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FBCCI's accords with trade bodies of 20 countries ineffective

BDNEWS, *Dhaka*

The FBCCI's more than half of the cooperation agreements with the trade bodies of various countries remain ineffective due to lack of proper communications and follow-ups.

Sources said the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has so far signed cooperation agreements with the apex trade bodies of 35 countries to improve bilateral trade and investment ties. However, it has regular contacts with trade associations of 15 countries while the rest agreements remain ineffective due to lack of follow-ups and FBCCI's inadequate institutional capacity.

"The main reason for non-functioning of the agreements is lack of follow-ups," FBCCI President Mir Nasir Hossain said.

"It depends on the interest of both the parties. If both the parties are interested, such agreements become effective," he said adding that improving the capacity of the apex trade body will help nurture the cooperation accords.

Abdul Awal Mintoo, former president of the FBCCI, said, "FBCCI lacks adequate institutional capacity to take care of these cooperation agreements."

Mintoo referred to Singaporean government's support to its apex trade body for trade facilitation measures and said: "Our government should give funds to us so that we can work effectively on facilitating trade to tap the potential of exports."

"Otherwise the prospects of building a vibrant trade relation with other countries will remain elusive. Exports will not increase in line with the expectations if we cannot utilise the benefits of such cooperation agreements," he said.

On the fund crisis, Mintoo also said the FBCCI like other apex bodies in several countries should be allowed a corporate membership to augment its income.

Sources said the FBCCI has contacts with national trade organisations of countries such as China, Indonesia, Japan, South Korea, Malaysia, Oman, Singapore, Saudi Arabia, Russia, Taiwan and Vietnam.

Of the Saarc countries, it has contacts with all the apex trade bodies excepting any in the Maldives.

However, there has been no contact with the apex bodies of countries such as Australia, Belgium, Cambodia, Egypt, Finland, Germany, Hong Kong, Iran, Italy, Morocco, Myanmar, Peru, the Philippines, Qatar, Romania, South Africa, Thailand, Turkey and Uzbekistan, although the FBCCI signed cooperation agreements with them.

Thousands strike over equity sale in India's state-run aluminium maker

AFP, *Bhubaneswar*

Thousands of workers at India's second largest aluminium maker went on strike Friday to protest a government decision to sell 10 percent of the state-run firm's equity, officials said.

Some 5,000 workers from the National Aluminium Company Lt (NALCO)'s Angul plant, situated 200 kilometres (125 miles) from Bhubaneshwar, capital of the eastern state of Orissa stayed away from work, they said.

"Yes, the strike by the employees has affected work. It was peaceful. There's been no damage to plant and the mechinery," said U.B.Patnaik, executive director of Nalco's smelter plant at Angul.

Protests were also staged at NALCO's refinery unit at Damanjodi in Orissa's Koraput district, over 500 kilometres (310 miles) south of Bhubaneswar, officials said.

Shibaji Patnaik, president of NALCO's employees and workers union, told AFP that Friday's strike was a token measure to demonstrate opposition to the move.

"We want to make it clear that its not only we, the trade unions, who are opposed to NALCO's disinvestment; the people of Orissa too do not want it," Patnaik said.

Orissa Chief Minister Naveen Patnaik has written to Prime Minister Manmohan Singh in which he has opposed the privatisation.

The protests follow a decision by India's cabinet on Thursday to approve the sale of 10 percent equity in each of NALCO and state-run Neyveli Lignite Corporation, a major lignite mining and power generating company.

PHOTO: STAR

Visitors take a look at a decorated door at the six-day national door fair at the exhibition centre of Bashundhara City shopping mall in Dhaka. The show ends Tuesday.

India's inflation picks up on hikes in food, fuel prices

AFP, *New Delhi*

India's inflation rate has picked up sharply, rising above five percent for the first time in a year, government figures showed Friday.

According to the Wholesale Price Index, India's most widely-tracked price monitor, inflation rose to 5.24 percent for the week ended June 10 against 4.72 percent the previous week, on the back of large increases in fuel and food prices.

