



IBRD lowers interest rates

WASHINGTON, July 25: The International Bank for Reconstruction and Development (IBRD), a member of the World Bank group, today announced the latest interest rates for its currency pool loans and the interest spreads for its single currency loans, says Xinhua.

For loans made under, or converted to, the IBRD's current variable lending rate system, the rate is 6.54 per cent, down from 6.70 per cent, charged during the past six months.

For loans that have not been converted to the current system, the interest rate is also 6.54 per cent, down from 6.65 per cent of the previous period.

The above interest rates are to be charged for the six-month period that began July 1, 1997.

Meanwhile, the rates for loan or loan portions converted to single currency pool (SCP) terms for interest periods beginning from July 1, 1997 to December 31, 1997 with the US dollar and the deutsche mark as the designated currencies will be the same as for the IBRD's current lending rate system — 6.54 per cent.

100 associates of Sonargaon Hotel join 'Operation Oasis'

Over 100 management and associates of the Pan Pacific Sonargaon Hotel yesterday joined a beautification programme around the hotel as parts of its year-long programme, says UNB.

The programme, titled "Operation Oasis", in Dhaka includes painting road dividers, planting saplings and seasonal flowers and clean-up drive.

The year-long beautification programme, began on April 25 in observance of the silver jubilee celebration of Pan Pacific Hotels and Resorts, will continue till March 25, 1998 with the theme "A Greener Tomorrow Begins Today".

The day's programme of the silver jubilee celebration began with planting saplings, seasonal flowers, painting the grills of road dividers and SAARC Fountain on the west side of the hotel.

Some 110 management and associates, and long staying guests of the hotel, led by its General Manager Eldridge J Mac Ewan III, painted grills, road dividers and fountains and planted saplings and seasonal flowers for three hours from 9 am.

The general manager said the Sonargaon Hotel has an exciting plan for this year. "As a company we want to involve ourselves more in taking care of environment and preserving it for the future generation."

"Dhaka city is our business partner and we believe in giving back something to the city," he said.

Director Sales H Ishiyama said the Sonargaon Hotel is committed to do something for the country and its people. As parts of our commitment, the Hotel has brought three road dividing islands in front of the hotel and its surrounding areas under its beautification drive.

DSE, CSE experience bearish trend over the week

By Rafiq Hasan

Bearish trend persisted at both Dhaka and Chittagong stock exchanges last week amid some ups and downs in major market indicators.

The Dhaka Stock Exchange All Share Price Index fell by 41.28 points closing at 960.78 points from 1002.26 points at the beginning of the week.

The market capitalisation of the bourse lost Tk 346.99 crore declining to Tk 8035.57 crore on Thursday, the closing day of the week. The week had started with a market capitalisation of Tk 8382.56 crore.

Though the bourse witnessed upward trends for three days out of five trading sessions, the price index declined from previous week's closing position.

Bearish trend prevailing over the weeks also continued in the beginning of last week and pushed DSE index to a miserable position of 939.66 points on Monday. On that very day, the price index fell by 38.12 points when prices of 99 issues declined and 17 gained.

The situation improved in the later part of the week as the major market indicators started going up since Tuesday last.

In the last three days of buoyant market, the DSE price index registered about 20 points up.

On an average 2.10 lakh shares and debentures valued at Tk 4.05 crore exchanged hands during the five trading sessions.

Out of 126 average-traded issues, 55 gained and 67 declined everyday while four remained unchanged.

The All Securities Price Index at Chittagong Stock Exchange suffered by 13.69 points over the week going down to 419.34 points from previous week's 433.03 points.

The market capitalisation of the CSE lost Tk 204.22 crore closing at Tk 6337.10 crore from 6541.32 points.

DSE members and persons related to the capital market have blamed the money crisis for the depression in the share market.

They said the banks

squeezed their loans to DSE members for buying shares. No bank is giving any new loan for the capital market, said a DSE member.

Observing continuous fall in most of the share prices in the beginning of the week, the kerb market operators started agitation again.

They staged demonstrations and held rallies demanding resignation of DSE's new chairman Abdul Huq Howlader.

The agitating kerb market operators under the banner of Bangladesh Small Investors Federation also urged the government to take steps to improve the situation in the capital market.

