

Star BUSINESS

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Inflation to exceed 9pc unless monetary policy tightened: IMF

BB for expansionary approach to maintain growth

REJAUL KARIM BYRON

The country's average basis inflation rate may exceed 9 percent during the present fiscal year if Bangladesh Bank doesn't tighten monetary policy, the International Monetary Fund (IMF) warned yesterday.

But the policy suggestion was rejected by the central bank who are concerned that any contraction in monetary policy will slow the rate of growth and hamper reconstruction after this year's severe floods. Instead the bank said it may consider a more expansionary approach.

Dr Salehuddin Ahmed, governor of the central bank, said the restraint of inflation is not the only major challenge, as maintaining economic growth and post flood rehabilitation also need to be considered.

"Therefore we may go for a slight expansionary policy if it is required," the governor said.

His comments came following a meeting with the visiting IMF team at which the visiting mission suggested reducing domestic credit growth to 15 percent in the current fiscal year. Reiterating its earlier stance, the IMF said it would not be possible to check inflation without reducing money supply.

Thomas Rumbaugh, adviser of Asia and Pacific IMF departments, led the IMF team at the meeting.

Dr Salehuddin Ahmed said: "We are not following tight monetary policy at this time. We are trying to utilise the excess liquidity that remains in the banking system."

The central bank will not make any decisions as per the prescriptions of the IMF, he said, adding that policy targets would be reviewed in October or November.

Meeting sources said the country is experiencing a slowing economy and therefore GDP growth may be only around 6 percent, lower than earlier projected.

The inflation rate on a point-to-point basis was 10.10 percent in July, and 7.49 percent on an average basis. The inflation rate was 9.2 percent on a point-to-point basis in June, and 7.2 percent on an average basis.

During the discussions, the IMF suggested Bangladesh Bank cut domestic credit growth to 15 percent and private sector credit to 14 percent.

However figures show that credit growth is already declining even without the central bank taking action. For example, domestic credit growth fell by two percentage points on a year earlier to 17.02

percent in June, reducing to 16.55 percent in July.

Private sector credit growth reduced by 3.15 percentage points year on year to stand at 15.12 percent in June, but did increase slightly in July to 15.81 percent.

Sources said the Bangladesh Bank governor categorically informed the IMF that the central bank may go for expansionary policy instead of any contraction.

At the meeting there was no discussion of the Policy Support Instrument (PSI), the much-talked IMF prescription for the economy. Bangladesh Bank officials asked the IMF mission if they had proposed that the government adopt PSI.

The IMF mission replied that they did not propose formally the adoption of PSI to the government. But informally the PSI issue has been discussed with senior government officials, they said.

Finance Ministry sources said the IMF will formally propose that Bangladesh adopts PSI after the current mission returns to head office in Washington. The PSI issue might be discussed, when the IMF mission returns to Bangladesh in November.

Earlier, after expiry of IMF's Poverty Reduction Growth Facility

(PRGF) programme in Bangladesh last June, the IMF offered to Bangladesh the choice of three arrangements.

The IMF proposals include negotiation of a new PRGF programme, a staff monitored programme (SMP) and close consultation in the context of regular IMF surveillance supported by a written assessment of macroeconomic performance when needed to catalyse donors' support, sources said.

In the IMF's view, the first option is the best modality for further fund support, especially if in conjunction with a World Bank PRSC (Poverty Reduction Support Credit) programme.

An SMP involves no financing, the same level of conditionality as a PRGF, usually lasts for 6 to 18 months, and is designed primarily for countries that need to build a track record before they can access fund financing.

The third option is a good transition choice until a new PRGF programme can be negotiated and finalised, sources said.

Govt urged not to ink any deal with IMF

STAR BUSINESS REPORT

Speakers at a discussion in Dhaka yesterday asked the government not to sign any agreement with the International Monetary Fund (IMF) in order to protect the country's interests.

Referring to the PSI (policy support instrument) agreement proposed by the IMF, they said any kind of parley and revision with the IMF should be transparent and accountable and the government must make public the outcome of any such negotiation.

