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# The Daily Star BUSINESS

HYUNDAI  
CARS THAT MAKE SENSE

DIHAKA SATURDAY, FEBRUARY 8, 1997

### Open debate in Congress (I) on free-market policies urged

NEW DELHI, Feb 7: A leading member of India's Congress (I) Party yesterday came down heavily on the country's free-market reforms, initiated by his own party six years ago, says AFP.

Priya Ranjan Dasmunshi also demanded an open debate within the Congress over the policies, which he said had "no relevance to more than 90 per cent of the country's (950 million) population."

Dasmunshi, who is close to Congress President Sitaram Kesri, added: "Let there be an open debate in the party on this issue and (let people) ascertain whether there is a mandate for pursuing such a policy."

His comments came a day after Congress spokesman Vihl Gadgil asserted the party would continue to offer support to the policy of economic liberalisation.

Former Prime Minister PV Narasimha Rao of the Congress launched the radical economic policies in June 1991, ending four decades of closed-market economies. The Congress had traditionally been a left-of-centre party.

Dasmunshi said the new policies had led to mass erosion of support for the Congress which led to the party's defeat in last year's election and the ouster of the Rao government.

Discontent over the free-market policies has been growing in the Congress despite the leadership's persistent support.

### Gold output may rise by 3 pc annually

DENVER, Feb 7: Gold mine production is expected to increase at an average annual rate of just under three per cent through the end of the decade, but still has a long way to go to catch up with jewellery consumption, a gold market analyst said, reports Reuter.

George Milling Stanley, Manager of Gold Market Analysis for the World Gold Council, told the national western mining conference that early evidence suggests final figures for 1996 demand will not be far behind the record figures of 1995.

"I believe the evidence suggests that any growth seen during the remainder of this century will be at nothing like the hectic pace of the 1980s," he said, when production expanded under three per cent for a 6.5 per cent annual rate.

Gold demand has shown four per cent annual rises so far in the decade, he said.

He said the latest survey from the gold institute indicates gold mine production at just under three per cent for the rest of the decade, compared with the annual growth rate of 1.3 per cent seen so far through the 1990s.

Milling Stanley said a recent world gold council survey showed on an annual basis consumers in 14 developing markets bought 275 million jewellery items, with a reported market value of 55 billion dollars.

## Lack of fry, quality control hits shrimp sector

By Govinda Shil

Urgent steps are needed to save production and exports of shrimp which are severely affected by a short supply of fry and lack of quality control, according to exporters.

"At least seven thousand out of a total of 10 thousand shrimp farms have already been closed due to lack of shrimp fry and weak infrastructural facilities," said Aftabuzzaman, General Secretary of Bangladesh Frozen Foods Exporters Association (BFMEA).

He told The Daily Star that about 100 out of 130 frozen food processing factories in greater Khulna and Cox's Bazar have stopped their work as supply of shrimp experienced a severe fall.

The export earnings from shrimp and other frozen fishes for 1996-97 fiscal have been projected at Taka 1,764 crore. But the sector actually fetched

Taka 825 crore against its target of Taka 882 crore during July-December period of the current fiscal year.

"In fact, the supply of 300 to 350 crore fry has been disrupted since late 1995 which caused a severe threat to our shrimp production," said AK Ataur Rahman, former Director General of the Department of Fisheries.

He said at that time a contagious virus disease, White Patch Disease (WPD), was detected in the shrimp farms which led to a substantial production failure.

The former DG suggested setting up quarantine facilities to check the WPD at the ports and airports through which fish eggs are imported.

