

Philippines to free oil retail prices tomorrow

MANILA, Feb 6: The Philippines takes both a giant economic step and huge political risk when it frees oil retail prices this Saturday after two decades of tight control, reports AFP.

Leftist groups, legislators, and even some clergy of the dominant Roman Catholic Church have already vowed to launch a series of protests and possibly to petition the supreme court to stop the deregulation.

But President Fidel Ramos shows no sign of turning back. Premium gasoline costs a related 10.89 pesos (41 US cents) a litre. Ramos argued the deregulated system resulted in government funds subsidizing the car-driving rich, while deregulation would allow these funds to be used directly to help the poor.

Deregulation was originally scheduled for March but Manila was forced to move it up because a one-billion peso (\$8.5-million-dollar) buffer fund that was supposed to cushion oil prices until then was projected to run out much earlier.

Pump prices have been controlled by Manila with a special oil price subsidy fund used to reimburse the country's three oil refiners for any losses.

The fund on several occasions wound up in the red, forcing Manila to make special budgetary allocations or to divert funds from the state oil company.

The international monetary fund has identified deregulation as one of the criteria for the Philippines to sustain its economic recovery.

However, all increases in fuel retail prices, regardless of the reason, have met with strong opposition, including occasionally violent street protests.

Rangs Electronics opens new sales centre at Savar

Rangs Electronics Ltd has opened a new sales and service centre at 102/103, Qurashai Super Market, Bazar Road, Savar, Dhaka, says a press release.

The centre has been inaugurated by Akter Hussain, Managing Director of the company.

Rangs Electronics is the sole authorized distributor of Sony audio video, AIWA audio video, Sharp home appliances and Rangs products in the country.

Unemployment in Germany rises

NUREMBERG, Germany, Feb 6: German unemployment surged by 160,000 in January to 12.2 per cent, the Federal Labour Office said Thursday, reports AP.

Labour Office President Bernard Jagoda said numbers showed a "clear worsening" of the German employment picture that could only be partially explained by the cold winter.

Hasina urges Bangladeshis in US to extend cooperation for country's advancement

WASHINGTON, Feb 6: Prime Minister Sheikh Hasina has urged the Bangladeshis living in the United States to extend their all-out cooperation for the advancement of the country, reports BSS.

Addressing the members of the Association for Economic and Development Studies on Bangladesh at the Sheraton Washington Hotel here Wednesday she said "You must avail the liberal industrial policy of the present government and invest and contribute your mite for the national progress and prosperity."

A panel of four economists discussed the development of financial reforms of banks, stock market and effective privatisation.

State minister for Foreign Affairs Abul Hasan Chowdhury, State Minister for Planning and Civil Aviation Dr. M. Huquddin Khan Alamgir, Bangladesh Ambassador to the United States KM Shehabuddin and Bangladesh Permanent Representative to the UN Anwarul Karim Chowdhury were also present.

Sheikh Hasina said that a congenial atmosphere had been prevailing in the country following tough measures taken by the government to curb terrorism.

She said the basic concept of her government was to lessen the sufferings of the poor people by providing them with work. She said "We are stepping into the 21st century and we have to prepare ourselves to meet the challenges". She said "We have

to make the independence meaningful and reach the fruits of independence to every door step."

Referring to the on-going Microcredit Summit, she said the commitment of the summit was to bring about qualitative changes among the womenfolk living in the rural areas.

The Prime Minister also invited questions from the audience and answered to the volleys of questions.

She said that political stability was a must for social advancement and stressed the need for people maintaining law and order in the country at any cost. She said the cooperation of the opposition parties

was must in keeping law and order in the country.



John J. Mack (L), former Chairman and CEO of Dean Witter, reacts as John Mack (R), former President of Morgan Stanley, displays his 'Discover' credit card during a press conference Wednesday in New York to announce the merger of Morgan Stanley with Dean Witter and the Discover Company. The new company, which will be called Morgan Stanley, Dean Witter, Discover Company, will have Purcell as its chairman and CEO and Mack as President and COO. With a market capitalisation of two billion US dollars the new company will become the largest US securities firm.

Bank of Japan may get more freedom from bureaucracy

TOKYO, Feb 6: A panel sponsored by the Ministry of Finance recommended on Thursday that Japan's central bank be given more autonomy in shaping Japan's monetary policy, reports AP.

