

# Star BUSINESS

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

## IMF sees 17.86pc rise in bank borrowing in FY07

### Power, transportation reforms deserve priority from next govt: Wallich

REJAUL KARIM BYRON

Reduction in revenue earnings and foreign aid besides a considerable rise in government expenditure may lead to a 17.86 percent rise in borrowings from banks, which is higher than the percentage calculated in the budget for FY 2006-07, as assumed by the International Monetary Fund (IMF) in its recent review.

The lending agency made the projection in its review marking the release of its fifth instalment of Poverty Reduction Growth Facility (PRGF) last week. "Political tension continues to pose a potential risk to sound macroeconomic management and implementation of structure reforms in Bangladesh", the review said, cautioning that demonstrations, work stoppages and a highly contentious political situation are likely to continue in the run-up to the January 2007 elections.

Meanwhile, the caretaker government (CG) has already given a directive to the finance ministry to control expenditure to face the situation, according to the ministry sources. The ministry is fully aware of the upcoming macroeconomic situation as assumed in the IMF review report, the sources added.

Following the CG directive, the finance ministry has decided not to release any fund without its prior approval. As per the ministry's circulation, the finance division will be the approving authority in this regard.

Finance and Planning Adviser Akbar Ali Khan directed his officials to release money for only election-related expenditures and high priority projects during the regime of the interim government.

As per the 2006-07 budget, the total internal borrowing was estimated at Tk 8830 crore, but the IMF assumed that it would stand at Tk 11,170 crore with a 26 percent growth by the year-end. Of the internal borrowings, net bank borrowing will increase by 17.86 percent, amounting to Tk 6400 crore.

Although the amount of planned borrowings from banks for the whole year was Tk 5430 crore, the government had to borrow around Tk 5000 crore within a period in between July and first week of November this fiscal. Of this amount, the immediate past government borrowed Tk 4300 crore from banks till its last day of office on October 23.

In the current budget, the expected amount of foreign loans and grants was estimated at Tk 8370 crore, but, according to the IMF assumption, it would not reach beyond Tk 5520 crore.

The international lending agency also anticipated a Tk 44370 crore revenue income, which means falling short of the target of Tk 45720 crore.

The National Revenue Board, however, said the revenue is now continuing to grow at 9 percent on an average due to the ongoing political unrest, though it targeted

to post a 21 percent growth in revenue earning this fiscal.

This fiscal may experience a revenue shortfall of Tk 5500 crore, the adviser in charge of the finance and planning ministry recently told reporters following a meeting with the revenue board.

The budget for the 2006-07 financial year has earmarked Tk 26000 crore for the Annual Development Programme (ADP). The amount is now feared to come down to Tk 22760 crore, a 12 percent reduction in the budgetary allocation.

However, the current expenditure would reach Tk 42820 crore, a 6.2 percent higher than the original budget, the IMF said.

The agency also predicted that the subsidy budget will increase to Tk 5920 crore from Tk 1730 crore mentioned in the budget.

Sources said the government is under pressure from the IMF for a budgetary allocation to give subsidy to the Bangladesh Petroleum Corporation to cut the gap of fuel price between local and international market.

The finance ministry sources said development expenditure will come down during the regime of caretaker government as current expenditure may increase due to the upcoming election procedure.

The interim government has already taken different measures to maintain check and balance between government expenditure and revenue income, the sources added.

*The World Bank's outgoing Country Director for Bangladesh Christine I Wallich in an emailed interview with Inam Ahmed talks about her assignment in the country. She takes stock of the progress in economic reforms, discusses the areas where little reforms have been carried out, and lists the areas that need immediate attention. Excerpts:*

**Q:** You have been in Bangladesh for quite a long time. What are the areas in which you think very little reforms have been done, and which are the reforms that must be done on a priority basis for the next government to put the economy on a good footing?

**A:** Assessing the reform balance sheet makes sense at this juncture. Before I start listing new reforms, I think we ought to take stock of the considerable progress that has been made in economic reform during the three and a half years I have been in Bangladesh. In addition to creating a stable macroeconomic environment with steady growth, relatively low inflation and indebtedness, and stable interest and exchange rates, the government has attempted to tackle some key economic hurdles to further development. Of the reforms carried out I would highlight the new Public Procurement Act, which brings transparency and accountability to public purchasing, and the new medium term budget process, which sets a clear budgetary framework in ten major ministries. There have been moves to strengthen the National Board of Revenue and Bangladesh Bank, and we are on the verge of seeing the privatisation of Rupali Bank. I would also like to point to the expansion of the Export Processing Zones, a move that has helped the readymade garment sector flourish.

