The Daily Star
BUSINESS
DHAKA WEDNESDAY, JULY 13, 1994

Biswas seeks better trade ties with Pakistan

President Abdur Rahman Biswas has said that the Bangladesh-Pakistan cooperation in all fields of mutual interest should be expanded to further strengthen the excellent relations between the two countries, reports UNB.

Biswas was talking to VA Jafarey, Adviser to the Prime Minister of Pakistan for Finance and Economic Affairs, who called on him at Bangabhaban Tuesday. Jafarey had attended the just-concluded meeting of the SAARC finance and planning ministers.

The President expressed his confidence that the on-going meeting of the joint economic commission would play an important role in further strengthening the bilateral economic relations.

He stressed the need for coordinated efforts to resume and reactivate the process of repatriation of the stranded Pakistani nationals from Bangladesh.

Jafarey said that Bangladesh economy is now in a better condition. He appreciated the activities of Grameen Bank and BRAC for improving the socio-economic condition of the people.

He conveyed the greeting of President Sardar Farooq Ahmed Khan Leghari and Prime Minister Benazir Bhutto to President Biswas who also conveyed his warm greetings to the President and Prime Minister of Pakistan.

Shares recover moderately at Delhi SE

NEW DELHI, July 12: Shares staged a moderate recovery on the stock market Monday on revival of speculative-cum-investment buying and closed with widespread gains, reports PTI.

Market sources said in view of the start of the new settlement in the forward group, operators and investors turned active and enlarged their commitments.

Announcement of enhanced dividend of 51 per cent and excellent performance by the Reliance Industries also aided the sentiment to some extent.

Reflecting the trend, the Delhi Stock Exchange sensitive index recovered marginally by 4.48 points to 900.31 points.

Major Gainers in the specified section were Reliance Industries, Hero Donda, Escorts, Tisco, Telco, DCM Shriram Industries, DCM Shriram Consolidated, Shriram Industrial Enterprises, Kelvinator of India, Hindustan Motors, Hindustan Development Corporation and Bindi Agro on revival of buying support at lower levels.

Among other group shares, Padmini Polymers, Bhushan Steel, Ginni Filaments, Uti Master Gain, Havells India, Oil Country Tubular, Jinbdal Ferro Alloys, Zee Telefilms, Trina Queback Gears, Thapar Milk, Rahul Dairies and Allied Product, Uti Mater Plus, Phoneix International.

SCB launches ATM service

By Staff Correspondent

The Standard Chartered Bank (SCB) formally introduced its Automated Teller Machine (ATM) service called 'Moneylink' at its Banani branch yesterday.

The governor of the Bangladesh Bank Khorshed Alam while inaugurating the service said the introduction of ATM is a landmark in the banking system of the country especially in the age of modern technology. "Although I have seen this system abroad, I am going to see it newly here," he said.

The ATM service will enable the moneylink-cardholders to draw money 24 hours a day throughout the year.

The customers can also transfer funds to accounts and order for checkbooks and balance instantly, he added.

In reply to a question, the Bangladesh Bank Governor informed that the cardholders will have to wait a bit to transfer dollar outside the country under such system for some vital reasons.

The Chief Executive of the SCB Stephen M McCarthy told the newsmen that his bank has already received 5000 applications for moneylink cards. Peter J Fowler, the British High Commissioner to Bangladesh who was also present on the occasion, said technology will bring efficiency to customer service.

Economies of G-7 countries poised for strong recovery

NAPLES, Italy, July 12: Leaders of the industrial world declared over the weekend that the outlook for their economies was the best for years — but now they have to convince sceptical voters and skittish financial markets that is indeed the case, reports Reuter.

In a communique issued at their 20th summit, the leaders affirmed that their joint economic strategy was working and that their countries' economies were poised for a strong recovery.

"Inflation is now at the lowest levels in over three decades and the conditions are in place for strong and lasting non-inflationary growth," the Group of Seven -- Britain, Canada, France, Germany, Italy, Japan and the United States -- said.

