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DHAKA THURSDAY, OCTOBER 31, 1996

## BB raises bank rate, minimum interest rates on deposits

By Quamrul Islam Chowdhury

The Bangladesh Bank (BB) yesterday raised the bank rate, and minimum interest rates on savings and fixed deposit accounts by half percentage point with immediate effect.

The central bank in two separate circulars issued yesterday raised the bank rate to seven per cent from the previous 6.50 per cent and revised upward the minimum interest rates for savings account to 6.50 per cent from the previous six per cent and for fixed deposit to 6.75 per cent from 6.25 per cent.

The new move of the BB means that funds from banks would become costlier for projects.

The last minute circulars of the BB before the closing of the banking hour yesterday have shocked the banking wizards who described the move as an anti-inflationary but investment-shy one.

A number of bankers told The Daily Star yesterday that they were expecting a cut in the bank rate and interest rates to boost investment, but the central bank had sent the wrong signal by raising those rates.

They said as the net private sector credit had fallen during last few months the prudent monetary policy demands a cut in the bank rate and interest rates instead of an increase.

The bank rate is the official rate of interest charged by the central bank in its role as a lender of last resort and this rate has direct influence on the minimum rate of interest that a bank charges on loans. It also influences other instruments of the money market, particularly the rates on bills of exchange, discounted, interest charged or allowed by financial institutions and cost of money in general.

Mamun Rashid, head of Treasury and Institutional Banking of Standard Chartered Bank told The Daily Star that revised rates, in his opinion, are to address the rising inflation.

But it would raise the lending rates and thereby, would increase the cost of investment, he added.

But, bankers in general said, the Bangladesh Bank should attach high priority to investment to propel the national economy on the highway of economic development.

They said money is attracted to places where interest rates are low. The government can attempt to regulate the inflow of foreign investment by manipulating the central bank's base rate, which in turn, have a parallel influence on interest rates generally.

## UK favours joint venture basis investment

CHITTAGONG, Oct 30: Leader of the visiting British trade mission Ian Jamison said on Tuesday that his country was interested to invest in Bangladesh on joint venture basis and increase trade with Bangladesh. A Chamber press release said, reports BSS.

Jamison said this while exchanging views with members of Chittagong Chamber at the chamber house here.

He said British investors consider Bangladesh has a secure place for investment in small and medium industries.

He said Britain exports equipment and machinery to fifty countries and Bangladesh is being included among those, identifying the fields of possible British investment in Bangladesh he said. British investors can invest in textiles, electronics, agro-chemical, garments, restaurant food and allied products, filming and editing.

British Deputy High Commissioner to Dhaka Miss Miriam Machan Tash speaking on the occasion said that Bangladesh was the second biggest recipient of British grant and ranked third in British investment.

The newly appointed British High Commissioner to Dhaka will soon visit Chittagong to identify the fields for British investment, she added.

Earlier, welcoming British trade mission, Chittagong Chamber President Sarwar Jamal Nizam explained in detail the opportunities available in Bangladesh for foreign investment. He said Britain is now the third biggest export market of Bangladesh.

He invited British investors to invest in textiles, leather, power, tele-communications, gas and oil exploration, cement, oil refinery and liquefied gas sectors of Bangladesh.



Acting president of the Dhaka Chamber of Commerce and Industry (DCCI) Fazle R M Hasan (C) is seen delivering address of welcome at a follow-up meeting held between the DCCI members and the members of the visiting British Trade Mission at the DCCI auditorium in the city yesterday. British Deputy High Commissioner M R McIntosh (2nd-L) past Presidents of the DCCI M Yunus and M R Maksud Khan (Extreme Left) are also seen in the photo.

## Bangladesh economy: Int'l migration for job dynamic element

International migration for employment is now amongst the most dynamic elements in Bangladesh's economy and society and the government should play an effective role for promoting the process further, reports BSS.

This was observed by Dr Raisul Awal Mahmood, chief of population studies division on Bangladesh Institute of Development Studies (BIDS) while giving a talk on "emigrations dynamics in Bangladesh: level, pattern and implications" organised by Asiatic Society of Bangladesh here on Tuesday.

"Pioneered lonely by seamen more than a half century ago, and continuing silently until 1970s, the opening up of the Middle East in mid-1970s as a source of overseas employment ushered in a new era in the emigration history of Bangladesh, and ever since the process has been a snowball phenomenon," Dr Mahmood said.

