TRANSCOM

O DIGITAL

DHAKA MONDAY OCTOBER 20, 2008



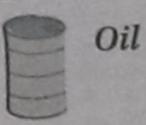
Currencies 94.53 121.25

SOURCE STANDARD CHARTERED

### Commodities



\$784.50 (per ounce)



\$69.60 (per barrel)

SOURCE: AFP

(As of Friday)

A

0.70

#### More News

#### Track Saarc progress, says commerce adviser

Commerce Adviser Hossain Zillur Rahman yesterday called for preparing concrete evidence to find the actual progress of Saarc in various fields including trade. "We need to assess the progress of Saarc before going for further negotiations in this region."

#### US diplomat sees prospects for trade enhancement

A diplomat at the US embassy in Bangladesh sees a number of prospects and opportunities for enhancing the Dhaka-Washington trade. "Even in this day of global financial crisis, there are opportunities for enhancing the trade between Bangladesh and the US,"says Jon Danilowicz, counsellor for political and economic Affairs.

#### International

China economy shows cracks



China's strong economy appeared to put the nation on the global high ground when the financial tsunami first struck last month, but as the storm continues to rage, that position is looking less

#### Heads set to roll over trading scandal at French bank

The fate of top executives at French savings bank Caisse d'Epargne hung in the balance Sunday over huge losses in a trading scandal that President Nicolas Sarkozy said were unacceptable. Caisse d'Epargne, considered one of France's most trustworthy banks, lost 600 million euros (800 million dollars) in high-risk derivatives trading last week at a time when European governments were scrambling to rescue banks.

#### Contact Us

If you have views on Star Business or news about business in Bangladesh, please email us at business@thedailystar.net

## Price hike fuels credit growth refinancing

#### Bankers say

STAR BUSINESS REPORT

Commercial banks said yesterday the price hike of consumer items had driven up the credit

The comment came against the backdrop of the central bank's worry about high growth in credit to "unproductive sectors".

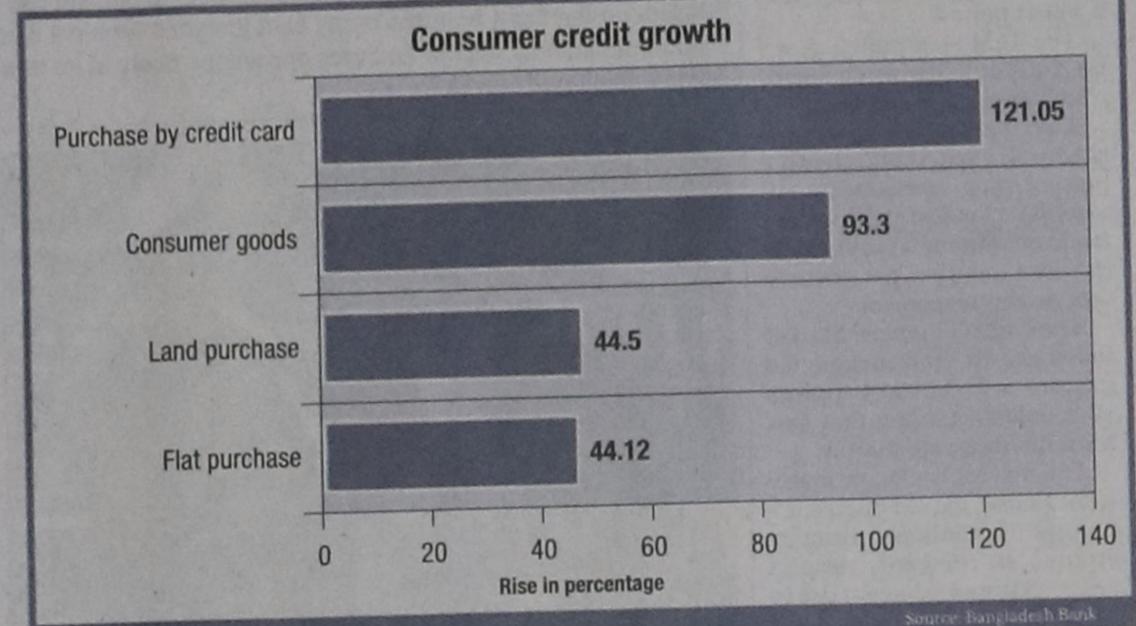
The commodities that were selling at Tk 100 earlier cost Tk 200 now, bankers said, adding that the price hike had led consumers to take more loans from banks than before.

