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Ten major Asian economies likely to grow by 7.4 pc in '96

SINGAPORE, Dec 10: Asian economies, with a few exceptions, will be consolidating rather than accelerating in 1996 after enjoying brisk growth in the past few years, a leading US investment house predicted on the weekend, reports AFP.

"Overall, the 10 major Asian economies, excluding Japan, are forecast to grow by about 7.4 per cent in 1996 compared with an estimated 7.9 per cent in the current year and 8.4 per cent in 1994," Merrill Lynch and Co said.

In its monthly Asian economic commentary received Saturday, it tipped real Gross Domestic Production (GDP) growth in the 10 economies to stay in the 7.0 to 7.5 range in 1997.

China was tipped to grow in 1996 by 8.4 per cent, Hong Kong 5.4 per cent, India 6.6 per cent, Indonesia 6.9 per cent, South Korea 7.7 per cent, Malaysia 8.2 per cent, the Philippines 5.8 per cent, Singapore 7.1 per cent, Taiwan 6.7 per cent and Thailand 7.9 per cent.

A majority of them have averaged more than eight per cent annual growth during the last three-to-four years, posing problems of inflation and external deficits, the investment house said.

"Economic policy in these countries is thus likely to focus mainly on tackling such issues rather than attempt to further accelerate growth in the short run," said Merrill Lynch.

Exceptions could be the Philippines and India, which have grown at a relatively sluggish pace and could see faster growth in 1996, but even they could be constrained by inflation and large external deficits.

Merrill Lynch said domestic demand was likely to be the engine of growth for most Asian economies in 1996.

"This will be true especially of the region's larger economies like China, India and Indonesia," where consumption spending was expected to be buoyant given their large domestic markets and fast income growth, it said.

But strong domestic demand growth could fuel a sharp rise in imports, and negatively affect trade balance, Merrill Lynch warned.

A liberalisation of import barriers and tariff cuts may provide an added boost to imports, outpacing exports and dragging down GDP growth in many Asian countries.

Merrill Lynch predicted soft export growth for Asia in 1996 on the back of sluggish economic expansion in key markets such as the United States, strong local currencies and production constraints due to labour shortages.

The Singapore dollar, the Malaysian ringgit and the Chinese renminbi are some currencies that have appreciated over the last three-to-six months, especially against the US dollar.

Four developing South East Asian economies — Indonesia, Malaysia, the Philippines and Thailand — were likely to see their combined current account deficit swell to 32 billion dollars in 1996 from 29 billion dollars in 1995.

Four newly industrialising economies — Singapore, Hong Kong, South Korea and Taiwan — would end up with a combined current-account surplus of 4.5 billion dollars, mainly due to Singapore's strong external payments position.

The city-state's external current account surplus was forecast to rise to 13.6 billion dollars in 1996.

Sadarghat terminal during hartal hours yesterday. — Star photo

Ministers and talks
'Developing Central Euro market a must'

WARSAW, Dec 10: Agriculture minister from Central European countries ended their two-day discussions here today on agricultural restructuring and privatization and their countries' integration into the European Union (EU), reports Xinhua.

As surplus rural labour is a common problem for most Central European countries, the participants pointed out, only a full development of diversified occupations in the rural areas can solve the problem and improve their incomes.

Bank holiday

The Bangladesh Bank and all scheduled banks will remain close on December 16 on account of victory day, a Bangladesh Bank press release said, reports BSS.

World food security at stake
873 breeds of domestic animals on verge of extinction: FAO

ROME, Dec 10: Britain's Derbyshire redcap chicken, the US mulefoot pig and Japan's Chubby gost were among 873 breeds of domestic animals declared at risk of extinction by the UN Food and Agriculture Organisation (FAO) on Tuesday, reports Reuter.

The agency said in its "world watch list for domestic animal diversity" that breeds were disappearing at alarming rates and warned the trend could hit world food security in the future.

"Loss of this genetic diversity erodes our capacity to maintain and enhance food production and sustainable agriculture," FAO Director-General Jacques Diouf said.