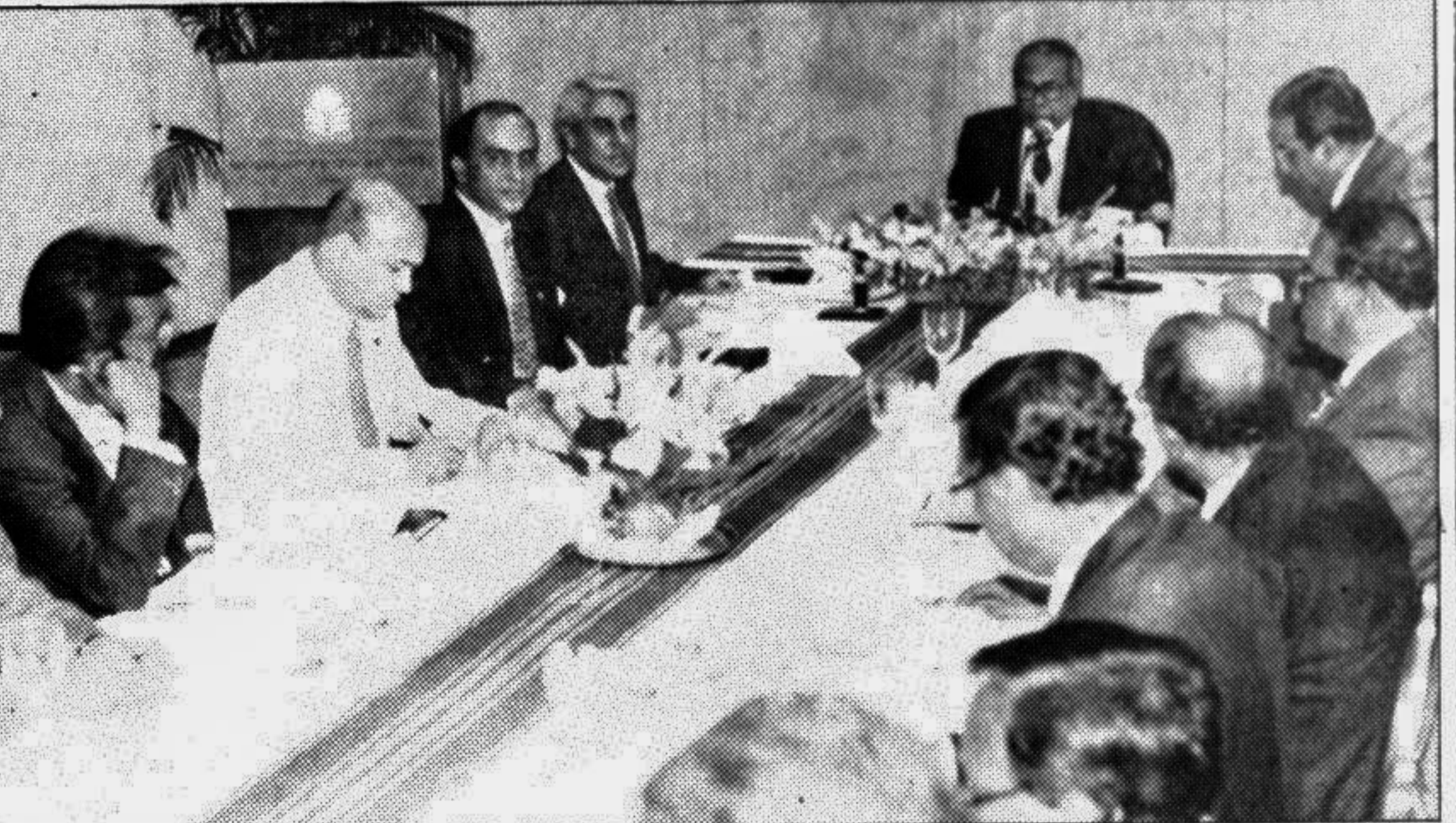
Aftabuzzaman said due to absence of proper quarantine and diagnostic laboratory, the quality control of the lucrative sector is being badly hampered.

General Secretary of the Association said. However, he mentioned that upon frequent requests to the government, the concerned ministry allotted another feeder vessel for shrimp shipment. "But, we cannot request this each time," he pointed out.