Of course there have been areas where progress has been slow, and nowhere is this more apparent than in the energy sector, most notably in power generation. The failure to provide a reliable supply of power for businesses and homes is a major economic constraint and one that will have to be a priority of the next government. The new government will also need to address energy pricing. Selling fuel at significantly less than its tax-inclusive cost is putting an enormous strain on Bangladesh Petroleum Corporation (BPC) and in turn, the nationalised commercial banks, which have been asked to lend to BPC, and also on public finances as government absorbs BPC losses.

The transportation sector is also in need of reform. Although there has been considerable investment in roads, there are major challenges in civil aviation, with the government rightly deciding for a major restructuring to put Biman on the track of sustainability. Chittagong Port, the main gateway for the country's exports and imports, needs urgent improvement. Reform and modernisation are also needed for the country's railways, and I'm glad we were able to contribute, with ADB and Japan, to the long-term railway reform programme that recently got underway.

Another area I would prioritise is Dhaka. The capital is one of the world's fastest growing cities and is a motor of growth, but lack of basic services for the majority of its citizens, road congestion, and poor governance are stifling its potential. Finally there is still a need to

restructure the remaining state-owned banks.

**Q:** If asked to draw two scenarios, what would be your short-term and long-term scenarios for Bangladesh?

**A:** The near-term scenario depends on how the country manages the political situation. I urge the main political parties to seek a peaceful resolution to the present conflict and move forward to hold free and fair elections. Chaos, boycotts and repression will only undermine the progress this country has made.

In the longer term I remain an optimist. One scenario is that performance continues very much as in the recent past: the sensible macroeconomic policies pursued by governments for the past decade are continued, economic growth continues at 5-6 percent a year and the impressive gains in human development such as infant mortality and school enrolment are maintained.

But there's no guarantee that just by continuing on the present path successes can be repeated. Many observers think that the gains from past policies have been reaped, and the constraints on growth, be they poor political governance, lack of power supply, or weak infrastructure will soon become more apparent.

Another scenario is more bullish. It sees growth in Bangladesh reach levels of 8+ percent. At such a rate there is a real possibility of ending poverty in a generation. This means poverty rates in the single digits and the attainment of the Millennium Development Goals in health and education. To reach this goal major reform will be necessary, and issues such as poor governance and the weak delivery of public services will have to be tackled. But it is not impossible. Economic growth has the benefit of creating political room for policy and institutional reforms. It is a virtuous circle that Bangladesh has the opportunity to enter.

The World Bank has often spoken about "ring-fencing" - taking out of the political arena a few issues key for economic development. Power sector development, the port, FDI, higher education, should not be used as "political footballs" but should be ring-fenced from the political game. If only a few areas key to growth and development can be ring-fenced, the benefits to Bangladesh would be huge, providing a real growth dividend. We would urge the major parties to agree on ring-fencing those sectors on which the future prosperity of the nation depends.

**Q:** Poverty has reduced, but inequality has further spiked. How do you look at this situation? What you think could be done to address this?

**A:** The proportion of people living in poverty has been reduced by 9 percentage points in the last five years according to figures from the 2005 Household Income and Expenditure Survey (HIES) under-



Christine I Wallich

taken by the Bangladesh Bureau of Statistics. This rate of poverty reduction is twice as fast as in the previous five years and is a remarkable achievement, bringing down the proportion of the population in poverty to around 40 percent. If you examine the figures the increase in inequality has actually been relatively mild compared to what has happened in other countries. Of course this is inequality measured relatively, in absolute terms people may experience things differently. For example a 10 percent increase for someone earning Tk100 a day is Tk10, while for someone earning Tk1,000 it is Tk100.

We agree that reducing inequality ought to remain an important public policy objective. One key issue that the new figures illustrate is inequality across regions. The impressive reduction in poverty has been mainly in Dhaka, Chittagong and Sylhet divisions while Barisal, Khulna and Rajshahi have seen comparatively little change. The development of policies that help develop human and physical capital in these lagging regions is crucial.

**Q:** You had written to the prime minister about power sector corruption. Can you specify why you were compelled to write so?

**A:** The donor community as a whole is concerned about corruption in the power sector. The letter was sent on behalf of the donor community at large, by the chair of the Local Consultative Group, an organisation made up of 32 bilateral and multi-lateral donors operating in Bangladesh, in which the World Bank served as chair at the time.

Many donors including the World Bank were, and remain eager to support the power sector. We all realise that the failure to provide adequate power is one of the major hurdles to this country's development. The problem has not been a

lack of available funding from donors, but a lack of suitable projects to support. By suitable I mean projects where basic transparent, competitive, internationally acceptable procurement procedures have been followed. Time and again during the past years we have seen projects characterised by unsolicited, non-transparent procurement processes that may end in the award of a contract, but which never come to financial close, and thus never materialise on the ground, depriving Bangladesh of the electricity the country so desperately needs.