But the mood among international investors and domestic electorates remains sour. In the United States, opinion polls show that only half of the voters approve of the job that President Bill Clinton is doing, despite a strong economic recovery that's created nearly 3.5 million jobs since he took office 18 months ago.

And the US dollar has taken a pounding on world currency markets in what some analysts have described as an international vote of no confidence in the President and his policies.

It's not any better in the other G-7 countries. Japan is going through its fourth prime minister in a year. Italy elected government earlier this year that includes neo-fascists for the first time since World War Two. And British Prime Minister John Major's standing in opinion polls is at rock bottom.

To top it all, long-term interest rates are going up around the world, threatening to choke the recovery that the G-7 hailed in its communique.

Some analysts believe that the emergence of new economic power houses in the developing world may be party to blame for both the market's edginess and the electorates' malaise.

The new power houses — many of them in Asia -- are competing with the United States and Europe for scarce capital, creating a global credit crunch that's pushing up interest rates worldwide and driving down the dollar as international investors flee American markets.

"There is likely to be a dramatic increase in the investment needs of emerging market economies," David Hale, Chief Economist of Chicago-based Kemper Financial Companies wrote in the Wall Street Journal newspaper last week. "There will also be a traditional cyclical recovery in the credit demands of the old industrial countries. As a result (there is) concern about capital scarcity."

The developing nations also pose a competitive threat to industrial countries in world trade markets because their workers' wages and benefits are lower while their skills are improving. That's one reason -- though by no means the only reason -- why close to 25 million people are out or work in the G-7 alone, many of them young.

"All the advanced countries know competition from rapidly developing nations places an even greater premium on the skills of its workforce even as it places greater pressure on wages of their workers," US President Bill Clinton said.

To answer that challenge, the G-7 leaders mapped out what they called an "action programme," to combat unemployment and make their economies more attractive to international investors.

The programme, which followed up on a G-7 "jobs conference" in Detroit earlier this year, contains a mix of policy recommendations, including increased investment in worker training, promotion of new technologies, and deregulation to encourage creation of new businesses.

The group also pledged to reduce so-called labour market "rigidities" which make it expensive for companies in their countries to take on new workers. Such rigidities, which are are politically difficult to do away with, include minimum wage laws and government-mandated health care and other benefits for workers.

"We are determined to press ahead with this action programme," the G-7 leaders said in their communique.

North Korea's economic condition may deteriorate further

TOKYO, July 12: Once the mourning for Kim Il-Sung is over, his successor will face the task of saving the North Korean economy from collapse, Japanese analysts said Monday, reports AFP.

The man widely expected to succeed Stalinist supremo, his son Kim Jong-Il, will inherit a country with shrinking economic activity, empty coffers and acute food and energy shortages.

Few experts give the younger Kim — or whoever else takes power — much chance of improving matters.

"North Korea's economic programme does not appear to work at all now," said Shinichi Nozoe, a professor in Asian studies at the Asia University in Tokyo.

"Under the present economic system, where competition has been excluded, there is little chance for recovery," Nozoe warned.

Communists in China and Vietnam embraced market-oriented reforms to keep their populations happy. But the hardline regime in Pyongyang has been slow to open up its economy. Letting shortages of daily necessities, energy and foreign currency worsen.

Most Pyongyang-watchers in Tokyo agree that economic reform will be the key to the success of whoever replaces the 82-year-old leader who died Friday.

Haruki Wada, a professor in North Korean studies at Tokyo University, said : "The only way for North Korea to succeed reforms is to take a partially-open policy as China did.

"If their economy remains closed, the country will never achieve recovery," he said.

North Korea tried to mimic China by promoting special economic zones, but the policy has come to little. Neither have attempts to build up ports to boost trade with China, Russia and Japan along the Tumen river.

North Korea's Gross National Product (GNP) is estimated to have fallen four per cent last year, making the economy about six per cent of the size of the South Korean economy that Kim made a target of the official propaganda hate campaign.

