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Monetary policy is working

Says CAL Bangladesh

STAR BUSINESS REPORT

The country's tight monetary measures are beginning to yield results, paving the way for a gradual stabilisation in consumer prices, according to CAL Bangladesh, a financial services company.

Additionally, a decline in global commodity prices and a stable exchange rate are expected to lower import costs, alleviating some pressure on the domestic economy.

Food prices in Bangladesh, except for rice and soybean oil, have declined for three consecutive months, reflecting a positive trend in stabilising prices for essential commodities.

As Ramadan approaches, consumers in Bangladesh may face some price volatility, but inflation is on track to fall sharply by the second half of this year.

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In its latest report released on Wednesday at Renaissance Dhaka Gulshan Hotel, the organisation projected that inflation, currently at elevated levels, will stabilise between 8.5 percent and 9.5 percent by June but fall to 6-7 percent by December.

Deshan Pushparajah, a director of CAL Securities, said the economy has passed its worst in terms of exchange rate, inflation and interest rate except for GDP growth rate.

GROWTH OUTLOOK

GDP growth for FY25 is forecast to range between 2 percent and 3 percent, marking a significant slowdown in economic performance.

This decline is linked to persistent macroeconomic challenges, which have continued to weigh on the country's economic prospects.

The economy suffered

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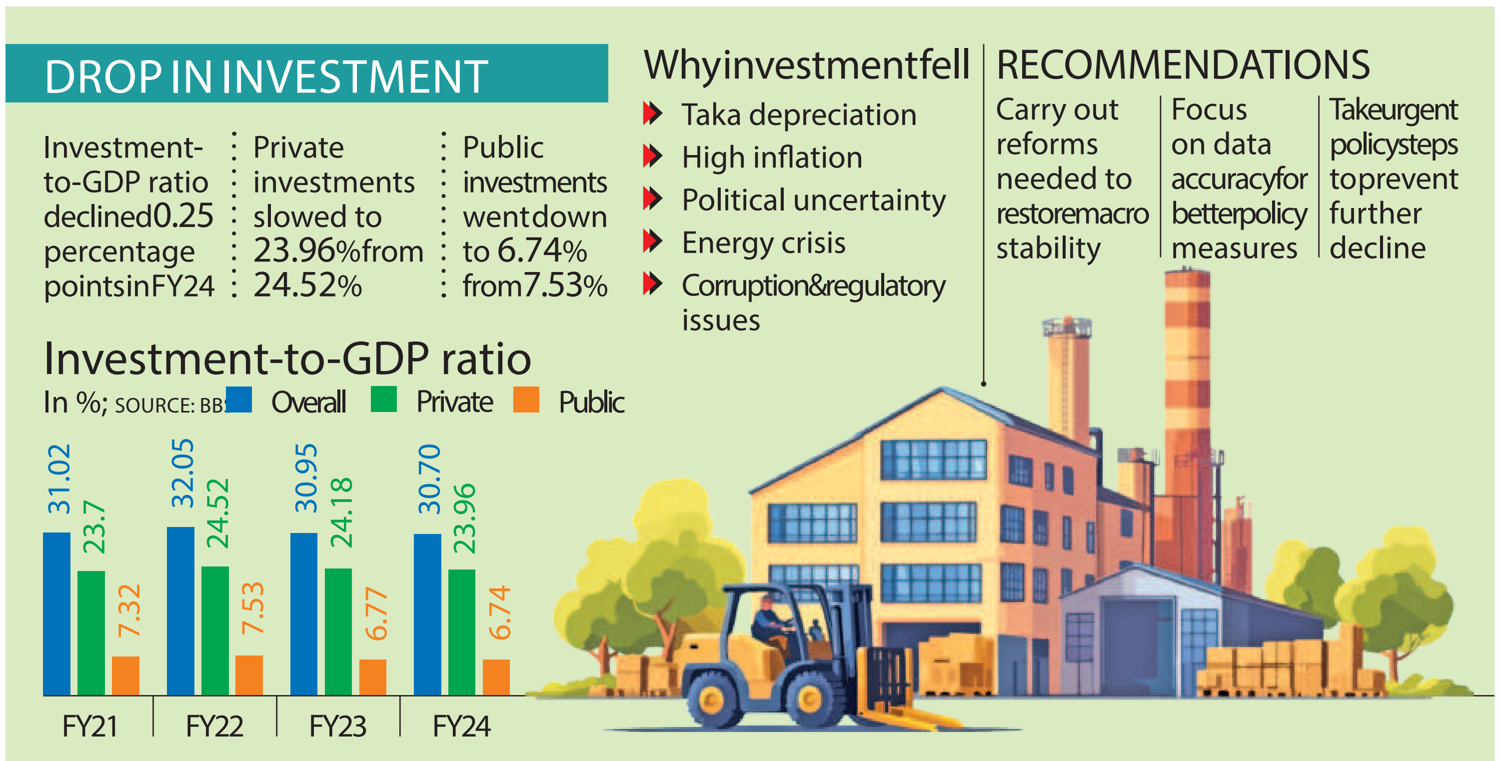
Declining investments dampen growth outlook



