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Financial sector restructuring needed for faster growth

BB governor tells AmCham

STAR BUSINESS REPORT

Bangladesh will only achieve faster levels of economic growth if it restructures its financial sector, Bangladesh Bank Governor Dr Salehuddin Ahmed told a meeting of the American Chamber of Commerce in Bangladesh (AmCham) yesterday.

"Faster GDP growth consistent with the poverty reduction goals cannot be met unless the extent and quality of financial intermediation in Bangladesh advances significantly," he said at the AmCham monthly luncheon meeting in Dhaka.

"In particular this would require more competitive banking and non-bank financial sectors capable of reaching out to all sections of the community, rural and urban, catering to all types of marketable financial services," Salehuddin said.

One way to do this was to ensure that stricter regulatory guidelines were enforced, another was to restructure government banks and specialised banks, he said.

"The merger of small banks into larger and stronger entities would be a way forward as in other developed financial markets," he said. Commenting on the AmCham's recommendation that commercial banks that perform well should be rewarded and those that perform badly punished, the governor said the central bank does not punish banks; rather it aims to correct them.

Replying to another question on monetary policy, he said the central bank had not taken actions to tighten its policy but was following a cautious line. "Our target is not only the control of inflation, but

also the acceleration of growth and price stability," he said.

He rejected fears that the bank was sucking liquidity out of financial markets, a concern of some AmCham members who expressed worries that such a policy would prompt an economic slowdown.

"We've not squeezing private sector credit, rather encouraging the banks to increase investment," he said, adding that the macro-fundamentals of the Bangladeshi economy were "ok."

In his speech to the chamber, Salehuddin outlined the economic prospects for Bangladesh. He said that in spite of sectoral and other temporary setbacks, "it appears plausible that the overall growth momentum evidenced over the last several years is expected to continue."

He said among the risks the

Bangladesh economy faced are: the upward trend and volatility in world commodity prices, food prices in particular; the rise in the inflation rate; insufficient infrastructure; and constraints in domestic revenue mobilisation which causes continuing dependence on international trade tax, with direct tax collection increasing at a pace that is lower than the domestic value added tax (VAT).

Other risk factors are the low degree of monetisation that hinders the normal flourishing of the equity markets, the slow pace of complementary reforms to improve the environment for private investment including foreign direct investment, the lack of adequate human capital having enough technical or vocational education, and constraints in the

opportunities of investment by non-resident Bangladeshis in productive sectors.

Bangladesh also faced floods and other natural calamities, the governor said. "This year's flood inundated a vast area and damaged crops, roads and other infrastructural facilities. Therefore, disaster management for pre and post periods should be an important aspect of our development strategies," he said.

In his welcome speech, AmCham President Syed Ershad Ahmed said due to the outdated Foreign Exchange Regulatory Act, entrepreneurs are struggling to do business, especially in international trade.

Salehuddin said the central bank was aware of the problems and "we are working on changing the rules."



Bangladesh Bank Governor Dr Salehuddin Ahmed speaks at a meeting of the American Chamber of Commerce in Bangladesh (AmCham) held in Dhaka yesterday. US Embassy Charge d'Affaires Geeta Pasi and AmCham President Syed Ershad Ahmed are seen among others.

US recession risk highest since 9/11

Ex-treasury secy says

AFP, Washington

Former US Treasury secretary Larry Summers said Sunday it was too early to declare the financial markets crisis over and said chances had risen sharply of an economic downturn in the United States.

Despite interventions by the US Federal Reserve last week which appeared to reverse heavy selling pressure over the collapsing US housing debt market, Summers said the risk of recession was its highest since the immediate aftermath of the September 11, 2001 attacks.

"We certainly saw some repair and some return to normality this week, but I think it would be far premature to judge this crisis over for at least two reasons," Summers told ABC television.

"First, we can't yet know that there aren't more shocks to drop in the financial area," he said, referring to the massive loss of confidence in securitized housing loans as US real estate prices sag.

Dhaka exploring new job markets overseas

Says foreign adviser

UNB, Dhaka

Foreign Adviser Dr Iftekhar Ahmed Chowdhury yesterday said the government is exploring new job markets abroad for the Bangladeshi workers.

He also said a record number of over 484,951 workers have been cleared for overseas employment this year.

"We are looking for new markets, and this year, a total number of over 484,951 workers have already been cleared for overseas employment, which is a record," he said.

The workers are not just revenue-earning machines and we will do everything possible for their welfare, the adviser told the media emerging from an inter-ministerial meeting at the foreign ministry on the problems of Bangladeshi workers in Malaysia.