Inflation in the corresponding week last year was 4.50 percent.

India has an inflation target for wholesale prices of 5.0-5.5 percent.

The figures were released a day after India's federal cabinet halted the export of lentils and allowed private players to import wheat and sugar in an effort contain prices of food items which have shot up in the past few weeks.

In New Delhi, Finance Minister Palaniappan Chidambaram said the government "will take more monetary and fiscal steps if needeed to curb inflation.

"The current spurt in inflation was due to ... (increases in) fuel prices," he was quoted as saying by the Press Trust of India news agency.

On June 5, India raised petrol prices by just over nine percent and diesel by more than six percent to offset higher global oil prices.

The price of gasoline increased by almost 9.2 percent per litre while diesel costs went up by 6.5 percent per litre.

ACI declares 45pc dividend

Advanced Chemical Industries (ACI) Ltd has declared a 45 per cent dividend for its shareholders for the year 2005.

The dividend was approved at the 33rd annual general meeting (AGM) of the company held on Thursday in Dhaka, says a press release.

Chairman of the company M Anis Ud Dowla presided over the AGM, which was attended, among others, by directors Waliur Rahman, Rafiqul Islam Khan, Shusmita Anis Salam, Md Ziaul Haque Khondker, Najma Dowla and Wajed Salam, Managing Director Arif Dowla and Director & Company Secretary Sheema Abed Rahman.

National Bank okays 30pc bonus share

National Bank Ltd has declared 30 per cent bonus share for its shareholders for the year 2005.

The bonus share was approved at the 23rd annual general meeting (AGM) of the bank held on Monday in Dhaka, says a press release.

Chairperson of the bank Parveen Haque Sikder presided over the AGM, which was attended, among others, by directors Helena Rahman, Shahadat Hossain Salim, Abu Sayeed Monir, AKM Enamul Hoque, MG Murtaza, AM Nurul Islam, AB Tajul Islam, Md Azizul Ashraf, Mahbub Ahmed and Zakaria Taher, and Managing Director M Aminuzzaman.

Beximco Pharma declares 15pc cash dividend

Beximco Pharmaceuticals Ltd has declared a 15 per cent cash dividend for its shareholders for the year 2005.

The dividend was announced at the 30th annual general meeting (AGM) of the company held in Dhaka on Thursday, says a press release.

Chairman of the company ASF Rahman presided over the AGM, which was attended, among others, by Vice-chairman Salman F Rahman, directors Iqbal Ahmed, MA Qasem, OK Chowdhury, Abdul Alim Khan, Farida Huq, AB Siddiqur Rahman, Faheemul Huq and Ahsanul Karim and Chief Executive Officer Nazmul Hassan.

Iran to ration petrol, stop imports

AFP, *Tehran*

Iran is to stop importing petrol and introduce petrol rationing from September 23, Oil Minister Kazem Vaziri Hamaneh said Friday.

"As there is nothing provisioned for petrol imports in the second half of this (Iranian) year's budget... the imports will naturally stop and petrol will be rationed," he said on state television.

Iran's refineries have a capacity of 40 million litres of petrol a day, but demand is close to 70 million litres.

In Iran petrol is extremely cheap thanks to massive subsidies.

A litre of regular petrol costs just 800 rials (nine US cents, or 34 cents a gallon). Super costs 1,100 rials (12 cents, or 45 cents a gallon).

An explosion in car ownership and petrol smuggling to Iran's neighbours, where prices are far higher, has caused an explosion in demand.

The shortfall has up to now been met by spending billions of dollars each year on imported petrol, something of an irony for Opec's number-two crude exporter.

OIL PRICES HOLD CLOSE TO $70

Another report from London says: World crude prices eased slightly on Friday but remained supported by strong demand for motor fuel in the United States and lingering geopolitical tensions in the oil-rich Middle East.

New York's main contract, light sweet crude for delivery in August, slid nine cents to 70.75 dollars per barrel in electronic deals before the official opening of the US market.

In London, Brent North Sea crude for August delivery lost ten cents to 69.85 dollars per barrel in electronic trading.

