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High interest rates hurting domestic investment

High cost of borrowings is frustrating domestic investment making many industries sick and loans classified, said businessmen demanding bank interest cuts, says UNB.

Despite various incentives and policy supports dished out by the government for developing a private sector-led economy, the overall domestic investment lagged far behind other small-income countries.

However, private sector contributed the lion's share of domestic investments last fiscal that accounted for 18.51 per cent of GDP.

Estimated contribution of private sector to domestic investment in 1998-99 was 11.54 per cent while public sector made only 6.97 per cent, official figures showed.

Local investments grew less than one per cent over the previous fiscal.

Business circles identified poor financial assistance from banks and their high interest rates, among others, as reasons for frustrating local investment.

Bank interest rates on credits in Bangladesh, ranging between 14.5 and 16 per cent, are much higher than in neighbouring India, they said, stating that high interest blunts their competitive edge.

Despite the government having decontrolled the interest rates and left it with the banks to fix competitive rates, the banks still charge high interests on loans attributing it to the burdens of huge overdue loans.

The foreign banks operating in the country, who shoulder only four per cent of total overdue loans, also did not revise their interest rates.

"But why will they do so when local banks are claiming much higher rates?" a central bank top executive said.

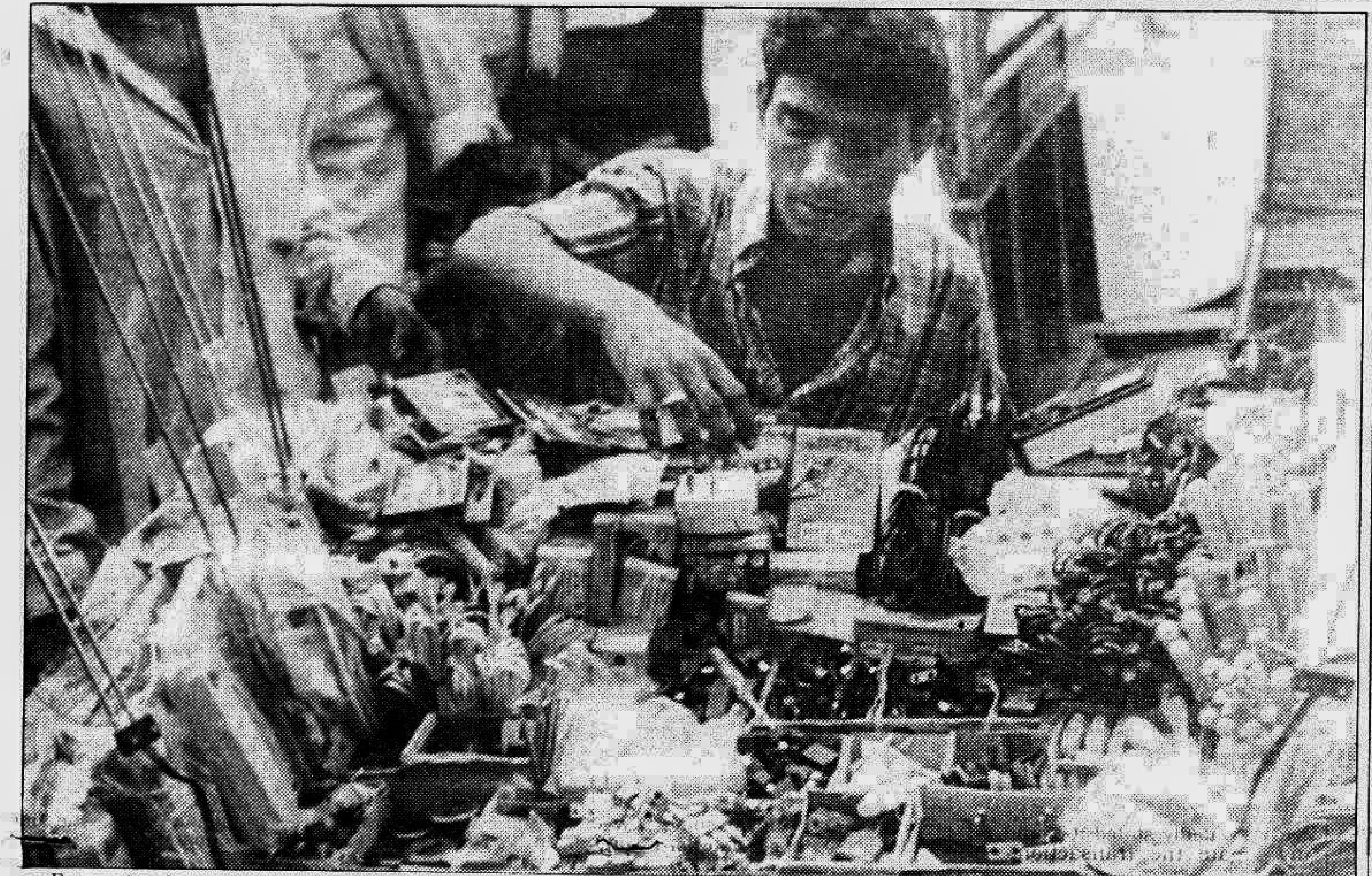
Bangladesh Chamber of Industries, while meeting Finance Minister Shah AMS Kibria in his chamber Thursday, expressed deep concern over the high borrowing costs.

