

# Star BUSINESS

E-mail: [business@thedailystar.net](mailto:business@thedailystar.net)

## China aims to match domestic, int'l gas prices

XINHUA, Beijing

China is mulling over new policies that will match its domestic gas prices with the international levels, according to sources with the National Development and Reform Commission (NDRC).

"After studying the natural gas pricing system, the government considers that the price of natural gas should be raised step by step to reach the international level," said Wang Jing, deputy chief of oil and natural gas department of NDRC.

But Wang did not reveal a timetable for the plan.

NDRC initiated the reform of the natural gas price system last year by raising the factory gate price of natural gas.

NDRC said factory price of natural gas should be regulated according to the price movement of alternative energy such as crude oil with price adjusted by no more than 8 percent than that of the previous year. Currently the natural gas price is mainly set by the government, not market, industry analysts agree.

China's major oil and gas suppliers, PetroChina, Sinopec and China National Offshore Oil Corp, recently submit a report on raising natural gas prices, claiming that they are under great pressure from international counterparts which have been raising export prices, too low sales prices for end users, fast domestic demand rise and high exploration, production and transportation costs. Statistics show the ratio of oil price to natural gas price is 1 to 0.24 in China, compared with 1 to 0.6 in the international market.

## Greater private sector role needed to develop infrastructure

DCCI-IIFC seminar told

STAR BUSINESS REPORT

Private sector should play a greater role in developing the country's infrastructure to sustain the present economic growth, said speakers at a seminar in Dhaka yesterday.

They said although Bangladesh Private Sector Infrastructure Guidelines (BPSIG) contain details on investment procedures, the role of private sector in infrastructure development is not enough.

The speakers said after the adoption of the guidelines some developments have taken place in several areas, including telecom, civil aviation, health and education sectors. But, they said, potentials in many other sectors are yet to be explored.

They were speaking at the seminar on 'Awareness creation for private sector infrastructure guidelines' organised by Dhaka Chamber of Commerce and Industry (DCCI) in association with Infrastructure Investment Facilitation Center (IIFC).

DCCI President M A Momen presided over the seminar, while Dr Stefan Frowein, ambassador and head of Delegation of the European Commission (EC), and Md Nazrul Islam, executive chairman of Board of Investment (BoI), also spoke.

BoI Deputy Director M Enayetur Rahman, Md Bazlul Kadir, manager, transactions of IIFC, and Chowdhury Md Feroz Bin Alam, joint director (IPFF project) of Bangladesh Bank, presented separate keynote papers at the seminar.



PHOTO: DCCI

Dr Stefan Frowein (2-R), ambassador and head of the Delegation of European Commission, speaks at a seminar organised by Dhaka Chamber of Commerce & Industry (DCCI) in the capital yesterday. MA Momen (C), DCCI president, among others, is seen.

Speaking as chief guest, Frowein underlined the role of private sector in infrastructure development and said combination between the private and the public sectors is urgent.

"First of all private sector investors should be aware of the guidelines so that they can come forward to develop the country's infrastructure. They have to learn first what they can do under the guidelines," he said.

Infrastructure like water, sanitation, power, transport and telecommunications are the major parts for sustainable economic development of a country, he added.

Stressing the infrastructure development for economic growth, BoI chief said a private-public partnership in this sector is urgent.

The DCCI president said although the growth of GDP has reached a record 6.7 per cent in the 2005-06

fiscal, the nature of poverty has also gone wider in rural and urban areas, creating socio-political tensions across the country.

"In order to overcome such problems and achieve Poverty Reduction Strategy Paper (PRSP) and Millennium Development Goals (MDG), an acceleration in the pace of the infrastructure development is essential."

He said although the government seeks more private sector investments, including foreign direct investments, in major areas like power, gas, telecom and ports, lengthy approval procedures at various stages hindered an expected and well-deserved boost.

As a result, he further said, countrymen as well as businesspeople have been facing acute problems in power, port, gas and transport sectors.

## Quality products seen key to boosting export

BSS, Dhaka

Speakers at a function here yesterday underscored the importance of quality products in garments sector, the country's highest foreign exchange earner, to face the challenges of the global market to take off Bangladesh on to a higher level of economic growth.