JAGARAN CHAKMA

Bangladesh's investment-to-GDP ratio declined by 0.25 percentage points to 30.70 percent in the fiscal year (FY) 2023-24, according to official data, signalling a potential slowdown in future economic growth.

Businesses say fragile confidence, due to a combination of factors such as a depreciating taka, spiking cost of living and political uncertainty, has deterred fresh investments since the Covid-19 pandemic.

According to economists, this plummeting investment could translate into fewer jobs and lacklustre economic growth in the near future.

The investment-to-GDP ratio refers to the percentage of a country's gross domestic product (GDP) dedicated to investment activities.

It shows how much of a nation's economic output is being reinvested in its future through the purchase of capital goods like machinery, infrastructure and buildings to facilitate growth.

The latest data from the Bangladesh Bureau of Statistics (BBS) shows that both private and public sector investment have been falling in recent years.

The Russia-Ukraine war, which broke out in 2022, caused global supply chain disruptions, pushing up Bangladesh's import bills. Consequently, the country's fast-depleting foreign exchange reserves led to the local currency falling steeply against the US dollar.

The devaluation of the taka made imports more expensive, raising the cost of capital goods and raw materials essential for investment.

Besides, stubbornly high inflation, which has remained above 9 percent since March 2023, has squeezed disposable incomes and corporate profits, reducing funds available for reinvestment.

Political uncertainty has further compounded the situation. Frequent policy shifts, regulatory changes and political unrest have made investors cautious, even leading them to delay or cancel planned investments.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, identified corruption, political unrest and the energy crisis as key deterrents to investment, particularly in the private sector.

Many enterprises have been operating at reduced capacities in recent years due to constraints in gas supply and high demand for captive energy generation while power outages are also a concern.

She said, "The low investment-to-GDP ratio reflects the unfavourable conditions for private sector investment due to political uncertainty and high financing costs."

She emphasised that inflation and overall macroeconomic instability have created uncertainty among investors, discouraging them from making fresh investments or expanding their businesses.

Meanwhile, Asif Ibrahim, former chairman of Business Initiative Leading Development (BUILD), identified corruption as a key factor behind escalating business costs.

To improve the investment-to-GDP ratio, he called to curb corruption and focus on economic diversification, reassessment of the incentive structure, protection of small businesses and low-income groups, and reforms in tax incentives.

'ALMOST NO NEW INVESTMENT SINCE COVID'

Businessmen said the country's investment landscape has hit a snag since the pandemic, with private investments almost consistently on a downward trend since FY21.

Al Mamun Mridha, secretary general of the Bangladesh China Chamber of Commerce and Industry, said private investment has been declining since the Covid-19 pandemic.

For the downturn, he blamed an unfavourable investment environment marked by inconsistent energy supplies and macroeconomic vulnerability.

"Some foreign investors closed their businesses in Bangladesh as the cost of doing business increased while the dollar became more expensive," he said.