BCI president Khondkar Mosharraf Hossain said the banks fixed their interest rates between 14.5 and 16 per cent.

Besides higher rate of compound interest, costs of transportation and C&F, customs demurrage, bank charges and commissions on LC altogether raise the interest rate up to 24 or 25 per cent, he pointed out.

But average industrial profit rate remains below 5 per cent, the BCI president said.

"Under this circumstances it is not possible for a debtor to repay loans timely. And that's why many industries are turning sick and many loans defaulted."



From simple screwdrivers to multimeters, any sort of household electrical necessities one can buy from a floating roadside electrical goods vendor. In the city's Motijheel area, these illegal vendors have thrived as they offer cheap goods.
— Star photo by AKM Mohsin

Pioneer pen maker fighting odds

Product diversification and marketing strategy keep GQ profitable

Star Business Report

Hit by frequent currency devaluation and smuggled products, G Q Ball Pen Industries Ltd, the largest ball-point pen manufacturing company in the country, is still managing to scale its previous profit figures by product diversification and better fund management.

It also eyes better marketing strategy as a prime tool to outsmart other competitors.

The company is going to introduce new types of ball-point pen very soon to meet the taste of the urban people. The plan was shelved for some time due to the floods and demand depression, according to the company's annual report for the year 1998.

"Despite the slow rate of economic growth and the devastating floods last year, the company's profitability has increased to Tk 3.52 crore in 1998 from Tk 3.36 crore in 1997. This happened despite a decline in sales," said Qazi Saleemul Huq, Chairman and Managing Director of GQ in the company's annual report.

The year 1998 was a difficult time for the company with taka devaluation, inflation and prolonged floods adversely affecting its business.

"Moreover, we have been facing unhealthy competition from smuggled ball pen," Huq noted. Counterfeit pens have also flooded the market.

In order to maintain the competitive edge, GQ reduced its product prices. At the same time, it also allowed additional discounts to distributors to increase sales.

Though raw material prices increased due to currency devaluation, the net profit of the company has increased during the period due to efficient fund management and installation of tip making machinery.

The company is now focusing on expanding its marketing network to meet the increased competition and improve its sales turnover.

"We are determined to maintain the market leadership and keep our position as the largest ball-point pen manufacturing company in the country," the company MD said.

As part of its investment and expansion plan, the plastic unit II of the company has gone into commercial production in November 1998. Thermoformed glasses and cups are being marketed by the company's existing distribution channel.

The tip making factory has contributed towards reduction of raw material costs to a great extent and increasing profitability.

Maladesh International (Pvt) Ltd has become a subsidiary of the company, which holds 98 per cent of its shares. The subsidiary company is producing 'Elephant King' brand mosquito coils.

GQ started marketing its new products in 1998 and sold coils worth about Tk five million under stiff competition from established brands. This year the sales target has been fixed at Tk 25 million and by March, 1999 50 per cent of the target has been achieved.

Its turnover in the first six months ending June 30 of this year amounted to Tk 15.07 crore, down by 8.23 per cent over the corresponding period last year.

Its net profit after tax amounted to Tk 1.67 crore during the period, up by 64.32 per cent over the corresponding period last year.

The company's net sales in 1998 was Tk 34.84 crore, which was Tk 41.79 crore in 1997.