To boost export, quality of products is a key barometer and for quality, training has no substitute, they said while addressing the inaugural function of a three-day training course on Maintenance Technology of Industrial Sewing Machines at a city hotel.

The speakers called for appropriate development of human resources by upgrading their skills and knowledge. Technically skilled people involved in production process could produce quality goods of international standard for their easy penetration into today's highly competitive market.

Association for Overseas Technical Scholarship (AOTS) of Japan organised the course in cooperation with Yamato Sewing Machine Manufacturing Co. Ltd Japan and Yamato Singapore.

Hideo Ueno of the Japan-Bangladesh Chamber of Commerce and Industry (JBCCI) attended the opening function as the chief guest while Japan External Trade Organisation (JETRO) representative in Dhaka Tomohiro Kinomoto was the special guest.

Kinomoto said Bangladesh has stepped into the second year of quota free era witnessing less severe impact on the garments sector as well as on the whole national economy, Bangladesh, he said, has been able to position itself in the global apparel market as a reliable source of cheap garments.

## BB to implement int'l guideline on credit rating

Governor tells workshop

STAR BUSINESS REPORT

Bangladesh Bank (BB) will implement an international banking settlement guideline on risk-weighted capital, supervisory review and market discipline by 2009, said Dr Salehuddin Ahmed, governor of the central bank.

"The BB has prepared a roadmap to implement the guideline, Basel-11, from January 2009. The central bank will follow both the Standard Approach for Credit Risk and Basic Indicator Approach for Operational Risk," The governor told this yesterday the inaugural session of a workshop at a hotel in Dhaka.

Credit Rating Information and Service Limited (CRISL) organised the workshop on Bank and Financial Institution Rating-Methodology & Perspective.

Chaired by Jamal Uddin Ahmed, chairman of CRISL, it was also addressed by the company's chief executive officer, Muzaffar Ahmed, and director Dr Moyeen.

The governor said the BB has taken a number of measures to reform the banking sector in such a way that the sector may graduate to an international standard with a capacity to manage different risks.

He further said the BB made it mandatory for all banks to get themselves credit rated by a credit rating agency (CRA), which would come into force from January 2007. This initiative will definitely help the capital market to become more vibrant, the central bank chief hoped, adding that rating agencies play a significant role in developing debt market through creation of corporate bond and pricing of credit risk.

## Apec members mull free-trade zone

AFP, Ottawa

Canada and its 20 Apec trading partners are scrutinizing a possible free-trade zone that would stretch across the vast Pacific Ocean, in lieu of further WTO talks, a senior official said Friday.

"There's a really interesting debate going on about it since the suspension of the Doha Round (of World Trade Organization talks)," the official, who asked to remain anonymous, said

during an Apec briefing.

Prime Minister Stephen Harper will travel to Hanoi, Vietnam, next week for a summit of Asia-Pacific Economic Cooperation leaders. The trading bloc now accounts for 47 per cent of world trade.

The United States has also pressed Apec countries to consider a Pacific Rim free-trade zone - an idea conceived by Canadian Pierre Lortie, a member of Apec's Business Advisory Council, the Canadian official said.

# Economic programme: CPD's recommendations for caretaker government

DEBAPRIYA BHATTACHARYA

### Part-II CREDIT AND MONETARY SECTOR

#### Domestic Credit Expansion

Fiscal year 2006 was characterised by a high growth of domestic credit. Total domestic credit as compared to that of the previous fiscal year posted a rise of 20.2 per cent. While credit to Government (net) increased by about 22 per cent, credit to other Public Sector increased by about 35 per cent. Credit to the Private Sector marked relatively low increase of 18.3 per cent.

During the initial two months of the current fiscal year, point to point growth of the total domestic credit stood at 19.8 per cent. This marginal slowing down of the credit growth was mostly due to the slower increase of credit to the Other Public Sector (22.2 per cent). Growth of credit to the Private Sector remained steady at 18.1 per cent. However, credit to the government (net) during the July-August period went up by 25.6 per cent which was mentioned in our earlier discussion on financing of fiscal deficit.