"The growth rate on the percentage basis shows high growth in credit to unproductive sectors, but the credit volume doesn't reflect that the credit growth is so high," K Mahmood Sattar, president of Association of Bankers Bangladesh (ABB), told reporters after a meeting with Bangladesh Bank (BB).

The central bank yesterday sat with different commercial banks to review the situation of local banks in view of the financial debacle in the Western economies, largely caused by huge credit flows into housing and consumers spending.

According to a BB review of internal credit situation during June 2007-June 2008, the private sector witnessed robust growth in non-productive sectors such as credit card, consumer products, apartment buying and land purchase, which the central bank considers 'risky'.

The break-up of the percentages of credit growth on nonproductive fronts is: Credit cards-121 percent, consumer



products-93.30 percent, land purchase-44.50 and flat procurement-44.12 percent.

According to BB statistics, in the specific period of last one year the average bank credit growth rate was 19.52 percent.

Private commercial banks experienced the highest credit growth of 38.03 percent, while foreign banks witnessed 23.83 percent growth, specialised banks 15.31 percent and stateowned banks 7.63 percent.

Mahmood Sattar, also the managing director of City Bank, said: "We will respond to the BB's request on reducing high credit growth."

Officials at the meeting however said some of the bankers argued with the central bank saying that all sectors are productive, as the sectors help develop the standards of life.

As there is demand for such loans from middle-class, these sectors are not unproductive, said the bankers.

In response, the central bank told the bankers that it does not discourage banks to give loans. If the credit growth is too high, it raises doubt over the loan quality, the BB governor told the bankers.

Meanwhile, Muhammad A Rumee Ali, BRAC Bank chairman, told The Daily Star that the total consumer credit recipient in the country is not more than five percent, which contributes a little to the rise in inflation.

The high inflation rate is not a result of credit growth at nonproductive sectors, but it is a price-pushed inflation.

"Although excess credit growth is not good in any particular sector, Bangladesh Bank should identify why banks go to non-productive sectors," he

Industrial credit has some limits in interest rates, which discourage private banks to go to other sectors, he observed.

Defending the real estate sector, Rumee Ali said he does not believe the real estate is unproductive. "It's a booming sector where a huge number of people work and a lot of income generating activities

are going on." Ali, also a former deputy governor of Bangladesh Bank, said BRAC Bank maintains good balance in distributing credit among SMEs, industrial and rural sectors. K Mahmood Sattar, the ABB

president, said at the meeting with the BB the private sector credit growth would increase in the coming days amid demand from the private sector.

On banking services, Sattar said the banks could reach international standards. "We are always trying to improve our services and the efforts will continue," he added.

At the meeting, the central bank asked the commercial banks to remain careful about

Growth (%) August 2008 August 2007 Banks -7.66 47,704.25 51,660.74 State-owned 38.02 118,479.43 85,842.17 Private 23.83 14,830.69 11,977.05 Foreign 13.56 14,094.22 12,411.47 20.52 195,108.59 161,891.43 Source Bangladesh Bank

TOTAL CREDIT GROWTH

TOTAL DEPOSIT GROWTH (Amounts in Tk crore)			
Banks	August 2007	August 2008	Growth (%)
State-owned	65,405.44	68,417.84	4.61
Private	106,012.36	132,674.30	25.15
Foreign	16,390.46	20,323.58	24.00
Specialised	10,770.60	12,353.04	14.69
Total	198,578.86	233,768.76	17.72

the credit-deposit ratio.

