

star BUSINESS



Food prices responsible for 53% of inflation

STAR BUSINESS REPORT

Inflation in Bangladesh saw a marginal decline in the second quarter of the current fiscal year, averaging 11.1 percent, with food prices contributing more than half to the overall increase in prices.

According to Bangladesh Bank report on inflation dynamics, food prices accounted for 53 percent of the rise in prices during the October-December quarter, an increase from 50 percent logged in the previous quarter.

Core inflation, which excludes volatile food and energy items, accounted for approximately 45 percent while energy contributed one percent.

"Food inflation peaked in November 2024, recording the second-highest level in 13 years, before moderating slightly in December, though it continued to exceed double digits," read the report, released yesterday.

The primary contributors to food inflation in the second quarter of FY25 were protein-based items, with the central bank reporting that they accounted for 38.35 percent of food inflation, followed by vegetables at 30.23 percent and cereals at 22.87 percent.

The contribution of cereals, which spiked significantly in the first quarter of the current financial year, continued and became more pronounced in the October-December quarter.

However, the contribution of spices and culinary essentials marked a significant drop in the second quarter, declining from 26.16 percent in the July-September quarter to 6.13 percent.

"Other categories, such as edible oil and related products, had a lesser impact on

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BSEC standoff starts to ease

STAR BUSINESS REPORT

Some officials of the Bangladesh Securities and Exchange Commission (BSEC) returned to work yesterday after protests and a work abstention last week. Over the weekend, the commission chairman instructed officials to restore normality.

A section of BSEC officials and employees staged protests on Wednesday, demanding the resignation of Chairman Khondoker Rashed Maqsood and three commissioners. The unrest was apparently triggered by the forced retirement of an executive director over graft allegations.

Protesters locked in the BSEC chairman, shouted threats, cut power to his office, and disabled the closed-circuit television (CCTV) system to avoid detection.

As tensions escalated on Wednesday, law enforcers intervened, baton-charged protesters, and rescued the top leadership, escorting them out of BSEC premises.

The work abstention continued into Thursday, disrupting the regulator's operations.

Amid the standoff, BSEC's top leadership arrived at the office in the afternoon under security escort and announced they had government backing to continue "anti-corruption measures".

Although the market remained relatively stable during the unrest amid fragile investor confidence, the Dhaka Stock Exchange (DSE) lost 0.56 percent, or 29.51 points, to close at 5,174.44 on Sunday

With law enforcers and army personnel present at BSEC's premises and protesting staff gathering on a floor of the commission's office in Dhaka's Agargaon, Maqsood told the media the commission would not bow to pressure.

Finance ministry sources told The Daily Star that BSEC's leadership met the finance adviser earlier on Thursday. The ministry supported the chairman and instructed him to continue his anti-graft efforts.

On Friday, a case was filed against 16 protesting officials on criminal charges, further complicating the situation.

Stockbrokers and analysts told The Daily Star on Saturday that the situation had spiraled out of control for both sides, calling on the finance ministry to intervene.

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THE COST OF A TIGHT MONETARY POLICY? Private sector credit growth hits decade-low

MD MEHEDI HASAN

Credit appetite of the local private firms continues to fizz out as the ongoing battle against inflation makes bank borrowing more expensive amid a volatile political climate after the August political changeover.

In January this year, credit flow to private firms grew by only 7.15 percent, the lowest since at least 2015, according to data from the Bangladesh Bank.

January's growth was 2.65 percentage points lower than the target of 9.80 percent that the central bank has set for the second half of fiscal year 2024-25.

In December last year, loans to private firms grew only by 7.28 percent, according to central bank data.

Economists and bankers said this was a consequence of the central bank's tight monetary stance.

For over two years, the central bank has been hiking the policy rate to combat skyrocketing inflation, which has contributed to the rise in lending rates at banks.

The banking regulator kept the policy rate unchanged at 10 percent for the January-June period of FY25.

However, experts opined that uncertainty in investment climate, banks' go-slow strategy after the political changeover, and lackluster loan recovery also weighed on credit growth alongside the tight-fisted monetary stance.