"Crude futures slipped a little (on Friday) amid slight profit-taking after the recent two-day rally triggered by a less-than-expected rise in gasoline stocks and a rise in gasoline demand," Sucden analyst Sam Tilley said.

That suggested that "US consumers have not decreased their demand for gasoline despite the higher prices", he added.

American reserves of motor fuel increased by 300,000 barrels to 213.4 million in the week to June 16, according to data published Wednesday by the US Department of Energy (DoE).

That was sharply below the rise of 1.5 million expected by analysts but marked the eighth weekly increase in a row.

Over the past four weeks, meanwhile, the DoE said that US demand for gasoline has been running 0.9 percent higher than a year ago.

Gasoline numbers are under scrutiny as drivers in the United States begin taking to the roads en masse for their summer holidays.

Elsewhere, oil market participants kept one eye on Iran, the world's fourth-largest crude producer, amid a nuclear energy crisis.

Iran said Friday that suspending uranium enrichment will be neither a pre-condition for talks with world powers on its suspect nuclear activities nor an outcome of those discussions.

Bata okays 120pc cash dividend

Bata Shoe Company (Bangladesh) Ltd has declared a 120 per cent cash dividend comprising a final dividend of 20 per cent and an interim dividend of 100 per cent for the year 2005.

The dividend was okayed at the 34th annual general meeting (AGM) of the company held on Thursday in Dhamrai, says a press release.

Chairman of the company Jorge Carbajal presided over the AGM, which was attended, among others, by directors Mike Middleton and Rokanuddin Mahmud and Managing Director JD Hearns.

PHOTO: BATA

The 34th annual general meeting (AGM) of Bata Shoe Company (Bangladesh) Ltd was held on Thursday in Dhamrai. Chairman of the company Jorge Carbajal presided over the AGM, which was attended, among others, by directors Mike Middleton and Rokanuddin Mahmud and Managing Director JD Hearns.

National budget for FY2006-07: A CPD analysis

The National Budget for the fiscal year 2006-07 (FY07), the last budget of the present government, has been placed at a critical juncture both from political and economic perspectives. The Centre for Policy Dialogue (CPD), in continuation of its tradition, presented an analysis of the budget for FY07 on 9 June 2006. The present review is an excerpt of the immediate response by CPD, which examines the proposed budget in the context of current trends in the Bangladesh economy.

Instalment 1

The upcoming fiscal year (FY07) is going to witness the reign of three successive governments, i.e. the outgoing government (July - October 2006), the caretaker government (November 2006 - February 2007) and the new government (March - June 2007). As is anticipated that the major part of the proposed budget period will be in the hand of the new political government. The caretaker government will only have to hold the fort during its three months tenure, investing most of its efforts to hold national elections.

However, the outgoing government, apart from designing the budget, will have to deal with a number of critical issues such as price hike, fuel price, power shortage, unrest among the RMG workers and decision on Tata investments during the remainder part of its tenure. The government is not expected to aggravate the economic situation for the incoming government(s) through the so-called election oriented behaviour. However, even after the possible damage control measures, many of the emerging economic pressures will be felt by the new political government which has to take the ultimate challenge of implementing the budget of FY07, possibly in a revised format.

Economic growth and per capita income in FY06

According to preliminary estimates, Bangladesh economy posted 6.71 per cent GDP growth in FY06. This preliminary estimate, was, however made on the basis of six to seven months' data of the current fiscal year, when the economy was going through a momentum of high credit expansion, high export, high import, high industrial production and high inflation. To ease the pressure on fiscal and external balance, government took a number of measures such as increasing the lending rate and controlling import. All proxy indictors suggest that the economy, as a result, was slowed down during the last quarter of FY06. Hence, it is apprehended that the initial growth estimate may be revised downward, once data for full fiscal becomes available.

One of the positive features of this year's (FY06) growth is the increased contribution of real economic sectors that posted a notable 7.08 per cent growth. In the incremental GDP of FY06, industry contributed 38.66 per cent and agriculture 14.30 per cent, whereas service sectors accounted for 45.70 per cent. Among the major contributors, manufacturing sector added about one quarter (24.64 per cent) of the total added growth.

