

# Star BUSINESS



Imported items drove price rise in March

BB report says

STAR BUSINESS REPORT

The contribution of services and import-dependent items to Bangladesh's headline inflation increased slightly in March 2025, while the influence of non-perishable goods and domestically sourced items declined, according to a Bangladesh Bank report titled "Inflation Dynamics in Bangladesh: January-March 2025".

In March, the contribution of perishable goods to headline inflation held steady at 33 percent – the same as in December 2024. However, the contribution of non-perishable goods dipped to 40 percent from 43 percent, while that of services edged up to 27 percent from 24 percent during the same period.

The central bank attributed the change partly to shifts in import dependence. The contribution of import-concentrated items rose to 21 percent in March from 16 percent last December. In contrast, domestic items saw their share fall to 78 percent from 84 percent.

The report also highlighted trends in retail and wholesale prices, saying that prices of most selected commodities remained stable or declined during the January-March quarter, except for Sonali chicken.

While Sonali chicken saw a drop in price and margin – which reflects the difference between retail and wholesale prices – in February, both rebounded in March. The margins for lentils, onions,

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## BB to adopt more flexible exchange rate to meet IMF conditions

Bangladesh may get fourth & fifth tranches of loans in June

MD MEHEDI HASAN

After a months-long stalemate, the Bangladesh Bank (BB) is finally set to adopt a more flexible exchange rate regime to fulfil conditions tied to a \$4.7 billion International Monetary Fund (IMF) loan programme, which will likely enable Bangladesh to receive \$1.3 billion in the fourth and fifth tranches.

The central bank is likely to issue a circular in this regard today.

Currently, banks in Bangladesh are following a crawling peg rate system for spot purchases and sales of US dollars, where the mid-rate is set at Tk 119 with a 2.5 percent corridor per greenback.

The banking regulator may increase the corridor to 4 or 5 percent as part of its initiative to bring more flexibility to the foreign exchange market, The Daily Star learned from central bank officials.

As a result, banks will be able to quote 4 to 5 percent higher or lower than the mid-rate for spot purchases and sales of US dollars.

Central bank Governor Ahsan H Mansur is expected to address the issue during a virtual press briefing from Dubai at 2pm today, where he may share further details about the flexible exchange rate and IMF loan programme.

He is also likely to discuss the Exchange Stabilisation Fund (ESF), an emergency reserve account that can be used to mitigate instability in various financial sectors, including foreign exchange markets, which will be formed by the central bank.

A senior central bank official, seeking anonymity, told The Daily Star that the IMF agreed to release the expected funds in recent meetings as Bangladesh is going to bring greater flexibility to the forex market.

"After declaring the flexible exchange rate on Wednesday, the IMF will inform us about the staff-level agreement, and then they will place the loan issue in its board meeting in June and they are likely to approve it," the official said.

The \$4.7 billion loan programme was agreed upon in early 2023. So far, Bangladesh has received \$2.3 billion in three instalments under the crawling peg mechanism to a free-floating exchange rate regime to "avoid any speculative role" by foreign currency market