Its net profit after tax was Tk 3.52 crore in 1998, which was Tk 3.36 crore in 1997.

Issued and paid up capital of the company is Tk 37.44 million.

The company's earning per share (after tax) in 1998 was Tk 9.41 and it declared 38 per cent dividend to its shareholders.

Bid to facilitate IT sector growth

Business leaders want BTTB's controlling authority to go

Business leaders here Thursday demanded that the government withdraw BTTB's controlling and regulatory authority to facilitate expansion of the IT industry, reports UNB.

At a meeting with the Telecommunication Ministry, they also demanded total privatisation of the telecom sector and elimination of duel role of Bangladesh Telegraph and Telephone Board as service provider and regulator.

"The meeting between the Telecommunication Secretary and FBCCI leaders, however, agreed to identify the telecommunication problems of the IT industry and take appropriate steps to help unhindered growth of the sector.

"We have urged the government to privatise the telecommunication sector totally and withdraw the controlling and regulatory authority of the BTTB," said Senior Vice President of the FBCCI M A Mubin.

He, however, termed the meeting as the beginning of discussion to remove the telecommunication problems of the IT industry.

He said that the ministry has agreed to review the demands of the entrepreneurs in the IT field.

Mubin said they have also demanded that the ministry fully implement the National Telecommunication Policy 1998 that could meet the necessity of the IT sector.

The meeting decided to review recommendations of the Bangladesh Computer Samity and the Internet Providers Association (ISPA) regarding the problems they are facing because of the existing telecommunication system.

Internet Service Providers, Value-added Network Providers, Software Developers and Exporters are yet to be allowed to freely choose Internet connections from any operator in the data communication industry for their purpose. There are also restrictions on using necessary equipment.

At present, all VSAT connections are taken through BTTB that charges exorbitant rates.

A 64 KBPS VSAT link is billed at over US$ 8,000 per month through BTTB, whereas on free competitive basis such links are available for less than US$ 3,000 per month from many satellite operators of the world.

Purchase of VSAT terminal equipment is also controlled by BTTB causing enormous losses to VSAT users.

The IT industry businessmen demanded opening up of the satellite communication sector for the private sector as it will not cause any loss to the state since BTTB does not have any investment in satellite communication infrastructure except the earth stations built to carry international voice traffic.

As speed is essential for software companies to carry out their software exports, they asked for providing high speed links (fractional/multiple T1/E1) to software companies and adequate telephone lines to ISP's immediately at non-discriminatory fair market price on a priority basis.

Russia recovers, doubts stay

MOSCOW, Aug 13: Inflation under control, manufacturing output rising, a relatively stable currency, says Reuters.

Is this really Russia one year after a financial crisis which seemed the emerging markets disaster to end all disasters?

When the government on August 17, 1998, was forced to abandon a firm rouble policy and froze its booming domestic debt market, it seemed as though the sky had fallen in on the ex-Soviet giant's experiment with market economics.

But despite obvious political fragility, as shown by this week's abrupt sacking by President Boris Yeltsin of his prime minister of only three months, the economy has come out better than expected.

Domestic industry in particular has benefited from the devaluation of the rouble and the slide in imports of competing foreign goods.

The government has also managed to squeeze more loans from the International Monetary Fund and the World Bank has opened its coffers again.

But the jury is out on whether Russia can stage a sustainable recovery and end its flirtations with disaster that have spelt big losses for investors.

After the last crisis, investors will remain suspicious of sustained market growth without corresponding signs of economic reform and political cohesion," Moscow-based finance house United Financial Group said in a recent report.

The August 1998 meltdown caused a leap in inflation, which hit a month-on-month peak of 38.4 per cent in September.

But the rate slowed in most months this year, reaching a low of 1.9 per cent month-on-month in June. It ticked higher in July to 2.8 per cent after a rise in petrol prices.

But industrial output has been the most surprising, managing year-on-year gains for most months this year, a feat not achieved since the early months of 1998, before the crisis.

The forecast rise in 1999 ranges from three per cent to almost eight, which even at the lowest level would be the largest gain since economic reforms began in 1992.

The rouble, pegged near six to the dollar before the crisis, was its most visible victim, standing now near 25 to the dollar.

But most people have got used to its new weakness and economists say it has positively benefited manufacturers.

