

## Emergency cabinet committee needed for macro risks: PRI

STAR BUSINESS REPORT

The government should form an emergency-level cabinet committee to closely monitor the country's macroeconomic situation, as pressure is building across several key sectors, said Sadiq Ahmed, vice chairman of the Policy Research Institute (PRI) of Bangladesh.

"There is no room for complacency. The government must respond with urgency," he said at an event in Dhaka yesterday.

Speaking at the "Monthly Macroeconomic Insights" programme organised by PRI in partnership with Australia's Department of Foreign Affairs and Trade, Ahmed warned that the country's macroeconomic stability could face new shocks due to rising global energy prices.

"An emergency-level cabinet committee should be formed to monitor the macroeconomic situation from all directions, especially given the severe fiscal constraints, turmoil in the banking sector, and pressures in the external sector," he said.

Ahmed said global energy prices have risen sharply in recent days, with oil prices climbing to more than \$90 per barrel from about \$65 earlier.

Liquefied natural gas prices have also jumped by about 70 percent, while shipping costs are rising as well, he added.

**Even if the war in Iran ends within a few days, the energy sector will still face a major cost shock, said Sadiq Ahmed, vice-chairman of PRI**

Bangladesh currently has limited arrangements to import liquefied natural gas beyond its deal with Qatar, Ahmed said. Importing LNG from the United States could be an option, but it would take time and cost more.

"The immediate impact is that the country's energy balance will come under pressure very quickly," he said.

Even if the war in Iran ends within a few days, the energy sector will still face a major cost shock, Ahmed said. The sector is already under strain, with arrears to independent power producers standing at about \$700 million, which could further pressure the country's balance of payments.

Given these challenges, the government must address the short-term economic risks on an emergency basis, he added.

"Long-term policy debates and political discussions can come later. The immediate priority should be managing the crisis to prevent deeper economic troubles," Ahmed said.

### FISCAL CONSTRAINTS AND STRUCTURAL CHALLENGES

Ahmed also raised concerns about the government's fiscal space to implement new initiatives.

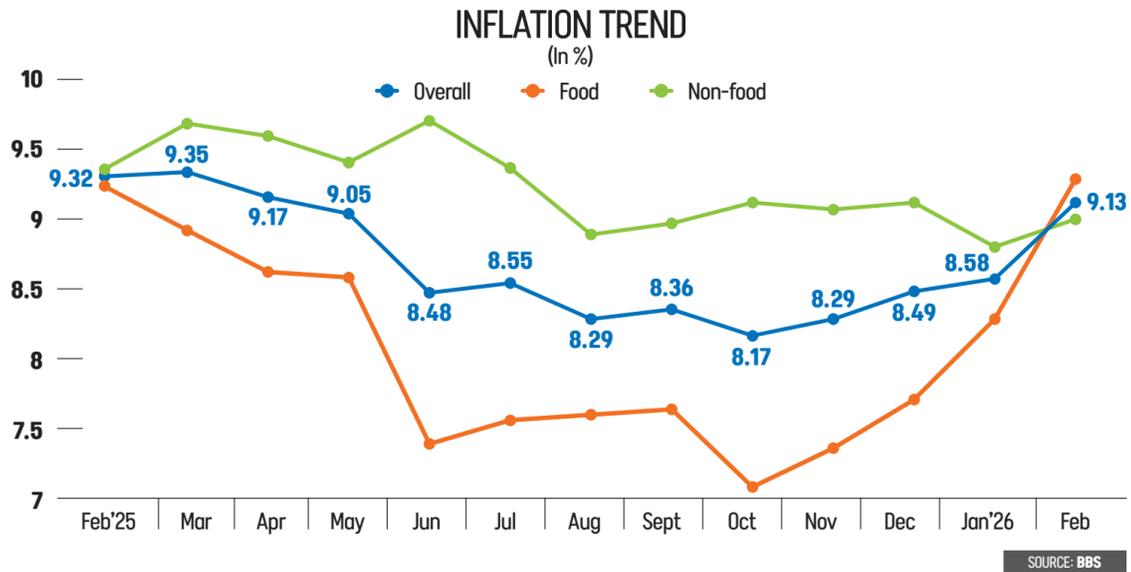
Programmes such as the farmers' card and family card show that many people have been left out of development, he said. However, expanding jobs, health services, education, and social safety nets will require significant fiscal resources.

He said the government is already borrowing to cover routine expenditures, including salaries, interest payments, and subsidies, raising questions about how additional programmes will be financed.

Ahmed added that the country must revive economic growth and increase spending on health. **READ MORE ON B3**

## Inflation hits 10-month high in February, crosses 9%

Supply gaps, Ramadan demand and poll-related spending drove the spike, economists say



MD ASADUZ ZAMAN

Overall inflation rose to its highest level in ten months in February, climbing to 9.13 percent from 8.58 percent in January, according to data released by the Bangladesh Bureau of Statistics yesterday.

