Star BUSINESS

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RAKUB outstanding loan stands at Tk 2358cr

UNB, *Rajshahi*

The outstanding loans disbursed by Rajshahi Krisi Unnayan Bank (RAKUB) have stood at Tk 2358 crore, while the specialised agri-financing bank kept counting operational loses.

Sources in the RAKUB said the loan-recovery process lagged behind the targets, resulting in gradual increase in the amount of its outstanding credits.

"The loss for the bank has increased day by day since its establishment in 1987 following party influence, mismanagement and mal-administration over the years," said one source.

Though its lending programme was taken up for socio-economic development of the farmers of the country's underdeveloped north-western zone, many marginal farmers could not be given loan facilities, the sources said.

The bank introduced 'Miracle' programme in 1999 and 'PARL' programme in 2003 for aggressive drives on loan recovery and providing improved lending services for the farmers in the agrarian belt. But these porgrammes could not be made successful owing to unskilled management.

The current amount of non-classified loans is Tk 1,770 crore, which is 75 percent of the total loans advanced by the RAKUB.

Outstanding loans of Tk 625 crore was realised in the current fiscal year against the target of 800 crore.

Although the rate of loan realisation is 78 percent, the rate of recovery of the classified credits or defaulted loans is only 20 percent.

Some RAKUB officials said if the employees, so far working at head office and zonal offices "under the influence of political parties", could be transferred as per rules, the operations of the bank would be streamlined.

They made a plea for investigation of various alleged irregularities, including illegal loan waiver and the sanctioning of big loans.

Realisation of the outstanding loans could be increased if appointments and transfers were given as per rules, they said.

LISTING OF 10 SOEs

Market capitalisation to hit $15b in 3 years

Foreign investors now show interest in Bangladesh market: DSE CEO

STAR BUSINESS REPORT

On government's move to list some 10 state-owned enterprises (SoEs) in phases on the Dhaka Stock Exchange, the prime bourse expects its market capitalisation to reach US$ 15 billion in the next two to three years. The listing of the SoEs, including some in the power and gas sectors, will commence in four months, according to business insiders.

Besides government entities, a big telecom company, Grameenphone, very recently announced that it is working to list the country's leading mobile phone operator on the local stock market.

Along with the companies, some private companies are also in the pipeline to float primary shares in the bourse.

"When both the public and private companies get listed on the DSE, we expect a $15 billion market capitalisation," DSE Chief Executive Officer Salahuddin Khan told a press conference on the bourse premises yesterday, which was organised to convey the media on the outcome of the just concluded first-ever international investors' conference in the capital city.

Presently, the DSE market capitalisation is $5.93 billion.

The investors' conference, according to the DSE authorities, has opened a door for Bangladesh's capital market to receive investments from the foreign fund managers.

They said foreign institutional investors showed keen interest to invest in pharmaceuticals, financial services and textile sectors through the capital market.

In addition, the sectors like telecom, power, energy and cement are also some areas these fund managers want to invest in.

A total of 36 representatives from 17 foreign institutions including world reputed Morgan Stanley, Fidelity Investments, Sumitomo Mitsui, Smith Management, Aberdeen Asset Management and First State Asset Management took part in the two-day meet on investment to learn about Bangladesh's economy and its potential capital market.

"Earlier the foreign institutional investors had no clear idea of Bangladesh and its growing capital market. Now they went back home having a positive knowledge about this country and its untapped stock market," the DSE CEO said.

He said the foreign investors assured him of conveying what they have learnt from the Dhaka conference to other investors in their countries.

If the present growth in the capital market can be maintained, the market would surely grow further, Salauddin quoted the foreign investors, who attended the international conference, as saying.

Aiming to promote foreign investment in Bangladesh and showcase the country's potentiality to the foreign investors, globally acclaimed financial services company Citigroup and Dhaka and Chittagong stock exchanges jointly organised the conference titled 'Bangladesh - The New Investment Frontier' that ended Friday.