He observed that the dormant enterprising qualities of migrants, developments in mass media, and growth of different commercial institutions on international migration have helped the discovery of newer and newer destinations of migration.

## Agri sector growth rate dips over 5 years

Bangladesh is lagging behind its projected 2.5 per cent growth rate in foodgrain production required to feed its increasing population in the 21st century, reports UNB.

The average growth rate declined to only 0.86 per cent in 1990-95 period. It was 4.9 per cent in 1973-78, 3.1 per cent in 1978-80, 3.5 per cent in 1980-85 and 1.7 per cent in 1985-90.

Noted agricultural economist Dr Jahangir Alam said this Tuesday in his presidential address to the 19th Bangladesh Science Conference organised by Bangladesh Association for the Advancement of Science (BAAS).

Dr Alam, in his written address entitled "Recent Trend in Production and Investment in Bangladesh Agriculture," said the country would require 26.9 million tons of foodgrains by the end of this century.

The demand will go up to 34.4 million tons in the first decade of the century, he added.

Dr Alam pointed out that the public expenditure in the agri-

culture sector is also showing a declining trend. It was 29.9 per cent of the total budget in 1980-85, 21 per cent in 1985-90 and 19.6 per cent in 1990-95.

Gradual withdrawal of subsidies from agricultural inputs and diversion of those resources to non-agricultural activities contributed significantly to the decline in public sector expenditure, he said.

As a result, the growth rate of GDP in agriculture sector and its share to the GDP experienced a sharp decline. It was estimated at only 32.8 per cent in 1990-95 period from 57 per cent in 1973-78.

Dr Alam said the annual growth rate for rice production had increased by 3.07 per cent from 1984-85 to 1989-90, but it showed downward trend in subsequent years.

The rice was a negative growth rate of -1.29 per cent (1990-91 to 1994-95), he said, adding the reasons for this negative growth rate were the reduction of acreage under local varieties and HYV yield.

## SAARC states agree to usher in free trade by 2000

NEW DELHI, Oct 30: Members of the South Asian Association for Regional Cooperation (SAARC) have agreed in principle to usher in the South Asia Free Trade Area (SAFTA) five years ahead of schedule, reports PTI.

"It is possible to have the SAFTA in place by 2000 instead of the originally targeted date of 2005 AD," Commerce Secretary Tejendra Khanna told newsmen here at the end of the SAARC Inter Governmental Group (IGG) and SAARC economic cooperation meetings here.

The commerce secretaries of Pakistan, Bangladesh and Nepal felt that as a precursor to ushering in SAFTA the countries had to agree to the concept that trade preferences could become a reality only if quantitative restrictions are removed.



The Management of Dhaka Sheraton Hotel extended a hearty welcome-back to the crew members of KLM upon their arrival at the Hotel where the crew will be staying.

## Delhi plans to lay off 70,000 textile workers

NEW DELHI, Oct 30: The Indian government plans to lay off almost 70,000 workers in the loss-making National Textile Corporation, the union Textile Minister R.L. Jalappa said today, reports AFP.

The Press Trust of India quoted Jalappa as saying that the government would give a "golden handshake" to 40 per cent of the estimated 170,000 workers.

"The government is spending more than 85 million dollars in idle wages each year on workers in 120 textile mills of the National Textile Corporation," Jalappa said.

"So far these sick mills have run up losses more than 1.4 billion dollars," he added.

Jalappa speaking from the Southern textile town of Coimbatore, said the government was planning to close down a majority of the businesses and relocate workers to mills that could be revived.

New Delhi has asked the textile department to submit a report soon on the viability of each of the 120 textile mills.

## UK entrepreneurs explore areas for investment

Bangladeshi and British entrepreneurs, at a follow-up discussion yesterday explored areas for collaboration in trade and investment reports BSS.

At the wrap up discussions held in the auditorium of the Dhaka Chamber of Commerce and Industry (DCCI), the two sides exchanged notes on the experience of the members of the British Trade Mission during their visit to Bangladesh.

The Dhaka Chamber representatives requested the British Trade Mission members to keep their contacts, follow up and also communicate to the DCCI their queries for trade and investment so that it could extend possible help and where necessary take up with the authorities here to process matters speedily.

The DCCI representatives said that they would not hesitate to take up with the government to further simplify procedures if needed. They said that in recent times the procedures had, indeed, been simplified to facilitate investment in wide areas.

