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LC opening hurdles put industries in troubled waters

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Bangladesh is facing a domino effect, which started with the Russia-Ukraine war creating an acute forex crisis here, causing letter of credit (LC) opening to fall significantly, and this businesses claim has cut production by a large scale.

Besides, the prices of raw materials for different industries started soaring in the global market since the beginning of the war early last year. This was a time when the world was still reeling from the Covid-19 pandemic shocks.

Businesses said they could not open LCs to import raw materials as per their needs due to the dollar crisis. They also said banks asked them to follow various rules in the face of the crisis, making LC opening harder.

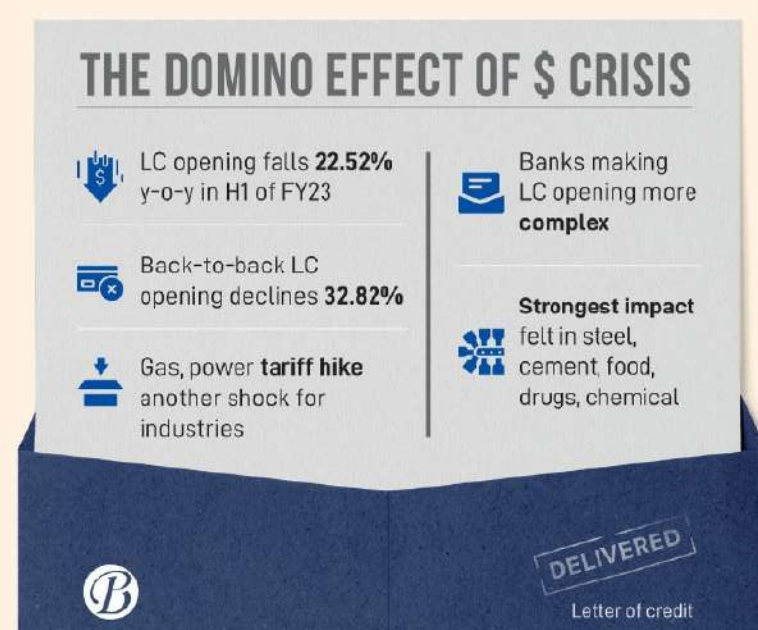
The recent gas and electricity tariff hikes aggravated the situation. Unable to survive, many business owners were even forced to close their factories.

According to businessmen, the strongest impact has been felt in steel, cement, food, plastic, paper, light engineering, drugs, chemical, and firefighting equipment industries.

LC opening down

LC opening declined by 22.52 per cent year-on-year in the July-December period of FY23, standing at \$34.1 billion. Also, back-to-back LC opening fell by 32.82 per cent to \$4.4 billion, the Bangladesh Bank data shows.

However, LC settlements increased by 7.71 per cent to \$41.37 billion during this period. The central bank projected imports will decline by 9 per cent at the end of FY23.



The banking regulator data also shows LC opening for consumer goods slumped by 14 per cent to \$4 billion year-on-year in the first half of the current financial year. Besides, LC opening for intermediate goods, such as clinker and limestone, plunged by 33 per cent to \$2.58 billion during this period.

According to the Bangladesh Bank, LC opening for industrial raw materials declined by 27.27 per cent to \$12 billion while that for capital machinery went down by 65.32 per cent to \$1.2 billion in the same period. Moreover, LC opening for machinery for miscellaneous industries decreased by 4.59 per cent to \$1.2 billion.

In May last year, the National Board of Revenue raised the regulatory duty

on the imports of furniture, fruits, flowers, and cosmetics to 20 per cent from 3-5 per cent to discourage imports amid decreasing foreign exchange reserves.

Managing Director of Steelmark Buildings Md Rezwanul Mamun told The Business Post, "Due to the hurdles in LC opening, we are unable to import the necessary raw materials. Our production has declined by 50 per cent due to a lack of raw materials."

He said his company did not lay off employees during the Covid-19 pandemic but now they are forced to let a good number of workers go to continue business in the face of the current situation.

Gas, power price hike another shock
The government raised electricity

prices twice in 18 days, which came as a big shock for consumers as well as industries. The bulk electricity tariff was hiked by 8 per cent and the retail tariff by 5 per cent.

"Besides, at a time when everyone is struggling to survive amid high inflation, unemployment, and low export orders, the government increased gas prices by up to 179 per cent. This has worsened the situation for industries," Executive President of Bangladesh Knitwear Manufacturers and Exporters Association Mohammad Hatem said.

Construction sector

Due to problems in raw material imports, this sector has been facing a crisis for the last several months.