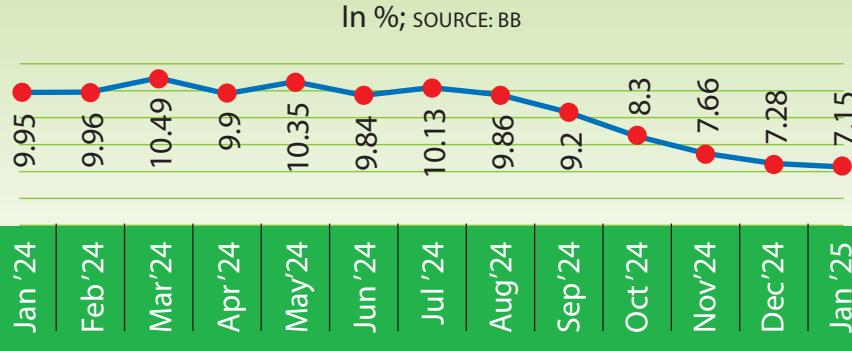
"The policy rate has to remain high due to the contractionary monetary policy, which impacts the lending rates. This is why the demand for credit has reduced," said Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue (CPD).

"We are now seeing a wait-and-watch approach regarding private sector investment due to ongoing uncertainty

REASONS FOR SLOWING CREDIT GROWTH

| Political uncertainty | Weak business, economic activity | Rising loan rates under tight monetary policy | Shrinking bank lending capacity amid surging bad loans | Stricter action against some large borrowers |
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Trend of private sector credit growth



and the impending general elections," the economist added.

He added that the trends of letter of credit (LC) opening for capital machinery imports reflect this investment reluctance.

During July to January of the current fiscal year, LC opening for capital machinery fell by 33.68 percent to \$1 billion, while LC settlements for capital machinery declined by 27.33 percent to \$1.24 billion, according to the central bank data.

Rahman also noted that disruptions at the borrower level contributed to the slowdown as some large borrowers have defaulted and are unable to secure new loans, impacting the overall private

sector credit.

"On the other hand, new entrepreneurs have adopted a go-slow strategy in taking loans," he said.

He believes private sector credit demand will remain subdued until the elections.

Syed Mahbubur Rahman, managing director of Mutual Trust Bank, told The Daily Star that he had never seen such slow credit growth during his over three-decade career.

The senior banker attributed the slowdown to heightened lending rates and a worsening law and order situation following the recent political changeover.

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Telecom policy to undergo fundamental reforms

STAR BUSINESS REPORT

The government will fundamentally transform the country's telecom policy to unlock the digital economy, improve service quality and prevent internet shutdowns during critical periods, said Faiz Ahmad Taiyeb, the newly appointed special assistant to the chief adviser.

Without a fundamental structural overhaul, there will be no significant improvement in the quality of telecom services, he added.

He was speaking at a seminar titled "Steps to Ensure High-Speed, Quality, and Affordable Internet Access at the Marginal Level", organised by the Bangladesh Mobile Phone Consumers' Association at the National Press Club yesterday.

"We will make every possible effort to drive policy reform on behalf of the government despite the numerous challenges ahead. These reforms will be meaningful and policies will undergo a thorough transformation," Taiyeb said.

Taiyeb urged businesses to abandon monopolistic or duopolistic approaches, saying, "The government is determined to dismantle policies that have stifled Bangladesh's data market by allowing certain companies to hold onto the existing fiber infrastructure as if it were a treasure trove."

"The more fibre you lay, the more business you create," he emphasised.

The special assistant also criticised the current policy, saying it was designed around voice calls and revenue collection while restricting the data economy.

"This outdated, legacy-driven approach has long been obsolete," he added.

Modern telecom industries function as digital economy-driven service sectors, but Bangladesh has failed to position its communication

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Economy may have expanded in Feb, but at a slower pace: PMI



PHOTO: RAJIB RAIHAN

STAR BUSINESS REPORT

Bangladesh's economy might have expanded in February, but at a slower pace due to sluggish growth in the construction and services sectors.

February marked the fifth consecutive month of expansion, driven by consistent growth in the agriculture and manufacturing sectors, according to the Bangladesh Purchasing Managers' Index (PMI) released yesterday.

The agriculture sector posted its fifth month of expansion, while the manufacturing sector recorded its sixth month of expansion.