The proposal, which could become law by June, was hailed in the Japanese media as the start of the first revision in 55 years in the law that delimits the Bank of Japan's powers.

But analysts said that even if all the recommendations pass into law, government interference in central bank policy — which is increasingly disfavoured by international financial markets — won't disappear overnight.

"You're basically asking the (finance) ministry to change their mind-set, and that's more than changing a law. It's going to take a long time if it can be done at all," said Betsy Daniels, an analyst at Morgan Stanley in Tokyo.

The panel has been meeting since mid-November to consider ways to boost the Bank of Japan's independence and transparency. Its report will become the basis for a bill to reform the current Bank of Japan Law, which was enacted in 1942.

The bill, to be drafted by a financial reform team appointed by Prime Minister Ryutaro Hashimoto's coalition government, will be submitted to parliament during its current session, which ends in June.

The panel recommended boosting the independence of the Bank of Japan's Cabinet-appointed policy-making committee, by removing the two permanent government members on the committee.

However, the government could send two representatives to the committee meetings who could request that it delay monetary policy decisions. The representatives would not have voting rights.

The Finance Ministry would lose its authority to directly oversee a broad range of operations at the central bank, including the right to dismiss senior central bank officials at will.

However, the Finance Ministry would retain limited control over the Bank's budget.

Major lauds BRAC's micro-credit projects

British Prime Minister John Major, has said micro-credit project implemented by BRAC have "clearly transformed the lives of those whom he met in Bangladesh and who were involved with the concept in one way or another, says a press release."

In a letter to FH Abed, Executive Director of BRAC, the British Prime Minister who visited the organisation's projects in Manikganj last month described the concept of micro-credit as "remarkable."

He said he had not the opportunity to see the projects earlier.

The British Prime Minister recalled his experience in Manikganj as a "fascinating afternoon" saying he is delighted that the British Overseas Development Administration (ODA) had been able to play a prominent role in supporting BRAC.

ROK econ growth likely to contract sharply

SEOUL, Feb 6: South Korea's economic growth, knocked by labour strikes and large bankruptcies, is expected to contract sharply in 1997, analysts said yesterday, reports AFP.

Samsung Economic Research Institute (SEI) said it had revised down its 1997 economic growth forecast from 6.3 per cent to around 5.0 per cent after a spate of crippling labour strikes and falling domestic consumption.

South Korea's economy grew an estimated 6.9 per cent in 1996 and 9.0 per cent in 1995.

Behind the gloomy forecast, the Samsung institute cited the unrelenting weakening of the Japanese yen, which makes Korean products less competitive abroad.

South Korea's key exports include shipbuilding, electronics and petrochemicals, which directly compete with rival Japanese industries in the world market, it said.

The SRI predicted the country would register a current account deficit of 20 billion dollars due to an export slowdown, slightly down from an estimated record of 23-to-24 billion dollars last year.

68 foreign companies offer Tk1040cr investment proposals

By Govinda Shil

Sixty-eight foreign companies have registered with the Board of Investment of a proposed investment of about Tk 1,040 crore during the first six months of the current fiscal year, officials sources said.

Foreign investors are interested to invest in the country's infrastructure sector and we have been receiving a good number of overseas queries for the last six months," said Anisul Huq Chowdhury, Executive Chairman of the BOI.

He told The Daily Star that a number of reputed companies from USA, UK, Germany and Japan had shown keen interest in power, telecom and port development sectors. At least 45 different companies got registration which expressed their willingness to develop the country's power generation and distribution systems.

A total of 602 home companies with a proposed investment of more than Taka 12000 crore have been registered with the Board of Investment (BOI) during this period.

During the month of December in 1996, 112 home and foreign companies got registration with the BOI with a proposed investment worth more than Taka 227 crore.

In terms of growth, first six months of the current 1996-97 fiscal year, shows a 17.75 per cent increase in investment proposal over the entire 1995-96 fiscal, officials added.

A total of 1,338 native and overseas companies with proposed investment of Taka 11,094 crore registered their names with the BOI, a government organisation to promote direct foreign investment in the country.

Meanwhile, BOI is going to initiate a study on the current status of the project registered with it in the past. "There are reasons to believe that all of the registered companies did not start implementation," Chowdhury said.

India's sugar output may fall

NEW DELHI, Feb 6: India's sugar output is set to drop to 15.2 million tonnes in the 1996-97 season from the record 16.4 million tonnes the previous year, a newspaper said Thursday, reports AFP.