The Bangladesh Bank should be encouraged to pursue an overall cautious monetary policy where aggregate credit expansion would remain moderately high (particularly given the inflation rate). The prime challenge before the CTG in the monetary sector CPD's Recommendations for the Caretaker Government 5 will be to sustain around 18 per cent credit growth in the private sector, while bringing down the demand for credit on the part of the government.

**Government Borrowing** During FY06, government borrowing tended to move away from the non-bank sources to banking sources. While in June of FY05 the share of non-bank sources within the total outstanding borrowing was 59.0 per cent, at the end of FY06 (June 2006) the share had decreased to 55.8 per cent.

Sale of National Savings Deposit (NSD) certificates during FY06 registered a 35.6 per cent growth and repayment of the principal amount increased by about 41.0 per cent. Growth of net sale of NSD stood at 18.9 per cent. Borrowing from the banking sources increased

by 23.3 per cent.

During July-August period of the current fiscal, sale of NSD certificates experienced a growth of 32.6 per cent. During the same period, growth of repayment of the principal amount experienced a drastic fall (8.9 per cent), resulting in a whooping growth in net sales (152.3 per cent). Outstanding non-bank borrowing stood at Tk40,362.82 crore, registering a growth of 9.5 per cent.

During the first two months, outstanding borrowing from the banking sources stood at Tk. 32,588.80 crore, registering a 25.6 per cent growth. Total government borrowing from both bank and non-bank sources amounted to Tk. 72,951.62 crore, recording a growth of 16.2 per cent. One can readily see the need for taming the government borrowing need.

**Industrial Loan** During FY06, against the sanction of Tk. 13,582.27 crore, an amount of Tk. 9,650.02 crore was disbursed as term loan, registering a 5.9 per cent growth over the previous fiscal year (i.e. negative growth in real term). An amount of Tk. 6,759.52 crore was recovered during the period, resulting Tk. 2,890.50 crore as net inflow. The PCBs (Domestic) were the largest contributor (about 63 per cent), followed by Nonbank Financial Institutions (NBFIs) (a little more than 18 per cent).

On the other hand, disbursement of working capital during FY06 recorded a substantial growth of 28.3 per cent, while the sanction of working capital registered a 30.5 per cent growth during this period. During FY06 an amount of Tk. 28,448.53 crore was disbursed against the sanctioned amount of Tk. 24,691.92 crore. In terms of disbursement, PCBs (Domestic) accounted for three-fourth of the total disbursement of working capital.

No data on industrial term loan and working capital loan are available for the first quarter of FY07. However, taking note of the current state of play of public finance and trends in domestic credit expansion, and further being aware of the pre-election behaviour, it can be safely recommended that one should follow a cautious approach in industrial loan disbursement, without penalising good projects.

#### Agricultural Credit

Data on credit disbursement to the agricultural sector shows that Tk. 5,789.71 crore was disbursed during FY06, which is 16.8 per cent higher than the disbursement of the previous year (FY05). With the recovery of an amount of Tk. 4,123.91 crore, a net amount of Tk. 1,665.80 crore flowed into the rural economy during this period.

Initial data of the current fiscal year (FY07) mark a negative growth of agricultural credit disbursement. During the July-August period, total disbursement stood at Tk. 515.52 crore, which is about (-) 4.0 per cent lower than the disbursement of the matching period of FY06. Conversely, recovery stood at Tk. 497.55 crore, which is 6.3 per cent higher than the corresponding figure of the previous fiscal year.

This resulted in marginally positive inflow of credit to the agricultural sector. Consumer Price Index (CPI). Inflation rate at the national level showed an alarming rising trend during the FY06. The highest inflation rate (on point to point basis) for the last 77 months, i.e. about 8 per cent, was recorded in November 2005. Since then a steady decline was observed till February 2006 when it came down to 5.7 per cent. However, from March 2006 the inflation rate started to move up again and reached 7.54 per cent at the end of that fiscal year (June 2006).

Two major features of the price increase during FY06 can be identified. First, except in the month of March 2006, rise in price was higher in the rural areas than in the urban areas. Second, during FY06, other than January, February and March, inflation rate on point to point basis was much higher in food items than in the non-food items.