The price of shrimp has gone up in the international market from about Taka 30 crore per tonne to Taka 31 crore within a year mainly due to increase in the demand for the item.

BFMEA sources said farmers produced 78.36 million pounds of shrimp and other exportable fishes during 1994-95 fiscal which became 75.07 million pounds during 1995-96 fiscal.

Association leaders have expressed their suspicion over the achievement of target of near about 95 million pounds of shrimp cultivation this (1996-97) fiscal year.



A meeting on Bangladesh garment industry — its problems and solution chaired by Finance Minister Shah AMS Kibria was held at Sonargaon Hotel on Wednesday. BGMEA President Anisur Rahman Sinha, Bangladesh Bank Governor Lutfur Rahman Sarker, Commerce Secretary Sayed Alamgir Farouk Chowdhury, Finance (Banking Division) Secretary Shah Abdul Hannan, Managing Directors of commercial banks and BGMEA Vice-President Benajir Ahmed, Treasurer Uzair Afzal FCA and other members of the Executive Committee of BGMEA were also present at the meeting.

## Asian stock markets close mixed

HONG KONG, Feb 7: While stock markets in Hong Kong, Taiwan and New Zealand closed for holidays Thursday, share prices fell in Tokyo in moderate trading, reports AP.

The Nikkei Stock Average shed 147.54 points, or 0.81 per cent, closing the day's session at 18,038.43 points. On Wednesday, the index had shed 128.36 points, or 0.70 per cent.

The Tokyo Stock Price Index of all issues listed on the first section was down 5.52 points, or 0.41 per cent, at 1,349.88. The TOPIX closed down 20.34 points, or 1.48 per cent, the day before.

Meanwhile, a shift in investment flows to higher-yielding currencies pushed the US dollar up to a new four-year high against the Japanese yen.

The dollar was changing hands at 123.72 yen at late afternoon, up 0.70 yen from late Wednesday in Tokyo and also above its late New York level of 123.25 yen.

In Thursday's trading, the dollar ranged between 122.70 yen and 123.97 yen, its highest intraday level since February 8, 1993, when the currency traded above 124 yen.

In Hong Kong and Taipei, markets were closed for the Chinese New Year holiday, while in New Zealand, markets closed for Waitangi Day.

Elsewhere in Asia:  
**MANILA:** Share prices fell in thin trading due to an absence of many major Asian investors celebrating the lunar new year and a lack of fresh buying incentives for domestic traders.

## Dollar rises against yen

TOKYO, Feb 7: The US dollar rose against the Japanese yen Friday amid increasing concern over the stability of Japan's economy and financial institutions, says AP.

The dollar hit a new four-year high following rumors in the market that a major Japanese construction company may soon file for bankruptcy, traders said.

Traders said the dollar's recent strength also is derived from a growing consensus that the G-7 group of major industrialized nations, meeting in Berlin on Saturday, will not take action to halt the dollar's rise.

The dollar reached an intraday high of 124.30 yen earlier in the session, the strongest since early February 1993.

At mid-afternoon, the dollar was changing hands at 124.14 yen, up 0.42 yen from late Thursday in Tokyo and also above its late New York level of 123.54 yen overnight.

## Egypt decides to sell shares of 18 banks, jt cos

CAIRO, Feb 7: Egypt's government has decided to sell at least part of its shares in 18 banks and jointly-owned companies, in operations on the stock exchange worth around 647 million dollars, the Information Minister announced, reports AP.

Sawfat Al-Sharif, quoted in Al-Ahram newspaper on Thursday, said the sales would cover six banks, six industrial companies, two real estate firms, three tourism businesses and an agricultural firm.

The companies are already quoted on the stock exchange.

The government is to sell its entire 48.9 per cent stake in Misr International Bank, all 28 per cent in the National Bank for Development and all 38 per cent in Chloride Egypt, Sharif said.



US President Bill Clinton holds a copy of his fiscal year 98 federal budget during a press conference in the Old Executive Office building in Washington, DC on Thursday.

