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Star BUSINESS

High production and transport costs behind runaway food inflation

DCCI study finds

STAR BUSINESS REPORT

High production and transportation costs, limited bargaining power due to market structure inefficiency, seasonal supply, price fluctuations and limited market access for producers are triggering food inflation, according to a study by the Dhaka Chamber of Commerce and Industry (DCCI).

The organisation for businesspeople revealed the findings during a seminar titled "Food Inflation: An Analysis on Price Dynamics of Essential Commodities" on its premises yesterday.

Food inflation in the country has remained above 10 percent since April this year.

Meanwhile, overall inflation has hovered above 9 percent since March 2023, although Bangladesh Bank has been raising the policy rate, meaning that at which it lends money to commercial banks, to curb demand and control inflation.

In May 2022, the policy rate stood at just 5 percent. It has been raised 10 times since and currently stands at 9.50 percent.

The DCCI study recommended strengthening the supply chain by reducing intermediaries and importing essential food items that are in short supply due to imbalances between production and demand.

It also suggested implementing a tracking system for cash memos of local and imported food items, and providing subsidies for key agricultural inputs like fertiliser, oil, and electricity to lower production costs.

AKM Asaduzzaman Patwary, executive secretary (research and development, policy advocacy department) of the DCCI, presented the findings.

It claimed that hikes in the prices of most local products came about at the producer's stage due to increasing cost of living of farmers.

The products include coarse and fine rice, onion, potato, lentil, green and red chilli, turmeric, ginger, garlic and Rui fish.

In the case of imported products, like onion, ginger, lentil, sugar, milk powder and red chilli, it found that price hikes occur at the wholesale and retail levels.

The rate of price hike is moderate, largely confined to single digits, although the maximum is 21 percent, it said.

The study also recommended providing businesses with easier access to finance and investment in technology and research.

It also sought to empower agricultural marketing departments to perform regular audits. Building up market infrastructure is also required, it said.

The study found that an increase in production costs had been affecting producers of coarse rice, broiler chicken, beef, and egg.

Meanwhile, low supply is a common issue that influences the prices of onion, ginger, garlic, and red amaranth.

Inefficient market mechanisms are evident in the trade of broiler chicken, beef, and green and red chilli, it said, adding that high transportation costs significantly impact prices of beef, Rui fish, lentil, salt, and turmeric.

Ashraf Ahmed, president of the DCCI, said there was a large difference between the prices that producers were getting and those that consumers were paying.

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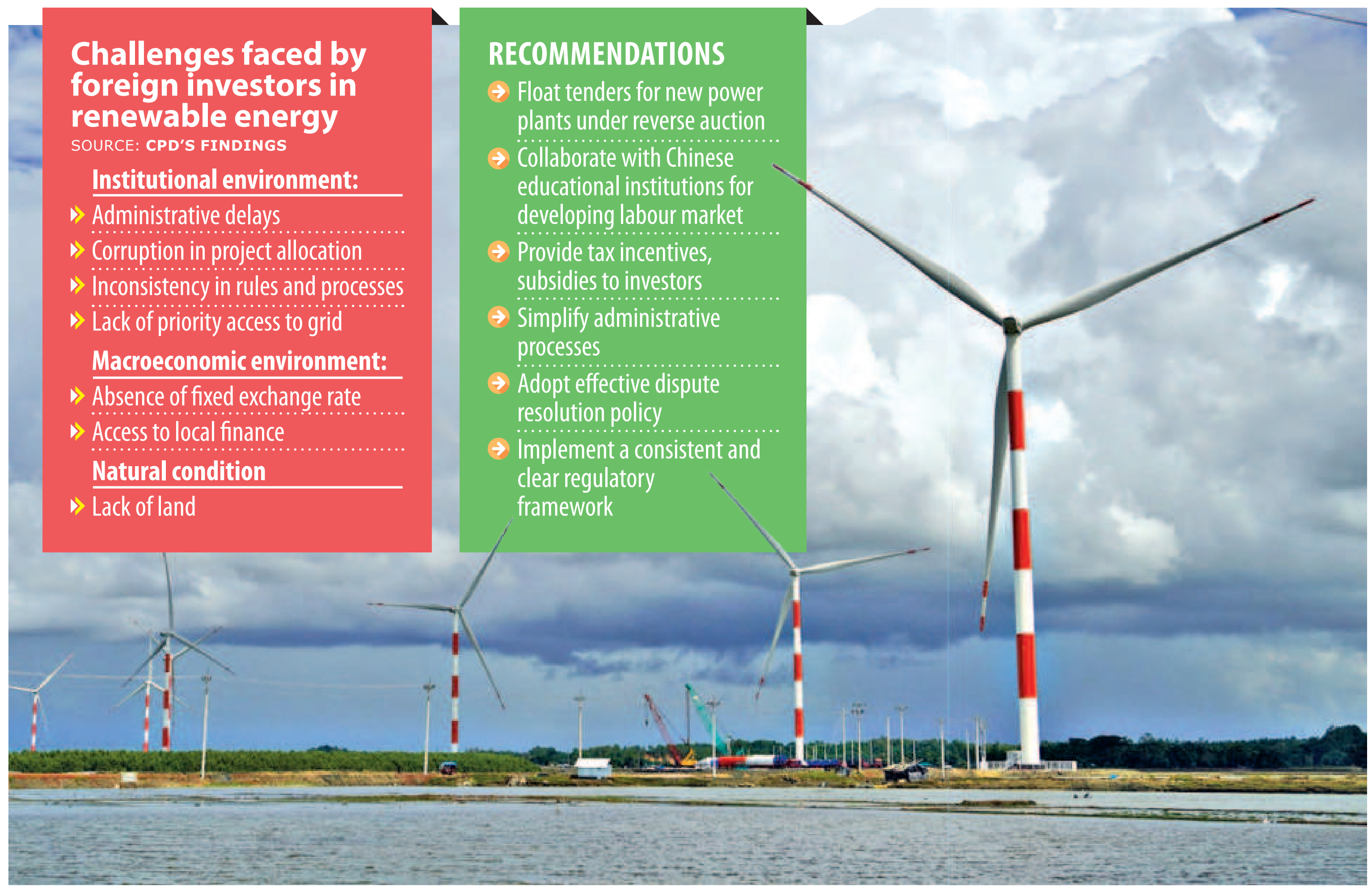
REASONS BEHIND HIGH FOOD INFLATION
(As per DCCI study)