Talking to The Business Post, Chairman of Anwar Group of Industries Manwar Hossain said they are going through tough times due to the LC opening problems.

"For example, I needed 20,000 tonnes of raw materials but could import only 5,000 tonnes last month. I saw a list where some companies capable of producing 9,000-8,000 tonnes of steel per month could import only 900 tonnes of raw materials," said Manwar, also the chairman of Bangladesh Steel Manufacturers Association (BSMA).

"We are very worried about our future. If the dollar crisis is not resolved, it will create a severe impact on every sector. The construction sector involves some 3,600 products and services. If construction is slowed, there will be a disaster in every sector," he added.

The business leader also said there will be a big impact on the economy if

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the construction industry's survival is at risk. If the government does not take the necessary steps, it will be tough for the industry to sustain, he said.

"The prices of different raw materials increased vastly due to the war amid the pandemic fallout. This created a big impact on both global and local supply chains as well as production," Manwar noted.

He said his factories have been suffering due to gas and electricity crises for a long time.

"The government should control dollar outflow. Money laundering must be stopped. Underinvoicing should be stopped in imports, which will reduce the pressure on dollar. Dollar reserves will increase naturally then," Manwar explained.

RRM Group Chairman and BSMA Vice-Chairman Sumon Chowdhury said their production came down by 35-40 per cent in the steel sector due to LC opening complexities.

Plastic sector

As different types of chemicals and raw materials are required for this sector, the LC opening hurdles have hit it too.

Bangladesh Plastic Goods Manufacturers and Exporters Association President Shamim Ahmed said banks are not opening LCs due to the dollar crisis.

"This has created a big impact on our sector. Besides, the government increased gas and electricity prices, causing our production costs to go up," he said.

"On the other hand, the sales of plastic products have also decreased by 20-25 per cent in the local market. As a result, it has become difficult for small businesses to sustain. Some of them have even been forced to close their factories," he also said.

Aman Plastic Toys Industries Managing Director Md Aman Ullah said their production costs have gone up by 3-4 per cent due to the increase in electricity prices.

"LC opening fell by around 50 per

cent while the prices of raw materials rose by nearly 40 per cent. Besides, our sales fell by 25 per cent. I was forced to cut production by 30 per cent. If the situation does not improve before Eid, I may have to lay off workers," he added.

Fire safety equipment

Bangladesh has to import around 90 per cent of the fire safety equipment from different countries, said Managing Director of Grasshopper Group M Mahmudur Rashid.

"LC opening complexities have put our business on the verge of closure," he said.



The problems will not go until the dollar crisis is solved

"We were able to import some products till November last year. Now we cannot open LCs and are selling products from the stock. Once those are sold, what will we do?" said Rashid, also the Electronics Safety and Security Association of Bangladesh secretary general.

Worries ahead of Ramadan

Businessmen are worried about how volatile the market will be during the upcoming Ramadan. They urged the government to take necessary steps to control the market.

Dhaka Chamber of Commerce and Industry President Md Sameer Sattar said the central bank should assist commercial banks with an adequate foreign exchange supply to settle LCs in order to ensure the continuous supply of essential commodities during the holy month.

He also underscored necessary reforms, such as easing the documentation requirements for the cottage, micro, small and medium enterprises (CMSMEs) so that they can continue their business.

Dollar crisis may worsen

Talking to The Business Post, Executive Director of Policy Research Institute of Bangladesh Ahsan H Mansur said the current problem is complex and very big.

"To resolve this, the government has to take necessary steps. The dollar crisis may become more severe as the policy taken by the government is not enough to tackle the current situation," he said.

The noted economist also said it may take another six months to a year to resolve the problem if the government makes the right decision.

Research Director at Centre for Policy Dialogue Khondaker Golam Moazzem said the overall picture shows businesses are now under big pressure.

"The problems will not go until the dollar crisis is solved. I think the crisis cannot be resolved within a short period," he said.

He also said the government should not increase gas and electricity prices amid this situation. "It should make decisions considering the people's interests at first instead of trying to meet the demands of international agencies."

Governor of the Bangladesh Bank Abdur Rouf Talukder said there are three major challenges now – the Russia-Ukraine war, the interest rate hike by the US Federal Reserve, and the Covid-19 situation in China.

He said the Bangladesh economy is quite stable despite these challenges.

"The current LC opening problems may ease within the next couple of months. We are relentlessly working as part of relevant policy measures and actions, such as lowering the LC margin to ensure a smooth supply of essential commodities during Ramadan," he added.