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GDP to grow 6.5pc in FY 06

Says ADB quarterly update on Bangladesh

STAR BUSINESS REPORT

The Asian Development Bank (ADB) has estimated a 6.5 percent gross domestic product (GDP) growth for Bangladesh for the fiscal year 2005-06 despite risk of political heartbreak and high oil price in global market.

"Risks to the growth process include the knock-on effects of high global oil price, weak governance and political uncertainty, especially in the run-up to the January 2007 elections," said ADB in its Quarterly Economic Update for December 2005 released yesterday.

The report said private consumption will be the main driving force behind the growth, bolstered by strong remittance inflow. "Growth in the fiscal 2005-06 will be underpinned by steady expansion in industry and services, aided by a strong recovery in agriculture," it added.

At a press briefing to mark the release of the economic update on the country, head of ADB's Bangladesh mission Hua Du praised the opposition Awami League's decision to join the parliament and termed it 'a good sign for the country's economy'. She also lauded the macro-economic management of the country, saying "it is very solid".

Hua Du formally released the economic update at the briefing held in Dhaka.

The Manila-based bank in a separate study on "Macroeconomic Impact of Oil Price in Bangladesh" said rise in oil price in international market impacts on balance of payment, fiscal measures and inflation situation.

The ADB suggested reduction in dependence on imported petroleum, saying, "Use of compressed natural gas in all types of road and water transports will be encouraged to replace diesel and motor fuels." The report also suggested cut in dependence on a single type of fuel to minimise the adverse effects of any potential global energy crisis.

The ADB also underscored the need for maintaining stability in the money and foreign exchange markets as well as containing the growing inflationary pressures.

"The inflation continued on an upward trend. On an annual average basis, inflation increased to 7 percent in December, 2005 from 6.7 percent in July, 2005," the report said.

According to the report, higher inflation has been caused by depreciation of taka, increase in food price, rise in international commodity prices and increase in the state-administered price of oil. "Increased government borrowing from the banking system fueled inflationary pressure," it added.

Agricultural sector of the country is expected to show a significant recovery in the current fiscal, as the Aus production increased by 16.7 percent while Aman production by 10 percent, the report mentioned.

Growth in services sector has kept pace with the strong growth in agricultural and industrial sectors. Rapid growth in cellphone usage, emergence of new private TV channels and expansion of healthcare services will also contribute to the strong growth in services sector, according to the ADB update.

The ADB said oil import bill is projected to reach US$ 2,000 million in 2005-06, up from $ 1,602 million in the previous fiscal.

"Despite the recent fuel price increases, the subsidy remains very high, about $ 520 million or 0.8 percent of GDP," the report said, adding that losses of the Bangladesh Petroleum Corporation (BPC) would also remain high, estimated at $ 380 million in this fiscal.

Rezaul Karim Khan, a senior economist of the bank, presented the details of the update while other senior bank officials were also present.

US Congressman Crowley meets BGMEA leaders today

BDNEWS, *Dhaka*

US Congressman Joseph F Crowley, co-chair of congressional Bangladeshi Caucus, will arrive in Dhaka today on a three-day unofficial visit.

During his visit, Crowley will hold talks with the Bangladesh Garment Manufactures and Exporters Association (BGMEA) leaders about the proposed TRADE Act 2005.

The meeting is scheduled to take place today in Dhaka and BGMEA will arrange a reception for Crowley after discussion.

TRADE (Trade Relief Assistance for Developing Economies) Bill in the US Congress is seeking duty-free market access of products from Bangladesh and 12 other LDCs to the US market.

Bank holiday today

BDNEWS, *Dhaka*

The Bangladesh Bank (BB) and all scheduled banks will remain closed today on the occasion of Shaheed Day and International Mother Language Day, a press release said yesterday.

FDI in China up nearly 11pc in January

AFP, *Beijing*

Foreign direct investment in China rose nearly 11 percent in January compared with a year earlier, following a decline in 2005, the government said Monday.

Foreign direct investment gained 10.99 percent last month from the same month last year, to stand at 4.55 billion dollars, the commerce ministry said in a statement on its website.

Investments from other Asian countries were nearly flat, rising just 0.7 percent, while inflows from the United States were up 19.7 percent, and those from the European Union gained 70.8 percent.

Actual foreign direct investment in China slid 0.5 percent in 2005 to 60.3 billion dollars from the year earlier, the first time in six years such capital flows had fallen, the government said last month.

Dhaka must follow 'restrictive measures' for gas export

Says Indian trade team leader

STAFF CORRESPONDENT, *Ctg*

Leader of an Indian trade delegation yesterday said Bangladesh must take some 'restrictive measures' while selling or exporting its gas or other mineral resources to any prospective investors to safeguard the country's interest.

