



## India under intense pressure to slow economic reform

NEW DELHI, Feb 28: As foreign investors clamour for faster liberalisation, India's embattled Congress (I) Party government is facing intense domestic pressure to slow economic reform or lose power, reports AFP.

Still to recover from the December loss of two prized bastions in southern state polls, the party is facing dismal election prospects in the west and the east which some economists blame on popular disenchantment with reform.

The rest where the Congress is tipped by pollsters to lose power includes the states of Maharashtra and Gujarat, the main beneficiaries of industrial investment resulting from the 3 1/2-year-old reforms.

Thirteen leading economists warned in a statement here that the country was headed for political uncertainty as poll debates pile up for Congress, whose unity is threatened by a simmering rebellion.

"Economic factors have contributed in large measure

to this development," said the economists, who included former chief adviser to the government Deepak Nayyar and former finance secretary S P Shukla.

The vulnerable sections of our population have been adversely affected by the set of policies pursued since 1991. This disillusionment is finding expression in the election results," they said.

"The compulsion of events may also persuade those in authority to rethink economic reforms," the economists said.

Double-digit inflation — currently measured at 11.52 per cent — fuelled by volatile foreign portfolio funds, selective subsidy cuts, a removal of price controls, and unemployment resulting from inadequate economic growth are seen to have made the poor worse off.

India is at risk of "globalising prices without globalising incomes," when 300 million of its 900 million people live below the poverty line, the economists warned.

Arjun Singh, the Congress heavy weight who quite the

cabinet after the December poll losses and launched a revolt against Prime Minister P V Narasimha Rao, has criticised liberalisation for lacking a "human face."

Clamouring for more tariff cuts and wider access to the huge market, including its lucrative insurance sector and other services, are investors from Australia to America who came visiting this year.

The Japanese demanded urgent labour reforms including a flexible hire-and-fire policy to enter the market, which the Koreans likened to a fumbo jet waiting for take-off.

But faced with a steady erosion of its mass base, the government would almost certainly put the breaks on reform if not shift to reverse, economists and politicians say.

General elections are due in mid-1996, pending reforms include privatisation of public sector utilities, insurance, roads and ports, entry for foreign media and further liberalisation of the telecommunications sector.

The lifting of a ban on im-

ports of consumer goods and a full float of the rupee are also a part of the agenda expected to be pushed to the back-burner.

Prakash Karat of the powerful Communist Party of India-Marxist said his party had concluded reforms were going against the Congress.

"The rich are getting richer and the poor poorer," Karat said, "Cheap food, low inflation, employment generation — these are the things that matter for the poor — Coca Cola and McDonald's don't."

The government has to rethink or it will head for a bigger defeat," Karat said.

Corporations have won big tax breaks. The middle-class of 200 million are on buying binge in a market worth annual 110 billion dollars in consumer spending.

Daimler-Benz, Peugeot and Daewoo are assembling cars and Sony and Sanyo are making television sets, Kellogg's breakfast cereals is here along with Scotch whisky and American chewing gum and potato chips.

## Bilateral trade between India, Lanka discussed

COLOMBO, Feb 28: Sri Lanka and India have discussed the expansion of bilateral trade, including Indian investment in joint ventures here during a third round of trade talks between the two countries, diplomats said Friday, reports AFP.

The two-day third session of the India-Sri Lanka sub commission on trade, finance and investment concluded here yesterday after focusing on a broad range of bilateral trade issues, the Indian High Commission here said.

The sub-commission conference focused on trade, commerce, finance, banking, industry and investment, it said in a statement.

Economic and commercial relations since the last commission meeting in 1994 were reviewed in depth, the statement said.

The talks were aimed at boosting bilateral trade while narrowing the huge imbalance, officials said. India's exports to Sri Lanka jumped to 404 million dollars last year compared to 343 million dollars in 1993.

Exports from Sri Lanka stood at a modest 20 million dollars in 1993 and the figure went up marginally to 21 million dollars last year.