Both sectors grew at a faster pace, according to the PMI, a monthly index prepared by the Metropolitan Chamber of Commerce and Industry (MCCI) and the Policy Exchange Bangladesh (PEB).

The PMI is a forward-looking economic indicator designed to help understand the direction in which the economy is heading.

The PMI reading for the agriculture sector rose by 7.8 points to 66.4 in February, up from 58.6 in the previous month.

The manufacturing index increased to 72.6 last month from 68.5 in January, recording an expansion.

The PMI recorded faster expansion in new orders, factory output, input purchases, and supplier deliveries in the manufacturing sector.

"Business confidence remains weak due to sluggish demand, energy disruptions, and continued protests. Sustained recovery depends on improved law and order, political consensus on the election roadmap, and expedited implementation of priority reforms."

However, there was slow growth in new exports, finished goods, imports, and employment.

Similarly, the construction sector posted its third month of expansion, albeit at a slower rate.

At the same time, the services sector recorded its fifth month of expansion.

However, the pace of growth slowed, the MCCI and the PEB said in a press statement.

PEB Chairman and CEO M Masrur Reaz said Bangladesh's PMI readings indicate sustained expansion for the fifth month, driven by continued growth in exports and a seasonal uptick in agriculture, while construction and services recorded slower expansion.

"Business confidence remains weak due to sluggish demand, energy disruptions, and continued protests. Sustained recovery depends on improved law and order, political consensus on the election roadmap, and expedited implementation of priority reforms," he said.

The MCCI and the PEB launched the Bangladesh PMI in February 2024, covering key economic sectors based on survey data compiled from monthly surveys of over 500 private sector enterprises.

Survey responses reflect changes in business activity, if any, in the current month compared to the previous month.

Sammilito Parishad demands adequate gas, electricity

STAR BUSINESS REPORT

Garment manufacturers and exporters demanded adequate supply of gas and electricity to production units and a reduction in bank interest rates to enhance production and exports, a leader of one of the panels that contest the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) polls said yesterday.

Md Abdul Kalam, the leader of Sammilito Parishad, was addressing garment exporters at an iftar event organised by the panel at the Army Golf Club in Dhaka.

It is possible to increase annual garment exports to \$60 billion from the current \$42 billion in the next five years if adequate gas and electricity can be supplied to industrial textile and garment units, he said.

He also made a commitment to achieve this target if Sammilito Parishad wins the upcoming BGMEA elections, scheduled to be held on May 28.

Quazi Moniruzzaman, a former BGMEA president, said the apparel sector has been passing through tough times and the challenges would continue to prevail in the next few months as expenses would increase for Eid-ul-Fitr and Eid-ul-Azha.

Kutubuddin Ahmed, another former BGMEA president, urged those present to help the body's members exercise their voting rights and elect the best leaders.

SM Fazlul Hoque, a former BGMEA president, said the association has played a big role in helping the garment sector of Bangladesh to thrive, but sometimes the sector falls in trouble because of non-cooperation from some quarters.

Former BGMEA presidents Faruque Hassan, Khandoker Rafiqul Islam and Redwan Ahmed also spoke.

Reserves drop to \$19.7b after ACU payment

STAR BUSINESS REPORT

Bangladesh's foreign exchange reserves fell from \$21.39 billion to \$19.7 billion yesterday after the country paid \$1.75 billion in regional import bills through the Asian Clearing Union (ACU).

The ACU, a Tehran-based organisation, facilitates payment settlements among nine member countries: India, Bangladesh, Bhutan, Iran, the Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka.

Under the ACU mechanism, Bangladesh clears its import bills every two months, leading to a temporary decline in reserves after each payment.

As of March 6, the country's foreign reserves stood at \$21.39 billion, calculated in accordance with the International Monetary Fund's (IMF) BPM6 manual.

Due to a growing trend in remittance inflows in recent months, the central bank has been able to mitigate the sharp decline in forex reserves, particularly since the end of the Awami League-led government's regime on August 5 in the face of mass uprising.

Last month, remittance inflows to Bangladesh rose 25 percent year-on-year to \$2.52 billion as migrant Bangladeshi workers sent larger-than-expected amounts to their families back home for Ramadan-related purchases and Eid shopping.