WB evaluation report Power transmission thru' JMB to save \$ 108m

Transmission of power from east to west through incorporation of facilities in the multi-million dollar Jamuna Multipurpose Bridge (JMB) will save Bangladesh 108 million US dollars, a World Bank evaluation report said, reports BSS.

It said the Power Development Board (PDB) needs to construct a stand-alone power interconnector in absence of JMB at the cost of 114 million US dollars during 1998-2000. But, the power transmission cost would be only six million US dollars after the construction of JMB.

The evaluation report said the PDB has indicated its preference to take gas across the river using the JMB for producing power at the western side (Sirajganj), since this will be a cheaper alternative than producing power in the west and transmitting it across the river.

The government was now considering gas alternative as this would benefit in two ways

— first of all, the cost of constructing a stand-alone power interconnector across Jamuna would be saved and secondly, the cost of power transmission lines on land and related installations would also be saved to the extent as it is cheaper than gas pipeline needed on both sides of the river, the evaluation report observed.

The World Bank's evaluation report said the distance of transmission lines from power plant in the east to the bridge and from the bridge to the Sirajganj power plant in the west was to be about 160 km, costing about 100 million US dollars as against gas pipeline distance of about 40 km and its cost would be about 20 million US dollars, giving a net saving of about 80 million US dollars.

This land transmission savings is additional to the savings in cross-river transmission which would help increase economic rate of return of JMB, the report added.

Asian stocks close mixed

HONG KONG, July 25: Asian stock markets ended the week generally mixed Friday, with share prices rising in Tokyo in reaction to an overnight record rally on Wall Street, reports AP.

Tokyo's 225-issue Nikkei Stock Average closed at 20,389.54 points, up 103.31 points, or 0.51 per cent. On Thursday, the index had closed up 155.72 points, or 0.77 per cent.

The Tokyo Stock Price Index of all issues listed on the first section was up 5.53 points, or 0.36 per cent, to 1,544.29. The TOPIX gained 9.13 points, or 0.60 per cent, the previous day.

Despite some profit-taking, stock prices remained in positive territory throughout the day after the Dow Jones industrial average rose to its third straight record high finishing first above 8,100 on Thursday.

Among Friday's gainers were some high technology issues and non-ferrous metals. Losers included real estate issues and some banking and brokerages.

TAIPEI: Share prices closed generally mixed, but the key index surged because of a rise in technology stocks. The market's Weighted Stock Price Index rose 176.49 points to 9,808.91.

MANILA: Share prices closed mixed as investors showed concern over prevailing high local interest rates and the volatility on the Asian currency markets. The Philippine Stock Exchange Index of 30 selected issues slipped 0.11 point to 2,572.69.

SEOUL: Share prices closed lower in moderate trading. The Korea Composite Index rose 5.40 points to 733.64.

SINGAPORE: Share prices closed mostly mixed. The benchmark Straits Times Index slipped 0.32 point to 1,980.96.

KUALA LUMPUR: Malaysian share prices closed lower on profit-taking. The key Composite Index fell 4.63 points to 1,041.26.

BANGKOK: Thai share prices closed higher. The Stock Exchange of Thailand (SET) Index rose 2.58 points to 646.56.

JAKARTA: Share prices closed lower. The Composite Index slipped 1.988 points to 710.58.

Dollar higher in Tokyo

TOKYO, July 25: The dollar was higher against the yen on Friday, reports AP.

In late afternoon, the dollar cost 116.26 yen, up 0.42 yen from late Thursday in Tokyo and above its late New York level of 116.05 yen overnight. It ranged between 115.95 yen and 116.65 yen in Friday's trading.

Traders said there was some dollar-buying by some US institutional investors in the morning, but dollar-selling interest from Japanese exporters at around 116.50 yen limited the currency's upside.

There was little fresh market-moving news ahead of the weekend.

The yield on the benchmark No. 182 10-year Japanese government bond fell to 2.175 per cent from 2.205 per cent Thursday, pushing its price up to 105.70 yen from 105.48 yen.

Koreas agree on new aid from South

BEIJING, July 25: Negotiators from rivals South Korea and North Korea agreed Friday on shipping 50,000 tons of corn for starving North Koreans, reports AP.