The country's interest should get priority in case of inking any deal with any international financial or donor agency, they suggested, also asking the government not to go by any diktat from either the IMF or the World Bank (WB).

The suggestions came at the discussion on Transparency and Accountability of International Financial Institutions organised by Voices for Interactive Choice and Empowerment (Voice).

Professor Anu Mohammad of the Economics Department at Jahangirnagar University said the problems being faced by different sectors such as jute and energy have been caused by interventions from the two multilateral lending agencies.

"We have to oppose this and create a pressure on the government so that it can come out of the clutches of the IMF and WB," he said.

"Poverty is not the problem, the problem is we have no control on our own resources," he said, making a remark that IMF and WB can never compensate the loss the country has suffered from the conditional assistance provided by the international financial institutions.

Professor Badiul Alam Majumder, country director of The Hunger Project, said assistance from the IMF and WB could not play an effective role as these were provided for the wrong sectors.

He, however, said the government can receive financial support from the international agencies only for science and technological development, but the assistance must be condition-free.

Professor Gias Karim of Brac University said the IMF and WB are not separate institutions; they are a part of global capitalism.

"The two organisations have been created as part of US militarism so that their interests can be served," he said.

Voice Executive Director Ahmed Swapan Mahmud presented a keynote paper at the discussion.

WTO MANILA MEET TODAY

Dhaka for new funds to develop trade infrastructure

JASIM UDDIN KHAN

The government will insist that money made available under the World Trade Organisation's Aid for Trade scheme is not simply cash diverted from existing funds, when the initiative is discussed at a meeting in Manila, Philippines today.

"We will be on strict on our position that the proposed fund should come from new funds to develop poor countries' trade infrastructure and to fulfill supply side constraints," Commerce Secretary Feroz Ahmed said before he left Dhaka for Manila to join the meeting.

Aid for Trade is development assistance that is targeted at helping developing countries to take advantage of trade opportunities and to strengthen their ability to assess and represent their interests in trade negotiations.

However Bangladesh is concerned that Aid for Trade schemes will be financed out of funds made available for the existing millennium

development goals (MDG) programme.

The country will also suggest that such aid be allocated to those countries who will face preference erosion from liberalising trade under WTO rules.

The Asian Development Bank (ADB) and the World Trade Organisation (WTO), in partnership with the Philippine Government, will host the two-day regional meeting titled "Mobilising Aid for Trade: focus Asia and the Pacific," to discuss ways and means to strengthen trade-related capacity and infrastructure in developing Asia and the Pacific.

ADB President Haruhiko Kuroda and WTO Director General Pascal Lamy will kick-off the conference on September 19.

Finance and Commerce Adviser Mirza Azizul Islam and Commerce Secretary Feroz Ahmed will attend it.

At the Sixth Ministerial Conference of the WTO held in Hong Kong in December 2005, the

Aid for Trade initiative was launched under the Paragraph 57 of the declaration.

Japan announced development assistance spending on trade, production and distribution infrastructure of US\$10 billion over three years, the US announced grants \$2.7 billion a year by 2010 and the EU member states announced spending of Euro 2 billion per year by 2010.

At today's meeting plenary sessions and ministerial roundtables will focus on issues such as why aid matters for trade and how public-private partnerships can help less developed economies and small states to benefit from globalisation and regional integration.

The conference will also focus on how regional multilateral institutions like ADB can contribute to making 'Aid for Trade' a viable, efficient and effective way to help its less developed countries.

EBL launches SME loans

Eastern Bank Ltd (EBL) has launched a new loan product styled 'EBL Agreeem' under its SME Banking, says a press release.

Small and Medium Enterprises (SMEs) will be eligible for this short-term loan facility to meet their immediate working capital needs for any business purpose.

The collateral-free loan amount will range between Tk 200,000 and Tk 950,000. The loan tenure will be one month to six months.

Payment is single shot at maturity, but interest will be realised on monthly basis with partial and early payment allowed.

Any successful enterprise with two years of similar or relevant business experience can apply for the loan.



