

Star BUSINESS

E-mail: business@theluckystar.net

Govt's bank borrowing threatens macro-economic stability

MCCI views

STAR BUSINESS REPORT

Government borrowing from banks threatens the country's macro-economic stability and economic reforms, the Metropolitan Chamber of Commerce and Industry (MCCI) views.

Such borrowing on a large scale has become imperative because of poor revenue collection and drop in foreign aid in the early year, the chamber said in the editorial of its latest monthly publication Chamber News.

"In the first five months of the current fiscal, government revenue increased by only 9.29 percent as against the budgetary target of 21 percent. The substantially lower rate of revenue collection from all sources -- NBR-administered taxes, non-NBR taxes, and non-tax revenue -- has created a ground for the higher rate of government borrowing. The collection of import duty recorded the lowest rate of growth at 4.95 percent as against the required growth rate of 15.2 percent," the MCCI said.

The chamber said the FY07 budget deficit, estimated at Tk 172 billion, was expected to be managed by domestic borrowing worth Tk 88.3 billion, and the remaining Tk 83.7 billion by external financing. In the domestic borrowing of

Tk 88.3 billion, borrowing from the banking system was projected to be Tk 54.3 billion, and the rest (Tk 34 billion) from non-bank sources (sales of savings instruments).

"However, the latest data available from Bangladesh Bank indicate that government's bank borrowing up to December 28 reached Tk 60.92 billion. This means that such borrowing in the first 6 months of FY07 has surpassed the borrowing target for the entire fiscal. Meanwhile, the government's borrowing from savings instruments reached Tk 12.61 billion in the July-October period this fiscal, registering a 137 percent rise over the same period of the previous fiscal," the editorial commented.

The immediate past government in the last four months of its tenure between July 1 and October 28 borrowed Tk 41.59 billion, and then the caretaker government in its first 2 months in office has borrowed another Tk 19.33 billion, it said.

The past government had to borrow to finance some of the development projects as well as non-development expenditures on salaries of government employees, debt service obligations and payment of subsidies.

"A large part of the borrowed funds were, however, spent on less essential development projects

having little or no links to productivity. Some of the revenue expenditures, too, were sheer wastage of public resources, for example, a huge amount of money was spent on useless activities related to the voters' list. The surge in government borrowing from banks has continued even in the regime of the Caretaker Government, which does not seem to have taken any step to cap the government's profligate spending," added the chamber.

Terming the dip in foreign aid another reason behind high government borrowing, the chamber said aid disbursement in the first four months fell by about 50 percent (to US\$172.0 million from \$334.85 million during the corresponding period of the previous fiscal).

It said because of repayment of loans, net receipts of foreign aid during July-October 2006 came down to \$22.70 million against \$190.85 during the same period in 2005.

"The aid flows have declined because of non-fulfilment of donor conditionalities. Naturally, therefore, the last government just before relinquishing power focused on implementing internal resource funded projects instead of the donor-funded ones so that they could avoid the donors' pres-

sure to fulfil politically undesirable conditionalities ahead of the ensuing election," the MCCI said.

According to the chamber, it is also unlikely that aid flows will increase in the prevailing political environment. "The donor community is also less likely to finalise their aid commitment during the short tenure of the caretaker government, which will delay aid disbursements in the coming days."

If so, the chamber observed, the revenue collection does not significantly improve forthwith and aid disbursements fall, too, the budgetary gap will widen and the government will have to go for more borrowing from the banking sector, which will be a setback for the country.

"The inflation rate, which is already well above the 6 percent MTMF target, may go up further, and the burden of interest payments on the increased government debt will rise in the future budgets," the MCCI warned.

As for the management of government expenditure, the chamber continued, there is a crucial need to drastically cut down unproductive current expenditures and exclude all non-essential or less essential ADP projects.

"High government borrowing

has been necessitated by large budget deficit. The budget deficit can be reduced either by reducing expenditure or by raising revenue or both."

The chamber also said in order to reduce the pressure on government borrowing there is a need to raise enough internal resources by revamping the collection of all types of tax and non-tax revenue, reprioritise public expenditure on the criterion of essentiality, and enhance the prospect of getting a greater access to foreign aid.

Finally, the MCCI pointed out, serious efforts will need to be made to get the aid pipeline activated at the soonest. "The donors have declined to release aid because of non-fulfilment of conditions, which include upward adjustment of energy prices (gas, power and water), implementation of public procurement law, strengthening institutions like BTRC, BERD and ACC to ensure good governance and reform of tariff structure (customs and supplementary duties). These reforms are economically justified, although some of them may appear painful in the immediate term and therefore, not politically acceptable to the government," the MCCI concluded.

EU needs gas pipeline network
Says Merkel

AFP, Warsaw

German Chancellor Angela Merkel called on Monday for a European gas pipeline network to help guarantee the EU's energy security.

"We need to ensure that a network of gas pipelines is created, working along the same lines as the energy grid," which channels electricity between European countries, Merkel said in an interview with the Polish centre-right daily *Rzecznik Pospolity*.