Dr Iftekhar, also in-charge of the Ministry of Expatriates' Welfare

Overseas Employment, chaired the meeting, which decided to increase government-to-government contacts between the two countries.

"The workers are our great assets and have been making enormous contributions to our economy. We remain committed to addressing them in a way that their sufferings are eliminated," he added.

During the past few months, the dispatch of workers to Malaysia has increased several folds, while on the other hand, there have been allegations of exploitation both at Bangladeshi and Malaysian ends.

The meeting drew up a number of recommendations designed to reduce such exploitation. The recommendations include improvements in recruiting system, greater use of computer database, elimination of middlemen system and strengthening capacity of the Bangladesh High Commission in Malaysia.

Eskayef launches antinausea drug Zofra

Eskayef Bangladesh Ltd, one of the leading pharmaceutical companies in Bangladesh, has launched Zofra ODT orally dispersible tablet and Zofra oral solution in the market, says a press release.

Zofra is the preparation of ondansetron, which is an antiemetic-antinauseant that inhibits the release of serotonin to prevent nausea and vomiting in response to chemotherapy, radiotherapy and anesthesia in all age groups.

Zofra is also used to prevent emesis during rehydration therapy in children with gastroenteritis. Zofra ODT does not require water as it melts in mouth rapidly as soon as it is taken.

Zofra ODT is available in orange flavour and Zofra oral solution in blueberry flavour. Each Zofra ODT 4 tablet contains ondansetron 4mg, while Zofra ODT 8 tablet contains ondansetron 8mg and Zofra oral solution contains ondansetron 4mg/5ml solution.

Both Zofra ODT 4 and Zofra ODT 8 are available in 20 tablets boxes and Zofra oral solution in 50ml bottle throughout the country at affordable prices.

ESSENTIALS

Ctg chamber's proposals to check prices in Ramadan

OUR CORRESPONDENT, Ctg

In a bid to rein in price hike of essentials and ensure smooth supply of commodities during the month of Ramadan, Chittagong Chamber of Commerce and Industries (CCCI) on Sunday placed a nineteen-point recommendation.

The recommendations included 'zero' margin for opening letter of credit (L/C), reducing interest rates against import, strengthening Trading Corporation of Bangladesh (TCB), providing special subsidy for import of essentials, forming price control board, and making an alternative distributing channel.

CCCI President Saifuzzaman Chowdhury placed the recommendations at a view exchange meeting with the importers and traders of the port city.

CCCI Senior Vice President MA Latif and Vice President Mahbubul Alam, among others, were present at the meeting.

The business leaders urged the government to stop harassing the traders on false allegations of making syndicates and other irregularities, which they observed are discouraging import of essential commodities.

The businesses said the prices of different commodities such as rice, wheat, soya bean oil, palm oil and lentil have increased by 55 percent, 32 percent, 39 percent, 68 percent and 48 percent in the international market in the last six months ending in June.

They said such price hike in the international market has caused 75 to 100 percent rise in prices of these commodities in the local market.

They also attributed the price hike of commodities in local market to gradual devaluation of Bangladeshi currency against US dollar and excessive increase in transport cost.

INVESTMENT SCENARIO-IV

Poor conversion of FDI proposals into investments

JASIM UDDIN KHAN

Almost half of the foreign investment proposals registered with the Board of Investment (BoI) each year come to nothing, with experts blaming the government's poor negotiating skills and political unrest for the failure to capitalise on potential projects.

According to the Bangladesh Bank statistics, the FDI registration for FY06 was Tk 1.34 billion for 130 projects while the actual investment was only \$679 million.

"Although on paper the existing investment and trade related policies of the government and the incentive package for foreign investors are attractive, and macro-economic indicators are favourable, the inflow of FDI into the country remains much below the amount registered," Sharier Shahid, a senior executive of a joint venture company, said.

This is because of the mismatch between the written policies of the government and the realities on the ground at the implementation stage, the disturbing political and law and order situation, the absence of good governance, rampant corruption at almost all levels of the administration and judiciary, and the inadequate infrastructure, he added.

When asked, BoI Executive

Chairman Moshaq Uddin Ahmed said the situation is similar in all South Asian countries. He said that lack of capacity of the domestic partners of the potential foreign investors is the reason so many projects do not materialise.

He said local people with no business experience brought foreign investors in as their partners. In these cases the BoI did not allow them to go into business.

According to Abu Reza Khan, a BoI member, one of the main reasons behind the gap between the actual FDI figures and registration is the lack of follow-up with the investors after registration. He said the BoI recently appointed two officials to maintain contact with potential investors.

"As we seek foreign investment in our country so it is our responsibility to notify the investors about our incentives and to urge them continuously to invest in the country," Khan added.