Setting up of small power stations, amusement parks, plants for production of chocolates and soft drinks, among other such ventures, was discussed between the British, Bangladeshi and Non-Resident Bangladeshis at the follow-up meeting.

DCCI acting President Fazle R M Hasan said that Bangladeshi entrepreneurs were looking for British investment which was sought not only as a source of capital but also by way of transfer of technology, marketing and management capabilities.

He offered all possible cooperation from the Dhaka Chamber which he said would also monitor progress in the initiative already taken or that would come in the days ahead.

British Deputy High Commissioner Miriam McIntosh said that individual firms and entrepreneurs had followed up their lines of interest with Bangladeshi counterparts.

Dr Fazal Mahmood and Pe-

ter Yeowell of Necom Export and Import Limited said that their company found a positive response to offers for the sale of small power generation units to Bangladesh private sector.

They said that they, however, found funding problems for setting up such small power stations in the private sector of 25 megawatt capacity.

They said that they suggested for setting up consortiums of five or six companies so that such power stations could be set up.

They said that they also received offers of 80-20 equity partnerships in such smallscale power generation.

But they said, one query that remained to be worked out was what price had to be paid for gas for power generation.

They requested the Dhaka Chamber to create effective pressure on the government so that there was no gap between what was written on the papers and the reality of opportunities on the ground.

Haider Naqvi of Sterling Multi Technologies Limited wanted to know the institutional credit facilities for trade and industry in Bangladesh.

Fazul Hoque of Concord Video Production, Edmonton, UK, offered to set up amusement parks for which he sought Dhaka Chamber's help in getting land. He said that his company could also sell equipment for amusement parks.

Mohammad Yunus, a former president of DCCI, called upon the Non-Resident Bangladeshis to come up with projects for investment and at the same time work for replacing the negative image of the country with a positive one.

Rashed Maksud Khan, a former DCCI President, requested the trade mission members to be in Bangladesh again and to let the Dhaka Chamber know the problems they faced so that it could take up issues with the government or process matters with the relevant agencies or do the matchmaking where necessary.

Fazle R M Hasan encouraged the idea of amusement park in the private sector.

## Indian trade team in city

An Indian trade delegation arrived here yesterday on a four-day visit to look into the prospects of investment in various sectors, including the gas and power sector, reports UNB.

The delegation members, led by Deepak K Chitgopekar of New Delhi-based MC International India, will meet a number of senior officials and leading businessmen during their stay here.

The International India, a hundred per cent subsidiary of Mitsubishi Corporation of Japan, is planning to go for collaboration with TCM (Transcultural Management and Marketing) Bangladesh, a joint venture company of TCM Group, London.

## Good demand marks Ctg tea auction

CHITTAGONG, Oct 30: The weekly tea sale held here Tuesday was marked by good demand for all grades of teas with prices remaining stable in some cases and fluctuating in others, market sources said, reports BSS.

Buyers for Poland was quite active for bold and large brokens with some support from Russia, Pakistan and Afghanistan were less active.

Loose tea trade was active, but blender lent more support this week.

Good liquoring types continued to attract strong support from all sectors of the market.

Bold and large brokens met with more demand at firm to slightly dearer levels. Medium brokens met with only a fair demand and were slightly easier. Small brokens were a good market, but were generally a lit-

tle easier except for the good liquoring types which were fully firm. Flinner types eased by Tk 1 popular varieties were slightly easier and sold between Tk 46 and Tk 51/70.

**CTC FANNINGS:** There was a fairly good demand for fannings at lower rates. Good liquoring types were about steady but others declined by 50 poisha to a Taka with the progress of sale.

Popular types were also slightly easier and sold between Tk 46 and Tk 54. A total 2,660 chests, 626 gunny sacks and 60 bags of dust category on offer met with a good demand. Good liquoring types were fully firm others eased slightly.

Internal market including the packeteers lent a good support.

There were 22,125 chests and 349 gunny sacks of teas on offer.

## Black October: Taming the bull

By Tanya Gupta

A popular explanation of the crash on October 19 was the bursting of speculative bubble, i.e. increases in the level of stock prices had nothing to do with market fundamentals and that the irrational behaviour of investors was brought to a natural halt. Some of the previous speculative crazes were the Tulip Bubble Craze of the 1630s, the South Sea Bubble in 1720s and the crash of 1929.