KEY POINTS

BB may issue a circular today regarding exchange rate policy

Crawling peg corridor may be widened to 4-5% from existing 2.5%

IMF may release 4th and 5th tranches of loan in June

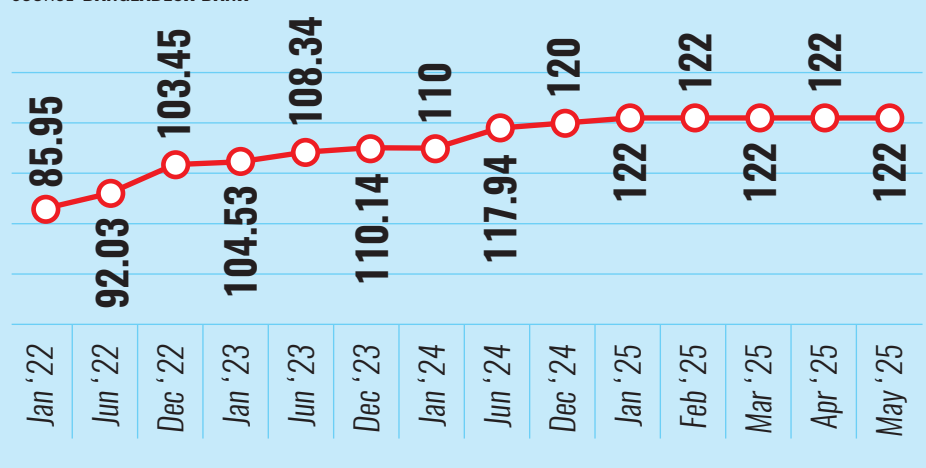
4th tranche was delayed for failure to meet the exchange rate condition

BB also plans to establish an Exchange Stabilisation Fund

### Exchange rate of dollar against taka

In recent years

SOURCE: BANGLADESH BANK



The fourth tranche, originally slated for March, was delayed over concerns that the central bank had not moved decisively enough to unify the multiple exchange rates used across different transactions.

The IMF has long pressed for the country to abandon its tightly managed currency regime in favour of greater flexibility, a shift seen as crucial to easing pressure on dwindling foreign exchange reserves and restoring investor confidence.

In February of this year, the BB governor said the central bank was not moving away from the crawling peg mechanism to a free-floating exchange rate regime to "avoid any speculative role" by foreign currency market

aggregators.

The central bank also fears that a free-floating exchange rate may fuel inflationary pressure, especially as inflation in Bangladesh has remained above 9 percent for the past 26 months.

However, businesspeople, especially exporters, have consistently urged the central bank to let the market determine the exchange rate.

The foreign exchange market in Bangladesh has been volatile for more than three years, but it has stabilised in recent months due to high foreign currency inflows created by export earnings and remittance inflows.

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## BUDGET FOR FY26

### Govt's bank borrowing target may shrink in next budget

REJAUL KARIM BYRON and MAHMUDUL HASAN

The government is planning to significantly reduce its bank borrowing target in the upcoming fiscal year as it aims to narrow the budget deficit by scaling down the overall budget size.

The target is set to be slashed by nearly 25 percent in the budget for FY26, dropping to Tk 104,000 crore.

The budget deficit for the outgoing fiscal year is also likely to shrink by around Tk 30,000 crore to Tk 226,000 crore, according to a finance ministry official.

To manage the deficit in the upcoming budget, the government is expected to rely more on foreign borrowing rather than domestic sources, especially banks, as interest rates on foreign loans are comparatively lower.

**To manage the deficit in the upcoming budget, the government is expected to rely more on foreign borrowing rather than domestic sources**

The slow implementation of the Annual Development Programme (ADP) in the current fiscal year and efforts to curb inflation are also expected to contribute to a reduced bank borrowing target.

As a result, the national budget for FY26 is projected at Tk 790,000 crore – Tk 7,000 crore less than the original budget for the current year, which would mark the first time in recent memory that the overall budget would see a contraction.

Zahid Hussain, a former lead economist at the World Bank's Dhaka office, said the government's move to reduce bank borrowing is linked to its lower deficit target.

"Bank borrowing should be reduced because if the government takes a large portion of available credit, the private sector won't have enough access to loans," he added.

The interest rate on treasury bonds and bills is currently very high. If banks have a greater opportunity to lend money to the government, they will be less inclined to invest in the private sector, he said.

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## Construction of Chinese economic zone gains momentum

JAGARAN CHAKMA

The construction of the Chinese Economic and Industrial Zone in Chattogram has gained momentum nearly a decade after its initiation, as Dhaka and Beijing look to strengthen bilateral ties and punishing Trump tariffs prompt Chinese manufacturers to consider relocating factories.

Of the 784 acres designated for the economic zone in Anwara upazila of the port city, around 60 acres have been prepared for investors.