Six representatives from the countries' Red Cross chapters, meeting for the third straight day, needed 20 minutes to iron out final details on the shipment.

Thursday's meeting had ended with South Korea's lead negotiator, Red Cross Secretary-General Lee Byong-woong, saying that one or two issues needed to be resolved.

Details on the agreement were not immediately available. Negotiators left the meeting room at one of Beijing's fanciest hotels without commenting.

The shipment would be the second massive amount of food South Korea has sent to North Korea, even though the two are technically still at war. Under a May agreement, South Korea provided the North with 50,000 tons of grain.

Devastated by flooding, had harvests and poor agricultural policies, North Korea says one-third of its children under age 6 are malnourished.

IPO lottery of Niloy Cement completed

The authority of Niloy Cement Industries Ltd has announced that the company has completed the lottery of IPO, says a press release.

The lottery was held on Thursday.

The representative of Securities and Exchange Commission, ICB, Dhaka Stock Exchange, Ltd. and Chittagong Stock Exchange Ltd were present.

The lottery has been completed duly under the direction of BUET Professor Mafizur Rahman Chowdhury and his associates and under the management of Post Issue Manager SofSys Computing & Data Processing Limited.



Principal Red Cross representatives Lee Byong-woong (L) of South Korea and North Korea's Choe Gyongrin (R) shake hands across the negotiating table at a Beijing hotel during inter-Korean food aid talks. The negotiators agreed on shipping 50,000 tons of corn for starving North Koreans. — AFP/UNB photo

ASEAN concerned over speculative attacks on Asian currencies

KUALA LUMPUR, July 25: The foreign ministers of Southeast Asian nations stated their concern Friday over a series of speculative attacks that have pushed their currencies sharply lower in recent weeks, reports AP.

In a joint communique, the foreign ministers of the Association of Southeast Asian Nations, "expressed serious concerns over well-coordinated efforts to destabilize ASEAN currencies for self-serving purposes, thus threatening the stability of all ASEAN economies."

The statement did not say whom the Southeast Asian nations blamed. They have said economic fundamentals are strong in their region, the world's fastest growing area last year.

Analysts say the blame for the depreciations is difficult to assign, since local banks as well as outside speculators are

among the sellers of the region's currencies.

Release of the ASEAN statement was delayed by last minute questions about the intentions of Cambodia, which was to have joined ASEAN on Wednesday along with Myanmar and Laos. Cambodia's membership was postponed because of a coup in early July led by co-premier Hun Sen.

The foreign ministers took the unusual step of discussing monetary issues after their host, Malaysian Prime Minister Mahathir Mohamad, accused rich nations of deliberately weakening the region's currencies to undermine its remarkable economic progress.

An earlier draft of the communique did not include the reference to currencies, which was added as a result of discussions among the ministers during their two-day annual meeting.

This week, several Southeast Asian currencies have plunged to new lows.

In their communique the foreign ministers also affirmed their strong opposition to the use of trade sanctions by Western nations to punish countries that violate human rights.

They said issues of human rights and workers' rights should be dealt with separately to avoid undermining the international trading system.

"Human rights issues should not be made conditional to the promoting of free trade among nations," the communique said.

Three months ago, the United States banned all new American investments in Myanmar in an effort to pressure its government to improve human rights and begin a dialogue with the political opposition.

Equity financing in Bangladesh: Some policy issues— Part-II

By Dr M Farid Ahmed

Similar results can be obtained if the ratio of new equity to national savings is considered. It is about four percent. In general, then it may be concluded that the equity market has not been able to provide a strong alternative to the banking system and various government saving schemes for the mobilisation of funds in spite of adopting various policy measures and tax incentives favouring the development of equity markets.

The contribution of the market to financial development (as proxied by the ratio of new issues to gross investment) has not been significant. Speculative elements along with the investors' expectations bring fluctuations in the stock market. These contributed to a stock market boom in 1987-88. The stock market started experiencing a sluggish and declining trend since the later part of 1988. The market experienced the worst price fluctuation during later part of 1996 and early 1997. These market swings took place ignoring all micro and macro economic fundamentals.