## \$1.7t budget for '98 unveiled Clinton plans \$98b tax cut in 5 years

WASHINGTON, Feb 7: President Bill Clinton yesterday unveiled a 1.7 trillion dollar budget for fiscal 1998 that provided for 98 billion dollars in tax cuts over five years and sharply increased spending on education, reports AP.

A summary of the spending plan for the fiscal period beginning October 1, released here by the White House, would leave a deficit of 121 billion dollars next year but would put the government on track toward balancing the budget in 2002.

"We think this is a very good budget," said Larry Haas, spokesman for the office of management and budget.

"It maintains our priorities, reduces unnecessary spending and reaches balance in the right way."

## Ford Motor Co idles 6800 workers, halts production at 3 plants

DETROIT, Feb 7: Ford Motor Co. has halted production at three plants and idled 6,800 workers because of a strike at a supplier that makes seats for some of its vehicles, reports AP.

Negotiators for the supplier, Johnson Control Inc., and the United Auto Workers union had sought to resolve the walkout by about 500 workers at plants in Michigan and Ohio.

Bargaining sessions began Wednesday afternoon and continued into Thursday afternoon, with Ford then deciding late Thursday to shut down the plants.

The decision idled 4,000 workers at a truck plant in Wayne, Michigan; 1,500 at a plant in Lorain, Ohio, and 1,300 at an assembly plant in Avon Lake, Ohio. Ford spokesman Francine Romine-MacBride said.

Union and company officials were unavailable to comment on the progress of talks Thursday night. Earlier, a spokesman for Milwaukee-based Johnson Controls said the threat of a work suspension at the Ford plants had added no urgency to the sessions.

UAW spokesman Karl Mantyla declined to comment on the effect of a shutdown. "We're obviously aware of the impact the situation is having," he said.

Some 300 workers have been on strike since January 28 at a Johnson plant in Plymouth, Michigan, which makes seats for the Ford Expedition, and 200 striking workers at an Oberlin, Ohio, plant produce seats for Econoline vans. Ford has refused to install seats made by nonunion workers.

## India's oldest hotel looks for new partner

NEW DELHI, Feb 7: India's oldest hotel plans to tie up with the India Tourism Development Corp. (ITDC) after failing to join hands with a French company, the Press Trust of India (PTI) said yesterday, reports AP.

Calcutta's state-run Great Eastern Hotel could go for a joint venture with the ITDC, which is also government-owned, if negotiations now underway succeed, PTI quoted officials as saying.

The Great Eastern Hotel is run by the government of West Bengal state. The state government teamed up with French hotel chain Accor Asia Pacific in 1992 to modernise the hotel but backed off after union protests.

West Bengal Tourism Minister Manoj Mukherjee was quoted as saying that The Great Eastern Hotel and ITDC would float a new company that might go for market borrowings.

ITDC would take over the management of the 157-year-old hotel without sacking any of its 666 employees, he said.

"It is the proposed venture with ITDC failed, the state government will keep its options open for renovating the hotel by seeking loans from financial institutions," Mukherjee said.

The ITDC is India's largest hotel chain.

Following is the remaining part of the article published yesterday.

With regard to central bank budgetary independence central banks in all countries except in France and New Zealand have substantial independence from government across all of their functions irrespective of the degree of monetary policy independence. This is in Bangladesh and a few other countries appropriation of profits has to be made in consultation with the government and the available net profits have to be turned over to the government.

Furthermore, in Bangladesh the government tries to control the administrative expenditure of the central banks by issuing directives/instructions in order to conform to the rules of the government as far as possible. In such situations, the operational freedom of a central bank is considerably curbed.

In choice of monetary policy instruments the central banks in developed countries which pursue price stability either enjoy by law or by tradition and where the financial markets are well developed have freedom to choose and manipulate the monetary policy instruments.

Central Banks in various developing countries are, however, constrained in this respect reducing their monetary policy independence. For example, there are often limits on the ability of central banks to vary reserve ratios requiring prior consultation with the government or with the banks.