Per capita GDP stood at US$456 in FY06, while per capita GNI stood at US$482, recording 3.4 per cent and 4.10 per cent annual growth rates respectively. Thus, per capita GDP grew by $15, i.e. by Taka 1000 during the last fiscal year. In other words, a person, on average, earned about Tk 82 more in each month of FY06, which is equal to the price of one kg of rice and one kg of lintel. However, one should not forget that these averages conceal a high degree of skewed income distribution.

Challenges and outlook for FY07

In view of the economic and political realities, the challenge before the national budget for FY07 is not only to maintain the macroeconomic balance within the framework of PRSP but also to address several other structural challenges which may pose serious threats to the economic horizon of the country. Some of these challenges were expected to be addressed through the budget for FY07. These include ensuring distributive growth; controlling price hike; intensifying domestic resource mobilisation; management of the public expenditure programme; expanding safety net programmes; maintaining safe foreign currency reserve; increasing access and disbursement of foreign aid; ensuring greater net flow of foreign direct investments (FDIs); solving the power crisis; taking measures to increase fuel price; and tackling the crisis in the readymade garments (RMG) sector.

PUBLIC FINANCE

Revenue earnings

Revenue-GDP ratio failed to achieve the PRSP target of 11 per cent, though it marginally increased from 10.64 per cent in FY05 to 10.78 per cent in FY06. The ambitious revenue target for FY06, which was set at 16.6 per cent higher than the realised figure of FY05, marginally fell short of target by (-) 1.9 per cent. The realisation in FY06 was 14.4 per cent higher than the corresponding figure of previous fiscal year. The incremental contribution of VAT in total revenue growth was about 31.6 per cent, while tax on income contributed only 19.6 per cent to the added revenue intake.

According to the new target of revenue earnings, the government will have to collect 17.1 per cent more revenue in FY07 whereas NBR will have to record a 19.15 per cent growth. Given the past record of revenue collection, this target seems to be unachievable. Its seems that the government (average 11.5 per cent) first decided on a high spending outlay and then tried to make adjustment for the financing sources leading to improbable resource projection.

Public expenditure

Total revenue earnings registered 14.5 per cent growth in FY06 as against a 9.8 per cent growth in total public expenditure. Revenue expenditure registered a whooping 17.3 per cent growth against a 4.9 per cent ADP growth. Given the poor utilisation of ADP, a moderate budget deficit (3.89 per cent of GDP) was also observed. For FY07, the government has set the growth of public expenditure at 14.2 per cent, which is lower than the projected growth of revenue earnings (17.1 per cent). Target of ADP growth has been set at 20.9 per cent in FY07 as against a 14.1 per cent growth in revenue expenditure.

Block allocation: The most disturbing feature of public expenditure in Budget FY07 has been the high growth of "Block Allocation". In the budget for FY07 an amount of Tk 6124 crores has been kept as block allocation, which is about 9 per cent of the total national budget. Among the total block allocation, Tk 2001 crores have been allocated for revenue expenditure, while the rest Tk 4123 crores have been kept in the development expenditure (of which Tk 2839.9 crores as sectoral allocation). The 428 projects which have been included in the ADP without approval and allocation, will seek to use this block allocation to get into the mainstream projects. It is apprehended that such flexibility in decisions pertaining to allocation may breed indiscipline in public spending during the last three months of an outgoing government i.e. first three months of the next fiscal year.

Overview of sectoral allocation: In terms of total expenditure (development and non-development), education and technology has retained last year's top position with 15.9 per cent of the total expenditure. Public service, with a gigantic annual growth of 52.2 per cent, has received the highest increment in expenditure (12.2 per cent of total expenditure). Among others, Transport and Communications, Agriculture, Health and Recreation, Culture and Religious Affairs have posted a significant growth of 20.4 per cent, 29.2 per cent, 16.34 per cent and 18.2 per cent respectively. However, LGRD has received Tk 6795 crores in the proposed budget, which is only 4.5 per cent higher as compared to the revised budget of Fy06.