GNP per head is estimated at 904 dollars for 22 million people compared with 7,466 dollars for the 44 million South Koreans.

The country has defaulted on debts with foreign banks and the volume of two-way trade has more than halved in the past five years to an estimated 2.6[illegible] billion dollars last year.

One of the biggest blows was Russia's recent decision to start charging international prices for oil exports. North Korea's annual imports of oil from Russia, previously its biggest trading partner, have plunged from an estimated 500,000 tonnes to 190,000 tonnes in the past four years.

But military spending has grown creating even bigger restrictions on the rest of the limited budget. Fearing a clash with South Korea, it reputedly allotted 5.6 billion dollars to defence last year, 12 per cent of the total budget.

North Korea admitted last December that its seven-year plan for 1987-93 had failed to reach some targets.

Realising the need for more efforts, it announced a three-year programme giving top priority to agriculture, light industry and foreign trade instead on heavy industry and mining.

Most analysts say North Korea's economic condition is likely to deteriorate further.

"Whoever governs the country, it is questionable whether he or she will successfully tackle the troubled economy," Nozoe said.

Some analysts said opening up the economy might head off a catastrophe. But they warned that putting priority on political rather than economic reforms could undermine the political system, as it did in the former Soviet Union and Eastern Europe.

"Open policies may help the country breathe for a while, but that might lead to the collapse of the communist system," Nozoe said.

75,1[illegible]4 hectares under jute cultivation in 7 districts

MADARIPUR, July 12: At least 75,[illegible]74 hectares of land have been brought under intensive jute cultivation programme in seven southern districts under Barisal Agriculture Extension Zone during the current season," reports UNB.

The districts are Barisal, Faridpur, Madaripur, Gopalganj, Rajbari and Shariatpur. Official sources said production target has been fixed at 7.30 bales of jute.

Of the total land, 60,269 hectares have been brought under high yielding variety and the rest under local variety.

Naples summit signals turning point in Russian economic transformation

MOSCOW, July 12: The Naples summit signalled a turning point in Russia's economic transformation and demonstrated new international respect for the country, a top Cabinet official said Monday, reports AP.

Economics Minister Alexander Shokhin echoed President Boris Yeltsin's comments on returning from Italy that the Group of Seven leaders had given Russia a strong vote of confidence.

"In the past, they were scared of us and aid was offered only in exchange for reforms in order to prevent a destabilisation of the situation in Russia," Shokhin told journalists at the government headquarters in Moscow's White House.

"Now they've begun to respect us as a full partner," he said.

Like Yeltsin, the economics minister was jubilant that Russia had been included for the first time as a full partner for at least the political talks during the weekend summit.

Shokhin repeatedly referred to the organisation as the Group of Eight — a somewhat premature assessment until Russia is granted a permanent seat and a role in economic deliberations.

"All the leaders noted that without Russia one cannot envisage a solution of global political problems," he said.

At last year's summit, the world's leading industrialised nations approved 43 billion dollar in support for Russia. This year's package was much smaller.

"The tone changed. This time we weren't asking for anything," Shokhin explained.

The Group of Seven — the United States, Japan, Germany, Britain, France, Canada and Italy — endorsed additional loans from the International Monetary Fund that Shokhin said would total about 4 billion dollars.

The loans must be approved by either the IMF's executive board in Washington or the fund's board of governors, which next meets in Madrid, Spain, in September.

Over the two-day meeting, Russia backed steps to boost international aid to countries making the transition from socialism and to open world markets to their products, Shokhin said.

"We were promised help not in the form of concrete billions of dollar but in terms of support for our initiatives," Shokhin said.

Russia also won some benefits for itself, as the United States agreed to ease a series of Cold War-era trade restrictions. Shokhin said easier terms for selling Russian products in the United States could bring an additional 3 billion dollar annually in export revenues.