The 769-page watch list was the result of a survey of 3,882 breeds of 28 species of domestic animals, mostly farm animals such as horses, pigs, chickens, sheep and cattle.

It found 873 breeds at risk of extinction.

The watch list gave several reasons for the dwindling genetic pool, including indiscriminate cross-breeding and the preference among farmers to raise one breed in exclusion of others.

In North America, the report said, "the continued drive towards intensification and specialisation has resulted in the increased reliance in a smaller number of breeds to meet the demand for food".

It said the same trend was documented in Europe where 43 per cent of domestic animal breeds were found to be at risk.

In its Asia section, the watch list gave an example of why genetic diversity was important.

It said Japanese companies were experimenting with introducing new genes into chicken breeds after consumers demanded a tastier bird. "Had these breeds been allowed to become extinct, then this would not be an option today."

In Africa, where information was hard to come by, FAO recommended protecting as many local breeds as possible so that farm stock was genetically "adapted" to fight the region's infectious livestock diseases and parasites.

Strike in France rekindles debate over drive toward Euro-currency

PARIS, Dec 10: The nation-wide walkout crippling France has amplified divisions over the European Union's drive to create a single currency by 1999 as it tries to evolve into an economic superpower, reports AP.

The split runs deep in a nation that must painfully trim is generous womb-to-tomb social programmes to meet single currency guidelines and strengthen the 15-nation EU or languish as a second-rate power on its own.

Polls show a majority of the French at least sympathize with striking public workers taking to the streets against austerity measures. But a majority also want the strike to end and agree negotiated reform is needed.

Even President Jacques Chirac embodied the ambivalence toward meeting the strict guidelines by 1998. Seven months after a campaign in which he made noises about a referendum on it, he and German Chancellor Helmut Kohl met in the Black Forest resort of Baden-Baden on Thursday and affirmed their commitment to stick to the plan.

Chirac said the belt-tightening was needed "to adapt us to the current times." Kohl, his economy closely tied to France, commended Chirac's difficult and necessary efforts."

It's a tall order, with 24 per cent of the workforce on the public payroll and government expenditures accounting for about half the nation's productivity.

"Come on, forget politics," Kohl said in a cartoon in the Frenchy newspaper Le Monde as he poured a bottle of European Union elixier into the cup of a tearful Chirac, holding a picture of Marianne, the symbol of France.

Don't fix the economy on our backs, unions say.

"We are against the kind of Europe that bases itself on a single currency," said Patrick Cami, head of the Railroad Workers' Federation of the Communist-led General Workers Confederation. "Only big money benefits."

Sources close to conservative Prime Minister Alain Juppe acknowledge growing pressure to drop out of the race for the single currency and put the brakes on a severe belt-tightening effort to slash a 322 billion franc (64 billion dollars) annual deficit.

At more than five per cent of the nation's gross domestic product, the shortfall must drop to three per cent by the end of 1997 in order to create the single currency by 1999 under terms of the Maastricht treaty on European union.

France also maintained high interest rates to defend the franc —another currency requirement — but the country is struggling with 11.5 per cent unemployment.

Charles Pasqua, a conservative former interior minister, suggested in an interview in the latest L'Express magazine that the single currency timeline could be pushed back two years to avoid "recession or a social explosion."

KLM Royal Dutch Airlines recently flew its Top Ten agents in Chittagong to Amsterdam for presentation of awards there. They are seen with Cees Ursem, General Manager-Bangladesh, KLM Establishment, and Passage Sales Manager Gazi Salahuddin before their departure. Sales Manager K A Kabir accompanied the team to Amsterdam.

Clinton shows no signs of backing down from budget fight

WASHINGTON, Dec 10: President Bill Clinton showed no signs of backing down Saturday from a budget fight with Congress that could mean the second government shut-down in a month, reports AFP.

Clinton, who vetoed a congressional spending plan earlier in the week, said in his weekly radio address that he had no regrets about rejecting the Republican budget and would do it again to prevent a 163 billion dollars cut in health-care spending for the poor.

