# Asia outgrows Japan economy

REUTERS, *Singapore*

For the first time in more than three decades Japan's economy, the world's second largest, is set to be surpassed in size by the rest of Asia.

That milestone, says Lehman Brothers economist Robert Subbaraman, signals the arrival of the Asian consumer as a key growth driver and probably marks the turning point for Asia's export-led economic model.

While only a small number of Asia's more than 3 billion people are moving up to middle-class income levels, analysts say the numbers are growing faster than any other region worldwide, fuelling a consumption boom.

"A sea change is happening in terms of growth of the middle class in Asia", said Yuwa Hedrick-Wong, economic adviser to Mastercard International which tracks consumer trends in Asia.

"More and more people are shifting from consumption for basic necessities to discretionary consumption -- like taking a holiday abroad, going out to restaurants, visiting malls."

Hedrick-Wong describes the Asian middle class as those who earn more than $5,000 per year. As many as 80 million people in China, 15 million in Thailand, 12 million each in India and Indonesia, 9 million in Malaysia and 6 million in the Philippines make the grade by that measure.

Another 200 million or so in India now have annual income above $1,500 and they are buying shampoos, toothpaste, bicycles and other basic consumer goods.

In China, an economic census found the country had under-reported its booming services industries and GDP was 16.8 percent larger than previous estimates in 2004 -- setting China on course to become the world's fourth-largest economy in 2005.

Lehman Brothers calculated the rest of Asia including India will exceed Japan's nominal gross domestic product, converted into dollars, in 2005. According to Reuters calculations based on International Monetary Fund data, this has not happened since the late 1960s.

Goldman Sachs says the implications of this will be felt as soon as next year, saying in a report that even if the US economy slows, Asian consumers are likely to pick up the slack and help Asia, excluding Japan, grow 7.5 percent in 2006, compared with 4.1 percent worldwide.

PHOTO: DUTCH-BANGLA BANK

**Md Yeasin Ali, managing director of Dutch-Bangla Bank Ltd, inaugurates the 27th branch of the bank on Sadar Road in Barisal Monday. Other senior officials of the bank were also present.**


PHOTO: GRAMEENPHONE

**Russell T Ahmed, convener of Corporate Bazaar, an exhibition of corporate houses scheduled for January 30-February 1 in Dhaka, and Rubaba Dowla Matin, acting head of Marketing of mobile phone operator GrameenPhone Ltd, pose for photographs at a memorandum of understanding (MoU) signing ceremony recently. Under the MoU, GrameenPhone will take part in the show.**

## GP to take part in Corporate Bazaar

Mobile phone operator GrameenPhone Ltd will take part in Corporate Bazaar, an exhibition of corporate houses scheduled for January 30-February 1 in Dhaka.

A memorandum of understanding (MoU) to this effect was signed recently between GrameenPhone, and Corporate Bazaar, which is an initiative of Global Online Services Ltd, a corporate internet service provider in the country, says a press release.

Russell T Ahmed, convener of Corporate Bazaar, and Rubaba Dowla Matin, acting head of Marketing of GrameenPhone, signed the MoU on behalf of their sides.

## Oil steadies

REUTERS, *Singapore*

Oil prices were steady yesterday after sharp gains the previous day on forecasts of drops in US crude and distillate product stocks and on expectations that Opec will cut output at its January meeting.

US light crude for February was trading three cents up at $59.85 a barrel yesterday, after jumping $1.66 on Wednesday. London Brent crude was five cents up at $57.69 a barrel, after gaining $1.35 the previous day.

# Annual market update, 2005

**LOCAL MARKETS**

USD/BDT Market

The local foreign exchange market observed three major events in 2005:

1. BDT saw the highest ever depreciation
2. BDT increasingly started to trade against third currencies other than US Dollar in the local market
3. State owned banks turning to Dollar buyers from sellers

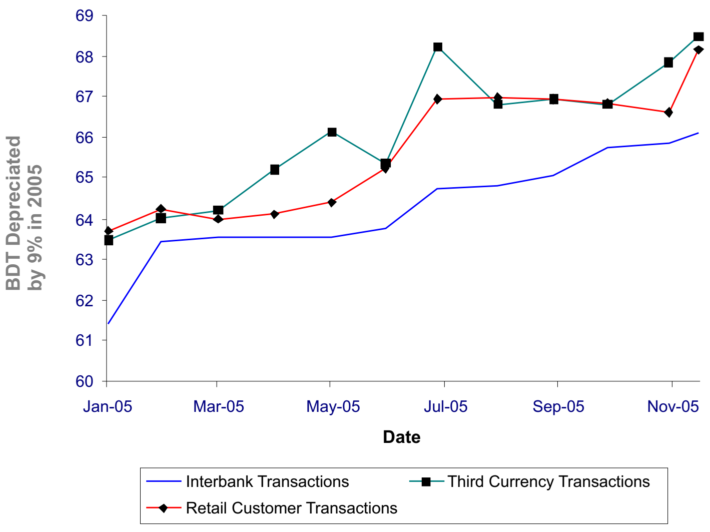


**Figure I : USD/BDT rate movement in 2005**

Though BDT remained relatively stable in the previous two years, it depreciated by almost 9 percent in 2005. BDT depreciation was the highest in the first quarter when the local currency depreciated by a whooping 5 percent. Only in the month of February, the BDT went down by 3.32 percent. While BDT remained relatively stable in the second Quarter of 2005 (only 0.33 percent), all time high oil prices stepped up the US Dollar demand in the local market in the subsequent periods. As large import demands hit the local market, BDT fell by a total of 4 percent in next two quarters of 2005.

