

Economy still in contraction mode

Bangladesh Purchasing Managers' Index shows

STAR BUSINESS REPORT

Economic activities picked up in August compared to the month prior but could not recover from the trend of contraction that took hold in July, when the overall business environment deteriorated in the face of deadly protests, according to the latest Bangladesh Purchasing Managers' Index (PMI).

The overall PMI rose 6.6 points to 43.5 in August from 36.9 the month prior, according to a press release yesterday.

A PMI reading above 50 indicates expansion of economic activities, the mid-point reading of 50 means 'no change', and anything below that represents contraction.

The Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka, and Policy Exchange Bangladesh (PEB) prepared the index, which is based on data compiled from monthly surveys of over 500 private sector enterprises.

"This latest PMI reading can be attributed to contraction readings posted by key sectors of agriculture, manufacturing, construction, and services," said the statement issued by the MCCI and the PEB.

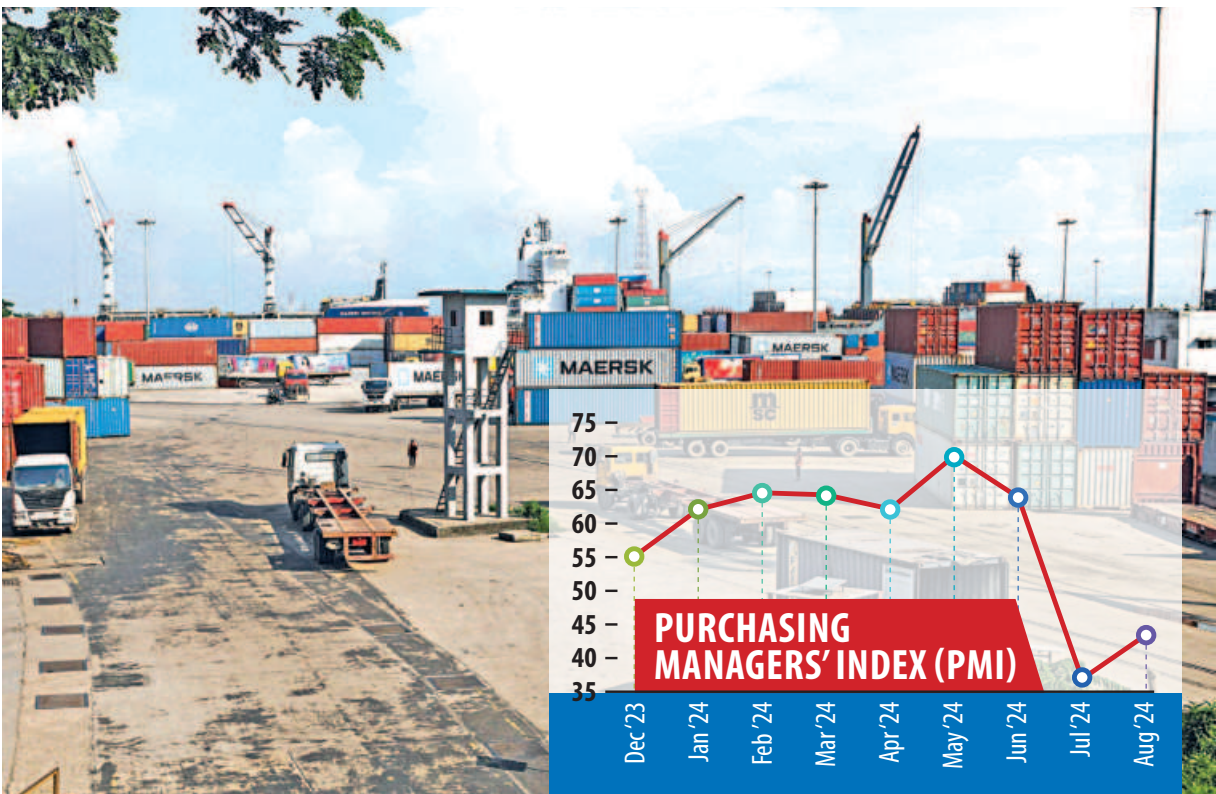
"While still in contraction mode, with a reading below 50 indicating overall slowdown, the August PMI indicates improvements in the general economy whilst the interim government works tirelessly to rebuild political stability and ensure normal business operations across sectors following the fall of the Awami League regime."

According to the latest PMI, the manufacturing sector recorded an increase of 13.6 points to reach 47.7 in August, indicating continued contraction despite general improvements

The MCCI said the index fell by 27 points in July, hitting a record low of 36.9 due to widespread unrest and extreme measures taken by the previous government before its eventual downfall.

"Still, we are in contraction mode though overall activity increased in August," said M Masrur Reaz, chairman of PEB.

According to the latest PMI, the manufacturing sector recorded an increase of 13.6 points to reach 47.7 in August, indicating continued contraction despite general improvements in new orders, new exports, imports, supplier deliveries, factory output



and order backlogs compared to the previous month.