Among the issues discussed at the meeting were increasing shipping services and freight facilities between ports in the two neighbouring countries and Indian investment in joint ventures in Sri Lanka.

The two sides also discussed enhanced cooperation in the railway, plantation and dairy sectors, the statement said.

## Russian coalminers delay strike for two weeks

MOSCOW, Feb 28: Russian coalminers have delayed a strike threat ultimatum for two weeks until March 15 amid hopes of an end to a pay dispute, the National Coal Industry Workers Union announced here yesterday, says AFP.

Union President Vitali Budko was quoted by the news agency Interfax as saying the government had made some "concrete shifts" towards meeting the miners' complaints that payment of their wages was several months in arrears.

There are concrete shifts, which make it possible to hope that the miners' demands will be met in full," Budko said, adding that the problem of the government's debts to the industry could be settled before March 15.

Half a million coalminers staged a warning 24-hour strike through Russia on February 8, and threatened to call for a new strike and a campaign to bring down the government on March 1 if their demands were not met.

Interfax quoted the miners' union as saying that the miners would remain in a state of "strike readiness," even though the ultimatum deadline for action including picketing of government buildings here had been shifted to March 15.

Delegates said they were dissatisfied with the government's schedule for paying back the 840-billion-rouble (191-million-dollar) slice of its debt to the coalmining industry due from last year.

The government's total arrears to the industry are estimated at 1.5 trillion roubles (341 million dollars).



US Ambassador to the United Nations Madeleine Albright (2nd-L) is greeted by Kuwaiti State Minister for Cabinet Affairs and Planning Abul Asis al-Dhakail February 26 upon her arrival at Kuwait city's airport from Oman. — AFP photo

## China to send officials to Tibet to help boost econ

BEIJING, Feb 28: China will send 1,000 of its most outstanding officials and technicians to the remote region of Tibet to help to boost the economy, the Xinhua news agency said, reports Reuter.

The cadres selected for service in the rugged Himalayan region, troubled in recent years by anti-Chinese demonstrations, will fan out across Tibet's 44 counties to help to develop the economy and social progress. Xinhua said in a overnight report.

Officials will be selected from among 14 provinces and municipalities and 29 state ministries, will be 45 years old and will be rotated every five years, Xinhua said.

Tibet is not a popular posting among ethnic Chinese officials, who are paid special bonuses to serve there and given guarantees of a limited term of service.

Tibet is among the most backward parts of China and its economy has lagged behind the rapid growth in much of the rest of the country.

## 50 pc Vietnamese living below poverty: WB

HANOI, Feb 28: More than half of all Vietnamese are living below international standards for poverty, according to a World Bank report released yesterday to outline its plans to aid the country's economic development, reports AFP.

A recently completed survey of living standards carried out with World Bank help by the state planning committee found that 51 per cent of Vietnamese were living in poverty.

The World Bank report praised Vietnam's reforms that have brought its economic growth of nine per cent, but noted it remained one of the poorest countries in the world with a per capita annual income of just 170 dollars.