Bangladesh must draw a suitable plan in consultation with experts on the use of its gas and mineral resources before allowing foreign investments in energy sector, OL Nongtdu, leader of a visiting 20-member team of Chemical and Allied Products Export Promotion Council (Capexil) of India, said after a meeting with Chittagong Chamber of Commerce and Industry (CCCI) members.

He said, "I would suggest at least some sorts of restrictions instead of wholesale sale or export of gas in the name of attracting foreign investment."

"The future of your country will be at stake after some years when you discover that you run out of gas reserve. So, take a right decision and make good plan now to ensure the best use of your own resources," said Nongtdu, who is also the co-chairman of Meghalaya Industrial Development Corporation Ltd.

Referring to the 'Indonesian-experience', the Capexil team leader said the overall economy and progress of Indonesia is now on the waning track because of putting too much faith in so-called 'openness'.

"Korea is going to suffer the same," Nongtdu added.

At the meeting with the CCCI, he said "Proper use of Chittagong Port, free movement of people and materials and easy transportation across the borders could be the best tools to boost bilateral trade."

Nongtdu urged the CCCI members to identify the items, which both the countries can reap benefit from.

"I request you not to compete with same items. If we continue competing with same items, the trade gap will not be reduced," he said.

CCCI Senior Vice President SM Nurul Hoque said trade gap between the two countries in the last couple of years was over US$ 100 crore, which is in favour of India.

"India should import more goods from Bangladesh in order to help reduce the trade gap," he said urging the Indian government to eliminate all types of para-tariff and non-tariff barriers.

Former CCCI president Ali Ahmad, directors Ershad Ullah and Syed Jamal Ahmed, Assistant High Commissioner of India Ashoke Das and Capexil team member SS Gupta also spoke at the meeting.

PHOTO: STAR

SM Nurul Hoque, senior vice president of Chittagong Chamber of Commerce and Industry, speaks at a meeting with a visiting Indian trade delegation yesterday in the port city.

Airbus, Indian clinch deal for 43 planes

PALLAB BHATTACHARYA, *New Delhi*

Hoping for a major business tie and civil nuclear co-operation with India, French President Jacques Chirac yesterday held talks with Indian Prime Minister Manmohan Singh here as the two countries signed a 2.25 billion dollar deal for purchase of 43 Airbus planes by India's state-owned airlines.

The meeting between Chirac and Singh was followed by delegation-level talks at the Hyderabad where a range of bilateral and international issues were understood to have come up for discussion.

The deal for India's acquisition of the Airbus aircraft had been cleared by the Indian cabinet last September and is expected to help Indian Airlines (renamed Indian) and Air India to fight off growing competition from more foreign airlines and low cost domestic private air carriers.

This is the second major aircraft deal between the two countries since Chirac's arrival here on Sunday when the French President witnessed India's private low cost Kingfisher Airlines signing a 270 million dollar deal to buy 15 ATR 72-500 aircraft with the option to purchase another 20.

'UNUSUAL FLUCTUATION' OF SHARE PRICES

Prime Bank asked to send info on shareholding position

SARWAR A CHOWDHURY

The Securities and Exchange Commission (SEC) yesterday asked Prime Bank to provide it with information on shareholding position of the bank's sponsor directors and directors.

The capital market watchdog also asked the managing director of the bank to send information on the agenda of yesterday's board meeting to the commission.

The SEC directives came following a rumour that there may be a relation between the bank's recently held several board meetings and the 'unusual share price behaviour' in the last few days.

The regulatory body suspects some insider dealings on price sensitive information have resulted in 'unusual fluctuation' of Prime Bank share prices.

The SEC also suspects some directors of the bank may be involved in the insider dealings. There is a rumour that the bank will declare less amount of dividend this year.

On the Dhaka Stock Exchange yesterday the Prime Bank shares were traded at as low as Tk 582 and as high as Tk 635. On Sunday shares were traded at as low as Tk 601 and as high as Tk 675.

A three-member inquiry team of the SEC comprising Anwarul Kabir Bhuiyan, executive director (Administration), ATM Tariquzzaman, director (Initial Public Offering), and M Mizanur Rahman, director (Law), went to Prime Bank yesterday afternoon for primary investigation and met bank Managing Director Shajahan Bhuiyan.

The team sought immediate information on board meeting's agenda, shareholding position and undisclosed price sensitive information, if any.

"We also sent a letter to the bank seeking information. The managing director confirmed us that he would send the information within 4pm (yesterday). I waited in the office until 6:15pm for reply, but I did not receive any reply," said Anwarul Kabir Bhuiyan.

"If the bank does not send any information to us, we may go for a detail investigation," he added.

When contacted, Prime Bank Managing Director Shajahan Bhuiyan said as the bank received the SEC letter at 5:30pm yesterday, it could not reply to the letter immediately. He said the bank will reply to the letter on Wednesday.

