

Focus Writing for Bank Job

Day 02 (recent topics)

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(4) Digital Bank (DB)

In the era of fourth industrial revolution, there has been a significant change in financial sector of each and every country of the world. The countries are now moving towards forming a cashless society and bringing greater number of people under the coverage of financial inclusion. Bangladesh is also following the foot prints of the advanced nations with the formation of digital country and has decided to be a smart country by 2041. To bring the mattress money in formal sector, the central Bank of Bangladesh has taken myriad steps of which one is issuing the license for setting up Digital Bank.

What digital bank is: Digital Bank (DB) is a new type of financial institution that provides banking services exclusively through digital channels. They have not any physical branches, and all of their transactions are conducted online or through mobile apps. In this system, payment is performed by scanning a QR code from a mobile app. This is an alternative to doing electronic funds transfer using a payment terminal. Digital Bank remains connected with a full-fledged traditional bank for its operation. In short, it can be treated as an update version of MFS (mobile financial services).

Terms and conditions of setting up a digital bank

On June 2023, Bangladesh Bank has decided in principle to issue license for Digital Bank (DB). The terms and conditions for establishment of DB include (but not limited to):

1. Must be a public limited company licensed under section 31 of Bank Company Act 1991.
2. Initial minimum paid up capital BDT 125 crores shall be provided by the sponsors.
3. The minimum shareholder stake of each sponsor is BDT 50 lac.
4. The sponsors' contribution to the share capital of the proposed DB will be required to be out of net worth declared to the Tax authorities. Sponsors' contribution out of borrowings from bank or financial institutions or from anywhere else, even from family members, shall not be acceptable;
5. The sponsors/directors must qualify the fit and paper test (FPT) criteria applicable for the proposed directors of DB;
6. Bangladesh Bank now invites applications for establishing DB through the License Application Portal;
7. The amount of BDT 5.00 (Five) Lacs should be paid as a non-refundable application from 21 June 2023 to 1 August 2023.

Functions and limitations of a digital bank

Digital Banks (DB) are permitted to open accounts, to collect retail deposits, to provide retail loans and so on. DB may issue a virtual card, QR code and any other advanced technology-based product for facilitating their customer transactions. However, DB is not permitted to provide corporate loan, to open LC, to use POS (point of sale) machine, to set up ATM, to start agent banking and to issue any physical instruments for transactions.

Benefits from digital bank (DB)

- Bringing mattress money to formal system
- Reducing branch launching cost and employee cost
- Stopping informal loan with high rates
- Raising the flow of remittance
- Accelerating the scope for cashless banking

In conclusion it can be said that setting up Digital Banks is a demand of time now. As Bangladesh Bank wants to reduce cashless transaction to 70% by 2027, we need digital banks as a priority basis. The day is not very far when a grocery shop situated in a village bazar will receive payments through QR code of digital banks.

(5) Energy security: causes and remedies

One of the most important tasks is to broaden the energy supply. Energy determines today's international security and social as well as economic development in many respects. In reality the wellbeing of millions of people is directly dependent on energy security.

Vladimir Putin, President of Russia

The few words stated above clearly present the importance of energy security throughout the world on the days coming ahead. Moreover, to ensure energy security for a country like Bangladesh is quite harder as she has to largely depend on others for primary energy sources.

Primary energy sources: Primary energy sources take many forms including nuclear energy, fossil energy-like oil, coal and natural gas as well as renewable sources like wind, solar, geothermal and hydropower.

Causes of recent energy crisis

There are myriad causes of energy crisis. Some are international such as Russia and Ukraine war, Sanction on Russia by America and Europe and reduction of fuel extraction by OPEC and non-OPEC allies (reduction of oil production by 2 million barrels per day from November 2022). Apart from international causes, there are a number of national causes which include scarcity of primary sources of energy in Bangladesh, excessive rise in import bills, higher cost of electricity production under quick rental system, bearing the capacity of charge of non-operative quick rental power plant, abnormal amount of system loss by power distribution companies, lack of system automation, wastage of energy, lack of long term national policy in ensuring energy security (poor storage capacity for fuel), corruption and mismanagement of energy sector, lack of capacity of refining crude oil, lack of technical knowhow and expertise to extract energy sources.