Maikiel, a researcher completed an influential study in the mid eighties, as a result of which he developed the "greater food theory." According to this theory, prices can rise drastically, even above their intrinsic value. Several investors continue to buy in spite of knowing this because they believe that they can sell at a huge profit to other investors. All of a sudden there are no more fools available to buy. This results in mass panic and people start to sell. Prices start to drop and continue to drop till they reach their true value. This is the bursting of the speculative bubble.

It was popularly felt that the crash was the result of irrational behaviour by investors. The Dhaka All Shares Price Index has been going up to unprecedented levels. Such high increases in price over such a short period of time cannot be subscribed to any increases in intrinsic value of companies. Nor is there any significant reason for the huge increase in price. What we are looking at now fits in well with the theory that we are looking at investors behaving irrationally and driving up prices. The general opinion about the 1987 crash was also that the stock prices had reached very unrealistic levels and the consequent fall in Oc-

tober was inevitable.

Proponents of the efficient market hypothesis i.e. that markets are efficient however would not like this theory or the assumption of the irrational investor. Their explanations for the October crash are all based on a rational investor assumption. One is the bad news theory. Prices of securities rise and fall according to all available information. Therefore, according to this theory there was enough bad news in the economy to explain the fall in prices. Some of the adverse news circulating on 17th October (Saturday) and 18th October (Sunday) was complications over the Iran Contra scandal, the Gulf War, the US budget deficit and some minor presidential problem. However much of this news was available before the 19th October (Monday). Besides, none of the news was bad enough to justify the steep fall in prices. What is considered probable, however, is that there was a perceived increase in volatility that resulted from the bad news that was available over the weekend. The president of New York Stock Exchange, John Phelan warned that the market might have heated up to its capacity. He stated this before the actual fall. The market fell by 10 per cent the week prior to October 19. All there may have intensified investors' fears about volatility and bad news in the market.

Watchers of the market should be alert for any bad news that becomes available on the market. Bad news accumulating in the market may just start the fall. The most likely bad news at this point is in the political arena. If BNP announces a hartal or starts an agitation, this will

definitely bring down some of the share prices. This may affect the other sectors as well and lead to a fall in general level in prices. There is no doubt that the market is overvaluing stocks and any bad news make start a corrective movement.

The fear of market failure theory states that the investors feared that the market mechanism would fail with the market players unable to maintain open, orderly markets. This fear acts as a self-fulfilling prophecy and results in a drastic fall in prices. David Ruder, chairman of the New York Securities and Exchange Commission stated the market may have to be closed. This raised doubts about the market players' capacity to handle the turbulent markets. These doubts were mainly due to their inadequate capital.

Rumours of insolvency were also widespread among the market makers, specialists and brokers on the New York Stock Exchange. The highly efficient Super-DOT (Designated Order Turnaround system) of New York bourse was a computerised trading system. This system, basically designed to handle small orders automatically failed as it was overloaded with selling orders.

The failure of Super Dot and the remarks by the SEC chairman may have combined to bring about a fear of market failure, which in fact did happen. This theory also explains why Tokyo was an exception in that the Japanese markets did not collapse. This was due to the public confidence in the market makers and the Japanese government, and so although there were initial fears of a market failure, it did not result in a col-

lapse.

Public confidence was ensured by swift and prompt action by the Ministry of Finance and the Japanese industry.

The Securities and Exchange Commission as well as the Dhaka Stock Exchange need to be very wary of the messages they give to the public. All measures must be undertaken with prudence and caution.

Which of these theories is regarded as most plausible? Well all these theories may have their supporters but the more important question perhaps is what can be done to avoid such crashes. Sufficient resources have to be available to the market makers so that they can stabilise the stock market. We must have an equivalent of a market maker with sufficient resources to restore stability to the market. If there is a large selling pressure, there must be buyers who buy in the face of the selling pressure to restore the market. Circuit breaker tied to indexes may be used as well. The Dhaka Stock Exchange will be able to use it as soon as it is automated. Most important of all, and this can be done only over the long run, is information dissemination and the educating the investor. Without an educated investor, it will be impossible to truly develop the stock market. Certification of brokers and education of investors should be combined with necessary auditing and related financial regulations to ensure the companies make available all necessary information.

*(The author is a Lecturer, Department of Business Administration and Coordinator, Department of Career Services of North South University.)*

## Statutory meet of Meghna Life Insurance held

The Statutory Meeting of Meghna Life Insurance Co. Ltd. presided over by its Chairman Md. Jamaluddin, was held on Tuesday at its head office in the city, says a press release yesterday.