Utility services are also being put in place. The Chattogram Water Supply and Sewerage Authority has installed a pipeline for limited water supply, and Karnaphuli Gas Distribution Company Limited has set up a gas station nearby.

The Bangladesh Economic Zones Authority (Beza) has also constructed the zone's administrative building and two approach roads.

Some Chinese manufacturers have already visited the site, and officials expect around 200 potential Chinese investors to tour the zone soon.

"A major foreign investment worth over \$1 billion is expected from China," said Ashik Chowdhury, executive chairman of the Bangladesh Investment Development Authority (Bida) and Beza, referring to the recent visit by Chinese investors.

Initiated in 2016 following former prime minister Sheikh Hasina's 2014 visit to China, the project's progress remained sluggish during the previous Awami League government.

However, after the political changeover in August last year, the new interim government showed renewed interest in strengthening trade ties with China – Bangladesh's largest import market.

"We are seeing growing interest from Chinese investors," said a Beza official. The official said that the expected investor visits could open up significant opportunities in apparel and auto manufacturing, electronics, and logistics.

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## Why taxpayers deserve value for money

### ANALYSIS

SOHEL PARVEZ

If you visit the Dhaka Medical College and Hospital (DMCH), you will find it difficult to make your way through the crowded corridors between the wards. Patients lie on narrow, makeshift beds along both sides, while doctors, hospital staff, visitors, and treatment seekers shuffle through the chaos.

A glance into any of the wards would reveal a packed space with no vacant seats, and many patients forced to lie on the floors.

This overcrowding is not unique to DMCH. Public hospitals across the country are filled to capacity, despite persistent complaints of poor services, bribe-seeking by hospital staff, and inadequate essential medicines and diagnostic services.

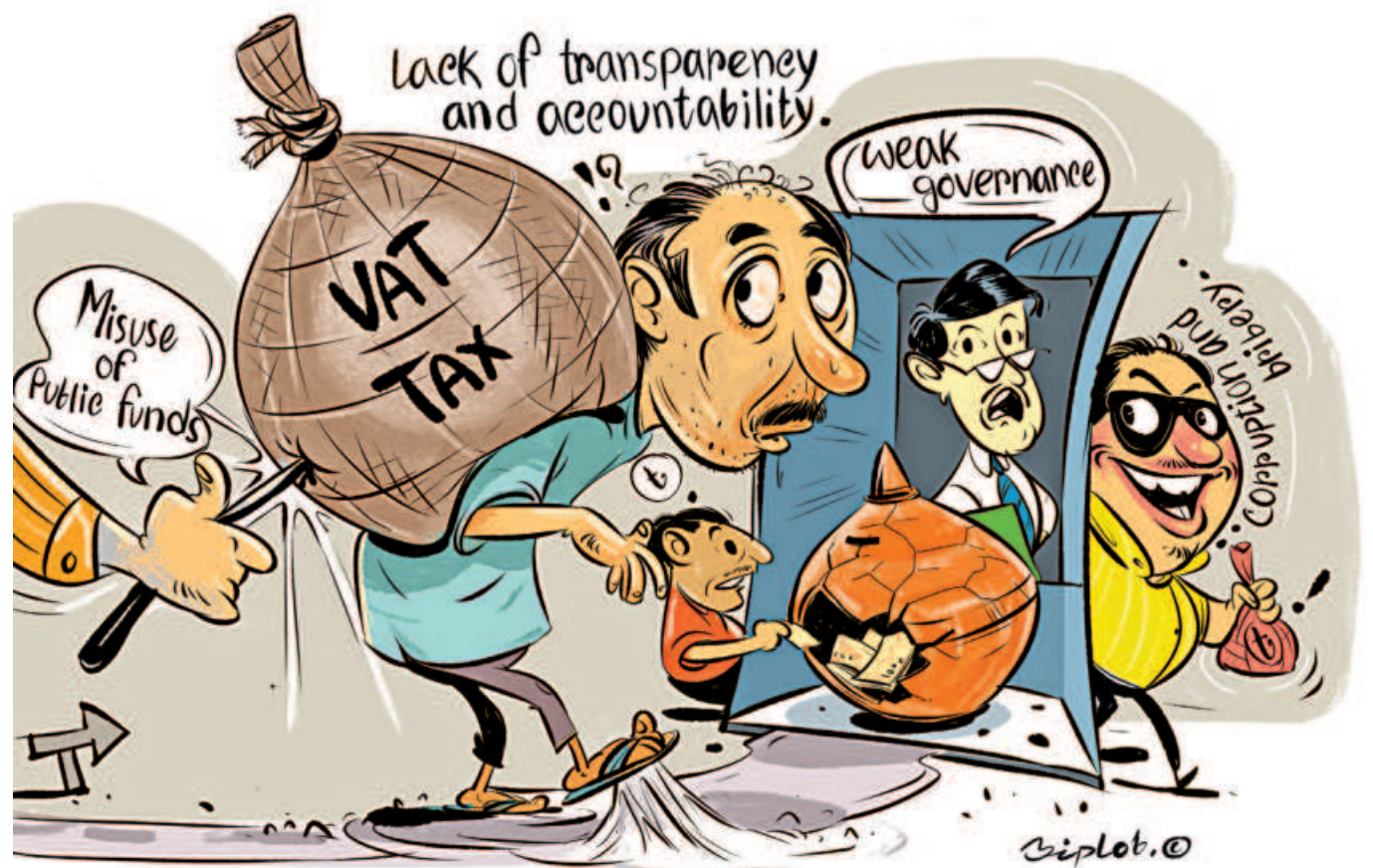
The situation is not confined to hospitals alone. Public services in other areas such as footpaths and education also fall short, with corruption and inefficiency frustrating taxpayers. Many wonder why they should pay taxes when people do not get adequate services, bribes are commonplace, and public funds are wasted due to corruption and lack of accountability.