Mohammad Hatem, president of the Bangladesh Knitwear Manufacturers and Exporters Association, said investment has virtually come to a standstill due to "anti-industrialisation policies", the ongoing energy crisis and a fragile banking sector.

Hatem criticised the government's lack of effective investment policies, citing outdated regulations and poor service delivery. "The regulatory hurdles are delaying our investment process."

Meanwhile, Professor Selim Raihan, executive director of the South Asian Network on Economic Modelling, expressed doubts over the investment figures released by the national statistical agency.

He argued that the reported investment-to-GDP ratio does not align with the economic reality.

"Fresh investment has been almost stagnant -- so how did BBS reveal an investment-to-GDP ratio of more than 30 percent?" Raihan questioned, criticising BBS's methodology and the lack of transparency in data disclosure.

According to him, incorrect national accounting data misleads policymakers and prevents the government

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Bangladesh should not solely depend on Trump's tariff war

REFAYET ULLAH MIRDHA

The tariffs announced by the Trump administration have started coming into effect, causing major trading partners of the US to realign their trade policy in anticipation of volatility.

So far, Trump has imposed a 25 percent tariff on the import of Mexican goods and levied the same rate on the import of all Canadian goods except energy, which will have a lower 10 percent tariff.

ANALYSIS

In the case of Chinese goods, Trump continued his tough stance after levying a 25 percent tariff during his last tenure as US president. This time, Trump imposed a 10 percent additional duty, bringing the effective rate to 35 percent.

In turn, China not only imposed retaliatory duties on goods imported from the US but also filed a World Trade Organization complaint against the US tariffs.

However, Trump has no intention to deviate from his approach, mentioning plans to impose similar duties on goods imported to the US from the European Union (EU) in recent media interviews.

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STOCKS

DSEX ▲	CASPI ▼
0.22%	0.32%
5,201.47	14,529.47

COMMODITIES

Gold ▲	Oil ▼
$2,911.99 (per ounce)	$70.81 (per barrel)

ASIAN MARKETS

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.07%	▲ 1.28%	▼ 0.08%	▼ 0.42%
76,229.30	39,461.47	3,871.37	3,332.48

Potato exports rising as prices drop locally

SUKANTA HALDER

Potato exports from Bangladesh are picking up after last fiscal year's unusual slump, as a sharp drop in domestic prices provides hope that they could reach levels of the past decade or so.

In the past nine years since FY16, Bangladesh annually exported around 50,000 tonnes of potatoes on average, as per the Department of Agricultural Extension (DAE).

However, exports dropped to 12,112 tonnes last fiscal year.

Yet, in the first seven months of the current fiscal year, they have already reached 11,055 tonnes, with the top destinations being Malaysia, Singapore, Saudi Arabia, Nepal, the United Arab Emirates, Qatar, Bahrain, Kuwait, Sri Lanka, Oman, Canada, and the Maldives.

The rising exports will bring some relief to farmers in major potato-growing regions, who have been incurring losses while harvests run in full swing on a record acreage.

Several farmers in Rangpur, Dinajpur, Thakurgaon, Bogura, and Joypurhat said the popular vegetable was selling for Tk 11 per kilogramme (kg), whereas their production cost was around Tk 15 per kg.

The starchy vegetable was cultivated on a record 5.24 lakh hectares of land this fiscal year, up 15 percent year-on-year, propelled by prices reaching as high as Tk 80 per kg last November.

This fiscal year, total production is expected to reach 1.20 crore tonnes, according to the Bangladesh Cold Storage Association, a major player in the local supply chain.

The Bangladesh Bureau of Statistics has a more moderate estimate of 1.06 crore tonnes.

Last fiscal year, 1.09 crore tonnes were produced, according to DAE data, surpassing the country's annual demand of around 90 lakh tonnes.

Exporters are helping recover costs as local sales are not worthwhile, said Abdul Baset, a farmer from Joypurhat who has shipped over 650 tonnes abroad and has several more orders.