Remedies

A number of remedial measures are required to ensure energy security. These are raising the supply of primary sources of energy, raising the storage capacity of petroleum items, minimizing employee theft and system loss, signing Preferential Treaty Agreement (PTA) to ensure energy supply from cheaper sources, taking long term national policy to ensure energy security, stopping wastage of energy by individuals and institutions, issuing green bonds for collecting fund for renewable sources of energy, bringing the energy sector under complete automation, raising the capacity of refineries to refine all types of crude oil, forming a monitoring cell for energy distribution, taking prudent and effective decision by the world leaders to stop war and conflict in different parts of the world.

In conclusion it can be said that like many other countries of the world, Bangladesh is under mounting stress to ensure energy security of her sixteen crore people. As energy is the key driver to production and transportation, crisis or insecurity in this sector will result in disaster in many other sectors. Thus, the policy makers of the country will have to understand the depth of the crisis and to take steps accordingly so that security in energy sector can be maintained.

(6) Devaluation of money: causes and impact

Devaluation is the deliberate downward adjustment of the value of country's money relative to another currency, group of currencies, or currency standard. Countries that have a fixed exchange rate or semi-fixed exchange rate use this monetary policy tool.

Causes of devaluation of money

There are a number of reasons why a country would pursue a policy of devaluation. These are as follows:

- (i) **To boost exports:** On a world market goods from one country must compete with those from all other countries. Ship builders in Bangladesh, for example, must compete with ship builders in Europe and America. If the value of taka decreases against the dollar, the price of ships sold by Bangladeshi manufacturers in America, in dollars, will be effectively less expensive than they were before. On the other hand, a more valuable currency makes exports relatively more expensive for purchase in foreign markets.*
- (ii) **To shrink trade deficit:** Because of devaluation of local currency, exports rises and imports decreases as exports become cheaper and imports become expensive. This favours an improved balance of payments shrinking trade deficits.*
- (iii) **To reduce sovereign debt burdens:** The government may be incentivized to encourage a weak currency policy if it has a lot of government issued sovereign debt to service on a regular basis. If debt payments are fixed, a weaker currency makes these payments effectively less expensive over time. This may be explained with an example. Say, government of Bangladesh has to pay 5 million taka each month in interest payments on its outstanding debts. But if the domestic currency is devalued to half of its initial value, the 5 million taka debt payment will only be worth 2.5 million now.*

Effects of recent devaluation of Taka

Bangladesh Bank once again devalued taka against dollar, raising the exchange value of the dollar by 50 poisa to 93.95 a dollar on 28 June 2022. The price of dollar has increased to Tk 93.95 from 86 in the last three months- which the BB calls interbank price. Although the price has been fixed, dollar is not being exchanged in this price. There has been a gap of price of Tk 5-6 per dollar between the central bank and commercial banks in the country. Owing to devaluation of Taka for five times from January 2022 to July 2022, Taka has lost its value more than 4 per cent. Weaker taka has deepened people's woes and hit investment. Amid the global price spiral coupled with the taka devaluation, the price of packaged soya bean oil in the country rocketed to Tk 205 a litre on June 9 from Tk 150 in February 2022, while the item had retailed at Tk 130 in March 2021. Not only Soya bean oil but also many other imported essential items such as atta, palm oil, red lentil and garlic have become sharply costlier in the past one year. The rocketing of the prices of the essential items pushed up the country's inflation to eight year high at about 8 per cent.

Overseas investors have already lost 9.61 per cent of their investments only because of the devaluation of taka based on the official exchange rate. Portfolio investors usually take out their investments if they observe devaluation of the local currency or appreciation of the dollar. Foreign investors are apprehending further erosion of their investment as local currency exchange rate is on a downward trend. Two major essential types of imports—food and industrial raw materials will also be impacted due to the appreciation of the US dollars.

However, the appreciation of dollar will benefit the exporters and the remitters. This devaluation will boost the exports by making its products more competitive international trade. And, the expatriate Bangladeshis will get more Bangladeshi taka against the remittance they send to Bangladesh. This inspires to send remittance through legal sources.

In conclusion, it can be said that global price hike and inflation caused by devaluation of money have reduced the purchasing power of the lower class and lower middle class to such a level that they are compelled to curtail the list of daily essential goods. Many of them are not in a position to arrange food for three times let alone nutritious food. Thus Bangladesh Bank should take some pragmatic steps in this connection.