The price of oil, one of Russia's major exports, has played a vital role in this improving scene.

At the time of the crisis, prices for Russian oil were around $9 a barrel. They are now around $20.

Revenue collection, whose bad record was one of the prime causes of the August debacle, has also improved.

Such indicators have led economists to reconsider their forecasts for 1999 Russian gross domestic product, with many now seeing a small fall or no change rather than the five per cent contraction expected at the start of the year.

GDP in 1998 fell 4.6 per cent and it was down three per cent, according to preliminary data, in the first quarter.

But some still see these achievements as temporary and that more hard work still needs to be done to make sure that Russia does not slip back once again into disaster.

Political uncertainty is also weighing on investors' perceptions as Russia races towards parliamentary elections in December and a mid-2000 presidential vote.

"The crisis of August 17 is not over. It continues because none of the structural reasons behind it have been dealt with," said Sergei Kiriyenko, who was prime minister at the time and was sacked by President Boris Yeltsin after the devaluation.

"We have wasted a year. We have spent it not on structural reforms but on creating an illusion of a fragile political stability," Kiriyenko said.

That illusion is regularly shattered by Yeltsin, most recently last Monday, when he sacked Prime Minister Sergei Stepashin after three months in office and replaced him with Vladimir Putin.

Gold prices pick up on IMF words

LONDON, Aug 13: Gold prices picked up yesterday after a top International Monetary Fund official said the IMF was trying to see if it could fund debt relief other than through a large sale of gold stocks, says AFP.

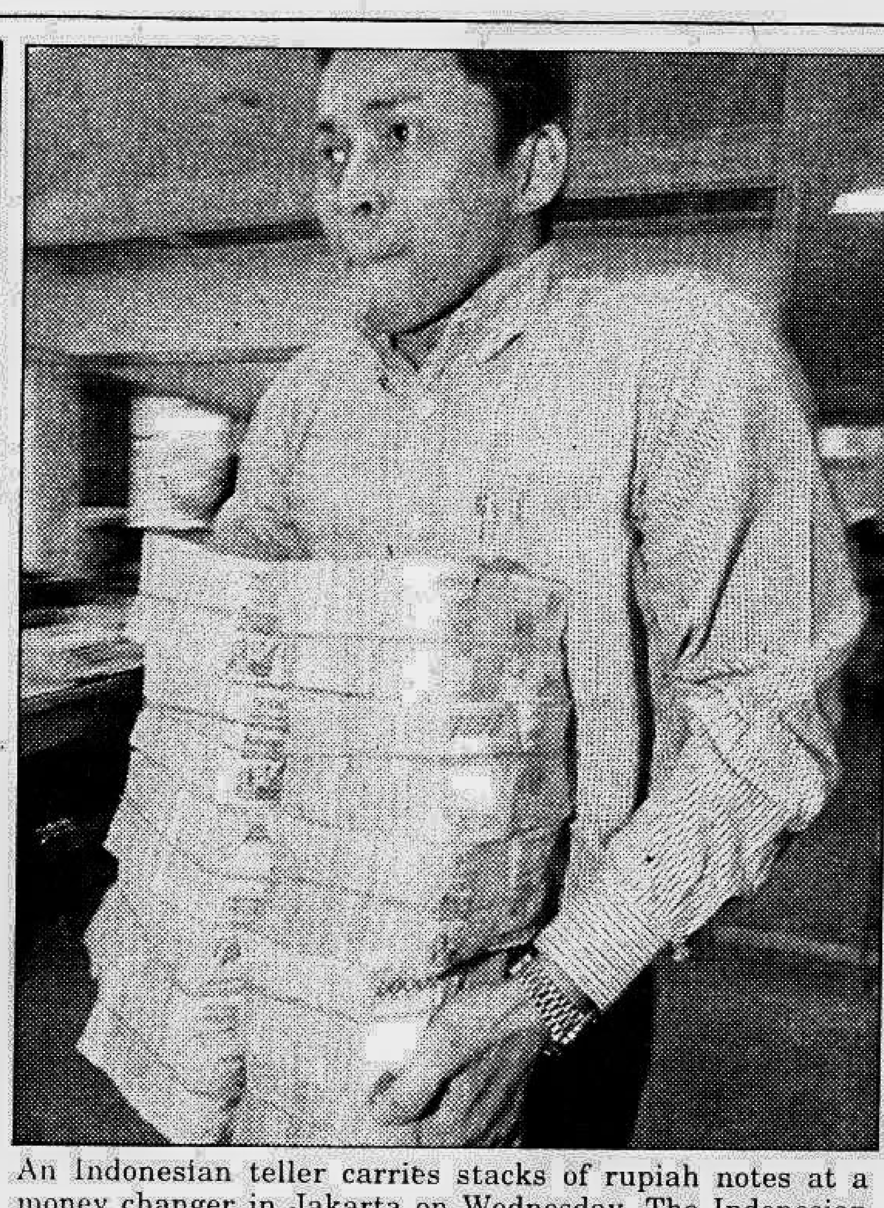
Gold prices pushed up through the 260-dollar an ounce level for the first time since Britain started auctioning off its reserves early last month, and closed at 260.75 dollars from 258.55 on Wednesday.