In the seven years to May this year, some 18 power plants had been considered, but only two contracts awarded. World class projects, such as Meghnath II and Sirajganj, which today would be producing 900MW of low-cost power, never got to financial close. In 2005 the country's power sector generated 160 kilowatt-hour of electricity per capita, among the lowest levels in the world. With such evidence it was not difficult for donors to foresee the massive mismatch between supply and demand that we have been witnessing in recent months, and their offers to finance transparently awarded projects in the power sector were designed to alleviate this shortage. Hopefully the enforcement of better procurement rules will make a difference.

While the World Bank and other donors have offered substantial financing for the sector (well over \$2 billion is on offer for the next years), power generation projects are long-gestating: a project financed today will bring power on stream in 2-3 years if all goes smoothly. As the power problem cannot be fixed overnight, it is hugely important to get tenders issued in a transparent manner now, so that these projects

can get underway before too much more time elapses.

**Q:** What in your view are the main challenges for Bangladesh now?

**A:** In the immediate future the main challenge for Bangladesh is to hold free, fair and peaceful elections. However the challenge of running regular elections is something that goes beyond the coming months and will involve reforming the political and electoral culture to allow a functioning, accountable and participatory democracy. For example the cost of getting elected in Bangladesh is said to be very high, and campaign financing is said to be a major source of corruption. Rules relating to the declaration of assets and incomes of high public officials need to be enforced and intra-party democracy improved. Political reforms lie outside the World Bank's mandate but without them it will be difficult to solve the governance problems that spread into all sectors of economic and human development.

**Q:** After the initial years of commendable achievements, the social sector indicators seem to stagnate. What is the way out?

**A:** I don't think it's fair to say they have stagnated. Bangladesh is on its way to meeting several of its health and education related Millennium Development Goals. However I think it would be correct to say that if Bangladesh is to move to the next level of development, new methods are needed.

This is very clear in the health sector. For example, while reducing child mortality has been one of Bangladesh's greatest achievements, the country still has one of the highest rates of maternal mortality in the world. A major reason for this is the current state of public health services. If a woman faces complications during childbirth she needs good hospital facilities, skilled medical attention, blood transfusions. In most cases these facilities aren't available. Bangladesh is a world leader when it comes to organising public preventive health campaigns, but campaigns by themselves are not enough; this country needs a functioning and accountable health care system accessible to all.

The same can be said in the education sector. With almost 100 percent primary school enrollment Bangladesh has made truly impressive strides forward. Now it is a question of ensuring the quality of education these students receive, of guaranteeing that teachers turn up and that parents aren't forced to pay for outside tutoring if their children are to have a real chance. If these issues can be addressed, then we should expect to see the social indicators continuing to improve.



PHOTO: DBBL

AHM Nazmul Quadir, additional managing director of Dutch-Bangla Bank Ltd (DBBL), and Golam Fakhruddin A Chowdhury, general manager (Finance) of state-owned mobile phone operator Teletalk Bangladesh Ltd, exchange documents after signing a bill collection agreement recently. Under the deal, the DBBL clients who use Teletalk phone will be able to pay their bills through the branches of the bank. Senior officials from both the sides are also seen.

## Finance large projects thru' capital market

### CSE urges banks

STAR BUSINESS REPORT

Country's second bourse chief has underscored the need for reforms in policy of debt equity ratio while approving large scale project for financing by the Bangladesh Bank.

"Had the leading commercial banks come forward to raise funds for syndicated loans to large projects through the capital market, our stock market would have been strengthened and it could contribute 7 percent to the gross domestic product," said MKM Mohiuddin, the re-elected president of Chittagong Stock Exchange, at the 11th annual general meeting of the bourse yesterday, according to a CSE press release.

He lamented that the recent political turmoil causes harm to trading in the CSE and urged the Securities and Exchange Commission to open the bourse on Saturdays for share trading enabling the members to overcome business loss.

As part of the AGM, 5 top CSE brokers were awarded crests and certificates for their outstanding trade performance in 2005.

LankaBangla Securities Ltd ranked first, International

Securities Ltd second, Saika Capital Ltd third, ICB Security Trading Company Ltd fourth while Sylnet Securities Ltd obtained fifth position.

The new board in its meeting re-elected MKM Mohiuddin president, Nasiruddin Ahmed Chowdhury first vice president, Fakhr Uddin Ali Ahmed and AQI Chowdhury vice presidents for the year 2007.

The current CSE board is composed of twelve elected and twelve non-elected directors.

The elected directors are MKM Mohiuddin, Nasiruddin Ahmed Chowdhury, Fakhr Uddin Ali Ahmed, AQI Chowdhury, Abu Sayed Md Shahidullah, Al Maruf Khan, ASM Nayeem, Bijan Chakroborty, Mirza Salman Ispahani, Murshed Murad Ibrahim, Syed Mahmudul Huq and Tareq Kamal.