He also said none in the bank is involved in insider dealings on price sensitive information.

A high official of the bank said the board yesterday night approved 25 percent stock dividend for the year 2005.

Asia Energy plans exclusive terminal for coal shipment

STAFF CORRESPONDENT, *Khulna*

Asia Energy Corporation (Bangladesh) Pvt Ltd yesterday announced plans to build a $40 million river terminal in Khulna to handle shipment of up to eight million tonnes of coal from its Phulbari coalmine.

Gary Lye, CEO of Asia Energy Bangladesh, told a meeting that the company is considering three options in this regard. They may use a site of Mongla Port Authority at the railhead in Khulna or a green field site on the Rupsha river to the north or south of the city.

Khulna City Corporation Mayor Sheikh Tayebur Rahman, local government officials, representatives of Mongla Port Authority and journalists, among others, attended the meeting held at Hotel Castle Salam.

Lye was accompanied by Executive Director Bill McIntosh and other senior managers of Asia Energy.

Asia Energy's Phulbari coalmine in Dinajpur is set to produce 15 million tonnes of coal per annum. Of the production, up to eight million tonnes will be exported initially by rail service and later by barges to Akram Point, from where the freight will be loaded onto seagoing ships.

Lye said major dredging is a must for deep-water ships to reach Akram Point and this in turn will enable larger vessels to operate in and out of Mongla Port.

As a result, shipping costs for all commodities will be more economic, opening up Mongla and Khulna as a competitive port for worldwide trade. This will act as a stimulus for business development in the area, he explained.

In addition to Chittagong, Asia Energy will also use Mongla and Khulna to import diesel, giant trucks and diggers needed to work its open pit mines at Phulbari.

"Our operations here will generate several thousand permanent new Jobs. Mongla-Khulna, in partnership with Bangladesh Railway, will become the hub of a prosperous new transport corridor in western Bangladesh," Lye observed.

Asia Energy has submitted as Scheme of Development and Feasibility Study for the Phulbari mine and is awaiting final government on authorisation to start mining operations.

First coal is planned by 2008 with annual production increasing rapidly to full capacity of 15 million tonnes by 2013, Gary told the meet.

IBA career fair ends on high note

STAR BUSINESS REPORT

The two-day career fair, organised by Institute of Business Administration (IBA) of Dhaka University, ended yesterday on a high note.

Maruf Hasan, a student, said the fair was a rare opportunity for direct interaction between potential job seekers and employers.

Nazara Zehra Rashid, deputy manager (Human Resources) of Siemens Bangladesh Limited, said her company received more than one hundred CVs from potential job seekers. She said the fair will help her company recruit efficient people.

An official of Aktel cellphone company said his company received more than 300 CVs.

The institute organised the 'IBA Career Fair 2006' for the first time in an effort to make arrangement for its students to interact with senior corporate leaders. A total of 16 leading local and multinational companies participated in the fair.

Dhaka University Vice-chancellor SMA Faiz inaugurated the fair on Sunday.

Companies participated in the fair were ACI Ltd, Aktel, Apollo Hospitals, Asiatic Marketing Company Ltd, BATB, Beximco Pharmaceuticals Ltd, Brac, CityCell, Dhaka Bank Ltd, Eastern Bank Ltd, GrameenPhone, Marico, Novartis Bangladesh Ltd, Standard Chartered Bank, Prime Bank Ltd, and Siemens.

Managing investment financing dilemma

MAMUN RASHID

In recent times, economic policy makers of Bangladesh are facing a major dilemma regarding how to finance the country's future growth. Over the last 15 years, the economy has shown significant promise by achieving average GDP growth of over 5 percent per annum. It is apparent to the policy makers that the economy holds tremendous potential and can actually achieve higher growth with higher investments. However, the need for investment raises some critical issues. How can we increase our desired investment level while maintaining macroeconomic stability? In which sector do we invest to gain optimum benefit? What is the best possible way to channel additional investments?

Any student of macroeconomics would opine that the best way to finance this investment for future growth is by increasing domestic savings. However, the reality is that for a growth economy there would always be a lag time between the additional investment requirement and the growth of domestic savings. Our domestic savings have increased significantly in the last decade. However, this increase is not enough for capturing our future growth potentials. If we are not going to be able to generate sufficient investment, we are not going to be able to keep the growth momentum. As a matter of fact, this is quite a normal phenomenon in every growth economy where the opportunity for higher growth always require more investments than that can be generated by domestic savings. Thus, policy makers are forced to consider external sources for financing investments. Consideration of external sources, furthermore, brings in several dilemmas for the policy makers.