The BB cannot ask banks not to give loans to unproductive sectors, said BB Governor Salehuddin Ahmed. "I've asked the banks to be cautious and give loans after proper scrutiny so no bad loan is created," he said. "The recent global financial turmoil is blamed on bad loans.

The BB governor also instructed the bankers to lend to such productive sectors as agriculture and small and medium enterprises. Credit to the farm sector will draw production, create employments, contribute to GDP growth and help tame inflation, he explained.

"The banks will have to be cautious about those credits that will not create goods and services," he suggested.

"Increase in credit to the productive sectors will help banks reduce their surplus liquidity," Salehuddin said. The

response came when he was asked whether the banks would accumulate excess liquidity further due to a possibility of slowing down investments as the fallout of global financial crisis, news agency UNB adds.

(Amounts in Tk crore)

"I've congratulated the bankers for safeguarding the local banking sector from the possible shock stemming from the global financial crisis, Salehuddin said.

The bankers also appreciated the central bank for its strong role regarding the global crisis, admitting that the BB's control over the commercial banks is necessary, said the officials who attended the meeting.

Bangladeshi banks are well managed under the control of the central bank and the banks will not face any crisis due to the ongoing global financial turmoil, the bankers said at the meeting.

SAJJADUR RAHMAN

Asian Development Bank (ADB) has expressed its dissatisfaction over poor participation of financial institutions in the Bangladesh Bank's SME refinance scheme.

ADB is one of the three contributors to this scheme. World Bank and Bangladesh government are two other contributors.

A mission from the Manilabased lending agency made the observation on its recent review of Bangladesh's central bank scheme to support small and medium enterprises.

Although 12 banks and 15 non-bank financial institutions are supposed to participate in it, not over 50 percent of those have so far been found involved. "Only 14, of which seven

banks, have been financing the SME sector," according to the ADB findings sent to the central bank. These institutions lend SMEs

and receive refinancing from the BB on a quarterly basis. "We can't force a bank to

lend under the scheme. Perhaps, they prefer lending others," a senior BB official remarked. As part of the government's

move, Bangladesh Bank introduced such SME refinance scheme (revolving) in 2004 with Tk 100 crore fund for the enterprises' more access to bank finance at lower rate. Later the fund was raised to Tk 300 crore in fiscal year (FY) 2007-08 and Tk500 crore in FY 2008-09.

Meanwhile, the ADB also asked the BB to tag environmental issue with the SME refinancing so that banks and non-banks take the issue seriously, BB officials said.

# in automation

JASIM UDDIN KHAN

When donor-funded projects failed to fully complete automation of Chittagong Customs House by spending over Tk 247 crore and working for around 10 years, a local company successfully did the task in eight months at a minimal cost.

Software firm DataSoft Systems Bangladesh Ltd completed the automation project at an initial cost of Tk 2 crore with domestic expertise.

"We were able to make the project run at a reduced cost mainly because it will function on build-own-operate-transfer basis, and it is a successful example of public-private partnership where all stakeholders are involved directly," Mahbub Zaman, managing director of DataSoft, told The Daily Star recently.