Sources said in FY05, the actual FDI flow was \$845 million against the registration of \$3.5 billion investment proposals for 135 projects, and in FY04 the FDI flow was \$460 million against the registration of \$750 million for 120 projects.

Of late, some new factors like the dramatic rise of terrorism and religious militancy, coupled with

procrastination on the part of the government in taking prompt decisions on FDI proposals, have added to the country's woes, a former president of Foreign Investors' Chamber of Commerce and Industry (Ficci), said.

Such phenomenon sent wrong signals to prospective foreign investors and non-resident Bangladeshis, he added.

Dr Debapriya Bhattacharya, executive director, CPD, said investors explore three to four countries and switch to the destination which is competitively better for them. He alleged that the BoI count all proposals, even after signing an expression of interest with any investors, and this reflects a bullish trend of registration every year.

Ficci members suggested relaxation of the existing rules and regulation for FDI in the country. They also said the government should review the current FDI policy to woo more investment in basic industries such as steel and infrastructure.

For Bangladesh to catch up with rest of the world, and to achieve its millennium development objectives by 2015, the inflow of foreign direct investment (FDI) in larger volumes is critical due to the dearth of necessary domestic resources and technology.

Banglalink Dhaka Tourism Fair kicks off Friday

STAR BUSINESS REPORT

In a bid to promote tourism in the country, Banglalink Dhaka Tourism Fair 2007 kicks off Friday.

The 3-day fair will also give the tourists a chance to have an idea of the services and attractions different tourist spots offer, according to Parjatan Bichitra, the organiser.

'Show the country to its people' is the slogan of the fair that will take place at the city's shopping mall, Bashundhara City (Level-7, Block-A).

Mobile phone operator Banglalink is the title sponsor of the fair while Bangladesh Parjatan Corporation, Association of Travel Agents of Bangladesh (ATAB), Tourism Developers Association of Bangladesh (TDAB), GMG Airlines, United Airways, Hotel the Peninsula Chittagong, Jamuna Resort, Bangladesh Eco-Village Network and Hotel Tower in Chittagong will be co-sponsors.

Channel 1, Radio Today, the daily Jugantar, the daily New Age are the media partners of the fair.

A total of 80 organisations including eco tourism firm, theme park organisation, hotel, motel, resort, airlines, tour operators, travel agencies, coach service,

tourism training institute, tourism publications, holiday discount card, travel shop, youth and adventure clubs will take part in the fair.

It will remain open from 11:00 am to 7:00 pm.

At a press conference at the National Press Club yesterday, the organisers said sustainable growth of tourism industry is not possible without the improvement of in house tourism industry that means structure, travel management and directions in accordance with the demand of the local tourists.

Tourism services of different attractive and visiting places of the country would be accumulated in the fair, they added.

"Moreover, attractive travel offers by different tourist spots in the coming tourism season, special discount in hotel or package booking are there," said Mohiuddin Helal, editor of the Parjatan Bichitra.

Among others, TDAB Chairman Zamiul Ahmed, Shehzad Hossain and Shamnoon Muheb Chowdhury of Banglalink, Marketing Manager of GMG Airlines Khwaza Faiyaz, Marketing Director of Globe Soft Drinks Limited Khairul Anam also spoke at the press conference.

Warid launches new SIM tool kit

Warid Telecom has introduced an advanced SIM Tool Kit (STK) for all its subscribers, says a press release.

Branded as "Warid SIM Genie", the STK is a detailed menu that all Warid subscribers will find in their phones.

The STK consists of several sub-menus, each offering a different category of value added services and contents. To avail a service, a user has to click on the corresponding menu appearing on the handset screen.

Warid subscribers with Bangla-supporting handsets can view the options in Bangla too by clicking on the "Switch2 Bangla" option that appears in the Warid menu.

Summit Alliance gets new senior executive director

A M M Shahadat Hossain has joined Summit Alliance Ltd as its senior executive director with effect from August 1, 2007.

A former chairman of Chittagong Port, Shahadat also worked as a director of International Port & Harbour Association, says a press release.

Is economy slowing down?

MAMUN RASHID

In recent days, our economists, policy planners, business leaders all seem to be concerned with economic and business future of Bangladesh. Question is being raised whether there is a signal for economic slow down? All of them thought to have welcomed the new interim government focusing on bringing in few long overdue corrections or corrective measures in the economic management process, often hindered by political regime. But six/seven months down the line, the same lot of people, seem to be frustrated with business confidence being down, corrective measures not yielding expected results or even question being raised with the nature and process of economic management or even about the role of some development partners. The resultant impact is: trust gap or disconnect about the destination model.