"I did it because in doing so I vetoed the most massive cuts in medicare and medicaid in history, a tax increase on working people, and deep, deep cuts in education and the environment," he said.

"If necessary, I'll veto these deep cuts in health-care for children again and again. I'll do it because they are not necessary in balance the budget."

Clinton sent his own proposals to Congress this week that he said would balance the budget within seven years, something that the Republican-led Congress had been demanding.

The White House wants to maintain guaranteed federal funds for the entitlements while the Republicans want block grants for individual states to use at their discretion.

A Wall Street journal poll Friday showed 44 per cent of those surveyed supported Clinton on budget issues against 41 per cent for the Republicans.

At a news conference Friday, House Budget Committee Chairman John Kasich said Republicans would spend the weekend examining Clinton's proposals.

The congressional budget office would release new economic assumptions on Monday, both sides have insisted on having those numbers for their negotiations, so talks cannot restart until Tuesday.

This leaves only three days for the parties to agree on at last a stopgap spending measure to keep the government open.

NGO men meet to draw up poverty resolution

BANGKOK, Dec 10: About 200 representatives from non-government organisations NGOs gathered today to draw up a resolution on poverty which they to present to a summit meeting of South-East Asian leaders later this week, reports AFP.

Social campaigners and environmentalists from Laos, Cambodia, Indonesia, Japan, Sri Lanka and Thailand met at a city university to plan their campaign.

Shawkat off to Kuala Lumpur

Labour and Manpower Minister Mir Shawkat Ali yesterday left Dhaka for Kuala Lumpur on a four-day official visit to Malaysia, reports BSS.

He is expected to hold talks with his Malaysian counterpart and other concerned senior officials on initiating larger flow of manpower demand by Malaysian authorities under the newly introduced government to government (G-to-G) system.

Other matters that are expected to come up for discussion will include recent decision of Malaysian government to impose on foreign workers levy and work permit free at double the present rate without any commensurate increase in workers' wages, calling visa cases previously initiated by private recruiting agencies before G-to-G system and cleared by Malaysian Home Ministry but subsequently stopped by its task force on the plea that the demands were not processed within the time limit.

Why are the banks deliberately hurting the economy?

By Tanya Gupta

Most banks in Bangladesh hold excess reserves over and above what they are required to hold by the law. Holding of excess cash reserves, commonly referred to as excess liquidity, causes problems in that they discourage development of an economy. This is because lending of money causes increased investment which stimulates the economy. Therefore, by having excess liquidity, banks are deliberately retarding economic growth. This makes them sound like the villains of the piece except that they don't really have much of a choice — they are constrained to act as they are acting.

There could be a number of reasons behind excess liquidity of the banks. One of the more obvious reasons is non-payment of loans. Non-payment of loans could occur because of faulty lending practices. In that case the fault lies with the banks. Excess regulation has also been cited as a reason. However, if we examine the lending environment, we find that there are flaws in legislation and proper implementation that actively discourage lending. Let us take a look at some of the measures.

The aim of the regulation should be to create an atmosphere of financial accountability and a system that brings borrowers to task quickly in cases of default. Legislation should actually help lenders to recover their money in such cases. In order to find out why the problem of excess liquidity exists, why banks are helpless and what can be done about it, it becomes necessary to discuss some of the related areas.

To begin with, let us look at why law requires banks to hold a certain amount of reserves and why these reserves cannot be lent out. In most countries the instruments for controlling the money supply (and thereby the level of interests rates) are three-fold: changing the discount rate or the rate at which the central bank lends to the other banks, changing the reserve requirements or the minimum amount of reserves that banks are required to retain and open market operations or the buying and selling of treasuries or government securities. In Bangladesh, reserve requirements are also referred to as statutory liquid asset requirements. Generally indirect methods are preferred namely, changing the discount rate or open market operations. This is because direct methods such as change in the reserve requirement have a much stronger effect on the money supply than indirect methods. Suppose, the reserve requirement is 20 per cent to be kept in cash. A bank which has total deposits of 1000 taka keeps 200 taka in cash as reserves. Suppose, the reserve requirement is changed to 10 per cent then the banks lend out 100 taka and keep only 100 taka as reserves. A consumer borrows this 100 and deposits it in another bank. That bank then keeps 10 taka as reserves and lends out the remaining 90 taka. This is repeated as now 9 taka is retained and 89 lent out. What's more is that every bank is doing this which results in massive demand deposit creation and a tremendous increase in money supply. The Bangladesh Bank, paying heed to the above principles, has been very reluctant to engage in direct monetary control and the last time it did so was a few years ago.