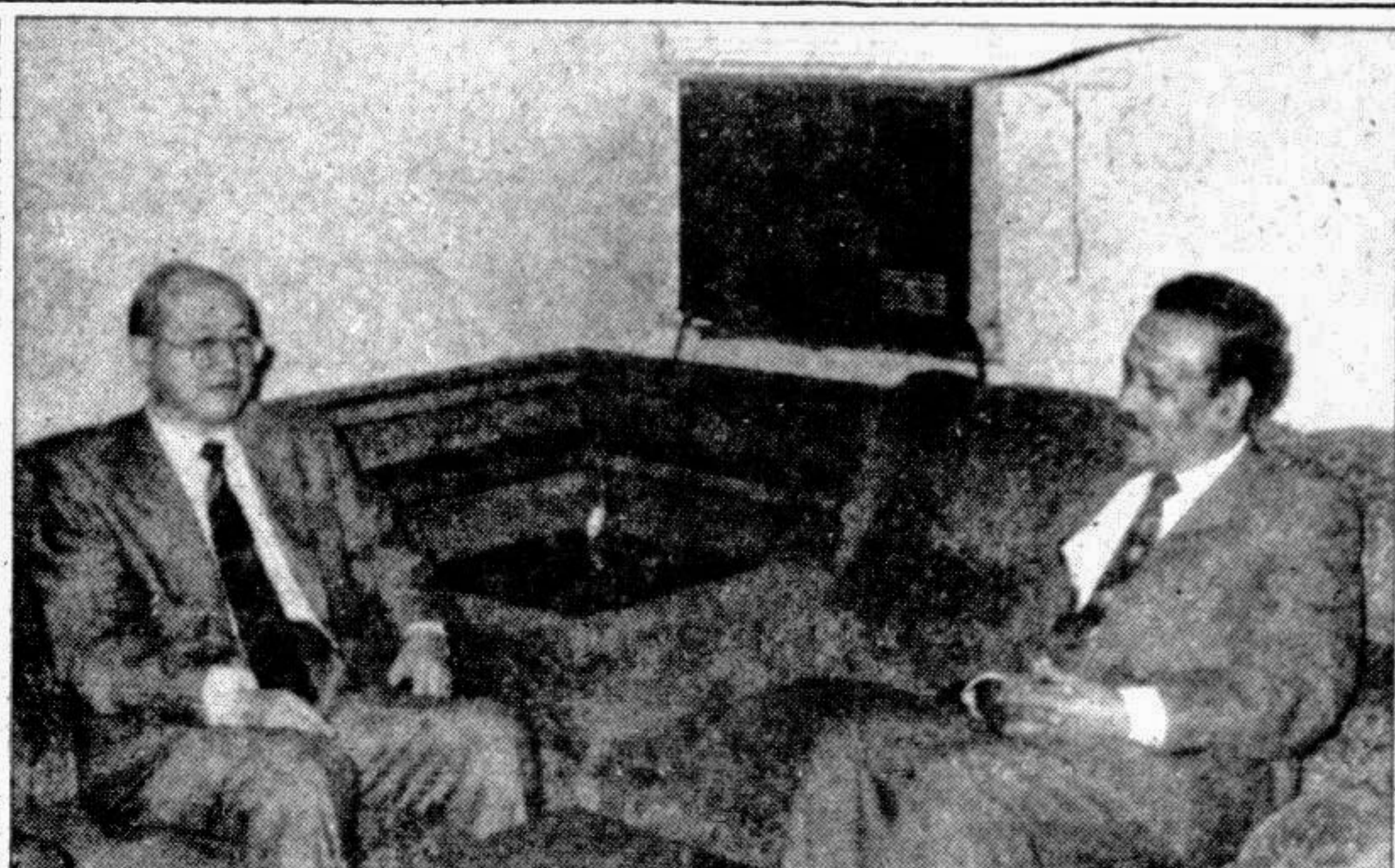
Four areas of concern were identified by the bank including access to rural credit, high marketing costs due to poor infrastructure, poor functioning of the land market and inadequate technology to raise agricultural output.

Figures showing 51 per cent of Vietnamese were living in poverty were recently quoted by local newspapers which later ran reports saying that, according to the Central Bureau of Statistics, only 19.9 per cent of people were considered impoverished but no explanations was given for the discrepancy.

## Deficit may overshoot budget in India

NEW DELHI, Feb 28: India's fiscal deficit in the financial year to March 31 is expected to overshoot the budget estimate by about 100 billion rupees (3.3 billion dollars), a private think-tank said in a report yesterday, reports AFP.

The government had projected a deficit of 549 billion rupees (18.3 billion dollars) in the 1994-95 budget but its finances seem to have "gone considerably out of control," the Centre for Monitoring the Indian Economy said.