Bangladesh had problems in congenial environment with regard to market lead growth, lack of appropriate policy directives, lack of infra-structure, lack of skilled manpower, capital shortage, inefficient money markets, regular natural calamities eating

away the economic build ups, political unrest and etc. Despite that we had 5 plus percent economic growth in last 15 years or so. To be precise, we have seen 6.7 percent growth in fiscal year '05-06. Despite political turmoil, labour unrest in the garments belt, slow down in the government procurements, port, power and infrastructure constraints and political tran-

sition, the country has showed a reported growth of 6.5 percent in fiscal '06-07. The analysts took the higher growth momentum as a sign of the economy nearing a take off stage.

What's happening in the new fiscal year of the new government?

As an RMG/textiles export nation.

Domestic credit growth in July-May 2006-07 period was Tk 21,631 crore or 12.17 percent growth against July-May 2005-06 of Tk 23,954 crore or 16.23 percent growth over corresponding period. This implies 4 percent reduction of

domestic credit year on year. Public sector credit grew by 9.35 percent over corresponding period of last year's growth of 38.87 percent. Private sector credit grew by 11.72 percent over corresponding period of last year's growth of 14.20 percent. Domestic investment is also reported to be down due to the corrective measures forced into the country due to recent change of

over corresponding period last year (July-May 2005-06 was Tk 2517 crore). Non Bank borrowing during July-May 2006-07 was Tk 3968 crore or 39.58 percent growth over corresponding period last year (July-May 2005-06 was Tk 2843 crore). Composition of deficit financing in last fiscal was: from Foreign source 37.66 percent, from Domestic source 62.34 percent, previous fiscal: from Foreign source 48.04 percent, from Domestic source 51.96 percent (source: Bangladesh Bank). If we analyse the above data, we would see that export, import payment and new L/C opening have increased year on year, but the 2nd half of the fiscal year was significantly slower than the first half of the fiscal year. Also, if we consider the figure from January to June '07 with preceding six months we would find that the numbers have actually been decreasing. The July-August period is not expected to show any dramatic upside.

With all that seen above and tension in the business community, we can possibly agree with our economists that the economy is slowing down. May be other factors like low agricultural production, price hike of essentials, nabbing

the top business people and putting them behind the bar or under corruption radar or as such political correction from early this year, might have contributed significantly here, but the issue remains to be economy showing symptoms of slowing down. If we accept that reality, now the million dollar question would be: if the economy is slowing down, is that going to be a 'V' curve or 'U' curve recovery. As we have seen in the US economic slow down (which afterwards impacted the entire world) early this decade, though it was expected to be a 'V' curve or quick bottom up recovery, it ultimately became a long lasting 'U' curve recovery, which is again under threat with this latest sub prime mortgage related debacle. While this nation, which almost forced itself into a 'correction' mode, probably can withstand a 'V' curve, but an 'U' curve could be an extremely painstaking journey.

Though with the growth momentum of last two fiscal, our policy planners have projected a growth rate of 7 percent, some of the economists with what's happening around, are visualising a shocking reverse in the growth rate for the first time in several years.

Few of them even apprehend that the growth rate could be very marginal, which we of course don't pray or hope for. Government has reportedly announced to revive the economy through increasing public spending. This is apparent from the flood recovery plan in the offing, from feeding people to repairing infrastructures. As per the books taught in our economics classes, this would put money into people's pockets, provide them some purchasing power with temporary increase in employment creation. However, this is also true that this kind of public spending (including flood aid or rehabilitation) does not always support sustainable growth. In absence of growth generating investments in the domestic sector as well as lack of foreign investments, the net investment is likely to remain bearish during this fiscal, if not beyond.

The challenge for the government is therefore to win the confidence of the business community. Businessmen should be allowed to manage their 'money' with ease and make their own investment decisions. Though some of them have been nabbed on corruption charges, the 'fear' has engulfed

most of them. Their entire 'business model' (the way they run their business, maintain books of accounts and 'settle sovereign claims/dues) seems to be rocked up. It seems they have decided to go low or even stop investments for the time being, on the basis of faced realities or perceived ones. It is not that they want anti corruption drive to stop, but they expect this to be done with due care, and of course without creating a 'panic' situation for all of them and thereby impacting the entire business activities of the country. With bit of handholding from the ruling regime and understanding from the business community, it is possible for anti corruption drive and business activities to co-exist or even flourish. When we cross Bhatiary and reach Faujdarhat on train towards Chittagong, we get to see a writing on the top of a hill: 'Katha Noy, Kaj' (Deeds, not words). We need more activities from our growth drivers including regulatory agencies, towards that direction, not unnecessary words overheating the entire system, and creating doubts about integrity of the purpose.

The writer is a columnist.