(7) Forex market volatility: causes, effects and remedies

Foreign exchange market (Forex market) is such a market which plays determining role in imports and exports of almost all the countries of the world. Volatility in such a market invites myriad dangers for the countries whose imports are much higher than export proceeds. Like many other economies of the world, the overall economy of Bangladesh is under mounting stress with the turmoil situation in sole trading currency.

Causes of forex market volatility

The soaring import payments (now hovering around \$7 billion per month amid the price hikes in the global market) are the pivotal reason for the shortage of the US dollar in the banking sector. In addition, COVID-19 pandemic, Ukraine crisis, Zero COVID policy of China, Unbridled price hike almost all necessary goods worldwide, the rise in demand of capital equipment and raw materials after corona, flow of people from Bangladesh to other countries for education, treatment, training, professional work and visit after opening ports of most of the countries are also largely responsible for dollar crisis. Besides, owing to money laundering from Bangladesh, the demand of dollars and value have risen. Another important cause is the brisk business by some private commercial banks, financial institutions and money exchange houses. Exporters complain that local banks are paying them Tk 93-94 dollars when they encash export proceeds, whereas importers say that they are now counting Tk 105 – 106 to purchase each dollar. Moreover, over-reliance on single currency (US dollar) has pushed us in such a difficult situation as well. Nearly 90 per cent of Bangladesh's international trade takes place in US dollars.

Effects of Forex market volatility

Foreign exchange volatility has brought dangerous effects for the economy of Bangladesh. These include increase in trade deficit, devaluation of local currency, decrease in foreign currency reserve, rapid rise in inflation, price hike of daily essential commodities, increase in foreign loan, increase in prices of fuel oil, electricity and gas, creating turmoil situation in the economy, creating unrest situation in the society.

Remedial measures as per the opinions of the experts

- (i) Bringing money exchangers, private commercial banks and financial institutions under strong monitoring:*** FBCCI, the country's apex trade body called on the central bank to beef up its monitoring of private commercial banks, financial institutions and money exchangers to check anomalies in the international currency exchange business.
- (ii) Allowing Chinese renminbi (RMB) to settle international trade transactions:*** The central bank may allow local businesses to use the Chinese renminbi (RMB) to settle international trade transactions. The RMB could be an option for Bangladesh in this difficult situation. If the currency is used, the pressure on US dollars will ease significantly. Thus, we need to cut our over reliance

on the single currency. The use of multi-currency in trading may ease the pressure on dollars as China is the largest trading partner of Bangladesh and the largest source of imports. India is also a major trading partner of the country. China and India together accounted for 42 per cent of Bangladesh's imports in the fiscal year 2020-21, BB data showed.

- (iii) **Using Indian rupee in trade transaction with India:** Bangladesh can use the Indian rupee to tackle the exchange rate volatility between the taka and the US dollar.*
- (iv) Taking effective steps against money laundering.*
- (v) OMS expansion to insulate the poor households from the price increases.*
- (vi) Cash assistance for the poor*
- (vii) Widening social safety net.*
- (viii) Increasing repo rate*

Steps taken

Bangladesh Bank has taken some pragmatic steps to bring the situation under control including fixing profit margin for the commercial banks (1 taka per dollar) in bringing remittance and export bills and allowing money exchange houses to buy dollars with higher than one taka from bank rate and selling the same with a profit of 1 to 1.5 taka. Apart from these, the government has cancelled license of a number of exchange houses for their involvement in brisk business with dollars.

Finally, it can be said that increasing economic activities after the normalcy of pandemic and global price hike of almost all daily essential commodities due to Ukraine crisis have soared dollar price. Apart from global factors, a number of private commercial banks and financial institutes as well as exchange houses have aggravated the crisis in our country as they are making brisk business cashing in on the US dollar shortage. It is a matter of hope that Bangladesh has taken some steps including fixing profit margin (1 taka per dollar) in buying and selling dollars for commercial banks, and additional Tk 2.5 for money exchangers), allowing more bank branches for AD Branch (Authorised Dealers for foreign currency) to endorse dollars to tackle the situation.