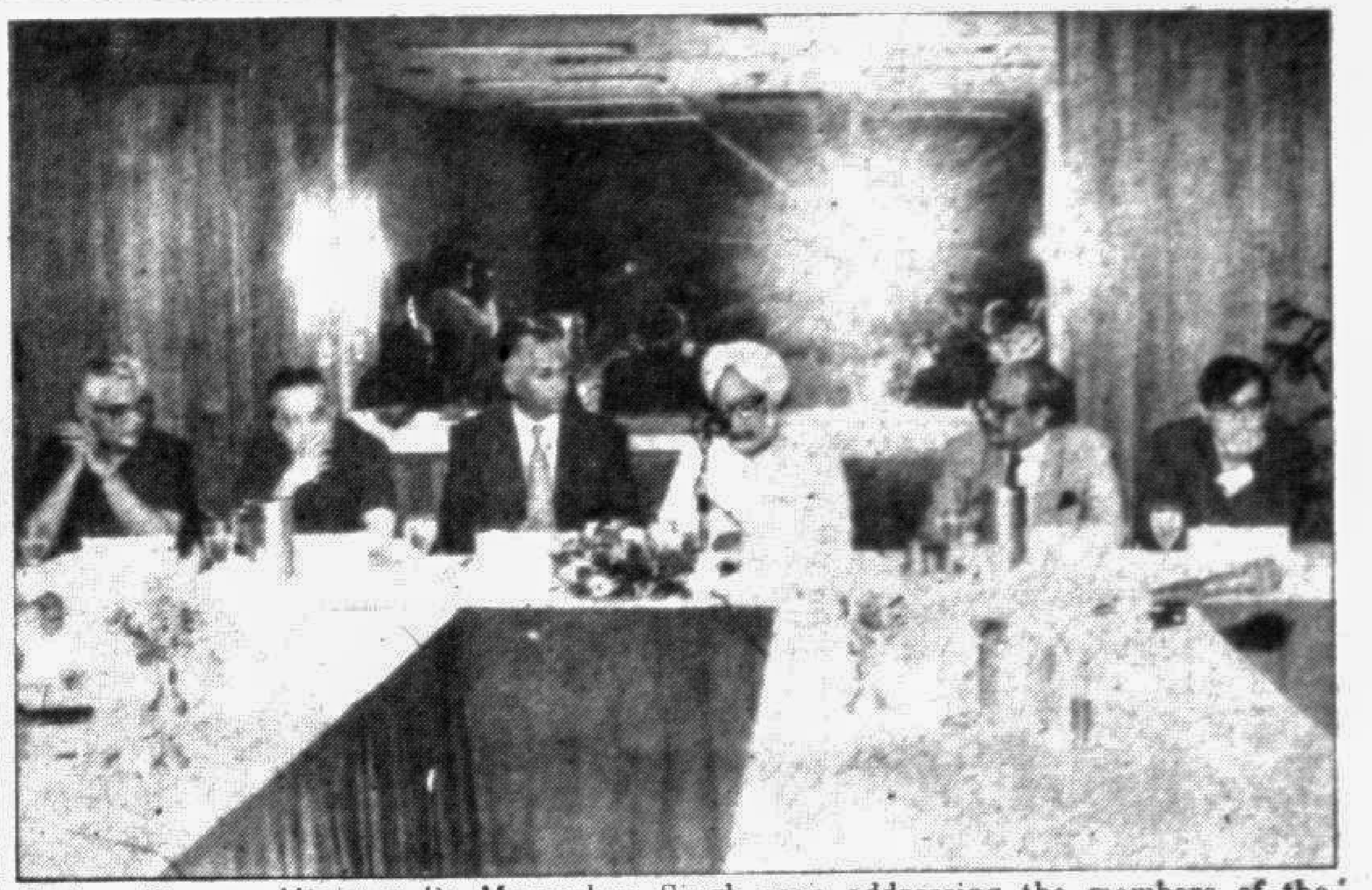
He acknowledged, however, that lifting the numerous US restrictions will take time.

Yeltsin, speaking to state television Sunday night after returning from the summit, urged the United States and other nations to remove punitive trade measures, which he said were hurting the struggling Russian economy.