In these market swings the rapidly overpricing stocks later rapidly fell back to its rational level. It is needless to say that the rumours and helpless investors' psychology have been used by some vested quarters. However, it is noteworthy that new issues have been substantially oversubscribed since 1984.

It reflects the investors' interest in equity investment. Nevertheless, high level of oversubscription could be partly explained by the rate of capital gain due to rising trends in stock price and issue of stock at face value. Of course recently companies are issuing shares at a premium.

Much of the market constraint is associated with the

overall development of the country and hence investment in equities is likely to continue to be some highly risky affairs for a great many potential investors with pronounced risk aversion attitudes.

The impressive volume of various government bonds and bank deposits were in sight while their respective yield was falling. In fact, the rate of interest of these secured investment had dropped significantly during the period from 1990 to 1995. It is likely that public enthusiasm for government securities and bank deposits would continue recording a significant volume, much to the cause attributable to the sense of security attached to them.

Certainly, the attitude behind such a situation can't be explained in terms of irrationality on the part of the saving public, but rather in terms of pronounced risk aversion.

In the presence of forceful structural and other impediments, measures aiming at increasing the relative contribution of equities will most likely be of insignificant use. On the other hand, devices that purport to force industrial undertakings to resort to the new issue market are of questionable effectiveness, in view of the relative difficulties to institute and implement them.

In such situations equity market appears to be difficult to develop and the transformation of short-term term debt and ownership must be entrusted to a set of different institution pending the eventual development of the capital market. This shift in emphasis has profound policy oriented implications.

Policy implications

It is not an easy task to establish an adequate and effi-

cient capital market. Efficient operation of the capital market is required to meet at least two basic requirements. It should support industrialisation through saving mobilisation, investment fund allocation and maturity transformation. Secondly, it must be safe and efficient in discharging the above role.

In a developing economy such conditions usually do not prevail due to prevalence of informal credit markets that tend to limit the capacity to mobilise financial savings, a low degree of ownership-management separation associated with the cause of informational asymmetry and a low level of accumulated financial assets making maturity transformation more difficult.

Of course, these conditions differ widely from economy to economy. Thus, formulating a suitable financial policy and their execution in a particular country is predominantly significant in view of the prevailing situation and the underlying phenomena. In this regard opinions are largely united against government interference with the pattern of interest rates and allocation of investible funds.

Rather, these are to be determined by the free interplay of market forces. The package of policy prescriptions offered by World Bank, IMF and other international agencies for developing countries contains recommendations to raise interest rates partly to tighten credit and partly to raise savings. This will make available more investible funds for economic development. However, the issue is ambiguous in terms of theory and empirical evidence. Strong support for 'free' interest rates (i.e., removal of any legal or oligopolistic ceilings upon interest rates in gen-

eral and interest rates on bank deposits in particular) has been shown by some scholars.

Artificially cheap institutional credit has the effect of distorting the allocation of resources between the modern and traditional sectors of the economy as well as inhibiting the integration of the informal and formal financial markets. 'Free' interest rates are argued not merely as the key to integration of different segments of the credit market but also as the centerpiece of a general economic liberalisation programme. This would reduce segmentation and shape an economy in line with development.

High rates of interest for both lenders and borrowers induce dynamism that one wants in development, calling forth new net saving and diverting investment from inferior uses so as to encourage technical improvement. That implies promoting the integration of formal and informal financial markets, favouring enterprises and activities other than those that flourish under financial repression and thereby changing the factor proportions in production.

Artificially low interest rates prevail currently in formal financial sectors of Bangladesh lie other less developed countries. By contrast, very high interest rates are charged in the informal financial sector reflecting the scarcity of capital.

However, others have cast doubt on it. They argued that certainly, freedom in the capital market is necessary for overcoming fragmentation, but one doubts that this freedom is a sufficient condition for obtaining that result or even for unifying/integrating the do-

mestic capital market. This scepticism is based on the very uneven spread of information and understanding, even saying nothing of great differences in economic attitudes and abilities, that persists in developing countries.