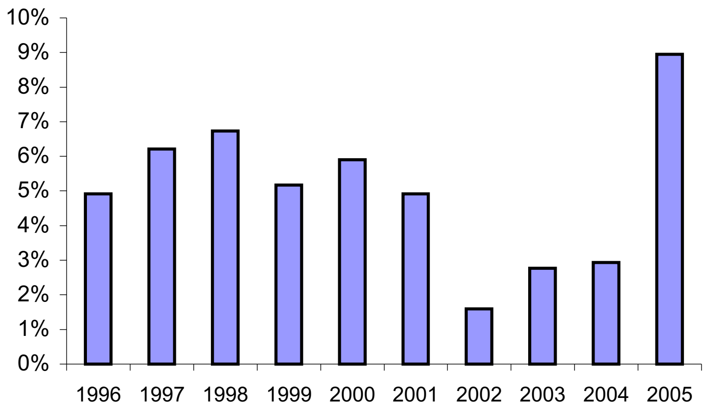


**Figure 2: Inter-bank USD/BDT depreciation 1996-2005**

When BDT became vulnerable to huge downward rides, a part of the market routed higher price of US Dollar through the trading of third currency (e.g. EUR/BDT, GBP/BDT, JPY/BDT), partly due to fear of regulatory interventions. Gradually larger volumes of the USD/BDT trade shifted to this new market. By the end of 2005, more than 95% of the total inter-bank foreign currency trade took place in this third currency market. The effective USD/BDT rate in this new market was highly sensitive to country's foreign currency supply and demand situation. As a result, the third currency market experienced larger price shocks compared to the traditional USD/BDT market. BDT depreciated by almost 12.8% against US Dollar if we consider the price movements in the third currency market.

Historically, state owned banks had been the major supplier of Dollar in the local market. Despite large foreign currency requirements for oil and other Government imports, these NCBs had stable supply of Greenback from Non Resident Bangladeshis and exporters. However, higher oil prices inflated the import payment obligations of these NCBs in 2005. These huge import payment requirements pushed the NCBs to the other side of the table forcing them to buy Dollars in the local inter-bank market.

**Money Market**

Call Money Market

Call rates stayed at a relatively high level until May this year. The overnight rates ranged from 10% to 20% in most of the trades during that time. However, the rates cooled off in June and remained stable till December. Even during the Eid-ul-Fitr, when the market experienced liquidity tightening through cash withdrawals out of banking sector, the rates did not show any unusual upward movement, which we had seen in the past. However, in December, the rates started to soar as Sonali became the single largest borrower in the market. Sonali bank had always been a supplier of liquidity in the call money market. The shift of Sonali bank's position as a lender to borrower with year-end outflow speculation from banking sector caused the call rates to rise above 8 % in December.

**Government Security**

The decline in Treasury bill and bond rates (from early 2003) came to an end in 2005. After 25 months, the Treasury bill and Bond rates for the first time moved up in March. Since then Treasury bill and Bond rates in all the tenors have continued to march northward. However, the jump of rates was higher in shorter tenors. Twenty-Eight days Treasury bill rate moved up by almost 300 basis points whereas the Two Years Treasury bill moved only 103 basis points. As a result, the term structure of Government securities formed a flatter shape in 2005.

Total amount of primary issues of Government security decreased marginally only by 1.4 % during 2005 from 2004. Outstanding Government debt in Treasury securities also decreased by 9 percent in 2005 (BDT 167 Billion). However, increase in borrowings through National Savings deposit kept the total Government borrowing unchanged at previous years level (BDT 531 Billion). The interest rate of 5 years Bangladesh Sanchaypatra (BSP) also increased from 11% to 12.0% this year. Primary dealers of the Government securities remained inactive in 2005.

**Repo and Reverse Repo**

When the call rates traded at a higher level (from January to May), Commercial Banks frequently took part in Central Bank's Repo facility. Though the Repo rate was around 10% in the beginning of the year Bangladesh Bank lowered the rate to 7% by March to mitigate the soaring call rates. After May, banks/financial institutions hardly participated in Bangladesh Bank's Repo auction due to improved liquidity in the money market. Rather, banks invested huge funds through Revere Repo facility from June to November. In line with Government's strategy to lift the interest rates, the overnight Reverse Repo rate was lifted by 300 basis points at 5.50% from 2.50%. The inter-bank Repo activities increased compared to previous two years. The tenor of inter-bank Repo increased from overnight weekly basis in most of the transactions in 2005.

**Currency Swap Market**

Bangladesh Bank fully waived the restriction on USD/BDT Swap by February. However, until June there had not been any significant trades in the SWAP market. The volume picked up in the second half of the year as Dollar became dear to the local market because of ballooning demand. A large number of Dollar buying banks including two state owned banks used Swap to fund their foreign currency accounts. As a result, local supply and demand scenario became the price determinant for USD/BDT swap points this year. By the end of December, The interest rate differentials hardly had any implication in the USD/BDT Swaps points traded in the local market.

**--Citigroup**