The switch from sugarcane to wheat production in some parts of the country was one of the key reasons for the decline, the Business Line reported, quoting agriculture ministry officials.

India is the world's largest producer and consumer of sugar. India produced 14.6 million tonnes of sugar in 1994-95, about 2.5 million tonnes in excess of the projected domestic consumption.

Dealers tell Tofael No fertiliser shortage in northern dists

RAJSHAHI, Feb 6: There is adequate stock of fertiliser in the country's northern region and the price is normal and stable, reports UNB.

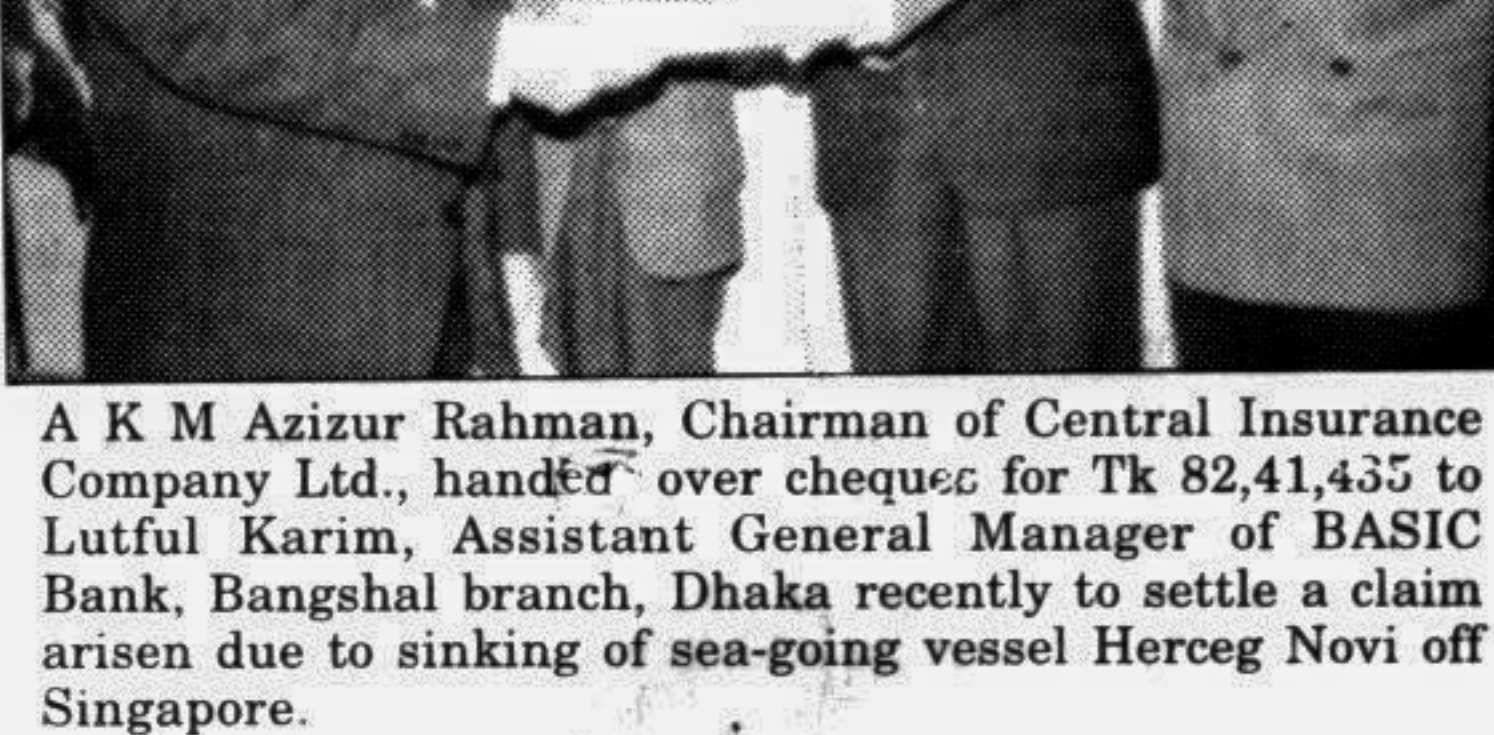
This was stated by the deputy commissioners and fertiliser traders at a meeting with Industries Minister Tofael Ahmed on fertilizer supply, distribution and availability at the Rajshahi Circuit House yesterday.