"Overall, it's a question of creating the largest possible number of opportunities for cooperation (in the gas sector) within the European Union," Merkel said.

Merkel also raised the issue of a proposed pipeline linking Poland to the planned German gas terminal at Wilhelmshafen, on the North Sea.

Warsaw has rejected the idea.

Poland has also refused to participate in a project by German firms BASF and E.ON and Russian state-owned energy giant Gazprom to build a pipeline under the Baltic Sea.

The pipeline is set to become operational in 2010.

"I can't do anything about the fact that no-one in Poland is interested in this," said Merkel.

Poland and the neighbouring Baltic states were angry about being left out of the gas pipeline talks with Russia.

DSE indices, turnover drop slightly

STAR BUSINESS REPORT

Both the price indices and turnover on the Dhaka Stock Exchange (DSE) yesterday declined slightly following record gains the previous day.

The DSE All Share Price Index shed 7.91 points or 0.58 percent to close at 1351.28 points while DSE General Index declined by 6.14 points or 0.37 percent to finish at 1650.78 points.

Besides, turnover on the premier bourse also dropped to Tk 81.13 crore from Tk 92.33 crore on Sunday.

Capital market analysts termed the market behaviour to be a good sign with the investors' not becoming crazy following the bullish sentiment on Sunday.

"The downtrend shows that the market is behaving normally," said DSE Chief Executive Officer Salahuddin Ahmed Khan.

He said there was a little selling pressure from the institutional investors that forced the market to witness a slight downturn. "But, it is natural that the market will see both upward and downturn," he

added.

A total of 22,323,399 shares of 207 issues worth Tk 81.13 crore changed hands on the DSE. Of the issues traded, 77 gained, 106 suffered losses and 24 remained unchanged.

Power Grid Company of Bangladesh (PGCB), the state-owned power company, topped the turnover leaders followed by Prime Bank, Southeast Bank, Exim Bank and AIMS First Mutual Fund.

The PGCB topped the list with 272,700 shares worth Tk 7.32 crore.

UNB adds: Trading at Chittagong Stock Exchange (CSE) closed lower yesterday with the losers dominating the gainers.

The CSE All Share Price Index shed 0.54 percent to close at 3794.61 points.

The CSE-30 Index also declined by 0.44 percent to close at 3436.15 points.

A total of 95 issues were traded. Of them, 35 gained, 46 declined and 14 remained unchanged. Some 4,395,733 shares and debentures worth Tk 16.13 crore changed hands on the port city bourse.

China exporters suffer as currency rises

AP, Beijing

high of \$213.5 billion, surpassing the full-year record of \$202 billion set the previous year.

The yuan's rise is small compared with swings in the yen and the euro against the dollar in recent years. But it is jarring for Chinese exporters, whose profit margins are thin and whose only competitive edge is low prices. Unlike Japanese or European companies, they lack technology and brand names that might keep American customers loyal even as prices rise.

"We do not welcome the renminbi revaluation. It will increase China's export cost and diminish our competitive strength," said Zhao Hong, a spokesman for the China Textile Association, an industry group.

Zhao said the group wants members to invest in developing profitable brands by improving quality.

"We expect to produce more new and improved goods in the future, so that can lessen side affects caused by the change," he said.

The pair should be concentrated in export industries, with little impact on U.S. consumers or China's broader economy, because Beijing is restraining the speed of the yuan's rise, said Andy Rothman, chief China strategist for investment bank CLSA Asia-Pacific Markets.

"I don't think the impact on most Chinese companies will be that significant," Rothman said.

Beijing has given no sign it will slow the yuan's rise, despite the possible threat to employment at a time when the government needs to create jobs for a growing work force and millions of people laid off in the overhaul of state industry.

Laos, Thailand to remove trade barriers

ANN / VIENTIANE TIMES

Thailand's business sector has agreed to help lift barriers on Lao exports transiting Thailand to other countries and to help facilitate the entry of more Lao agricultural products to its markets.

Members of the Lao National Chamber of Commerce and Industry met with their counterparts from the Thai Chamber of Commerce on Saturday in Vientiane to discuss improved trade cooperation including possible solutions to various barriers between the business sectors of Laos and Thailand.

President of the Lao Chamber of Commerce and Industry Mr Kissana Vongsay said the Thai business sector was aware of the obstacles that Lao companies faced in the export of goods to other countries via Thailand, and they agreed to submit the matter to the government for consideration.

In return, the Lao business sector agreed to help solve problems encountered by Thai companies operating in Laos.

"The governments of Laos and Thailand are aware of the issue in principle, but sometimes there are difficulties in practice. We are raising various matters to discuss with the Thai side and will convey the outcome of our discussion to the government," Mr Kissana said.

The two chambers also discussed cooperation in cross-border trade, including Thailand's granting of trade privileges for Lao agricultural products entering its markets. "We will try to export more crops to Thailand," Mr Kissana said.