The nominated or non-elected directors are Dr A Majeed Khan, Prof Abu Ahmed, Engr. Ali Ahmed, Amir Humayun Mahmud Chowdhury, Anis A Khan, Farooq Sobhan, Mamun Rashid, Md Sarwar-E-Alam, Mohd Safwan Chowdhury, Prof Rabiul Husain, Wailur R Bhuiyan and Yasmeen Murshed.

## Take rapid steps to ease container congestion at Ctg Port

Railway DG asks officials

STAFF CORRESPONDENT, Ctg

Rapid and effective measures should be taken to help ease container congestion at Chittagong Port, said Bangladesh Railway Director General (DG) Sultan Ahmed Talukder to the railway high officials at a meeting in the port city yesterday.

While presiding over the meeting, the DG also underscored the need for speedy transportation of containers stockpiled at Chittagong Port to bring dynamism in the country's export and import business and increase railway revenue.

In this regard, he also stressed on bringing down the turnaround time of all trains and ensuring proper use of railway wagons and compartments.

Talukder also directed the railway officials to take steps for running all types of trains over the Jamuna bridge and disclosed that an inter-city train would be introduced soon on Dhaka-Rajshahi route using broad-gauge compartments procured recently from Indonesia.

Later, the DG inspected loading and unloading of containers and operation of railway wagons at Chittagong Port.

## G8 for completion of Doha trade round

AFP, Melbourne

World economic leaders Saturday put their weight behind calls for a successful conclusion to stalled world trade talks, saying the current round of negotiations was important for ensuring future world prosperity.

Finance ministers and central bank chiefs from the Group of 20 (G20) countries discussed prospects for the Doha round of trade liberalisation talks on the first day of their two-day summit in Melbourne.

"There was very strong agreement that we ought to do whatever we can to get that round up and running," said Australian Treasurer and meeting chairman, Peter Costello.

"The Doha round is in the interests of all countries in the world, including developing countries," Costello told a press conference.

The World Trade Organisation suspended the round in July after negotiators from six major players,

including the US, the EU, Brazil and India, failed to hammer out a framework for an accord after five years of talks.

International Monetary Fund managing director Rodrigo Rato said the differences - largely over agricultural access and subsidies - were not insurmountable.

"When we look what has been achieved already in the Doha round, we can see what has been achieved is very substantial, and when we look at what is needed to craft a deal, the differences are not so big any more," Rato told a briefing.

There was a need for political leadership to overcome the vested interests which were blocking a deal, he said.

"There is a very big responsibility on the big countries - the G7, essentially Japan, Europe and the United States - but there is also some important responsibilities on some very large emerging economies," he said.

The World Trade Organisation suspended the round in July after negotiators from six major players,

## Coffee World-Pizza Corner launched

A Coffee World-Pizza Corner combo restaurant was launched at Dhanmondi in Dhaka yesterday, says a press release.

These international franchisees have been brought to Bangladesh by ETCETERA Bangladesh Pvt Ltd (ETC).

Coffee World, an international premium coffee chain, is part of Global Franchise Architects (GFA) that offers a range of hot, iced, and ice blended coffee along with cakes, sandwiches and waffles. The company has over 110 outlets across Asia.

Pizza Corner, an international pizza chain introduced by Etcetera, offers Calzones items with a wide range of vegetarian and non-vegetarian dishes. Customers can also create their own pizzas using the menu with various options.

Amer Ahmed, executive director of ETCETERA Bangladesh, was, among others, present at the Launching ceremony.

## India, Iran close to reviving LNG import deal

OUR CORRESPONDENT, New Delhi

India and Iran moved closer to revive the stalled Liquefied Natural Gas (LNG) import deal as the two countries agreed to re-negotiate the agreement after Tehran on Friday offered reduced price.

The two countries also agreed to hold further talks at bilateral and trilateral levels for reaching an agreement on the proposed Iran-Pakistan-India natural gas pipeline after the financial report of the consultant studying the feasibility of the project is submitted.

Iranian Foreign Minister Manouchehr Mottaki, who held talks with Indian Prime Minister Manmohan Singh here on Friday, offered the revised price for importing five million tonnes of LNG from

Iran for 25 years with supplies beginning in 2009 and India too said it would start working on that.

Mottaki said he had discussed the issue with Singh and the two countries would soon begin negotiations to firm up the prices.

His remarks signalled the first forward movement on the contentious issue of LNG pricing since September last year after India voted against Iran at the meeting of International Atomic Energy Agency on Tehran's controversial nuclear programme. Iran had at that time indicated that the 21-billion dollar deal was virtually off.

After hour-long talks with Mottaki, Indian Petroleum Minister Murli Deora told reporters that New Delhi would consider Tehran's new price offer and start negotiations.