There is no problem or allegation on fertilizer issue anywhere in the region, said the officials and fertilizer dealers and traders at the meeting, according to an official handout.

Commerce and Industries Minister Tofael Ahmed, who presided over the meeting, said the government had allotted over Tk 350 crore as subsidy for the farmers in the fertilizer sector.

"Protecting farmers' rights is the election pledge of the government. This is why it has stood beside the farmers at the time of their need," he told the meeting.

The minister said at the directive of Prime Minister Sheikh Hasina, the ministries of agriculture and industries were making relentless efforts to ensure supply of fertilizer.



A K M Azizur Rahman, Chairman of Central Insurance Company Ltd., handed over cheque for Tk 82,41,435 to Lutful Karim, Assistant General Manager of BASIC Bank, Bangshal branch, Dhaka recently to settle a claim arisen due to sinking of sea-going vessel Herceg Novi off Singapore.

'Proposed cut in govt spending to boost Thai economy'

BANGKOK, Feb 6: The proposed six per cent cut in government spending for this fiscal year is likely to slow the economy but will also boost the country's economic stability, Bank of Thailand Governor Rerngtchai Marakanond said, reports Reuters.

"The (budget) cut might slow down the economy... but what is more important than economic growth is stability which this cut will bring," he told reporters late on Tuesday.

"The economic stability will in the long run bring back investment that would compensate for the short-term slowdown," he said.

Why central bank should be autonomous?

The main purpose for which central bank autonomy is advocated is the maintenance of price stability. Price stability is a sine qua non of any sustainable long term economic growth and development. But price stability can not be maintained if the central bank is not allowed to vary the volume of money and is not enabled to refuse, when needed, to finance the budget deficit of the government concerned. Monetary control and monetary instruments to be used to maintain price stability should, therefore, be freely used by the central bank without fear and favour and without being constrained to serve any other purpose of the government however laudable and important that may be.

The advantages arising from such independence of the central bank were explicitly recognised during the period between the First and Second World Wars following broad political changes and the end of Gold standard. Faced with the monetary consequences of the deficit financing that had afflicted many countries during the First World War many European countries recognised that shielding central banks from political influences and strictly controlling their credit to the government would favour price stability and these principles were incorporated in the central banking laws.

During the years after Second World War up to early 70s, maintenance of price stability by the central bank was however put to back burner as the developed and developing countries embarked on the path of reconstruction and economic growth. For a while the policy of growth through even monetary expansion did reasonably well and generated, higher rate of growth by reconstructing the destroyed productive capacities of Western Europe, Soviet Russia and Japan and by further

Central bank autonomy-why, what and how

By AKN Ahmed

utilisation of the idle productive capacity in USA. But when this potential was exhausted and America embarked on Vietnam war and at the same time sought to create 'Great Society' by incurring budget deficit inflationary forces started once again.

This situation further aggravated with sharp rise in oil price in mid 70s. The recent debate on central bank independence is the outcome of this situation and some major political events viz collapse of the centrally planned economies, decision of EEC to go for a super central bank embracing all the member countries under Maastricht Treaty in order to constrain central bank credit to nation governments to deal with runaway inflation.

What central bank autonomy means? There are many attributes of central bank autonomy viz whether it can refuse credit to the government, whether it can meet its expenses without depending on the government, whether its board of directors can function independently, whether its governor is independent in following monetary policy, whether the central bank is free to choose its monetary instruments and whether it is free to regulate the banking system. Of all these attributes, the most important indicator of central bank independence is whether it can refuse to provide credit to the government. This idealised version of autonomy has been envisaged in Maastricht Treaty. The European central bank, which will shortly operate in European Monetary Union will have the following broad features:

governments are refusing to provide their share of dues.

The broad architecture of an independent central bank under Maastricht Treaty has many features and many nuts and bolts have to be fixed before it starts operating smoothly. For example, whether indirect credit should be provided by the central bank to the government and if so the mechanism through which such credit has to be issued, whether ceiling for such credit has to be fixed, whether such ceilings should be fixed net of government deposits or as a percentage of annual government revenue export or ex-ante basis. Whether any indirect credit should at all be given when it comes in conflict with its policy of managing liquidity in the economy, the frequency of the compliance requirements, the penalty and consequences of non-compliance etc. A separate issue is whether the central bank should be given control over government deposit as an additional monetary policy tool, as in some countries in which other monetary control instruments are inefficient owing to limited financial marked developments.