The market has been thoroughly depressed at the prospect of large sales programmes by central banks, and was relieved thus to hear that the IMF is considering other ways to fund debt relief to poor countries as an alternative to selling 300 tonnes of gold.

"We are trying very hard to see if there is a way of doing what gold sales are designed to do," deputy managing director Stanley Fischer reportedly said earlier this week.

"Confidence has come back in the market" following Fischer's comments, said Michael Coulson, metals analyst with Paribas in London.

"People have put pressure on the IMF against those sales, and the US Congress has the last word. As the Congress may say no to the sales, it may be probable that the IMF won't sell its gold reserves."



An Indonesian teller carries stacks of rupiah notes at a money changer in Jakarta on Wednesday. The Indonesian currency traded at 7,920-7,930 to the greenback Friday after tumbling past the 8,000 level earlier in the week.
— AFP photo

Kibria tells BCI

Bond money to go for financing apparel sector backward linkage

Finance Minister Shah A M S Kibria said the money to be cashed from industrial bonds would go for long-term industrial financing specially for much-needed backward linkage for apparel sector, reports UNB.

He said this when a Bangladesh Chamber of Industries (BCI) delegation sought financial assistance for backward-linkage industry.

A huge investment needed for the linkage industries might need finances from abroad, the BCI delegation told the Finance Minister.

Led by BCI president Khondaker Mosharraf Hossain, the delegation demanded steps to reduce bank interest rates and proper rehabilitation of sick industries.

They also felt the need of stopping rent seeking and terrorism to create an investment-friendly atmosphere in the country.

In response the Finance Minister said banks were now free to fix their own interest rates which, he hoped, could be cut down through competition.

But, he observed, nationalised commercial banks are forced to charge higher interest rates as they shoulder huge burdens of default loans.

Yuan devaluation loses old menace as Asia picks up

TOKYO, Aug 13: The spectre of a Chinese devaluation, which sent shivers through Asia's ailing economies last year, is finally losing some of its menace as the region gets back on its feet, economists and officials say, reports Reuters.

Talk that Beijing may be thinking of devaluing the yuan to help its struggling economy has resurfaced lately, but while few doubt such a move would be a setback for Asia's recovery, analysts say Japan and the rest of the region are now much more able to cope with the shock.

"I wouldn't be surprised if China devalues the yuan within six months. China seems to be re-examining the pros and cons of yuan devaluation," said a Japanese government official, speaking on condition of anonymity.

"But basically, a yuan devaluation won't hurt Japan's economy. Looking at current conditions of regional economies, another round of financial turmoil and competitive devaluation in Asia is also unlikely," he said.

Technically the yuan, also called the renminbi, is held in a managed float system, but in practice China has kept it firmly pegged around 8.28 to the dollar while virtually all nearby countries have seen their currencies weaken sharply.

As Asia's financial crisis deepened after the Thai baht devaluation in mid-1997, markets became increasingly worried that China would respond by devaluing the yuan, possibly setting off a new round of currency turmoil as other countries tried to keep their exports competitive.

Similar jitters resurfaced last month after China's central bank governor stopped short of repeating the "no devaluation" pledge that had been a fixture for two years, and said the exchange rate was determined by the market.

But analysts said other Asian countries were to some extent cushioned from the potential impact now, thanks to improved capital flows into the region, structural reforms and brightening economic fundamentals.