Defence: Defence Services is expected to grow 9.32 per cent in the proposed budget of FY07 with an incremental allocation of Tk 418 crores. However, its share in total allocation declined from 7.4 per cent in FY06 to 7 per cent in FY07. Lack of information and transparency in other defence oriented allocations under the Defence Ministry inhibits proper analysis of defence spending in Bangladesh. The historical experience reveals that the revised allocation in the Defence Services usually increases over its original allocation. For instance, in FY06 the allocation on account of Ministry of Defence increased by 166 crores taka.

The source of this increase mainly comes from the non-development allocation. In FY06 the non-development allocation experienced a growth of 3.91 per cent. However, development allocation also played a crucial part in budget FY07. With Tk 83 crores additional allocation in the ADP, defence ministry registered a 110.67 per cent growth in FY07 over the revised allocation of FY06.

Revenue expenditure

The economic analysis of the composition of revenue expenditure indicates that the three heads which account for more than 80 per cent of the total revenue expenditure, accounted a 12.6 per cent growth in FY06, over the corresponding figures of the previous year. Within these three heads, "Salary and Allowances" registered a 15.5 per cent annual growth in FY06. According to the target for FY07, salary and allowances would increase by 15.8 per cent over the augmented figures of FY06. The "pay of officer" is projected to be increased by 5.8 per cent in FY07. "Subsidies and transfers" registered a 6.1 per cent growth in FY06, while "interest payments" accounted a 16.0 per cent growth during this period. Interest Payment (domestic) during FY06 accounted a significant growth of 17.6 per cent, while Interest Payment (foreign) recorded an 8.3 per cent growth.

Annual Development Programme (ADP)

ADP for FY06 was set at Tk 24500 crores which has recently been revised downward by 12.2 per cent and set at Tk 21500 crores. Latest ADP expenditure record shows that only 44.7 per cent of the total fiscal allocation was spent during the first nine months of FY06. As percentage of allocation, this is one of the lowest expenditure in the recent past. CPD projects that the actual implementation will be even lower, between Tk 19500 crore to Tk 20000 crore, which will be about 83 per cent of the original target. In terms of share of GDP it will be below 5 per cent of GDP for the first time, since 1991, against the projection of PRSP which was set at 5.9 per cent of GDP.

The government has set the new ADP target for FY07 at Tk 26000 crores, which is respectively 6.12 per cent and 21 per cent higher than the original and revised ADP of Fy06.

Sectoral Shares in ADP: Putting education sector on top of ADP allocation has become a political stance for the government. Since the share of education sector is declining in total ADP, government is adopting various methods to show an augmented share for the education sector. One tactic is to add non-education sectors while reporting the allocation for education sector. For instance, education sector is now reported with the 'religion sector', not as a separate sector. Besides, expenditures for constructing military institutes in cantonments are also adjoined with education sector. Sectoral share of education would be 12.49 per cent of ADP, if unspecified block allocation and expenditures on account of ministry of religion and ministry of defence are excluded from the total. Moreover, allocation for the ministry of education was revised downward in FY06, while allocation for the ministry of religion increased by three items.

Budget deficit and financing

The budget deficit is projected to remain lower (at 3.70 per cent of GDP) in the new budget for FY07, which is lower than the PRSP projection of 4.4 per cent. Budget deficit as percentage of GDP was targeted to be 4.74 per cent in FY06. According to the revised estimate, it has come down to 3.89 per cent of the GDP, the lowest budget deficit in past seven years. But it is more due to default-failure to implement fuller ADP and inability to access foreign assistance.

Domestic financing experienced a compositional change in FY06, in the context of a declining foreign aid flow. The share of foreign financing decreased from targeted 55 per cent to 50 per cent in FY06, which eventually filled up by increase in domestic financing.

TO BE CONTINUED

[The analysis has been made by the researchers of the Centre for Policy Dialogue (CPD)]