The Ambassador of China to Bangladesh Zhang Xujiang called on Food Minister Abdul Mannan Bhuiyan at the latter's office on Monday. — PID photo

## Leather garment exports sharply decline in Pakistan

KARACHI, Feb 28: Pakistan's leather garment exports have sharply declined due to shortage of finished leather, throwing 60,000 people out of jobs, exporters said, reports AFP.

Exports of value-added leather items declined from 256 million dollars during the second half of 1993 to 205 million dollars in the same period in 1994, said an official of Pakistan Leather Garments Manufacturers and Exporters Forum.

SM Farrukh said shortage of finished leather in Pakistan had raised prices and made domestic industry less competitive on the world market. Tanners export leather to competing countries, making it difficult for the manufacturers here to quote competitive prices, he said.

Farrukh demanded that the government impose a 15 per cent export duty on all types of finished leather to ensure availability of the raw material

for domestic users at reasonable prices.

He said more than 80 per cent of Pakistan's 378 leather garment units were forced to close because of the shortage of finished leather, there are, in addition, 416 footwear

## Japan's jobless rate rises

TOKYO, Feb 28: Japan's seasonally adjusted unemployment rate stood at 2.9 per cent in January 0.1 percentage point from the previous month, the Management and Coordination Agency said Tuesday, reports AFP.

It was the first rise in the jobless rate in six months.

"Although the economy basically on a recovery trend, the employment situation is not picking up," and agency official said.

manufacturers, 247 medium and small size gloves producing units and 218 sports goods makers.

However, the Pakistan Tanners Association (PTA) claimed that about one million square feet of finished leather was available on the domestic market.

PTA Chairman Gulzar Firoz said the prices of finished leather had risen not only in Pakistan but all over the world due to increased cost incurred in improving quality.

Leather products including garments, footwear, gloves and sports goods, made up about 70 per cent of Pakistan's total leather exports worth 710 million dollars in the 1993-1994 fiscal year, down from 719 million dollars in the 1992-1993 period.

Leather and leather goods industry account for four per cent of the Gross Domestic Product of 51.76 billion dollars and is Pakistan's third major export earner.

## Chowdhury Khaled Saifullah

on advances irrespective of quality. The profit position has suddenly dropped to the lowest with the application of the new system of classification.

Since commercial banks deal in depositors money, lending should be done keeping in view of safety, liquidity and profitability. A bank should expand its credit portfolio carefully to the extent that it can manage effectively and efficiently to ensure repayment. The intensity of loan monitoring should be proportional to the perceived risk involved and the risk of lending must be assessed at the time of approval in some tangible and quantifiable manner. Poor credit management has contributed to high proportion of nonperforming loans to our financial intermediaries. The purpose of any credit should be productive and income generating. In a changing environment bankers should

change their attitude towards lending. They need to use modern techniques in credit appraisal and serve the new generation entrepreneurs who lack both experience and financial resources. In a competitive environment they need to improve their services, profitability, product innovation and marketing skills.

They also need to introduce better risk management. To successfully make lending in innovative areas bankers are to assume the role of co-entrepreneur. The banker must have interest in the borrowers effective and efficient management of affairs, visualise the borrowers planning and implementation of the business targets for safeguarding credits.

Normally commercial banks extensively use collateral and personal guarantee to reduce the probability and cost of de-

fault. But unfortunately our legal system often favour the borrower by making it difficult for the lender to foreclose on collateral which has adversely affected the ability of our commercial banks to collect loans. So the ultimate security of the bank is the commercial success of the borrower when our inadequate legal system diminish the value of real estate as collateral security. For this reason the approach of lending has shifted from a security oriented approach to a business viability one. With the past experience of huge loan losses through collateral banking practices, now we should give more emphasis on business viability, management competence and management integrity of the proposed debtor rather than the value of real estate offered as collateral. At the same time adoption of a scientific system of supervision and follow up is necessary for

systematic evaluation of the borrowers to ensure repayment. With a view to strengthen the supervision and follow up system, banks should appoint their official (s) as director (s) of the board of the assisted business units where the bank's financial involvement exceeds a certain limit.