Salahuddin said Bangladesh failed to tap the huge potential due to negative image in different segments.

"The conference was the first step towards changing the negative images as well as attracting more foreign investment here," he said.

As part of the initiative, the DSE will organise road-shows abroad on the country's capital market, such as the USA, UK and UAE, especially for luring the non-resident Bangladeshis to invest in the capital market, he added.

Among others, DSE President Abdullah Bokhari and Senior Vice-president Ahmad Rashid Lali spoke at the press conference.

PHOTO: SOUTHEAST BANK

Managing Director of Southeast Bank Ltd Neaz Ahmed inaugurates the 33rd branch of the bank at Joyparra in Dohar, Dhaka recently. Senior officials of the bank, among others, were present.

KL firm to invest $12.57m in Karnaphuli EPZ

UNB, *Dhaka*

A Malaysian company is going to set up a garment manufacturing plant in Karnaphuli Export Processing Zone with an investment of US$12.57 million.

The 100 percent foreign owned company -- M/s Whitex Garment (Bangladesh) Pvt Ltd -- will produce 39 million dozens of gents and ladies undergarments annually and create employment opportunity for 4,478 Bangladeshi and 21 foreign nationals.

A lease agreement to this effect was signed between Bangladesh Export Processing Zones Authority (Bepza) and the company here on Thursday.

Prasanta Bhushan Barua, member (Investment Promotion) of Bepza, and Tan Tong Suan, managing director of Whitex Garment (Bangladesh) Pvt Ltd, signed the deal on behalf of their sides.

Bangla-Myanmar business council's new executives

Syed Mahmudul Huq was elected chairman of Bangladesh Myanmar Business Promotion Council (BMBPC) while SM Shamsul Alam elected secretary general at a meeting held on Wednesday in Dhaka, says a press release.

The meeting also elected Mirza Salman Ispahani, Md Nurul Amin and Anis A Khan as vice chairmen of the BMBPC.

The other elected members are Golam Mostafa, Abdul Matlub Ahmed, Habibullah N Karim, Kazi Mashiur Rahman, Wali-ul-Maroof Matin, Kazi Sayedul Alam Babul, Nessar Maksud Khan, Ashraf Hossain Masud, Syed Ziaul Hoque, Kazi Zeeshan Hasan, MA Latif, Ferdous Ara Begum and Shamsul Alam.

Remaining stake in Maruti sold

AFP, *New Delhi*

The Indian government said Thursday it sold its remaining 10.27 percent stake in the country's biggest carmaker, Maruti Udyog, at 797 rupees (19.9 dollars) a share, well above its floor price.

The sale fetched 23.68 billion rupees (575 million dollars) for the government from 36 bids that ranged between 765 and 850 rupees a share.

Electronic goods manufacturers seek protection

UNB, *Dhaka*

Seeking protection to domestic products, electronic goods manufacturers have demanded removal of duty anomalies.

They said they are to pay duty and VAT 62 to 136 percent for import of raw materials of certain products, but the finished products are allowed to import barely at 4 to 30 percent duty and VAT. "This anomaly must be removed," said Engineer Guljar Rahman, general secretary of Bangladesh Electronics Innovative Manufacturers Association (BEIMA), at a press conference at Dhaka Reporters' Unity yesterday.

He named the products, for example, as Uninterrupted Power Supply (UPS), AVR or voltage stabilizer, voltage protector or guard, Instant Power Supply (IPS), solar battery charge controller and inverter, which they are manufacturing within the country and paying duty as high as 136 percent for import of raw materials.

Guljar noted with regret that these products are allowed to import at a very low duty harming the growth of domestic factories. The government should exclude these items from the category of 'computer accessories'.

He said these items are now imported at zero to 16.5 percent VAT on plea of computer accessories.

Guljar suggested 100 percent total tax incidents (TTI) for importing UPS and 80 percent for AVR or voltage stabilizer, voltage protector or guard, Instant Power Supply (IPS), solar battery charge controller and inverter. This would protect the domestic products, he said.

