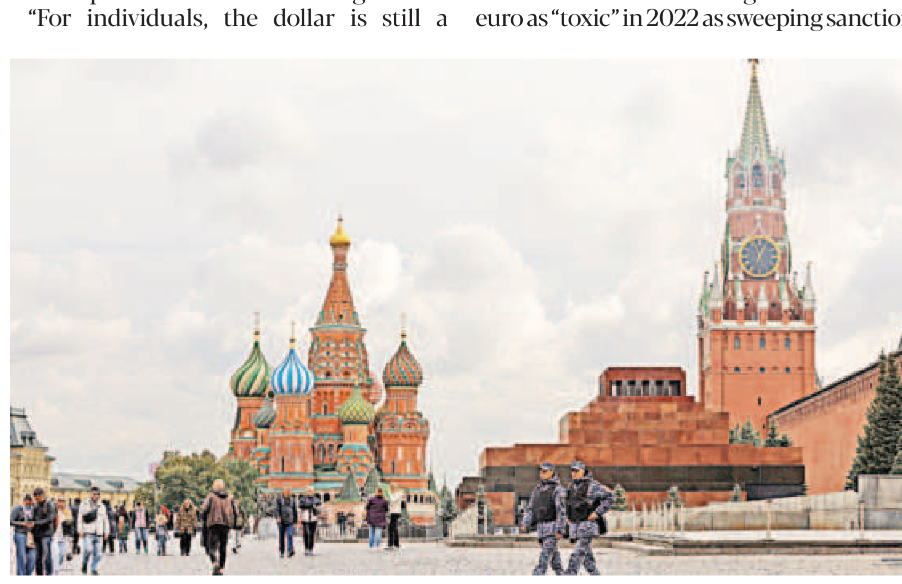
China's yuan has overtaken the greenback to become the most traded foreign currency in Moscow, although significant payment problems persist.

Dmitry Polevoy, head of investment at Astra Asset Management in Russia, said many Russians still wanted foreign currency in cash for trips abroad, as well as small imports and domestic savings.

"For individuals, the dollar is still a reliable currency," he told Reuters.

Russia's central bank and the United States' sanctions authority, the Office of Foreign Assets Control (OFAC), did not respond to requests for comment.

Russia started labelling the dollar and euro as "toxic" in 2022 as sweeping sanctions cut its access to the global financial system, hampering payments and trade. Around $300 billion of the Bank of Russia's foreign reserves in Europe have been frozen.



People walk across Red Square near St Basil's Cathedral and the Kremlin's Spasskaya Tower in central Moscow. The US government in December last year threatened penalties for financial institutions that help Russia circumvent sanctions. PHOTO: REUTERS/FILE

A European Commission spokesperson said it could not comment on individual cases of sanctions application.

The spokesperson said the European Union engages with third countries when it suspects that sanctions are being circumvented. The customs records cover March 2022 to December 2023 and Reuters could not access more recent data.

The documents showed a surge in cash imports just prior to the invasion. Between November 2021 and February 2022, $18.9 billion in dollar and euro banknotes entered Russia, compared with just $17 million in the previous four months.

Daniel Pickard, International Trade & National Security Practice Group Leader at US law firm Buchanan Ingersoll & Rooney, said the pre-invasion spike in shipments suggested some Russians wanted to insulate themselves against possible sanctions.

"While the US and its allies have learned the importance of collective action in maximizing economic consequences, Russia has been learning how to avoid and mitigate those same consequences," Pickard said. He added that the data almost certainly understated actual currency flows.