Yeltsin said his fellow leaders told him the Russian reforms had been "incredible" and had their full support.

Russia's economy remains deeply troubled, with high inflation and falling industrial production. But inflation has come down to 5 per cent a month and the country's huge budget deficit has been shrinking.

Khorshed Alam, Governor of Bangladesh Bank, formally inaugurating the Standard Chartered Bank's Automated Teller Machine (ATM) called "Moneylink" services at Banani branch of the bank in the city yesterday. Peter J Fowler (2nd R), British High Commissioner to Bangladesh and Stephen M McCarthy (3rd R), Chief Executive of the bank look on — Star photo



Indian Finance Minister Dr Manmohan Singh seen addressing the members of the committee of the Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka at Sonargaon Hotel in the city yesterday.

MCCI members meet Manmohan

Members of the Committee of the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) met the Finance Minister of India, Dr Manmohan Singh at Sonargaon Hotel in the city yesterday, says a press release.

Latifur Rahman, President of the Metropolitan Chamber welcomed the minister and referred to the imbalance in trade between Bangladesh and India and the efforts being made by the Task Force of the Joint Economic Committee of the Metropolitan Chamber of Commerce and Industry, Dhaka and the Confederation of Indian Industry, which have recommended rationalisation of Indian tariff rates with a view to reducing the imbalance. The president appreciated reform measures being introduced by the Finance Minister of India and hoped that he would pay special consideration to the reduction of tariff rates on exportable consumer items from Bangladesh to India.

Reciprocating the sentiments expressed by the Chamber president, the Indian Finance Minister said that he was aware of the necessity of reducing the trade imbalance between the two countries and was actively considering rationalisation of the tariff rates on Bangladeshi exports to India. He assured that the Indian government will accept the proposals of the Task Force on removing the anomalies in tariff rates with a view to bringing about a reasonable balance in trade between the two countries.

Present at the meeting were also A M Zahiruddin Khan, Minister for Industries, Secretary, Ministry of Finance, the High Commissioner of India in Bangladesh and the High Commissioner of Bangladesh in India.

Dollar plunges to record low in Tokyo

TOKYO, July 12: The dollar plunged to another record low closing against. the yen Tuesday, and worries about effects on Japan's economy sent the Tokyo Stock Exchange's main index lower for the fifth consecutive session, reports AP.

The dollar closed at 97.07 yen, down 1.48 yen from Monday's finish and lower than its overnight New York close of 97.75 yen.

Tuesday's close was the dollar's lowest in Tokyo since modern exchange rates were set in the late 1940s. The previous low of 98.30 yen was set last Wednesday.

In the last month, the dollar has fallen a total of 7 yen, or 6.7 per cent, setting record low closings in nine of 15 sessions.

It opened Tuesday at 97.35 yen and ranged between 97.05 yen and 97.53 yen.

Traders said the dollar was sold after a Japanese newspaper report quoted a US official as saying the Group of Seven leading industrial nations have decided against money market intervention to support the dollar as long as it stays between 96 and 98 yen.

The newspaper Nihon Keizai quoted an unidentified US official, accompanying President Clinton in Berlin, as saying officials at the weekend meeting of the G-7 in Naples, Italy, agreed that it was difficult to correct foreign exchange rates by coordinated intervention.

The market already had noted no strong commitment from the G-7 meeting to support the US currency.

Japan's central bank bought dlrs 500 million in efforts to stop the dollar's slide, the Japan Broadcasting Corp said. The Bank of Japan does not comment on its money market actions.

In a speech at an annual Japan-US business conference, US Ambassador Walter Mondale said recent exchange rate movements were not in line with US economic fundamentals.

"A further weakening of the US dollar is neither desirable nor justified," Kyodo News Service quoted Mondale as saying.

Bank of Japan Governor Yasushi Mieno, in Basel, Switzerland, expressed strong concern over the yen's recent sharp rise, Kyodo said.

Mieno was attending a regular monthly meeting of central bank governors at the Bank for International Settlements.