- High production and transportation costs
- Limited bargaining power due to market structure inefficiency
- Seasonal supply and price variation
- Limited market access of producers
- Fluctuation of local currency against US dollar

HOW TO FIGHT FOOD INFLATION

- Enhance supply chain and reduce intermediaries
- Remove information asymmetry and create real-time price reporting
- Create national food reserve to buffer against price spikes
- Encourage sustainable agricultural practices and climate-smart methods
- Provide subsidies for key agricultural inputs like fertiliser, oil and electricity



Prioritise withheld renewable energy projects in fresh tenders

CPD urges interim government

STAR BUSINESS REPORT

The Centre for Policy Dialogue (CPD) has called for prioritising more than three dozens of renewable energy projects, which have been withheld by the interim government, in upcoming tenders.

Without bidding, 37 clean energy projects were awarded by the previous Awami League government under the controversial "Speedy Enhancement of Power and Energy Supply (Special Provision) Act, 2010".

At a dialogue in Dhaka yesterday, local think tank CPD proposed that the tenders for the renewables be floated using the "reverse auction" method, which means multiple suppliers will bid and the lowest price quote would win the contract.

After the political changeover in August, the interim government scrapped a total of 42 power plant projects on August 27, including the 37 renewables plants with a combined capacity of around 3,102 megawatts (MW).

Of them, 30 plants were to be set up under joint ventures or build-own-operate (BOO) initiatives by investors from 15 different countries, according to the CPD analysis.

"The decision to cancel these projects sent a mixed signal to investors about the interim government's long-term goal on clean energy," said Khondaker Golam Moazzem, research director of the CPD, while presenting the keynote paper.

He was speaking at a dialogue, titled "Overseas Investment in the Renewable Energy Sector: How to Attract Chinese Investment in Bangladesh?", at the Lakeshore Hotel Gulshan in Dhaka.

Moazzem added that the act allowed the previous regime to enter unsolicited contractual arrangements that were criticised for higher contracted prices and the provision of capacity payments.

To reduce the prevailing fiscal and financial burden, the interim government has justifiably repealed the act for future public procurement under the Ministry of Power, Energy, and Mineral Resources as well as for contracts that have not yet entered the construction phase, he added.

The decision to maintain public procurement rules will allow for open, transparent, and competitive purchasing in the power and energy sector, Moazzem said.

The CPD also advocated for attracting Chinese investment in renewable projects.

Moazzem said that since the interim government has decided to adopt an open and competitive tendering process for new power plants, this would present a number of opportunities for Chinese investors and financiers.At the same time, the ministry is expected to secure better deals compared to the cancelled ones, he said.

"The Power Development Board (PDB) is now preparing to issue tenders for the development of 10 grid-connected solar power plants in the private sector, each with a capacity of 50 MW, totalling 500 MW. Chinese investors now have a particularly good opportunity to invest as they are known to offer more competitive prices than other foreign or local investors."

The CPD research director said nearly \$39.74 billion in global funds is available for renewable energy investments in Bangladesh, which can be accessed in the form of loans, equity, technical assistance and financial aid.