Economists say rising food prices ahead of Ramadan and election-related spending added to demand pressures, pushing the Consumer Price Index (CPI), a measure of the prices of a basket of goods and services, above 9 percent for the first time since May last year.

February also marks the fourth consecutive monthly increase since inflation touched a 39-month low of 8.17 percent in October.

Food inflation bore the brunt of the rise, jumping to 9.30 percent in February from 8.29 percent the previous month. Non-food inflation also edged higher, reaching 9.01 percent from 8.81 percent, reflecting continued pressure in housing, transport and healthcare.

Bangladesh has been struggling with persistent inflation for more than three years. The burden falls hardest on the poor and low-income households, who spend a disproportionate share of their earnings on food and have the least capacity to absorb price shocks.

Inflation moderated slightly in recent months, but the 12-month annual average rate remained above 8.5 percent in January even though Bangladesh Bank maintains a hawkish monetary policy stance aimed at curbing demand-driven price increases and

stabilising the economy.

As part of its tightening measures, the central bank has kept the policy rate at 10 percent for nearly one and a half years.

In its latest monthly economic updates, the General Economic Division under the Planning Commission said the recent trend indicates continued pressure from food prices within the overall inflation framework.

Sectoral contribution analysis shows that food remains the largest contributor to headline inflation in January.

Food accounted for 43.06 percent of overall inflation in January, up from 40 percent in December. Fish and dry fish remained the highest contributors, although their share decreased from 43.34 percent to 32.27 percent, it said.

### ELECTION SPENDING, SUPPLY PRESSURE

Zahid Hussain, former lead economist at the World Bank's Dhaka office, pointed to a convergence of February-specific factors. "We cannot look at this solely through the lens of monetary policy."

Noting that urban food inflation rose the most, he explained, "part of this increase seems linked to election-related demand".

Campaign spending, providing snacks at tea stalls or serving biryani, boosts the food component and contributes to higher prices, he said.

On the supply side, he noted, "A major disruption at the ports in February increased

inflation expectations and hoarding tendencies."

The economist also explained that combined with the lean season for food production -- the peak winter season has ended, but the spring harvest has not yet arrived -- this created a double burden on food prices.

Hussain went on to point out that non-food inflation also rose, particularly in the miscellaneous category, which went from 21 to 24 percent. Understanding this category is key, as it recorded the highest inflation.

### CONTRACTIONARY POLICY ESSENTIAL: ECONOMISTS

Regarding monetary policy, Hussain said, "Without the contractionary stance, the situation would have been even worse. The new governor had discussed reducing the policy rate, but that option has been postponed in light of recent challenges."

With the Middle East conflict between Iran and US-Israel now threatening fuel and import costs, he warned the outlook was worsening.

"Now, with the war adding further pressure, it's like rubbing salt on the wound. Inflation, growth, and employment are all under strain, and the situation ahead does not look positive from any perspective," he said.

Ashikur Rahman, principal economist of the Policy Research Institute, also agrees that the central bank's monetary policy stance is the right way to handle the situation. **READ MORE ON B3**

## Not everyone should get bank loans: PM's adviser

Govt plans to shift the economy to an investment-driven structure

STAR BUSINESS REPORT

In order to ensure increased participation of citizens in the private sector and cut dependence on bank loans, conditions may be imposed to compel firms to raise capital from public, said Prof Rashed Al Mahmud Titumir, the prime minister's adviser to the ministries of finance and planning.

The government may decide to finance infrastructure development by raising funds from the capital market, he said yesterday at a seminar organised by the Capital Market Journalists' Forum (CMJF) on the challenges and necessary actions for the stock market under the new government, held at FARS Hotel & Resorts.

Raising funds from the capital market would ensure participation of ordinary people in both the public and private sectors, he said, reiterating BNP's manifesto commitment regarding the capital market, which was to move from a loan-dependent economy to an ownership-based economy.

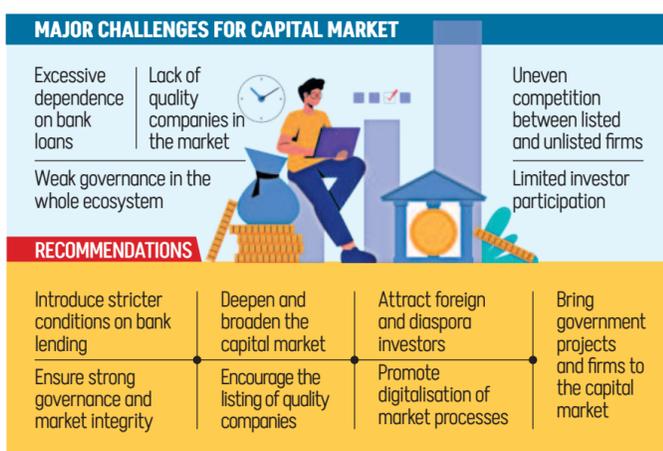
The next national budget will include reform measures in this regard, he said.