In New Zealand this power of the central bank has been withdrawn.

From what has been stated above it will be clear that the operational freedom and autonomy that the central banks enjoy vary from country to country depending upon the level of development of financial and capital markets, the policy goals for government concerned wants to pursue and the of inflation the general public is prepared to tolerate and accept. Then again it has been seen that even in countries where central banks have been legally required to follow a monetary policy aimed at maintenance of price stability the success has been qualified.

According to a recent study, there is evidence that institutional independence affects inflation in industrial countries and among institutional guarantees those affecting central bank credit to the government are by far the most relevant in developing countries. There are various reasons for which monetary policy aimed at only price stabilisation is inadequate. The question is also sometimes discussed whether the central bank or more generally monetary policy can be assigned the objective of absolute price stability when a government decides to influence through its policy other economic variables like output, employment and growth or it is preferable to aim at attaining a position where monetary stability does not throttle growth and economic growth does not threaten monetary stability.

It is certainly true that good monetary management is a necessary prerequisite for price stability. But is it by itself adequate to foster economic growth? Then again our knowledge of the modern economic system suggests that in some cases an objective defined in precise quantitative terms, for example, zero inflation, can be difficult or even impossible for the central bank to achieve because of the inherent limitations of monetary policy.

Monetary policy, as someone stated, is like a rope. You can pull it but pushing is almost impossible. Therefore it works better as a brake but not to accelerate. Fiscal policy on the other hand works better as an accelerator. Monetary policy also works with time lag and despite computer assisted econometric models monetary authorities can not always anticipate the growth rate of inflation. Besides, the effects of restrictive monetary policy affects more harshly people on the margin of the economy than on the well-off people.

It thus seems inevitable that the central bank has to adjust the quantity of money not merely to the demand but also the needs of the economy and has to work in concert with the fiscal policy of the government. This is particularly needed in developing countries which have embarked on the path of growth and development involving structural transformation of the economy. Given this compulsion the central bank must coordinate its action and its policy intervention in the general context of the state's economic policy formulated at political level by the elected leaders of the people.

Subject to this parameter the central bank can however be and in fact should be allowed the full freedom to influence the growth and development of financial transactions without any executive or political interference of the government. The nature and dimension of that independence should be within the government which is sovereign and not outside the government.

How thus relationship can be forged? There are many ways it can be done. It can be institutionalised by passing laws making the central bank free in pursuing its monetary policy framed by it keeping in view the long term economic policy goals of the country and/or by day to day consultations between the governor of the central bank and the Ministry of Finance on the basis of reciprocity as equal partners.

In England, there is fort-

# Central bank autonomy — why, what and how

By AKN Ahmed

nightly meeting between the Chancellor of the Exchequer and Bank of England Governor.

In USA, Chairman, Federal Reserve and Secretary of Treasury meet weekly over lunch held alternatively in Treasury and Fed building. Similar meetings take place between Bundesbank President and Federal Finance Minister. Frequent discussions take place at other levels between officials of central banks and Ministry of Finance.

In Pakistan, I had observed government officers used to be sent to State Bank of Pakistan for comments before taking action on important economic issues which had nothing to do with central banking or finance.

In many countries where central banks are in disadvantaged position with regard to their legal independence the governors are held in high respect and their views are sought and listened to by the government and members of public with respect.

In England, even though the Bank of England is fully owned by the government its governor enjoys a unique position of distinction both in respect of his relation with the government and the public. There is an unwritten rule that no letter addressed to the governor should be signed by anyone in the Treasury except by Chancellor of the Exchequer. Similarly the annual ceremonial dinner at Mauston House by the Lord Mayor of the City of London is the only person other than the Chancellor of Exchequer who is invited to speak in the Governor of Bank of England.