Oil prices rise above \$53

AP, Singapore

Oil prices rose above \$53 a barrel Monday amid reports that Opec may hold an emergency meeting to try to reverse the 13 percent plunge in oil prices this year.

Light, sweet crude for February delivery gained 26 cents to \$53.25 a barrel in electronic trading on the New York Mercantile Exchange mid-afternoon in Singapore. There will not be floor trading Monday as the Nymex will be closed for Martin Luther King Jr. Day, a public holiday in the United States.

Brent crude contract for February delivery rose 44 cents to \$53.39 a barrel on the ICE Futures exchange in London.



Dhaka Bank Ltd opened its 35th branch at Konabari in Gazipur yesterday. Founder chairman of the bank Abdul Hai Sarker inaugurated the branch while Chairperson Jesmine Sultana, directors, managing director and senior officials, among others, were present.

Economy: Sorry for the past, let's move fast

MAMUN RASHID

With the latest change of guards in the country, the economy has started to come back on track after months of disruption caused by the extended or undesired political unrest, which at few points in time threatened it with irretrievable consequences. The worst hit was the readymade garment sector, the major export earner for the country, with delivery schedules going haywire and new orders getting dried up, due to possible threat or timely delivery owing to increasing political turbulence. It was good to know that the largest seaport at Chittagong has also come to normal action following the declaration of emergency as well as making the related jobs essential for the nation.

This lifeline port remained closed intermittently for months together during the political unrests thereby causing substantial damage to the country's economy. It is good to learn that customs, banks at the port, C & F agents, stevedore's association, shipping agents, ship owning companies are working day

and night to make up for the lost days. I thought, ours is not an uncivilised country and thereby the port is not anybody's personal property. No political party or leader has any right to close it down for personal or partisan interest.

Our leaders and decision makers have been vocal for many years for keeping all economic activities out of the ambit of politics. Political leaders have often promised not to hamper the economic activities while driving their political agenda forward. Unfortunately none of them cared to honour their promises. Resultantly, our economy has faced body blows from time to time from destructive political programs like hartals, sieges and demonstrations during the last fifteen years, if not more.

The new caretaker government led by nobody less than a former central bank governor and a World Bank experienced reformist (I don't know, why I am remembering Dr Singh in India or Showkat Aziz in Pakistan now) has taken control of the driving seat. Therefore, one of their most important steps would be

to facilitate further growth of the economy through encouraging all relevant agencies to maintain law and order, and creating the congenial environment for economic activities like movement of goods, attendance of workers in the plants and visits by the international buyers and technical experts.

Besides, further bolstering the performance of the regular sectors, new areas of economic development have to be identified and driven with military precision. As most of the readers would know and agree, Bangladesh is not where it should have been both economically and politically. To my mind, the main reasons for remaining at a less than deserved economic position can be attributed to - 1) intellectual delinquency among the civil bureaucracy and the policymakers due to continuous politicisation, induction of non civil servants into civil service, lack of meritocracy and knowledge of 'how other countries or economies have developed', 2) socialist bias in most of our regulators, especially the

opinion leaders and thereby non acceptance to modern ways of development and market lead growth 3) dominance of under educated, university drop outs and obstinate people in our politics, thereby no time or clue to solutions to an economic problem (in Pakistan, you need at least a graduation degree to become an MP), 4) gradual deterioration and politicisation of the education sector, thereby not teaching or inculcating modern ideas, forward looking ness and confidence among students and 5) absence of forward looking and appropriate foreign policies to drive/facilitate economic development. And the reasons for political backwardness can be attributed to - 1) influx of under qualified, non committed people in politics, 2) non existence of democracy within the political parties, 3) massive poverty in the rural areas and thereby susceptibility to bribing, corruption by the electorate, and 4) complete disrespect and manipulation of the election process by the ruling regimes/political parties. Besides, gradual and increasing degradation

of our so far most respected professions like - teachers and judges/advocates, have seriously contributed to the institutional ruptures of the country and thereby denting the present and future of Bangladesh. We desperately need an efficient port, dependable power supply, workable infrastructure, a respected judiciary and trusted election commission.

Yes, we are not gone. The diseases might have remained unattended for long, but this is curable with the help of honest, intellectually superior and forward-looking people. The 'acute intelligence deficiency syndrome' might be rampant among the upper echelon of our society but the people of Bangladesh should not only be respected for their extreme resilience but should be remembered for their ability to dream for a better tomorrow and sacrifice their best for taking the country to the right direction and next possible trajectory of growth.

The writer is a banker



Rubel Aziz, managing director of Plastic Accessories Ltd, a concern of Partex Group, and Roger Feist, director Asia (Sourcing & Logistics) of Braitrim-Plastiform, a leading hanger trading company, pose for photographs at an agreement signing ceremony on Thursday in Bangkok. Under the deal, Plastic Accessories has become the sole manufacturer, distributor and marketer of Braitrim-Plastiform plastic hangers in Bangladesh, Nepal and Myanmar.