Each of these and other issues need elaborate discussion for decision. It is not possible to discuss them here for lack of space. It would be sufficient to say that the autonomy of the central bank that is being advocated by Bank-Fund is mainly of Maastricht Treaty type so that the central bank spend all its energy in maintaining price and exchange stability in order to create an inviting environment for free movement of capital and goods and services. Each nation has to decide whether its people are ready to merge their identity with 'global village' and if so to what extent at a particular point of time. This is

political decision to be taken after public debate. Bureaucrats and technocrats should not take this decision on their own.

How central bank autonomy is practised? Before discussing this it is necessary to mention at the outset that, no national central bank with Maastricht Treaty type of independence is operating anywhere in the world now. Central banks all over the world enjoy varying degrees of independence both in respect of the power to refuse to grant credit to the government and in singleminded pursuit of monetary policy aimed solely at price stabilisation irrespective of all considerations. At one extreme are central banks with a great deal of formal independence insulating them from political pressures. The Deutsche Bundesbank has the statutory responsibility to determine monetary policy. It has the obligation to support the general economic policy of the government to the extent that this is compatible with Bundesbank statutory obligations. The Swiss National Bank, in its determination of monetary policy is constitutionally independent of the political authorities, but the Bank and the government are obliged to consult each other before implementing policies. At the other end, in the United Kingdom, the Treasury has the power (and, apparently unused) to issue formal but unpublished directives to the Bank of England. In fact, the Treasury is in control of monetary policy at the officials level and the Bank of England is the agent that implements monetary policy in consultation with the treasury.

Between these two extremes is the US Federal Reserve System which is explicitly independent of the Executive Branch in determining monetary policy but must report

twice a year to Congress. Congress retains the right to instruct it but in general it has restrained itself publicly in this respect.

In Chile, the central bank has the authority to design, implement and operate monetary policy but is required to take into account the general direction of the government economic policy.

In New Zealand, the responsibility for formulating and operating monetary policy in line with published policy targets agreed between the Bank's governor and the Minister of Finance and direct towards the bank's single statutory objective price stability rests with the latter.

In Bangladesh, the central bank enjoys very limited freedom to pursue price stability. Its objectives, as stated in the preamble of its charter are 'maintenance of internal and external value of currency, maintaining high level of production, employment and real income in Bangladesh and fostering growth and development of country's productive resources in the best national interest'.

This amalgam of objectives is really a tall order for any central bank. No guidance has been provided in the charter how all these disparate objectives can be followed by Bangladesh Bank or what it is required to do when the economic growth threatens monetary stability. There is only one provision in the charter requiring the Bank to report such situation to the government.

Bangladesh Bank is also not constrained by its charter from making to government advances of unlimited amount. In fact such advances can be and are made for unlimited amounts for 3 months renewable for unlimited number of times on the basis of 'lou's is

added, the government may from time to time give such direction to the bank as it may, after consultation with the Governor, consider necessary in the public interest."

In the matter of appointment and dismissal of management and directors central banks do not seem to have any independence at all. The fact that the governments have the primary role in the appointment of directors and management in all countries reflects that monetary policy is ultimately a government responsibility.

In the United Kingdom, the head of state makes the appointment of all directors on the recommendation of the cabinet. The governor and deputy governor have five years' term and directors have staggered four years term.

In other countries, bank boards have an important role in appointment procedures.

In New Zealand, the government appoints directors for staggered five year term and appoints a governor for a five-year term on the recommendations of the Board. In Chile, and US, board members are appointed by each country's president subject to the Senate approval for terms of 10 years and 14 years respectively.

In Switzerland, the members of the directorate (the governor and 2 deputies) are appointed by the Senate on the recommendations of Bank council for six-year term.

In Germany, the Bundesbank president, the other members of the directorate are appointed by the President on nomination of the Federal government after consultation with Bank council, the supervisory body composed of the directorate and the eleven Lander Banks Presidents.

In Bangladesh, directors of the Board hold office at the pleasure of the government while governor and deputy governor may be removed by the government when the person becomes permanently incapable of performing his duties or has done any act which is a breach of trust reposed in him or if his continuance in office is regarded as manifestly opposed to the interests of the Bank.

To be continued

(The article was presented at the discussion meeting organised by Bangladesh Bank Training Academy under Executive Development Programme at the BB conference room on Wednesday.)

The author is the former Governor of Bangladesh Bank.