PHOTO: EBL

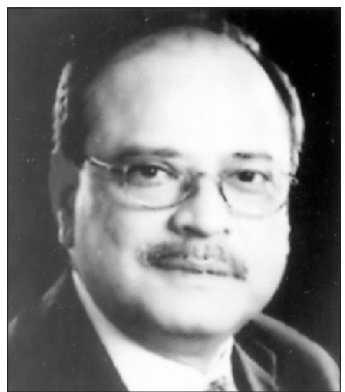
Eastern Bank Ltd (EBL) team hands over disbursement letter of short-term SME loan "EBL Agreeem" to the first applicant in Dhaka recently. EBL MD & CEO Ali Reza Iftekhar was present among others.

China has over 600m mobile phone users

ANN/ CHINA DAILY

China had more than 600 million mobile phone users by June this year, which means every one in five mobile phone users in the world is Chinese, a senior official said on Sunday.

The number included 80 million personal handy phone (PHS) users, said Xie Feibo, vice director of the Radio Administration Bureau of the Ministry of Information Industry (MII) at a forum on Chinese small and medium-sized enterprises held in Guangzhou of south China's Guangdong province.



New CEO of Infrastructure Development Company

M Ehsanul Haque has recently joined Infrastructure Development Company Ltd as its chief executive officer (CEO) and executive director, says a press release.

Ehsanul, who also served as the CEO and managing director of BRAC Bank Ltd, has experience in multinational, private sector domestic and international banking.

World economy strong despite financial turbulence

Says US treasury secretary

AFP, Paris

The current turmoil on financial markets will persist for a while longer but the overall global economy remains healthy, US Treasury Secretary Henry Paulson said here Monday.

"Although this will be with us for a while -- it will take a while to work through this turbulence in the capital markets -- we are doing so against a backdrop of a strong global economy," Paulson told journalists following a breakfast meeting with French Finance Minister Christine Lagarde.

He said the credit crisis, which is now threatening the life of British lender Northern Rock, was caused by bad lending practices rather than

any serious weakness in the broader economy.

"We are already seeing modest reductions in the strains in some markets," he said, "... against a backdrop of strong economic fundamentals around the world."

He added that it would take longer to resolve problems in the US subprime mortgage market, which has been hit by a wave of defaults, but stressed that the subprime sector was only a small part of capital markets.

Lagarde said the turbulence highlighted the need to improve the governance and transparency of financial markets and to tighten regulation where necessary.

French President Nicolas Sarkozy and German Chancellor

Angela Merkel are pushing an initiative to increase market transparency, focusing particularly on speculative hedge funds.

But Paulson cautioned that it was important to avoid "a rush to judgement" or an overreaction.

"We want to get the balance right. The whole world and the US has benefited from innovative financing techniques and innovation in terms of securitisation and credit availability, and so we need to make sure we think this through carefully and don't rush to judgement and overreact," he said.

He argued that it was not hedge funds that had fuelled the market turmoil, but rather mortgage lenders.

Budget carriers' close monitoring stressed

AFP, Singapore

Southeast Asia's major budget airlines have a good record but smaller carriers must be closely monitored to ensure they do not skimp on safety, industry observers said.

The region's low-cost sector has boomed since the birth of Malaysian-based AirAsia almost six years ago spawned a host of imitators -- including a Thai budget carrier which crashed Sunday, killing 89 people.

Thailand's One-Two-Go, whose plane went down on the resort island of Phuket, is one of about 25 low-cost carriers which analysts estimate are flying in the region. Most of them are in Indonesia.

Tom Ballantyne, chief correspondent for the industry publication Orient Aviation, said a distinction should be made between major budget operators, and the smaller airlines.

In addition to AirAsia, Southeast Asia's largest low-cost carrier, major players in the sector include Tiger Airways and Jetstar.

Tiger is 49 percent owned by Singapore Airlines, while Jetstar is an offshoot of Australian flag carrier Qantas, and Thailand's Nok Air took off three years ago, partly owned by Thai Airways International.

"There's not much of a concern about safety with these carriers because they're linked to the big carriers or part-owned by them,"

said Ballantyne.

Shukor Yusof, an aviation analyst with Standard and Poor's Equity Research, said low-cost has not meant lower safety standards.

"Absolutely not," he said. "By and large, low-cost has been very safe, with the exception of Indonesia."