To transform the economy, it will be shifted from a consumption-driven and loan-dependent model to an investment-driven one, because the economy can never become sustainable without an investment-based structure, he said.

The capital market can play a major role in reducing loan dependency. However, the capital market currently accounts for only 12 percent of the country's gross domestic product (GDP), which is quite low compared to regional peers, Titumir noted.

The new government intends to focus on improving this situation by making the capital market both deeper and broader.

"Our goal is to move from a frontier



market to an emerging market," he said.

Titumir added that the high incidence of default loans is partly due to the mismatch between short-term deposits and long-term lending. If banks accept deposits for short periods, they cannot sustainably provide long-term loans.

"Therefore, it must be determined which institutions will receive bank loans, for how long, and in what amount, and which institutions will be required to raise capital from the capital market."

Not everyone should remain dependent on banks, he said.

The government also has several economic institutions and may, in the future, raise funds for development expenditure by issuing bonds or shares.

"Why should we buy aircraft using taxpayers' money?" he asked.

Titumir also said that Bangladesh

should have an Islamic stock exchange, where investors from Malaysia, Indonesia, and Gulf countries could come and trade. The government is considering creating an investment gateway so that expatriate Bangladeshis can also participate in such investments.

He also emphasised taking steps to ensure transparency and accountability in the work of auditors, credit rating agencies, and other market-based regulatory institutions.

"The success of a capital market regulator should not be judged solely on index performance. Rather, its key performance indicator (KPI) should be the development of the market," said Khondoker Rashed Maqsood, chairman of the Bangladesh Securities and Exchange Commission (BSEC). **READ MORE ON B3**

## Banks to make provisions for potential bad loans from 2028

BB gives directive

STAR BUSINESS REPORT

Banks will have to keep provisions for potential losses before loans turn bad, from January 2028, according to a directive given by Bangladesh Bank (BB), which aims to enable lenders to detect the risk of credit deterioration in advance and enhance transparency in financial reporting.

To identify potential loan losses, banks will be required to classify loans based on a global standard -- the International Financial Reporting Standard 9 (IFRS 9). It specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items.

In a circular yesterday, BB introduced guidelines for the loan loss framework based on IFRS 9.

Under the guidelines, banks will be required to apply the IFRS 9-based Expected Credit Loss (ECL) model to funded and non-funded credit facilities from January 1, 2028. The system will later be extended to other financial instruments from January 1, 2029.

Under the new framework, loans will be classified into three stages based on changes in credit risk: performing loans (Stage 1), loans with a significant increase in risk (Stage 2), and credit-impaired loans (Stage 3).

Provisions will be calculated based on either 12-month or lifetime expected credit losses, depending on the stage. A provision against loans is an expense set aside by banks from their earnings to cover anticipated losses from unpaid or defaulted loans.

The new rules will also extend provisioning requirements to off-balance sheet exposures such as loan commitments, bank guarantees and unused credit lines, enabling banks to assess risks more comprehensively.

Currently, banks follow a rule-based loan classification and provisioning system, which relies on the "incurred-loss" approach -- where provisions are typically made after loans show clear signs of deterioration. **READ MORE ON B3**

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## Dhaka, Delhi agree to resolve LoC project issues

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Bangladesh and India have agreed to resolve problems surrounding projects financed under India's line of credit (LoC) assistance, following talks between Indian High Commissioner Pranay Verma and Bangladesh Finance Minister Amir Khosru Mahmud Chowdhury in Dhaka yesterday.

Speaking to reporters after the meeting, Khosru said they also discussed the progress of LoC-supported projects. "Hopefully, the projects will see further progress in the coming days."

Verma described the meeting as "very positive and productive", saying discussions focused on strengthening financial sector cooperation, expanding economic relations and other issues of mutual interest between the two countries.

Both countries remain satisfied with the progress of the ongoing projects, he said.

"Some initial challenges have emerged in a few large projects, but efforts are being made to resolve them," he said.

The talks come against the backdrop of sluggish disbursement under the three LoC agreements signed since 2010.

Of a total commitment spanning 42 projects, only \$1.88 billion was disbursed by June 2024 against cumulative LoC deals worth over \$7 billion, while Bangladesh repaid \$254 million.

The first LoC, worth \$862 million for 15 projects, was signed in 2010. The second, worth \$2 billion for 12 projects, was signed in March 2016. The third credit deal, amounting to \$4.5 billion, was signed for 15 projects in October 2017. **READ MORE ON B2**