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100DAYSOFINTERIMADMINISTRATION

Economic expectations: Did govt fall short?

AHSAN HABIB

When an interim government was sworn into office following the ouster of the Awami League regime just 100 days ago, there was an air of expectation that the Prof Muhammad Yunus-led administration would take steps to salvage a scam-ridden financial sector and rescue an ailing economy.

To achieve this, the interim government formed numerous taskforces and panels to take stock of existing policies and measures and analyse their effects on banking, taxes, the capital market and the overall economy.

Measures were also taken to stabilise the exchange rate and to stem the fall of the foreign exchange reserves while the boards of 11 crisis-hit banks were restructured to protect the interests of depositors.

The central bank has also decided not to prop up troubled banks by printing money and instead facilitated liquidity support from the interbank money market, allowing well-off lenders to lend to struggling ones. Some of the initiatives, such as stopping the practice of lending US dollars from the forex reserves and allowing market forces to determine the exchange rates and interest rates, are already bearing fruit.

Stability has prevailed in the forex market over the last three months, with reserves hovering around \$19 billion.

The central bank's strategies to incentivise remittance earners to use formal channels have also paid dividends.

Remittance inflows jumped 80 percent year-on-year in September to \$2.4 billion, followed by a 21 percent rise year-on-year in October to \$2.39 billion.

A rise in export earnings relative to import expenditures was also seen, enabling the country to reduce pressure on the external accounts.

At the same time, various ailments continue to persist.

Inflation, a major concern for the general populace for over two years, remains stubbornly high and hit a three-month high of 10.87 percent in October. Food inflation was even more intense,



hitting 12.66 percent the same month.

The central bank has continued to hike the policy rate to contain rising prices, doing so thrice since taking responsibility in mid-August.

The latest, in late October, marked the 11th time since May 2022 that the policy rate, which makes money more expensive for banks, was hiked.

This jump in the policy rate, from just 5 percent in May 2022 to 10 percent by

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Graft biggest obstacle to doing business

Finds CPD survey conducted during April-July this year

Most problematic FACTORS (As per CPD)

Corruption

Inefficiency in bureaucracy

Foreign currency instability

High inflation

Limited access to financing

TOP RISKS FACTORS

Extreme weather events

Pollution

Economic downturn

Unemployment

Poverty and inequality

Crime and illicit economic activity

Energy supply shortage

Public debt

RECOMMENDATIONS

Form a 'regulatory reform commission' to identify business-related bottlenecks

Form a 'better business forum' to exchange views on problems and solutions

Digitalise business operations, services and transactions

Amend 'e-procurement' guidelines

Strengthen public financial management

Enforce digital payment system

Strengthen financial reporting of corporate houses

Widen tax net

Apply instruments to identify tax avoidance and tax evasion related issues

STAR BUSINESS REPORT

More than 16 percent of Bangladeshi businesses identified corruption as the biggest obstacle to their operations, according to a survey conducted between April and July of this year.

"Corruption, faced by businesses regardless of size, remains the main obstacle to doing business in Bangladesh," said Khondaker Golam Moazzem, research director of local think tank Centre for Policy Dialogue (CPD), which conducted the study.

While presenting the findings at a dialogue at BRAC Centre Inn in Dhaka yesterday, he said foreign currency instability, inefficient

bureaucracy, inflation and limited access to financing are other top hindrances to doing business in Bangladesh.

"During the tenure of the previous regime, Bangladesh's overall business environment saw limited progress as business activities remained concentrated within a few dominant groups," Moazzem said.

The dialogue, titled "Reform in Bangladesh's Business Environment and Business Processes: Agenda for the Interim Government," also highlighted several other issues facing businesses, such as inadequate infrastructure, poor public health, crime and theft and lack of work

ethic among the labour force.

At the event, Fazlee Shamim Ehsan, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said corruption was the mother of all their problems.

Sharing his bitter experiences with graft, the top BKMEA leader said they must often pay bribes to get work done, which causes Tk 20 to Tk 25 lakh to vanish annually from their company books with no traceable evidence.

As a result, bribes must be paid again when filing taxes to cover up accounting mismatches, he added.

"Curbing corruption should be

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WHY ARE SMEs STRUGGLING?

High inflation

Rising interest rates

Political uncertainty

KEYPOINTS

Many entrepreneurs are laying off employees

They can't pay salaries on time

Many can't pay loan instalments timely due to drop in sales

Some entrepreneurs are using savings to keep business running

Some are reducing profit margin to survive

INDUSTRY OVERVIEW

- Bangladesh has 78.8 lakh SMEs
- SMEs account for 25% of Bangladesh's GDP

SMEs bear the full brunt of financial hardship

SUKANTA HALDER

Small and medium enterprises (SMEs) in Bangladesh are struggling due to political uncertainty, high inflation and rising interest rates on bank loans, according to entrepreneurs.

Many entrepreneurs report that they had little choice but to lay off employees and delay salary payments while others said they cannot pay loan instalments timely due to declining business.

Some added that they have even dipped into their savings to keep operations running. Others said they were resorting to loans or reducing profit margins to survive.

On August 5, Sheikh Hasina fled the country after resigning from the post of prime minister amid a mass uprising. Three days later, an interim government headed by Prof Muhammad Yunus took charge amid a weak law-and-order situation and with the financial sector mired in crisis.

Paritosh Kumar Malo, proprietor of RK Metal in Faridpur, which sells agricultural machinery, said business has not been good for the past two-and-a-half years due to high inflation and increasing interest rates.

"The recent political uncertainty only added to many sufferings,

causing sales to decline further," he said. He added that his company, which previously employed 25 workers, has reduced its workforce to 15 over the past few months.

"We are still unable to pay salaries on time. We were also forced to let employees go," he said.

Previously, Malo used to clear his employees' salaries within the same month, but now payments are delayed until the 10th or 15th of the following month.

Paritosh Kumar Malo, proprietor of RK Metal in Faridpur, said his company reduced its workforce to 15 from 25 over the past few months

He said his sales totalled around Tk 5 lakh in October 2024, dropping sharply from Tk 50 lakh in October 2023.

Against this backdrop, Malo has taken a loan worth Tk 35 lakh from Rupali Bank to sustain his business. He also invested a part of the loan into a separate venture.

Many of them are now struggling to boost sales, especially as persistent inflation has eroded the purchasing power of consumers.

Bangladesh has been bearing the brunt of high inflation for more than two years, with overall inflation remaining at more than 9 percent since March 2023.

In October this year, inflation hit a three-month high at 10.87 percent, driven by soaring food prices, particularly for rice and vegetables, according to the Bangladesh Bureau of Statistics.

To curb spiralling prices, the Bangladesh Bank (BB) has been hiking the policy rate, the rate at which it lends to banks, since May 2022. This has led to a gradual rise in the interest rate on loans, particularly after the central bank lifted the lending rate cap in July last year.

On October 22, the central bank hiked the policy rate by 50 basis points to 10 percent in an effort to rein in inflation. It was the 11th upward adjustment since May 2022, when the policy rate stood at only 5 percent.

Zakirul Islam Akul, managing partner of Suansh, a Dhaka-based SME that produces jute goods, said they had been losing around Tk 2 lakh in recent months as sales had dipped but rent for showroom, factory costs, and staff salaries still have to be paid.

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