Low market prices have also prompted exporter Rashed Shamim Chowdhury to raise his shipment target to 3,000 tonnes this fiscal year from only 600 tonnes last year.

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Development spending in Jul-Jan hits 15-year low

MD ASADUZ ZAMAN

Implementation of the Annual Development Programme (ADP) stood at just 21.52 percent in the first seven months of fiscal year 2024-25 as public works were weighed down by political unrest.

Besides, there were prolonged delays in implementing projects that were approved by the past government.

This was the lowest ADP implementation in roughly the past 15 years, including the same seven months of fiscal year 2020-21, when the Covid-19 pandemic was raging across the globe.

The ADP comprises projects and associated allocations based on each fiscal year's parliament-approved development budget.

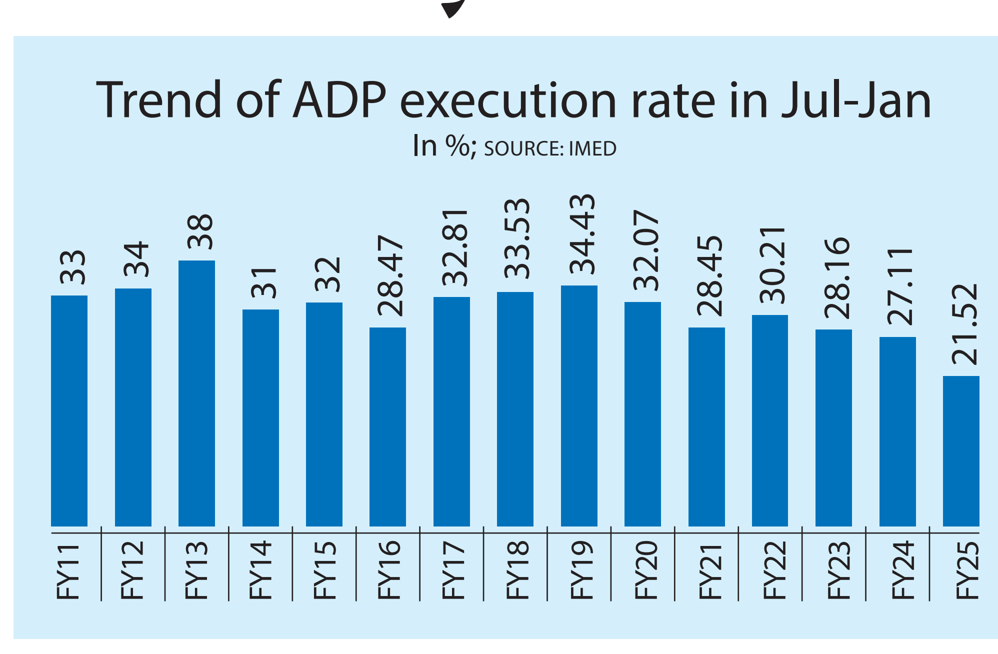
According to data of the Implementation Monitoring and Evaluation Division under the planning ministry, development spending stood at Tk 59,877 crore in the July-January period.

Meanwhile, it was Tk 74,464 crore during the same months of the preceding fiscal year, representing more than 27 percent of the total allocation available.

Last month, Tk 9,874 crore (3.55 percent) was spent by the government agencies.

In comparison, Tk 12,725 crore (4.63 percent) was spent in the same month last year.

"Implementation of the ADP has increasingly weakened over time, with an average of only 78 percent of budgeted funds utilised over the last decade," said Ashikur Rahman, principal



economist at the Policy Research Institute of Bangladesh.

In FY24, ADP implementation fell further to 72 percent due to political uncertainties associated with the national election in January 2024, inefficiencies and funding constraints.

"The recent political unrest, mob violence and an unsettled state of bureaucratic machinery have caused additional delays and cancellations in public programmes," he added.

Rahman also cited a lack of coherence and coordination among government agencies.

"This state of affairs underscores a lack of coherence among different government agencies, and it also highlights the necessity to improve coordination and focus on additional revenue mobilisation," he said.

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