According to him, Chinese investors prefer using funds from Chinese financial institutions such as the China Development Bank (CDB), Asian Infrastructure Investment Bank (AIIB), Exim Bank of China and Silk Road Fund.

"Chinese investors usually do not engage in the planning phase of renewable energy projects. They prefer local private firms or the government to plan projects and then bid for investment and equipment supply," Moazzem said.

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BB eases forex rules

STAR BUSINESS REPORT

The Bangladesh Bank (BB) yesterday eased foreign exchange rules through three separate notices, allowing banks to remit different types of payments abroad without central bank approval.

The relaxed rules will apply to banks making payments to accounts that handle lease rentals by airlines incorporated in Bangladesh.

It will also apply to remittances for service charges to the bank accounts of cloud services, IT infrastructure and remote software applications.

Banks can also make payments on behalf of service arrangers routing respective services to the ultimate users without prior BB approval.

Resident Bangladeshis proceeding abroad for professional or skilled employment or immigration are required to maintain bank accounts in the respective country before obtaining a visa.

So, banks will be allowed to remit funds to deposit in the accounts as per the requirements of relevant authorities abroad.

A central bank official said that Bangladesh Bank has continuously been updating regulations to enhance smooth cross-border transactions.

The new rules will empower banks to make outward remittances on behalf of their customers for meeting relevant payments without prior approval from the Bangladesh Bank, he added.

Govt makes major moves to cut prices of edible oil, sugar, egg

STAR BUSINESS REPORT

In the face of public outcry over the high prices of essential food items, the National Board of Revenue (NBR) yesterday slashed customs taxes on imports of eggs, edible oil and refined sugar.

The move is designed to encourage businesses to purchase the items from the international market and bring down prices in the domestic market.

The revenue authority reduced the import tariffs through separate orders.

Import duties for eggs saw the highest cut, being reduced by 20 percentage points to 5 percent, as prices of the cheapest protein source hit as much as Tk 200 per dozen in shops in the capital.

Similarly, the specific import duty for refined sugar was reduced alongside the value-added tax (VAT) on the import, processing and trade of soybean and palm oil.

The duty and VAT have been reduced for eggs, edible oil and sugar with the objective of keeping prices within the purchasing capacity of the masses by increasing supply, the NBR said in a statement.

Inflation in Bangladesh has been hovering above 9 percent since March of 2023 while food inflation has remained above 10 percent since April this year.

In another development yesterday, a senior commerce ministry official said they were considering allowing the import of nearly five crore eggs to boost supply in the domestic market and contain prices.

PHOTOS: STAR

The move is designed to encourage businesses to purchase egg, edible oil and refined sugar from the international market and bring down prices in the domestic market.

Last week, the commerce ministry allowed seven firms to import 4.5 crore eggs. The NBR said the cost of importing eggs would decline by Tk 13.8 per dozen and become affordable for commoners following the duty reduction.

The reduced import tax for eggs will be valid until December 31 this year.

VAT relaxed for edible oil

In the case of edible oil, the NBR slashed the VAT on imports of soybean and palm oil to 10 percent from 15 percent. It also fully exempted VAT at the production and trading stages of the highly import-based commodity.

The reduced VAT privilege will remain effective until December 15 this year, the NBR said.

The rate cut followed a Bangladesh Trade and Tariff Commission (BTTC) recommendation to reduce indirect taxes in order to contain prices of edible oil, especially as 90 percent of Bangladesh's demand for it is met through imports.

Prices of soybean and palm oil soared in the international market over the past several months, according to a BTTC report. As such, local consumers also saw higher prices.

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BB wants to see a strong Nagad

Governor says

STAR BUSINESS REPORT

Bangladesh Bank (BB) Governor Ahsan H Mansur yesterday said their objective is not to destroy Nagad, but to strengthen the mobile financial service (MFS) provider so it can be a formidable competitor to bKash.

He made the comments while speaking at an event, styled "Stakeholder Consultation on Revitalising Financial Inclusion in Bangladesh", organised by Policy Research Institute (PRI).

While Nagad has some issues relating to transparency and licensing, bKash is the sole big player in the country's MFS sector, he said while speaking as chief guest.

Upay and Rocket are still "small players", Mansur said, adding that six or seven big players were required to make the market competitive and attractive.

Nagad has the potential to play a vital role in moving financial inclusion forward, but it needs a huge investment, he said.

Last month, the BB appointed Muhammad Badiuzzaman Dider, who previously served as director of the central bank's Chattogram office, as the administrator of Nagad for a year after numerous allegations of irregularities in the MFS provider's operations and dealings.

Around 59 percent of people still do not use smartphones in Bangladesh, he said, adding that the government needs to make them more affordable in order to boost financial inclusion. Internet costs also should be reduced, according to Mansur.

"We also need to foster financial and technology literacy."

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