Managing Director of the company AUM Fazlar Rob stated at the meeting the company earned a premium amounting to Tk. 80.00 lakh in four-month.

## Emirates named Best Airline by The Observer

Emirates, the international airline of the UAE and winner of over 100 awards, has been named Best Airline for the second time by The Observer, the UK's prestigious Sunday newspaper, following a poll of 20,000 readers, says a press release yesterday.

The Observer survey, carried out earlier this year, asked readers to rate companies, airlines and ferries they had travelled with in 1995 as excellent, good, fair or poor. More than 20,000 coupons were received in response.

Emirates won with 137 points out of a possible maximum score of 156, which translates as 87 per cent. The Observer has described the results as "a measured verdict on the travel industry by a discerning and widely-travelled jury."

The award was presented to the airline's Commercial Operations Director Ghaith Al Ghaith at a gala dinner in Malta.

Emirates was first named Best Airline by The Observer at the 1994 awards ceremony.

## G-15 plans to forge common stance EU to a void labour standards issue at WTO meet in Dec

LUXEMBOURG, Oct 30: The European Union agreed on Tuesday to avoid the issue of labour standards at the world's biggest trade meeting in December, a move which diplomats said would delight its Asian partners, reports Reuter.

EU Trade Commissioner Sir Leon Brittan said the 15-nation bloc would discuss labour at the World Trade Organisation (WTO) meeting in Singapore, but only to stress that the International Labour Organisation (ILO) was the best forum for the issue.

"There is acceptance that the WTO has a legitimate interest in labour standards," Brittan told reporters after a meeting of EU trade ministers ... but only in taking account of the broader role of the ILO."

The EU has been divided over whether to raise the issue at the WTO meeting — a move strongly opposed by developing nations which fear attempts by industrialised countries to apply western labour standards globally would increase production costs.

"We reject all attempts to undermine the competitive advantage of lesser developed countries," Brittan said.

There was also disagreement among member states over the amount of leverage granted to the commission — the EU's executive — to use the Singapore meeting to launch a new global trade round, but Brittan denied he had any hidden agenda.

"Singapore is to focus on work in progress," he said. "The conclusions of today's (Tuesday) meeting display a unified, firm

step in that direction ... to review and consolidate."

Nevertheless, he admitted having to bridge "considerably divergent views" in order to emerge from the meeting with a common European position for Singapore.

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The trade ministers also gave Brittan a mandate to press ahead to seek a global agreement on telecoms trade, and he said the EU would be making an improved offer in the next week.

Talks on the matter have stalled because the EU, the United States and other major electronics product and service providers accuse each other of making paltry offers to liberalise trade.

Brittan said a new EU offer would be put before WTO officials in Geneva and he hoped Washington and Asian states would respond "swiftly and in the right spirit."

AFP says from Jakarta: Members of the G-15 group of developing countries plan to forge a common stance for the first ministerial meeting of the World Trade Organisation, Foreign Minister Ali Alatas said on Tuesday.

Alatas, who will attend the ministerial meeting and the leaders' summit of the G-15 in Harare next month, said he believed the G-15 would seek to forge a united stand ahead of

the WTO meeting in Singapore in December.

They will discuss in details, problems that can disturb the agenda of the WTO. Alatas told journalists after a meeting with Indonesian President Suharto.

He said the WTO agenda should have followed on from the 1994 Marrakesh multilateral trade meeting under the Uruguay Round of the former General Agreement on Tariffs and Trade, which replaced by the WTO.

"As we all know, several advanced countries wants to add to this agenda but this has been opposed by developing countries, including the G-15," he said.

Some western nations have pressed for the introduction of special clauses into the multilateral trade regulations, a move that has been opposed by developing nations who fear the move would erode their competitive edge.

The G-15 group, formed in Geneva in 1989, aims at bolstering economic cooperation among developing countries on project by project basis.

It comprises Algeria, Argentina, Brazil, Egypt, Indonesia, India, Jamaica, Malaysia, Mexico, Nigeria, Peru, Senegal, Venezuela, Yugoslavia and Zimbabwe.

Alatas said Suharto would not be able to attend the G-15 summit because of engagements at home. He has appointed Alatas to represent him at the two-day summit starting November 3.