He further suggested 1.5 percent VAT on retail price of locally produced electronics and total exemption of VAT on import of raw materials.

They are manufacturing quality electronic items, Guljar claimed, adding that given due protection they can earn huge foreign exchange.

The association president, M Shafiqul Islam, and Dhaka University physics professor Dr K S Rabbani also spoke at the press conference.

Russia, C Asia leaders agree landmark gas pipeline deal

AFP, *Turkmenbashi*

Turkmenistan and Kazakhstan agreed a landmark gas pipeline deal on Saturday in a victory for Moscow over European and US plans for the region.

During a three-way summit in the Caspian Sea port of Turkmenbashi, the presidents agreed on pipeline restoration and new construction from Turkmenistan to Russia via Kazakhstan -- a route long favored by Russia.

"We will reconstruct the Caspian shore gas pipeline with a capacity of 10 billion cubic metres (per year) and build a parallel gas pipeline. The corresponding agreement will be signed before this July," Russia's Vladimir Putin said.

Putin said concrete work on the project would begin in the first half of 2008, and would increase capacity along the route by at least 12 billion cubic metres per year by 2012.

The deal represented a major triumph for Moscow, which has long pushed the route over a rival US proposal that would cross the Caspian.

PHOTO: BEPZA

Prasanta Bhushan Barua, member (Investment Promotion) of Bangladesh Export Processing Zones Authority (Bepza), and Nasir Uddin Ahmed, deputy managing director of Prime Bank Ltd, sign a lease agreement recently in Dhaka. Under the deal, the bank will set up an offshore banking unit in Chittagong EPZ. Ashraf Abdullah Yussuf, executive chairman of Bepza, and Shahjahan Bhuiyan, managing director of the bank, among others, are seen.

Fiscal and monetary policies management in Bangladesh

MAMUN RASHID

Many of you have heard about the Great Depression in the 1930s. The hardships that the developed world went through led to some serious thinking into the realm of economics with a view to avoiding such depressions in future. Prior to 1930, even the greatest nations of the world did not have a systematic way of economic management. The next few decades saw the birth of modern macroeconomics with concepts such as monetary and fiscal policies emerging.

So, what does this buzzword, macro-economic management, mean to more normal people like you and me? Most of us want a better living standard for us and our families, no unemployment, no rise in prices of essentials and most importantly, building up our assets or wealth. These are precisely the objectives of macro-economic management i.e. control over variables such as growth, unemployment and inflation. It's time to think about how well we have been able to manage economic growth, unemployment and inflation in Bangladesh. Have we done a better job than our neighbouring countries or other comparable developing countries? Well, the majority of you may have an opinion that we have done a reasonable job, but not to our best potential, not even close.

Let's not turn our attention to the 'how' part of the story. How does a government boost its economic growth, minimise inflation and maximise employment? Basically, it has two tools at its disposal, monetary and fiscal policies. Monetary policy means increasing or decreasing the supply of money in an economy. This is done by the central bank of a country. On the other hand, fiscal policy means governments will spend more or less money or collect more or less tax from the citizens. This is done directly by the political governments and is often guided by the political philosophies of the elected governments. In today's economies, we see a predominant use of monetary policies but balanced mix of fiscal and monetary approach is needed for proper macro-economic management, more so in a developing economy.

How does a central bank control the flow money into an economy? Well, there are several ways. Central banks control the amount of money in a commercial bank for lending by taking away a certain portion of the public deposits that banks receive. In technical terms, this is called maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). Currently, CRR is 5 percent and SLR is 13 percent in the country, totaling 18 percent. This means that if you deposit 100 taka in my bank, I have to keep 18 taka with the central bank and the rest 82 taka is available for lending. By dictating these ratios, central banks control the amount of credit or lending in an economy, consequently the money flow. There are other tools as well. Central banks can increase or decrease its lending rate to commercial banks, which in turn induces commercial banks to increase their interest rates, effectively controlling the demand for credit or flow of money. Central banks can also borrow money from the banks through instruments such as auctioning of treasury bills, reverse-repo etc that impact the amount of money a commercial bank has at its disposal.