Real interest rates are not good indicators of financial repression or distortion. The relationship between real interest rates and economic growth might resemble an inverted U curve. Very low (and negative) real interest rates tend to cause financial disintermediation and hence tend to reduce growth. On the other hand, very high real interest rates that do not reflect improved efficiency of investment, but rather a lack of credibility of economic policy or various forms of country risk, are likely to result in a lower level of investment as well as a concentration in excessively risky projects. That implies large negative or large positive real interest rates have the similar adverse impact.

The analysis of the success or otherwise of equity markets from a macro economic perspective is not necessarily a straightforward procedure. A variety of different indicators and variables for judging aggregate efficiency have been suggested by a number of authors. However, it appears that prerequisites of decisive importance may restrain the immediate growth of both demand for and supply of equities in Bangladesh. Indeed, in the framework of a less developed country dominated by agriculture like Bangladesh, it would be rather difficult to find an efficient equity market.

Development of confidence in financial instruments and the requisite change in institutions, their framework and at-

titude are basically a matter of time and not only of incentives. Efforts to accelerate the development of the equity markets shortly by some policy measures do not appear to be very promising in a developing market condition.

As expected, not very much can be done to influence the standing, profitability and dividend policy of firm by legislative measures only. In spite of various legal measures and tax incentives the market is still very small and extremely volatile. The swings in the stock markets of Bangladesh in 1996 illustrate how much the extent of fluctuations in the market index can be for such a market.

Besides, inadequate disclosure system and legal framework, persistent political instability, lack of sufficient institutional structure, small number of large companies, narrow base of the market and low level of savings rates of 7.7 per cent in 1993-94 (low even South Asian standards) are some of the issues that are clear indication of market weakness. All these have substantial impact on the adequacy, efficiency and reliability of the market.

Conceivably favourable effects that legal and tax reform such as exemption of dividend income from taxes up to certain limit, exemption of capital gain taxes, promotion of greater company disclosure, protection of minority, imposition of penalties for misdeeds of company executives etc., will likely result in stimulating the demand for equities. But these may well be counterbalanced by the existence of various problems inherent in the developing markets.

Overall environment is very much a relevant factor to be

considered while making an assessment about the operational efficiency of stock markets. In the industrialised countries investors will find a home that is well defined with a well structured legal system, a reasonably competitive situation, reasonable controls over prices and inputs to maintain them within tolerable limits, and relatively open access to the international economy. But the situation in the developing countries is not necessarily the same.

One must note here that public policies in developing economies need to help promote the necessary conditions for economic growth. The necessary elements here are savings and capital, educated people, entrepreneurs and organisations, technology and well functioning state. These are the issues which, by their nature, can't be achieved at a desirable level within a short time. In the absence of these determinant factors encouraged and promoted, accomplishment of any economic programme including capital market development is difficult to attain up to the expectation.

The slow evolution of the equity markets, however, should not hamper the industrial growth of the country. The development of the capital market and particularly that part of the equity segment, does not constitute a condition *qua non* for economic development. It is rather the outcome of the overall development process of the country and a feature of a more mature economy.

In view of the situation prevailing in a developing country like Bangladesh, the potentialities of the banking system deserve greater attention and the necessary steps should be taken to enable it to play a decisive role as an agent of development. Moreover, regardless of how efficiently organised an equity

market may be, it is difficult to ensure the flow of available savings toward the most desirable projects from the point of view of priorities for economic development. For, private profitability is not always a sound criterion for judging the desirability of an investment from the social point of view.

Public segments of the capital market can play an important role for the developing market. Public debt management could provide a suitable transformation mechanism whereby various debt instruments can satisfy various investors' tastes of ensuring safety, liquidity and yield, while the private entrepreneurs are permitted access to necessary funds which otherwise might not have been available for them.

Besides, with the passage of time there is reason to believe that institutional and individual investors will have better responses to the issues of private firms since they have familiarity the dealings in securities.

Equities were traded in developed economies only after public confidence had been developed by prior experience with government securities. For developing an efficient stock market in Bangladesh, a viable secondary debt market needs to be promoted.

A vibrant secondary debt market (involving the debt instruments issued by the government, semi-government and corporate bodies) is an essential part of the programme to permit the conservative investors to enjoy the fruits of a fixed interest income stream as well as capital gains like the stock investors.

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