"There may be an initial sell-off in Asian currencies, including the yen, because a devaluation would give the market a psychological shock to some extent. But it would only be temporary," said Zhang Yi, an economist at Kokusai Securities' financial markets research department.

"Higher Chinese demand will help offset the contractionary effect on the rest of Asia's export markets from a more competitive Chinese yuan," the report said.

"The market seems to be capable of withstanding a yuan devaluation now. The economic environment surrounding China has changed significantly in the past year."

Japan in particular can breathe easily because China's exports, dominated by labour-intensive products, don't compete with its predominantly high-tech exports.

The likelihood that China will opt for an easy monetary policy following a devaluation is also seen as minimising the negative effects on Japan and the rest of the region.

Another market fear — that a yuan devaluation could trigger a wave of defaults in Chinese companies and financial institutions — is also seen as overblown.

A recent report by Barclays Capital's Asian research department said that would be a critical difference from when China devalued its currency in 1994.

At that time, China was battling inflation of more than 20 per cent and tightened monetary policy, weakening regional growth prospects. But with China now under tremendous deflationary pressure, monetary policy is set to remain loose, allowing the economy to maintain respectable growth.

"Unlike the rest of Asia, devaluation will not undermine the creditworthiness of major Chinese banks, and lead to a credit crunch... China's banks do not rely heavily on foreign debt as their source of funding," Barclays Capital's report said.

Japanese GDP posts surprising growth

TOKYO, Aug 13: In more good news for Japan's economy, the government said Friday that a surprising growth spurt in the first three months of the year was actually greater than initially thought, reports AP.

Gross domestic product — the value of all goods and services produced in the nation — grew 2.0 per cent during the January-March quarter compared to the previous one, the Economic Planning Agency said.

That was slightly higher than the 1.9 per cent expansion the agency had announced in June.

The upward revision was due in part to greater-than-expected capital spending by private companies, EPA officials said.

New data that became available from financial institutions showed that private capital spending grew 3.1 per cent instead of the 2.5 per cent originally announced.

The agency typically revises growth figures after the first announcement of the nation's GDP to take into account late-arriving economic data.

Annualised GDP also rose, the agency said. If the growth pace set in the last quarter were to continue, GDP would expand 8.1 per cent this year, the EPA said. That was up from the 7.9 per cent announced in June.

The upward revision took Tokyo financial markets by surprise, as many players had been expecting, if anything, a downward revision, analysts said.

Minutes after the data were released, the dollar slid nearly a full yen to around 114.50 yen.

"It was a bit of surprise that it was revised up," said Matthew Poggi, economist at Lehman Brothers in Tokyo. But the data confirm that "the economy was fairly strong and stable in the first quarter," he said.

Finance Minister Kiichi Miyazawa, however, said the revised GDP figure does not alter his attitude towards Japan's economy, which is struggling to right itself from a prolonged downturn.

Asked at a press conference whether his outlook on the economy was any brighter because of the revised numbers, Miyazawa said, "I don't particularly think so."

The original June announcement came amid Japan's worst recession in 50 years and sparked hopes that the country's long economic slump might be nearing an end.

But joblessness has been rising steadily amid attempts by corporations to aggressively reorganise. In June, the unemployment rate hit a record high 4.9 per cent, and many think it will climb further as restructuring accelerates.

Still, there have been other bright signs besides the GDP turnaround. The government announced earlier this week that increasing demand from Asian countries was behind recent growth in Japan's industrial output.

Rising steel exports to Asia due to the nascent economic recovery in the region were helping to underpin output, the EPA said.

The EPA's official assessment of the economy is that it is showing some improvement but remains in a severe state overall.

The government's official forecast calls for 0.5 per cent growth in the current fiscal year, which ends in March 2000.

Japan planning extra spending budget in '99

TOKYO, Aug 13: Japan is planning an extra spending budget this year to revive the world's second largest economy, Prime Minister Keizo Obuchi said today, reports AFP.

"We will continue to manage economic policies seamlessly with a view to compiling a second budget," Obuchi said in a speech marking the last day of parliament.

"The most important issue is economic recovery. The economy is moving forward thanks to an improvement in public spending, corporate (earnings) and consumer spending," he said.

"But the next few months are crucial to seeing a real economic recovery."