Financing investments through external sources can be done in various ways. The traditional way has been to take soft loans from various multilateral agencies like World Bank, IMF, ADB etc. These loans are quite cheap with long repayment terms and as such create very little impact on our foreign exchange reserves as well as on over-all macroeconomic stability. These loans are mostly available for poverty alleviation and infrastructure development. However, because of the nature of such borrowings, they carry little accountability. To add to that, there is perennial inefficiency and failure on the part of the Government machinery in development and implementation of projects. This is very much evident in the statistics showing poor utilization of our Annual Development Plan (ADP). As a result, only a tiny portion of these funds actually reaches the destination cause and the rest gets washed away in corruption and inefficiency. Also, as trends show over the years, volume and flow of funds from this source is gradually diminishing.

Alternatively, we can seek international commercial capital. International commercial capital can either be borrowed by the Government or by the private sector (may be initially by the government and then gradually by the private sector once the country is rated and their balance sheets improve). This capital is purely profit motivated and would be priced at global standards. Theoretically, that should not be an issue of concern as the Bangladesh economy have been showing strong performance for a sustainable period of time, which has not gone unnoticed by global investors. However, the critical issue is that as they are profit motivated and priced at global standards, this commercial capital would require certain level of governance and efficiency in project execution as well as ensuring proper returns. The concern for policy makers is that if the Government starts to borrow from the international capital market, the absence of governance and efficiency would lead to ill utilization of the fund. As a result, there would be a great deal of leakage, and the investment would not be able to generate sufficient return to repay the international investors. As these borrowings would not be as cheap and long term in nature as the loans given by the multilateral agencies, there would always be the potential for a big dent in the foreign exchange reserve and chronic macroeconomic instability.

This leads to the possibility of private sector to seek investments from the international capital market. But the private sector is not in much better shape than the public sector in terms of governance and efficiency. Very few of the local enterprises pay taxes. Most of them lack proper financial disclosure. They do not have adequate balance sheet strength to attract international capital. Not only that, they lack management ability to take their organizations to the next level and compete internationally. There is an unholy alliance between the politics and the business whereby the private sector expects that Government would always bail them out of any crisis and therefore, they can grow in an irresponsible manner without proper capacity building. In this environment of' protectionism', a big section of the private sector feels threatened by any proposal of Foreign Direct Investment and resists them strongly. The policy makers are very much aware of this issue and wary of permitting the private sector to deal with international capital. The example of Asian Crisis comes to their mind very often in this regard.

In view of the above dilemma, policy makers are presently opting for the safer option of borrowing from the multilateral agencies instead of going for international commercial capital in financing the economy's future growth. This seems very logical and justifiable for the Government-, keeping in mind of the potential political fallout and threat to macroeconomic stability. However, one has to argue that it may be a justifiable option in the short term , but is a negative approach, as it does not directly address the real issue. The real issue is the lack of governance and the need for enhancing capacity across public and private sector. The policy makers need to adopt a positive approach in addressing these issues. By not getting prepared to face the international market, we are probably missing out on the opportunity to take our economy to a new trajectory of growth. This would have contributed significantly in bringing millions of our people out from below the poverty line.

When talking about addressing the issues of governance and efficiency, one has to be realistic in understanding the obstacles confronting the policy makers. One can easily be a utopian and throw prescriptions in front of the policymakers and when nothing happens, shift the blame to someone else. We must try to realize the political compulsions of a Government and remove them by creating broad based consensus across various political, economic and social interest groups. Policy makers must understand the concerns of the constituents of various interest groups and provide equitable solutions. This may sound unreal, but we have a history of building up such broad based consensus. In more than last two decades, we have established an almost unequivocal agreement across party line that market-based economy would be the future path of this country. Last three democratically elected Government pursued similar economic policies. If we have been able to achieve this, there is no reason why we cannot establish a broad consensus over governance and efficiency enhancement, especially when we talk of taking the country to the next frontier of growth possibilities.

Addressing the issue of governance and efficiency has become critical for our future economic growth. Without them we cannot establish the link with international capital markets. Again, without the international capital our economy would circle around mediocre growth and will not be able to take the full advantage that has been created by current momentum. Donor's support at current levels can keep us floating, but will not help to get to the next trajectory of growth which is to be driven by the private sector. Bangladesh's donors' (or development partners, as it sounds better) at present is not willing to allow us to go to the international market to borrow commercially, as they feel, once given the access to the commercial borrowing, countries like Bangladesh will shy away from reforms. Same was the case with Vietnam and Pakistan. Vietnam has lobbied a lot to get access to international capital market. Ultimately they got it and the next story is known to most of our readers, it was growth and growth through market developments. We, therefore, also feel that to get into the next trajectory of growth or to finance accelerated growth , Bangladesh should start, selectively, attempting to tap the international capital market capitalizing on its improving economic fundamentals. Sooner that happens, greater the benefit that the economy can reap.

The writer is a banker