With the aid of computer based MIS commercial banks can develop modern reporting system to periodically review the total exposure of different groups and individual borrowers. To avoid risk concentrations, the total group exposure should not be allowed to exceed a particular limit. In this regard Bank Companies Act 1991 may be amended with necessary provision. Any credit exceeding particular limit may be sanctioned through a consortium of three or four banks including Bangladesh Bank. Each bank will separately appraise the proposal. The CIB

data bank can play a more significant role by supplying the list of the defaulting borrowers to all the financial institutions on quarterly basis. There should be a restriction on the sanction of fresh loan to the defaulters in their own name or in the name of concerns where they are interested or the managements of the banks may have the liberty to provide loan to a defaulter in their own risk and responsibility under intimation to Bangladesh Bank.

An efficient financial system can operate within a suitable legal and regulatory framework. The existing mechanism to pursue bad debtors and dispose of physical assets taken over in foreclosure proceedings proved ineffective at recovery and liquidation. For speedy disposal of collateral, the provisions of Artha Rin Adalat may be amended that once a bank has obtained judgement there, it will no longer have to apply separately

for execution of the decree. To make our legal system more effective, govt need to provide for acceptable collateral security by efficient transferability of property rights. An effective bankruptcy act may be introduced to deal with a large number of borrowers. Contract performance can be improved by making breach of contract more costly.

Normal recovery process involving the work of sending notices, selling securities etc. are found ineffective to recover banks money. Therefore independent recovery agencies in the private sector may be given permission with necessary changes in the legal system enabling them to operate freely. These agencies can buy bad loans at a discount from commercial banks and collect it from the borrower in their own risk and responsibility.

(The writer is an officer of National Bank Ltd Credit Division, Head Office.)

# Commercial banks form an integral part of our free market economy

In a free market, the prime objective of a commercial bank is to maximise profit by providing banking services to its customers. Because of their positive involvement in trade, industry and a host of services, banks today form an important part of our economy. A banker can play the role of catalyst for social change. When private commercial banks (PCB) started functioning in our financial market in the early eighties, they actively engaged themselves in deposit mobilisation and were aggressively involved in the competition for attracting a limited number of selected borrowers. With their limited branch network, mostly concentrated in urban areas, they earned the confidence of the clients by providing excellent services. But they could not compete the NCBs in lending for priority sectors like Agriculture and industry. They increased their market share in credit mostly on trade and commerce. However, they

have played a significant role in handling exports. Although it was expected that the PCBs would make lending with proper analysis of potential risk and remain vigilant to ensure safety of their assets, excessive profit motive did not allow them to manage credits professionally. Since interest on lending constitute the highest proportion of income, credit quality remains the prime indicator of their commercial success. But more than 80 pc of the time and available resources are utilised in the process of approval and disbursement of credit. As such credit administration is weak in terms of monitoring and review. Most of them are unaware of what amount of credits they can manage effectively with the available manpower resources and there is no specific guidelines for monitoring loans according to risk classification. Till December, 1988 they earned substantial profit by charging interest

on advances irrespective of quality. The profit position has suddenly dropped to the lowest with the application of the new system of classification. Since commercial banks deal in depositors money, lending should be done keeping in view of safety, liquidity and profitability. A bank should expand its credit portfolio carefully to the extent that it can manage effectively and efficiently to ensure repayment. The intensity of loan monitoring should be proportional to the perceived risk involved and the risk of lending must be assessed at the time of approval in some tangible and quantifiable manner. Poor credit management has contributed to high proportion of nonperforming loans to our financial intermediaries. The purpose of any credit should be productive and income generating. In a changing environment bankers should

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