As we just discussed, to fulfil reserve requirements, banks are required to retain a certain percentage of their holdings and not lend these funds out. In Bangladesh, the reserve ratio is 20 per cent of which 5 per cent must be cash. The rest can be in the form of government securities, which are securities underwritten by the government. The short-term government securities in Bangladesh are of two types: the 90-day Treasury bill and the 91-day Bangladesh Bank bill. The 90-day bill is mainly an instrument by which the government can borrow from the Bangladesh Bank. The 91-day bill introduced in 1990 is used as a tool of indirect monetary control. Currently both can be used to satisfy reserve requirements.

Bangladesh does not have a problem with banks keeping the required reserves. They do so more than willingly. The problem arises when the required reserves are more than what is required. This leads to excess liquidity and money is not put to a productive use. This money, if lent out could help fuel the economy. Earlier I had mentioned that the banks cannot really be blamed for maintaining excess liquidity. The reason behind this is insufficient regulation. Banks do not really have a guarantee that they will get their money back.

The ideal scenario would be as follows:

A comes to you for a loan. You ask for his national ID # (for example social security number or driver's license number) and other details. You contact a credit agency which then enters his information into a database and gets a credit report - an entire history of his borrowing and lending habits through the years. The credit agency then sends the report to you. You check to see if A meets all your criteria. If he does you give him the loan. You do this, secure in the knowledge that if he defaults, you will have to go through a relatively simple lawsuit that will enable you to get a certain percentage from his salary or gain control of his assets. A also knows that if he defaults it will appear on his credit report for several years and that his chances for any further loans will be adversely affected. In other words the system is promoting financial accountability. Financial accountability is ensured by appropriate legislation, implementation of the legislation, quick legal proceedings, application of appropriate information technology and also by national ID numbers.

To create this ideal scenario in Bangladesh, the government should ensure that legislation is passed but most important of all implemented. If a borrower defaults, the procedure for recovery should be simple and quick. They should ensure that every citizen is identifiable. (This is already being proposed by the Election Commission: they have proposed that information about eligible voters be gathered.) If the same database could be modified and used to collect credit profiles — it would help us save some money as well as gain valuable credit profiles). They should also make sure that if a person defaults then that person is unable to borrow again until he strengthens his credit record. This may sound a little harsh but would you lend money to a person if you knew that he had a history of not repaying his borrowers? Ideally, this could be really advanced through the creation of a national database with credit profiles of all borrowers. All the above is not as difficult to achieve as it sounds. In fact it can all be achieved with a little persistence and political integrity: after all we have limited our discussion to the individual borrower and not institutional or business borrowing.

As stated at the beginning, the problem of excess liquidity can occur due to a number of reasons. One of the more obvious reasons was unsatisfactory legislation and implementation. We looked at some of the ways that this could be changed. If these measures are implemented, hopefully the excess liquidity problem will be alleviated to some extent. One can argue that low quality loan applications cause banks to have excess liquidity: this can definitely be a factor. But as we see from our discussion there is definitely room for improvement in the legislation sector as well. If what is proposed is implemented, instead of holding unproductive resources, banks may be encouraged to lend to borrowers with appropriate credit histories. Lending will simulate investment and this will improve the condition of the economy. However until some action is taken, banks will continue to hold funds rather than lend them out and the problem of excess liquidity will continue unabated.

(The author is a lecturer of North South University.)