After six months of continuous expansion before July, the agriculture sector recorded 38.7 in August, reflecting a 3.3 point improvement.

However, construction activities did not gain steam. The overall construction index fell at a faster rate, deteriorating by 5 points to 40 in August.

"The sector posted a faster contraction in the indexes of new business and construction activity. But the input cost and order backlog indices also remained on the expansion track, indicating a poor environment for construction activities," the MCCI said.

On the other hand, the services sector improved in August.

"Although all sectors posted contraction readings for two months straight, there were slight improvements in manufacturing, agriculture and service sectors," the MCCI said.

"Companies are cautiously optimistic of the economic outlook as the future business index continues to record expansion readings for all key sectors of the economy, although at a slower rate for key sectors compared to the previous month."

MCCI Secretary General and CEO Farooq Ahmed said although there were a few weeks of stability after the mass uprising that overthrew the Awami League government on August 5, business operations were hampered by various instances of unrest that led to the closure of many factories.

"Recovering completely from the economic turmoil noticed in the month of July however, will require strict restoration of law and order and political stability to keep factories running."

Reaz said manufacturing, retail and other business activities improved although there is still labour unrest in many areas.

"However, it remains to be seen whether the economy can come out of the contractionary phase," he said.

Submarine Cables to issue 2.21cr shares

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Bangladesh Submarine Cables PLC (BSCPLC) yesterday got approval to issue 2.21 crore ordinary shares against the government's share money deposit of Tk 166 crore, which was provided when the company set up its second submarine cable for increasing internet bandwidth.

Share money deposit refers to funds paid in exchange for shares that have yet to be acquired by the buyer.

The approval was granted at a meeting of the Bangladesh Securities and Exchange Commission (BSEC), which also decided that the shares of BSCPLC would be issued at Tk 75 with a face-value of Tk 10.

The listed state-run company will issue the shares to the Ministry of Posts, Telecommunications and Information Technology, according to a press release from the BSEC.

Shares of BSCPLC, around 74 percent of which are owned by the government, saw their value rise by around 8 percent to Tk 159 at the Dhaka Stock Exchange yesterday. The company currently has 16.49 crore outstanding shares.

BSCPLC received Tk 140 crore from the government in financial year 2015-16 under a project to install the country's second submarine cable. In 2016-17, the company got another Tk 26 crore for the same purpose.

The government's fund was used for the installation and establishment of the second submarine cable system under the Regional Submarine Telecommunications Project.

The Southeast Asia-Middle East-Western Europe 5 (SMW-5) is an optical fibre submarine communications cable system that carries telecommunications between Singapore and France.

BSCPLC is the only local company that connects the country with the global bandwidth network through undersea cables.

No delay allowed for Alif directors' Tk 200cr subscription

STAR BUSINESS REPORT

The Bangladesh Securities and Exchange Commission (BSEC) has decided not to extend the subscription time for directors of Alif Industries who decided to buy shares of the company worth Tk 200 crore.

Yesterday, the stock market regulator took the decision at a board meeting.

In 2021, the company had decided to raise the capital through the issuance of new shares when the share price was Tk 48.

The garment manufacturer said it wanted to issue new shares at a 40 percent discount on the weighted average share price of the preceding six months or 180 working days.

So, it had applied to the BSEC for its permission to issue each share at Tk 22. Later, the BSEC approved the issuance of the shares. In the meantime, the share price of the company dropped.

Yesterday, share of Alif Industries traded at Tk 8. Amidst this trend of the decline in share prices, the directors sought extension of the time for the subscription.

Subsequently, the BSEC said it would not extend the time further.

FICCI urges NBR for full digitalisation

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The Foreign Investors' Chamber of Commerce and Industry (FICCI) urged the National Board of Revenue (NBR) to take steps to fully digitalise its operations and enhance automation systems to optimise revenue generation.

The foreign trade body made the demand yesterday when a delegation, led by FICCI President Zaved Akhtar, met with NBR Chairman Md Abdur Rahman Khan at the NBR office in the capital's Agargaon.

The FICCI also sought the NBR's support in reforming the country's tax system to make Bangladesh a more attractive destination for foreign direct investment and to bolster the national economy, according to a press release.

The delegation advocated for the establishment of a dedicated research wing within the NBR, focusing on the expansion of the tax net, collection of revenue through proper market research, and identifying the gap between market share and revenue share.

Taskforce formed for economic strategies

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The planning ministry has formed a 12-member taskforce to develop strategies to give a boost to the economy and mobilise resources for equitable and sustainable development.

The taskforce is led by KAS Murshid, former director general of the Bangladesh Institute of Development Studies (BIDS).

According to a circular issued by the ministry on Tuesday, the taskforce has been asked to submit its report within three months.

The other members include Akhtar Mahmood, a former World Bank official, Selim Raihan and Rumana Huque, professors at the University of Dhaka's economics department, Abdur Razzak, former head of research at Commonwealth Secretariat, Mushfiq Mobarak, an economics professor at Yale University.