A central bank official said earlier Tuesday that the bank would do anything necessary to combat what he called speculation-driven dollar selling.

Japanese team meets Industries Minister

A Japanese investor team led by Ryozo Masuda, President, T and K Toka Co. Ltd, Japan, called on Industries Minister A M Zahiruddin Khan at his office in the city yesterday, reports BSS.

During the call on, the Industries Minister urged the Japanese entrepreneurs to invest more in Bangladesh, particularly in export oriented industry. He also urged them to look for market of their products on regional basis for expanding their business in Bangladesh.

OPINION

Credit expansion in commercial banks

M Mamun-Ur-Rashid

Big reserves in foreign exchange, in one sense, speak of good health of the country in terms of its ability to pay for overseas obligations. On the other hand, it portrays a dismal investment scene. How to increase investments is the usual question that comes up at this stage. The obvious answer is: credit expansion.

Why does credit expansion remain a big concern? Some attribute it to bureaucracy in the banks, while others say it is the high cost of borrowing. So, what is the government supposed to do for credit expansion? Ease bureaucracy in the credit sanction? Lower the cost of the fund through reduction of bank rates?

Now, how does the bank rate reduction influence expansion of credit? Deposit rates go down with the reduction of bank rates which may push savers to look for an alternative mode of investment with higher profit.

Theoretically, leading rates should follow the changes. But this has not been the case as banks struggle to maintain at least the same ratio of profit. The banks can't maintain steady profit because of the huge interest losses due to bad and doubtful debts. No legal framework is in place to safeguard the banks' interests against interest and principal losses. Moreover, transaction and documentation costs for disbursing loans have increased substantially. Even a decrease in interest rate by one or two per cent cannot attract the business people due to high transfer or documentation cost.

One must have noticed that the government has totally waived the agricultural loan through a fiscal order. This waiver has already told upon the health of commercial banks. Nationalised banks and the DFIs have been made good (by the government) for their losses in this sector but what about the denationalised banks? They are being pushed to carry over these losses.

There is a huge excess liquidity in the market, to the tune of Taka five billion, while the shortfall in the SLR (statutory liquidity ratio) is Tk 15 billion. There is an acute shortfall of government-approved securities (qualifying for SLR) in the market. The government has already taken care of a portion of that shortfall through "issuance of treasury bonds but has yet to do something about the SLR shortfall of Tk 15 billion. The authorities have not taken any initiative to make these bonds transferable. Lesser amount of securities is also contributing towards high interest rates on advances. If a bank takes a three-month fixed deposit at 5.5 per cent it has to keep a mandatory deposit of 20 pc in cash and 15 pc in government approved securities. Since there is no security instrument available in the market, they have to keep this 15 pc with the central bank in non interest bearing current account — earning nothing. So cost of fund on a 3 months fixed deposit becomes 6.6 pc (since bank can lend only 80 pc of the deposits). If one adds 2 pc overhead cost (which is very nominal for a local bank) to it the fund cost becomes 8.6 pc. If the banks are required to make at least 15 pc return on this funds deployment loan costs become around 10 pc. In fact, market prevalent rate at present for good customers is around 11/12 pc.

There has been a continuous pressure on deposit rates to go down due to pressure on advances rates. There have not been adequate savings or investment instruments in the market. The three-year savings certificate has already been done away with, people cannot open deposit pension schemes. Wage earners don't have any scheme to invest in local currency except Wage Earners' Development Bonds which are also prone to exchange risk losses. Does it mean that everybody will invest in stocks or engage in business? Has there been any alternative?

How does the banking sector improve its health? What can be done about Tk 60 billion bad loans? Should the bankers do some more home work or the authorities allow more new banks in an already overbanked market? Will the reduction in corporate tax boost the banking sector? What about the anomalies in policies for banking and exchange control? While there is a pressure for increasing revenue, will the decrease in corporate tax help investment? Decision makers should address these pertinent questions.

** The writer is the Treasurer of Standard Chartered Bank. However, views expressed in this article are of his own.*