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Star BUSINESS

ANALYSIS

Why Bangladesh falling behind in RMG export to US

REFAYET ULLAH MIRDHA

Bangladesh's garment shipments to the USA, the South Asian country's single largest export destination, have been falling over the past two years due to a market correction although other major countries have already adjusted to the scenario.

Data from the US Office of Textiles and Apparel (OTEXA), a body under the US Department of Commerce, shows that the US imported garment items worth $72.94 billion in the January to November period of last year, registering 0.63 percent year-on-year growth.

Bangladesh accounted for $6.76 billion of the amount, reflecting a 0.44 percent year-on-year decline. Even then, it showed signs of recovery, especially as the country saw a sharp 25 percent decrease in garments exports to the US in previous 2023.

This raises the question of how competitor countries have managed to recover garment exports to the US and why Bangladesh, the third-largest garment supplier to US markets, is taking more time to recover.

To unearth the reasons, a glance back through time is required.

Historically, Bangladesh's growth in garment exports to the US has varied between 10-15 percent over the last few decades. But in 2022, garment exports to the US grew by more than 53 percent, the most in a single year, to $9.72 billion.

This unusual growth occurred mainly after the pandemic-led movement restrictions as retailers and brands imported more to meet pent-up demand in 2022.

Expectedly, exports did not continue at the same pace in the following years, especially as American retailers and brands had plenty of old stock of unsold clothing items, causing the growth rate to fall.

Moreover, during the last two years, the import of garment items by US retailers and brands was low as the severe economic fallout of the pandemic, including historic inflationary pressures, led to a fall in demand.

China, the largest global apparel supplier, has also been experiencing a similar situation. From January to November last year, China's garment exports to the US fell 0.30 percent to $15.22 billion year-on-year.

In the same period, garment exports from Turkey to the US fell 6.77 percent to $0.83 billion.

However, some countries, including India, Pakistan, Indonesia and Vietnam, have illustrated growth in garment exports to the US despite American retailers and brands cutting back on imports.

These countries capitalised on Bangladesh's political

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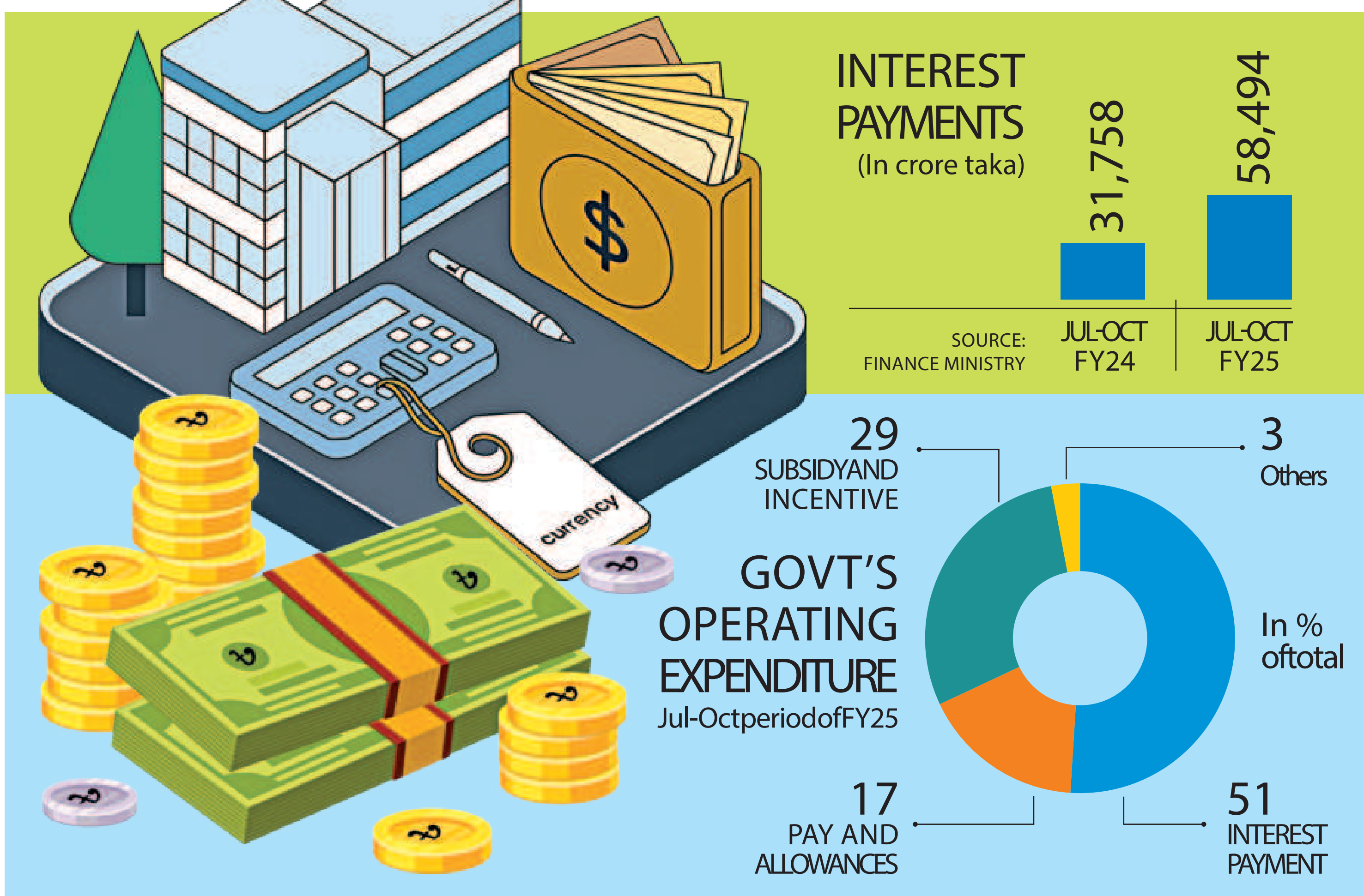