However, the first two months of FY2007 show some positive signs in the inflation rate trends. While in June (FY06), the general, food and non-food inflation rate on point to point basis was 7.54 per cent, 8.81 per cent and 5.73 per cent respectively, in the month of August (FY07), these rates were 6.67 per cent, 7.42 per cent and 5.64 per cent respectively. This happened largely because of the fall in food prices.

The 12-month moving average inflation rate for the general and food items also showed improve-

ment as they went down from 7.16 and 7.76 per cent in June FY06 to 6.99 and 7.45 per cent in August FY07 respectively. However, for non-food items, it went up from 6.40 per cent to 6.43 per cent over the same period.

Cautiously moderate expansionary monetary policy was effective at the margin in bringing down the inflation rate. The recent appreciation of Taka may also have a sobering effect on the inflation rate. However, the CTG should rather strongly monitor and supervise the markets, especially the markets for essential products to locate the "syndicates" controlling the markets and take necessary measures against them. Since the Finance Adviser is also holding the portfolio of Ministry of Commerce, there should not be any problem regarding coordination among these two ministries. Regular monitoring of major distribution channels, such as importing and wholesaling points, would give positive results.

#### EXTERNAL SECTOR

The robust performance of external sector, experienced in FY06, has continued into the early months of FY07, providing the economy with some cushion in the current context. This is reflected in improvements in trade balance, current transfers and remittance and overall current account balance during the first few months of the current fiscal. This has also resulted in an increase in the reserve position in end-September 2006 compared to corresponding period of 2005.

#### Trade Balance

Thus, export growth, which posted a high growth of 21.6 per cent in FY06, has experienced a further growth of 32.6 per cent in the first two months of CPD's Recommendations for the Caretaker Government 7 FY07, at US\$ 2,302 million. All major sectors have been experiencing high growth including knitwear (35.8 per cent) and woven-wear (30.3 per cent).

Over the corresponding period import posted a growth of 17.3 per cent, to reach US\$ 2,450 million. The negative balance in trade in the first two months in the current fiscal year has reduced to (-) US\$148 million from the (-) US\$352 million of last year, thanks to higher growth of exports compared to that of

import.

Although it appears that the spiralling petroleum price seems to have stabilised, and is even showing some downward trend in recent months from the highs of a few months back, it will be advisable for the Caretaker Government to keep a sharp eye on movements in the price of oil.

Higher L/C opening for consumer goods (22.4 per cent) against a relatively lower growth rate of L/C openings for industrial raw materials (7.3 per cent) and capital machinery (1.9 per cent) could be a cause for concern in the subsequent months. What is also somewhat disquieting is the low growth in the L/C opening (4.6 per cent) in the first two months of FY07 compared to the corresponding period of FY06 to compare L/C opening in FY06 was 19.6 per cent higher compared to FY05.

As regards the export, the appreciation of taka by about 3.4 per cent over the last few months could have a negative impact on export competitiveness of Bangladesh in the global market. In the context of the fact that most of the export earnings are being accrued on account of the volume rather than the price, the appreciation of taka was likely to have a depressing impact on profit levels for the export-oriented sector. In view of this, Bangladesh will need to give careful attention to exchange rate management in the coming few months.

Remittance income during the first three months of FY07 was US\$1,328 million which was 24 per cent higher than that of matched period of last year. Remittance flow may increase further with the advancement of Eid and elections.

#### Current Account

In combination, all these have led to considerable improvement in the current account balance in the first two months, from US\$99 million to US\$414 million.

#### Forex Reserve

Accordingly, foreign exchange reserves at the end of September 2006 stood at US\$3,447 million which was about 25 per cent higher compared to September 2005.

#### Prospect

Opening of L/Cs during the first two months of FY07 was 13.2 per cent higher than the corresponding period of last year, whereas L/C

settlement was 15.5 per cent higher. These figures appear to be considerably higher compared to FY06 over FY05 when L/C opening and L/C settlements posted growth rates of 8.4 per cent and 10.2 per cent, indicating some pressure from the import side. In addition, higher growth rates of L/C openings and L/C settlements for petroleum and petroleum products, at 26.3 per cent and 20.7 per cent, during the first two months are also indicative of the pressure from the import side.

The overall BOP situation is sound and comfortable. The CTG will have to see that the current robust trends in export and remittances are sustained, whereas import demand remains moderate.