The rest of members are Shamsul Haque, a professor of the Bangladesh University of Engineering and Technology, Nasim Manzoor, former president of the Metropolitan Chamber of Commerce and Industry, Monzur Hossain, research director at the BIDS, Fahmida Khatun, executive director of the Centre for Policy Dialogue, AKM Fahim Mashrur, CEO of Bdjobs.com, and Md Kawser Ahmed, member of General Economics Division of the Planning Commission.

Of them, Kawser Ahmed will work as member secretary to the committee. The committee can add more members if it deems it necessary, as per the notification.

The interim government has undertaken the move as a part of reform initiatives for the economic sector. Earlier, it had formed a committee to prepare a white paper on the state of Bangladesh's economy.

Role of NBFIs in the current economic context

MASUD KHAN

Bangladesh Bank Governor Ahsan H Mansur has reassured that the central bank will provide liquidity support to assist struggling banks, which is a positive step.

However, a critical issue is being overlooked: the state of the non-bank financial institutions (NBFIs). A significant portion of the population depends on NBFIs for their financial needs, yet this sector has been plagued by scandals and mismanagement.

NBFIs play a crucial role in the financial ecosystem, complementing traditional banks by serving segments that are often underserved by the latter. While commercial banks globally focus on short-term financing, NBFIs specialise in long-term funding, providing essential services like SME financing and microfinance.

One of the standout features of NBFIs is their proactive approach to client engagement, often reaching out directly to customers, visiting their offices and offering quicker decision-making processes compared to banks. In contrast, banks tend to be bureaucratic, requiring clients to visit branches and go through lengthy approval procedures that involve multiple layers of management.

In fact, while banks focus more on the company, NBFIs focus more on the borrower, especially their paying habits.

NBFIs prioritise the business model of their clients over collateral, making them more accessible for smaller businesses.

Many well-established NBFIs have in-house legal and engineering teams, allowing them to handle verification and evaluation internally. This provides clients with a more seamless, hassle-free experience and quick decisions compared to traditional banks.

Unfortunately, the challenges facing NBFIs mirror those of the banking sector. While some NBFIs have flourished, others are struggling, burdened by high levels of non-performing loans (NPLs) and suffering from mismanagement. Fraudulent loans and fund embezzlement have severely weakened several institutions.

As of June 2023, the NPL ratio for NBFIs stood at 27.65 percent, but by January 2024 it had surged to a record high of 30 percent. This situation has been exacerbated by a lack of oversight from the Bangladesh Bank and complicity of top tiers in the central bank and NBFIs, which has allowed bad loans to spiral out of control and earned mistrust of the depositors, thereby hindering the progress of this important sector and the economy.

Given their importance, it is crucial for the central bank to extend the same level of oversight and support to NBFIs as it does to banks. This includes addressing governance issues by reconstituting the boards of troubled NBFIs and offering liquidity support to ensure their stability.

Protecting depositors' interests should be a top priority. By enforcing stricter regulations and providing financial assistance where needed, the central bank can help restore confidence in NBFIs, ensuring this vital sector remains healthy and capable of supporting the economy.

In summary, while the focus on assisting banks is necessary, the plight of NBFIs should not be ignored. Effective regulation, better governance and financial support are key to safeguarding the integrity of this crucial part of Bangladesh's financial system.

The author is chairman of Unilever Consumer Care Ltd and chief adviser of the board at Crown Cement Group

Harris, Trump cross swords on China and economy in debate

AFP, Washington

US presidential hopefuls Kamala Harris and Donald Trump clashed on China and economic issues Tuesday, with the Democratic candidate saying he "sold us out" on China while the former president declared "they've destroyed the economy."

"He ended up selling American chips to China to help them improve and modernize their military," said Harris in her first debate with Trump ahead of the November 5 election.

"(He) basically sold us out when a policy about China should be in making sure the United States of America wins the competition for the 21st century," she added.

Harris's comments came as she and Trump crossed swords on various economic issues including the cost of living, inflation and her position on fracking.

"He invited trade wars," Harris said, referring to a tit-for-tat escalation of tariffs between the United States and China during Trump's 2017-2021 presidency.

With Trump proposing across-the-board tariffs of 10 percent to 20 percent on all imports if reelected, Harris likened the plans to a "sales tax" -- given concerns that costs could be passed on to consumers.

Trump is looking to impose a higher level of levies on imports from China, at 60 percent.

Harris also took aim at Trump on Tuesday for thanking Chinese President Xi Jinping in 2020 for his country's handling of Covid-19, saying this was

despite a lack of "transparency" about the virus's origins.

Republican candidate Trump, in turn, claimed that Harris "has no policy" and said that the Biden-Harris administration has kept his administration's tariffs on China in place.



US Vice President and Democratic presidential candidate Kamala Harris and former US president and Republican presidential candidate Donald Trump speak during a presidential debate in Philadelphia on September 10.

PHOTO: AFP