Pandit Jawaharlal Nehru was once asked what is the position of the governor Reserve Bank of India in the warrant of precedence and he replied "Governor of Reserve Bank of India is the Governor Reserve Bank of In-

stitutively perceived that the strength of a central bank grows not so much from legislation as from its professional and technical competence. His successors who came from civil service also very soon soaked themselves to bank's culture and left behind their mental baggage inherited from government in determining and defending policies and operational freedom and steadfastly refused to introduce government rules and regulations for running the Bank.

On a personal note, I had the privilege to work closely with Bangabandhu Sheikh Mujibur Rahman while I was Governor of Bangladesh Bank. I had unlimited access to him. Once while discussing the status of the Central Bank governor he remarked that I enjoyed his full confidence and this alone would enable me to work without fear or favour. He proved the worth of his statement on many occasions when within a period of 6-8 months, crucial decisions like changing the exchange rate of Taka, demonetisation of high denomination currency notes, credit control measures, denial of open ended credit to the government for its budgetary needs, denial of bank credit to loss making state enterprises had to be taken by Bangladesh Bank to squeeze the excess liquidity from the economy, break the back of inflationary expectations and ease foreign exchange crisis. But for his unqualified support and protection these unpleasant measures could not have been taken against heavy odds and over the resistance of various powerful vested interest groups. After all these measures inflation was reined in, price level came down, bank financed speculative trade was reduced, a bumper harvest loomed in the horizon and the economy was

posed to make a fresh start.

And then on 15th August, 1975 Bangabandhu was assassinated. With this event an era ended, political support eroded, money creation erupted and I left the bank after resigning from my position. After more than 20 years I am still convinced that a central bank governor can not function successfully without the political support at the top and that support has to be earned largely by his professional competence and integrity backed up by qualified technical staff in his bank. This is a must whatever may have been provided in the charter of a central bank. It is incumbent upon any government to help cooperate and ensure that the central bank develops such competence. Otherwise it will get the central bank to occupy a bank amongst many not occupying the centre of the stage in financial and banking sector.

In the final analysis, central banking is the art of possible. How the central bank will be run and its governor will conduct himself have not been inscribed on tables or described in scriptures. Each has to find his way in the particular situation he has been placed. There will be politicians in every country—democratic or authoritarian. They will have their own political agendas and constituencies to serve. They will continue to be particular brand of animals as we all are, and subject matter of all sorts of jokes. French writer Anatole France once said "The vice most fatal for a politician is virtue." Herman Abbs, an eminent German banker who died recently once said "A politician is a man who learns about more and more until he arrives at the point where he does not know anything about everything." But despite these, rather uncharitable comments politicians as a class

have survived through ages and ruled their countries and only from amongst them statesmen have emerged who have changed the course of history of their nations and the world. It is therefore imperative on the part of the central bank governor to learn to work with them to accomplish the common shared objectives. It will be futile to think that a politician will put his political survival on chopping block only to give free reins to the central bank to pursue a sound monetary policy. On the contrary the central bank governor should have been ready to put his job and some time his life on the chopping block to defend his policy remembering what President Truman said to Robert Oppenheimer, world renowned physicist and inventor of atom bomb. "If you cannot stand the heat stay out of the kitchen." In fact, some years back central bank governor of Sierra Leone was found killed on the verandah of his house immediately after he had refused to transfer a large sum of money to the account of the head of the state by debiting the account of Organisation of African States. He died not because he could not stand the heat of the kitchen but because he refused to 'cook' something poisonous on the behalf of the ruler. I salute this little known brave central banker who laid down his life setting a shining example for his compatriots all over the world. While on the subject I would take the liberty of repeating what I had said in another international forum (16th SEANZA Central Banking Course, December 1987) about 10 years back, a central bank in developing country has to be more than a mere "Bankers' bank. It has to be the voice of conscience to the government. It has to be a friend, philosopher and guide to banks. It has to attain commanding heights so that it can navigate through shoals of political vicissitudes by means of its own compass — compass of high degree of professionalism. **Concluded**