Interest payments eat up more than half of govt revenue expenses

REJAUL KARIM BYRON *and* AHSAN HABIB

Over half of the government's total revenue expenditure during the first four months of the current fiscal year of 2024–25 was on interest payments alone, mainly due to increased borrowing and a rise in the interest rates.

The interest payments amounted to Tk 58,494 crore, a year-on-year surge of 84 percent.

This accounted for 51.5 percent of the government's total revenue budget, according to data from the Ministry of Finance.

Of the interest payments, around 88.5 percent or Tk 51,791 crore was made to local sources of funds.

The remaining Tk 6,702 crore was spent against foreign sources.

The country's interest payments soared as the government borrowed heavily, particularly for mega projects, often without proper research, said Mustafa K Mujeri, executive director at the Institute for Inclusive Finance and Development (InM).

This borrowing was justified by the relatively safe debt-to-GDP ratio at the time, which led to a significant increase in debt, he said.

"Borrowing was often driven by political decisions without proper feasibility studies being conducted, leading to widespread corruption. Consequently, the loans were not utilised effectively or efficiently," he remarked.

"As a result, these projects are not generating sufficient returns to repay the loans, which ultimately becomes a burden on the budget," he added.

Some of the loans taken in recent years have short repayment periods, further exacerbating the financial strain.

An analysis of interest payment trends shows that interest payments accounted for less than 20 percent of the total revenue budget between FY2010 and FY2020.

In FY2010, interest payments represented 18.65 percent of the total revenue budget.

Only in FY2021 did the cost of interest payments increase to reach 21 percent of the total revenue budget.

However, after the pandemic, the government had to secure significant budgetary support from foreign sources, which resulted in a growing debt burden.

Interest payments on these debts began immediately after the funds were disbursed.

On the other hand, government expenditure has risen significantly, while local revenue collection has not kept pace with the increase in costs.

As a result, the tax-to-GDP ratio remains low in the country.

Bangladesh's tax-to-GDP ratio stands at approximately 8 percent, compared to 12 percent in India and 17 percent in Nepal.

Bangladesh's ratio is far below the Asia-Pacific average of 19 percent and the 25 percent average of developing countries.

"There are very few countries in the world with such a low tax-to-GDP ratio," said Mujeri, who is also a former director general of the Bangladesh Institute of Development Studies (BIDS).

"Despite this, previous governments attempted to expand the size of the budget for political reasons," he said.

This necessitated large-scale borrowing from banks and other local sources. As interest rates in the banking sector rose, the government's interest payment burden increased significantly, he explained.

Meanwhile, interest rates in the banking sector have risen by approximately 500 basis points over the last five years, pushing the government's interest payment obligations to unsustainable levels.

In fiscal year 2023–24, government debt rose by 13.3 percent year-on-year to a record Tk 18.3 lakh crore, which is 36.3 percent of the

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Summit urges Petrobangla not to scrap third LNG project

STAR BUSINESS REPORT

Summit Group has urged Petrobangla to reconsider its decision to cancel the country's third floating storage and regasification unit (FSRU) project.

The termination was invalid, and Summit warned that any delay in the project could exacerbate energy insecurity in Bangladesh. Summit has already invested around $20 million in the project, the company said in a statement.

Petrobangla notified Summit on October 7 last year that the project in southeast Bangladesh would be terminated, followed by a final termination notice on January 14.

Summit said the termination was based on claims that a performance bond for the project was submitted by its local parent, Summit Corporation Ltd, rather than Summit LNG Terminal II Co Ltd (SLNG II), a Dhaka unit of Summit Power International Limited based in Singapore.

Additionally, Petrobangla claimed the bond did not comply with an agreed template and was not submitted within the stipulated 90-day deadline.

As a result, Summit stated it had sought legal advice from international and local firms—Herbert Smith Freehills and Kamal Hossain & Associates—which confirmed that the termination was invalid under the terms of the terminal use agreement.

Summit engaged with Petrobangla and the government under the agreement to reconsider the decision. The company

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Walton's director gifting Tk 600cr shares to spouse, daughter

STAR BUSINESS REPORT

SM Rezaul Alam, one of the sponsor directors of Walton Hi-Tech Industries PLC, is transferring shares worth a total of Tk 610 crore as per the current market value to his daughter and spouse "by way of gift".