#### Foreign Aid Flow

One can observe from the figures on financing of fiscal deficit that off-take of foreign aid during FY06 as well as during the first two months (July-August) of FY07 was at its lowest ebb. Gross flow of foreign aid during July-August 2006 had been lower than US\$96.0 million which is less than 41.5 per cent over the comparable period in FY06. Indeed, if one accounts for payment of the principal, the net flow turns out to be about 60 per cent less.

Under the circumstance, the CTG would need to take initiative to release, as much as possible, the project aid stuck in the pipeline and improve its access to budgetary support. (e.g. US\$ 40.0 million of policy loan by the WB's Railway project).

The good news is that the IMF Board in its meeting held on 27 October 2006 has released about USD 50.0 mln under PRGF. But this disbursement will not diffuse the resource constraint of the government, as this is a BOP which is not available for spending.

(TO BE CONTINUED)

The writer is the executive director of Centre for Policy Dialogue (CPD).



PHOTO: MRDI

Speakers are seen at an advocacy session on the World Trade Organisation and trade issues for journalists in Bogra yesterday. Management and Resources Development Initiative (MRDI) organised the session with technical assistance from Centre for Policy Dialogue (CPD).

## China's trade surplus set to reach \$150b

ANNI CHINA DAILY

China's trade surplus is expected to total US\$150 billion this year, another big increase from last year's record of US\$109.8 billion, the Ministry of Commerce revealed on Friday.

Meanwhile, the country's foreign trade is estimated to grow 24.5 per cent year-on-year this year to US\$1.77 trillion, according to a report on China's autumn foreign trade, jointly drafted by the ministry and the Chinese Academy of International Trade & Economic Cooperation.

Total exports this year are estimated at US\$960 billion, a rise of 26 per cent year-on-year, while imports are expected to surge 22 per cent to reach US\$810 billion.

Dramatic increases were seen in the exports of machinery and electric products and high-tech products during the past months.

Imports of primary products grew quickly this year as a result of robust domestic demand and high prices in the international markets. Imports and exports of general trade grew at 25.3 per cent year-on-year to US\$547.2 billion in the first three quarters while processing trade grew at 21.8 per cent to US\$596.2 billion.

However, China's foreign trade growth could see a slowdown next year, increasing by about 15 per cent year-on-year to US\$2 trillion, the report predicted.

## Advocacy session on WTO, trade issues for journo

An advocacy session on the World Trade Organisation and trade issues for journalists was held yesterday in Bogra, says a press release.

Correspondents of national print and electronic media and reporters of local dailies attended the session that discussed multilateral trading system, trade policy, WTO and its functions, principles, agreements and implications for Bangladesh.

Special focus was given to sensitise the journalists about international trade issues.

Tanim Ahmed, assistant editor of the New Age, and Shawkat Hossain Masum, business editor of the Prothom Alo, attended the session as resource persons. Hasibur Rahman, executive director of the Management and Resources Development Initiative (MRDI), was also present.

MRDI organised the session under a project titled 'Open Flow of Info on Trade & Economy (Ofite)' supported by Delegation of the European Commission. The Centre for Policy Dialogue (CPD) is offering technical assistance to this project.

The aims of this project are to develop a critical mass of journalists well-versed in WTO and EC rules and issues, post-MFA market access scenario, EU trade and investment-related legislation and preferential trade facilities like the GSP, trade barriers, FDI, TRIPS, CSR, labour and health standards (SPS), and other compliances.

MRDI organised similar sessions in Chittagong, Sylhet, Barisal, Khulna and Dhaka. Besides, it also organised 2-week residential foundation and advanced training for economic journalists of national dailies and TV channels.

## CavinKare's fairness cream Fairever in Bangladesh

CavinKare, an Indian multinational in fast moving consumer goods, has started marketing its fairness cream Fairever for the customers of Bangladesh.

The company has appointed MF Consumers Ltd (MFCL), a distribution business venture in Bangladesh and a concern of Multimode Group, as the distributor for Fairever in the country, says a press release.

The ingredients of the fairness cream include orange peel paste, saffron and milk. Saffron helps increase fairness and soften skin, according to the release.