Yusof noted that the major budget carriers are using very new aircraft, flown by well-trained pilots.

AirAsia has a fleet of 50 aircraft and has 150 Airbus A320-200s on order, to meet what it said is rising passenger demand.

Ballantyne said concern lies with small budget carriers using older and leased equipment.



MA Khaleque Md Monir Hosain

New chairman, vice chairman of Fareast Finance

MA Khaleque has been elected chairman of Fareast Finance & Investment Ltd and Md Monir Hosain vice chairman of the company, says a press release.

Khaleque is the founder and sponsor director of Prime Bank Ltd and a former chairman of Prime Finance and Investment Ltd. He is also a director of Northern General Insurance Company Ltd and Fareast Islami Life Insurance Company Ltd.

Monir Hosain is the managing director of Fahim Textile Mills Ltd, Farha Silk Mills Ltd, Farha Fashion and Farha Spinning Mills Ltd.

AFP, Singapore

Asean is not aiming to become like the European Union even if it achieves economic integration by its target date of 2015, current group chairman Singapore said Monday.

Foreign Minister George Yeo said the 10-nation Association of Southeast Asian Nations is too diverse to achieve the same degree of integration as the EU.

"Asean, however integrated, will not become a union like the EU. We are too diverse in our history, culture and economic development for this to be possible," Yeo told parliament.

"The EU has a European court and European parliament which legislate on behalf of the whole union. We do not anticipate such development for Asean."

The EU also has a single currency, the euro.

Yeo, whose country assumed the rotating Asean chair from the Philippines in July, said that Asean leaders have recognised the reality of the region's diversity and agreed that the pace of integration should not be set by the region's poorest members.

"Let's move quickly where we can in a practical way. Members who are ready to move first in particular areas should be free to do so provided the door is left open for others to join when they are ready," the foreign minister said.

Asean aims to establish a single market and manufacturing base by 2015 through cutting trade barriers and opening up economies. The group's membership ranges from wealthy Singapore to impoverished Laos and Cambodia.

It is also politically diverse, with democracies such as the Philippines, Indonesia and

Malaysia, an Islamic monarchy -- Brunei, the Buddhist-majority kingdom of Thailand, communist Vietnam and military-ruled Myanmar.

Yeo said an Asean charter is now at the "advance stage" of its drafting process and should be ready for submission to the leaders at their November summit in Singapore.

The charter is expected to make Asean a rules-based organisation in contrast to its current state, where decisions are made through the cumbersome process of consensus.

Singapore exports up 11pc

AFP, Singapore

Singapore's key exports rose an annual 11 percent in August, boosted by increased shipments of pharmaceuticals which tempered a sustained decline in electronics, the government said Monday.

The increase in non-oil domestic exports (NODX) for the fourth straight month was in the upper range of analysts' forecasts and double the 5.4 percent growth registered in July, the trade promotion body, International Enterprise Singapore, said.

NODX for August totalled 15.16 billion Singapore dollars (10.04 billion US), IE Singapore said.

Exports of pharmaceuticals surged 105.8 percent from the same period last year to 2.07 billion dollars, it said.



Chairman President

New office bearers of IMCB

M Shamsul Haque has been elected chairman of the Institute of Management Consultants Bangladesh (IMCB), the national association of management consultants in the country, and M Wazirul Alam president of the association.

Shamsul Haque is an MBA from Indiana University, Bloomington of USA and got his PhD from MBS, Manchester of UK. He is the vice chancellor of Northern University, Bangladesh.

An MBA from IBA of Dhaka University, Wazirul Alam worked for British American Tobacco for over about two decades in Bangladesh, UK and Finland.

The other elected office bearers of IMCB are first vice president Abdur Rab, pro-vice chancellor of Eastern University, second vice president M Manzurul Haque, chairman and managing director of Org-Quest Research, and treasurer Naba Krishna Muni.

Correction

In a news item headlined 'GMG Airlines gets \$430m lease facility to extend fleet' published on this page on Sunday, the lease amount was inadvertently printed wrong. The actual lease amount is Tk 43 crore. We regret the mistake.