In a disclosure posted on the Dhaka Stock Exchange (DSE) website yesterday, Walton said that Rezaul, who held a 12.87 percent share of the company as of June 2024, expressed his intention to transfer 60.60 lakh shares of the local electronics giant to his daughter Roshmi Ruhi.

He also expressed interest in transferring an equal number of shares to his spouse Fahima Husna.

Both are general shareholders of Walton, and the shares will be transferred by way of gift outside the trading system of the exchange within the next 30 working days with effect from January 20, 2025, according to the disclosure.

The gift, in monetary terms, is valued at Tk 610 crore in total at yesterday's closing price of Tk 503.8 per share of Walton at the DSE.

Shares of Walton declined 1.27 percent yesterday from Tk 510.30 the previous day.

This is the second time Rezaul is going to transfer shares to his daughter and spouse by way of gift.

He had also transferred 60.60 lakh shares of Walton each to his daughter and spouse, according to a disclosure by the company on December 3 last year.

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Renewable ambitions still mired in uncertainty

Bangladesh produces only 0.8% of total power from sustainable sources

ASIFUR RAHMAN

Although the Awami League government made ambitious commitments to renewable energy before being ousted by a mass uprising in August last year, meeting those lofty goals remains a distant dream for the country.

The interim government has been trying to accelerate the transition, but experts and businesses have voiced concerns that the new tenders, which do not feature implementation agreements, may hold back progress.

According to an analysis by the Bangladesh Independent Power Producers' Association (BIPPA), Bangladesh produces the least electricity from renewable sources compared to four other comparator countries, including India, Pakistan, Vietnam and Sri Lanka.

Bangladesh's power generation mix is skewed heavily towards fossil fuels, with only 0.8 percent of energy being produced through renewables.

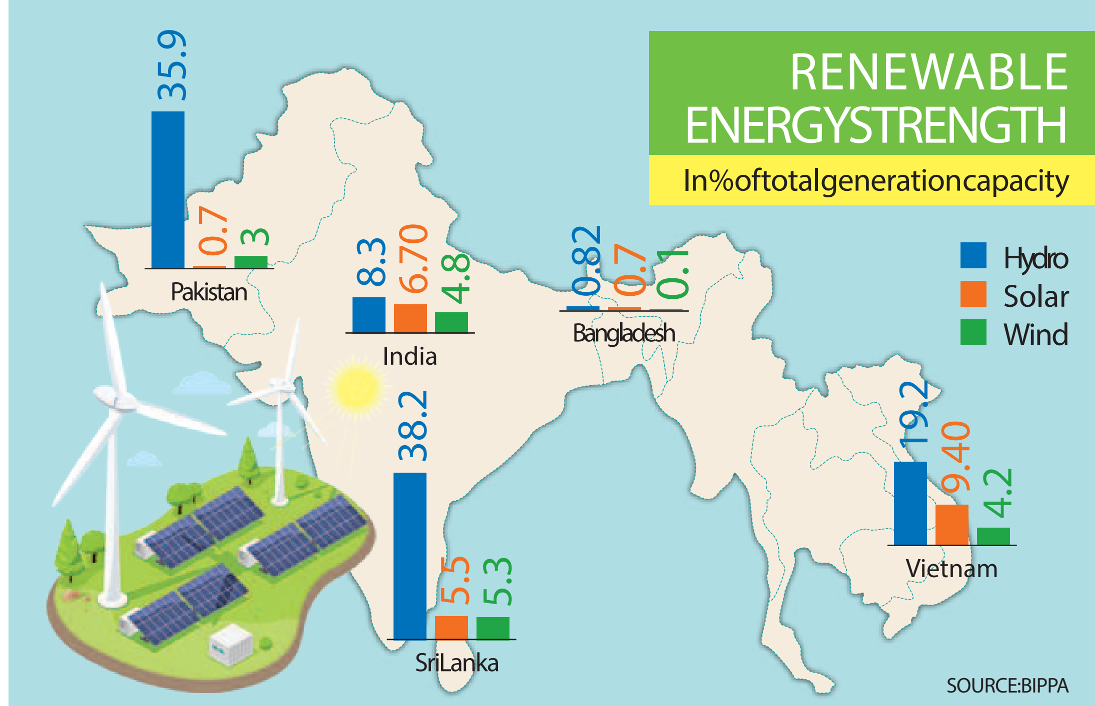
The nearest competitor, Pakistan, gets 3.7 percent of its total 42,131 megawatts (MW) of installed capacity from renewables, according to the findings, which were shared with senior government officials on Monday at Rail Bhaban.

The comparison was based on data till June 2024.

At present, Bangladesh has a total installed capacity of 27,115MW, with solar and wind contributing 663MW.

According to the findings, Vietnam is leading the charge towards renewables, followed by India and Sri Lanka.

In a fresh push, Bangladesh entered the



renewable energy era in 2017 with the launch of a 3MW solar power plant in Jamalpur's Sharishabari.

The Awami League government later set a global commitment to producing 6,000-16,000MW from renewable sources by 2030, but neglected due process when it came to giving primary approval.

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

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