According to the "White Paper on the State of the Bangladesh Economy" prepared by the interim government, nearly 40 percent of all government expenditures are believed to be misappropriated.

"People do not want to see their hard-earned money misused," said Professor AK Enamul Haque, director general of the Bangladesh Institute of Development Studies (BIDS).

He said that taxpayers do not directly benefit from the payment of taxes.

Tax is used to create public goods and services, but transparency and accountability are important in spending public money, said Haque. "For this, spending must be based on a proper analysis of costs and benefits."



The issue is compounded by projects undertaken without adequate cost-benefit analysis, often biased by political reasons.

The white paper, prepared by a team of economists and policy analysts and led by Centre for Policy Dialogue (CPD) Distinguished Fellow Debapriya Bhattacharya, cited numerous examples of previous projects initiated simply as part of election campaigns.

Ceremonies such as laying foundation stones or ribbon-cutting were used to declare projects open, even when they were far from ready for public use.

"A stark example of this is Terminal-3 at Dhaka airport," the paper said, adding that many projects proceed without adequate analysis, ultimately becoming

unviable and placing a significant burden on the budget.

A lack of public input in project planning is another factor, according to the paper.

For instance, the Karnaphuli Tunnel in Chattogram is technically advanced, but its location has not been well received by residents who remain unaware of the project's full scope.

"To the community, it appears to serve no purpose for either side of the Karnaphuli river, resulting in perceptions of it as a waste of public funds," the paper said.

"Similarly, Hi-Tech Parks in Sylhet and Rajshahi offer no tangible benefits to local residents yet. Such public sentiment can be detrimental to project proponents,

as communities struggle to appreciate initiatives that could potentially benefit them."

To address this issue, many countries have established mandatory public consultation processes during project feasibility studies, and this practice should be adopted for all development projects, said the white paper.

Mohammad Muslim Chowdhury, former comptroller and auditor general (CAG) of Bangladesh, said the job of a state is to ensure services to its citizens through the executive branch.

Over the past 53 years since independence, Bangladesh has suffered from democratic deficits as well as governance issues.

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