Tightening monetary policy means reducing the flow of money into the economy and accommodative monetary policy means the opposite. Have you ever wondered how much money a country needs? Or, why don't central banks print unlimited amount of money to make everyone very rich? Well, money is only a medium for exchanging goods and services produced in a country, which is not unlimited. So, suddenly if people of a country have unlimited amount of money to buy limited quantity of goods and services, everyone will compete with each other to buy more by paying more to the sellers. As it is evident, more money is not helping us at all, only resulting in inflation or a price-hike. However, money supply has to increase with the increase in the level of economic activity in a country. From this discussion, it should be apparent by now that monetary policy can be tightened to control inflation in an economy. Higher interest rates will discourage consumer and business spending thereby reducing the pressure on price levels. Reducing business spending also has the flip side of increasing unemployment in the country. With that context, let us explore how a government balances between controlling inflation and increasing unemployment. This is where choices become difficult and we step into the world of normative economics or economic value judgments. Inflation is more immediately and easily visible to the ordinary masses while the impact of unemployment is deeper, long term and more harmful. A political party seeking easy popularity will obviously devote more resources into controlling inflation than addressing the issue of unemployment. How many times did you see the politicians in Bangladesh making an issue out of rising price levels, and how many times about unemployment?

While monetary policy is a relatively new tool, fiscal policy measures have been around for quite a few decades now. A great economist called John Maynard Keynes popularised it. The tools of fiscal policy are government spending, taxes and subsidy. Objectives of fiscal policy measures are two-fold, stimulating economic activities and fixing the errors or failures of capitalism or market forces. In Bangladesh, government expenditure is done through annual revenue and development budget. Tax collection usually falls short of expenditure, leaving the budget at a deficit of roughly 4 percent. Governments can also change tax rates and consequently allowing individuals and businesses to have more or less money to spend or save. Bangladesh government also gives indirect subsidies to people through state-owned enterprise for essentials such as power, diesel, kerosene, fertilizer etc.

How does a government spend more money? Well, it is quite often through increased spending on public infrastructures such as roads, bridges, ports, buildings etc, increased spending on public healthcare, education etc or increasing the size of the government by hiring more people and increasing their salaries. Generally, government spending has a positive impact on the output and employment level. For example, each road built creates employment for some workers. These workers in turn spend their income to buy other commodities, which stimulate other economic sectors as well. Therefore, every taka spent by the government trickles down to several levels. This called the multiplier effect of fiscal spending.

So, if the fiscal policy measures have such multiplier effect, why don't the governments spend all the money in the country and multiply the economic development many times over? Firstly, because the effect of fiscal policy measures is often short-lived. Secondly, because governments often do not do a good job of allocating resources in different sectors. This is in fact best left to a market mechanism or the private sector. For example, an experienced and specialized company in automobile accessories is in a better position than the government to decide on how many batteries and tyres it will sell and in which market. Too much government spending is said to crowd out or discourage private sector investment. This reduces competition and therefore induces inefficiency in the system. The same goes for subsidies. State subsidised enterprises such as BPC, Biman, nationalised banks etc are major pockets of wasting our scarce economic resources. On the other hand, public spending on basic infrastructures, law and order, disadvantaged group education and healthcare would have far reaching and deeper impact, if done properly.

While both monetary and fiscal policies have got their respective advantages and disadvantages, they both complement each other and are essential for balanced macro-economic management. Appropriate application of policy measures depend on one's understanding or reading of economic lead and lag indicators in a timely manner. It is highly important that our policy formulators acquire the right skills, stay above undue influence and make the right decisions at the right time, even if some of those decisions are momentarily unpopular.

The writer is a banker. The write-up is the excerpt of a presentation made at a training session organised by Rahimafrooz (Bangladesh) Ltd.