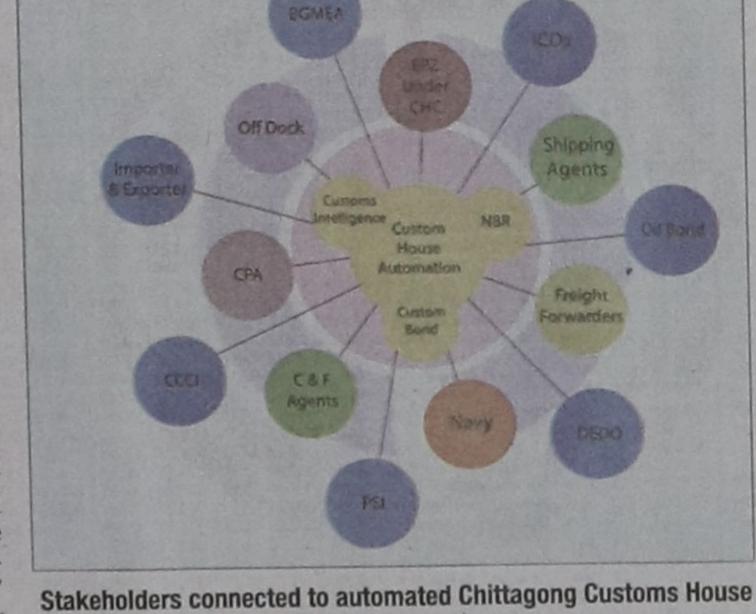
One of the reasons behind the failure of the earlier projects is that their technology was not transferred to the locals properly, he added. Earlier in 1999, a project

titled CAM-1 (customs adminautomation. Later in June 2001 another

computer system at five customs houses in the country. Bangladesh introduced

ASYCUDA ++ (Automated SYstem for CUstoms DAta) of UNCTAD in line with the recommendations of the World Customs Organisation to simplify customs procedures.

But the implementation of the project to introduce automation at Kamalapur Inland



customs houses in Dhaka, Chittagong, Benapole and Mongla failed as the interfacing could not be done due to lack of infrastructure here and technical know-how of the local users.

Muhammad Abdul Mazid, istration modernisation pro- Board of Revenue (NBR), reaject-1) was the first step for soned out the failure of the project.

Local stakeholders did not receive any of complaint from project titled 'ASYCUDA++ own up to the past project, as Migration Project' was there was no adequate experdesigned to interface the tise to run it -- a common prob-ASYCUDA++ software with the lem, which hindered its implementation, said the NBR chairman.

In the past, most projects conducted with foreign grants experienced an unusual delay in implementation due to problems with transfer of ownership, Mazid said, adding that the same thing happened with the Chittagong Customs House automation project. The NBR is now looking into how Tk 247 Container Depot and the four crore was spent on the project.

The main feature of the new automation project is that DataSoft has employed around 45 engineers in the project to troubleshoot any problem the stakeholders may face. "It's a post-implementation

maintenance work, which was chairman of the National missing in the previous project," Mahbub Zaman said. DataSoft has installed a call centre at the project site to

> customers, and engineers are working round the clock to solve the problems. Apart from European companies, DataSofts' Management Information System is being used by Rajuk, and Credit Bureau Database by

> Palli Karma-Sahayak Foundation. Starting operation in 1994, the company now offers software design and development solutions to many US and European firms.

jasim@thedailystar.net

### Local firm shows feat Leaders line up finance summits as South Korea shores up banks

AFP, Washington

World leaders lined up a series of summits looking at reforming global finance in the wake of the turmoil on the markets as South Korea became the latest country to shore up troubled banks on Sunday.

The summits, announced following talks on Saturday between US President George W. Bush and French President Nicolas Sarkozy, are the latest fruit of efforts to bring about more a coordinated international response to the crisis.

But there were already signs of different visions for the summits, with European leaders pushing for a radical overhaul of the whole financial architecture while Bush said the foundations must be preserved.

"As we make the regulatory and institutional changes necessary to avoid a repeat of this crisis," Bush told Sarkozy and EU commision chief Jose Manuel & Barroso, "it is essential that we preserve the foundations of democratic capitalism -- the commitment to free markets, free enterprise and free trade.

"We must resist the dangerous temptation of economic isolationism and continue the policies of open markets that have lifted standards of living and helped millions of people escape poverty around the world."

The tone of Bush's remarks after the talks in Camp David, Maryland, was markedly different from those from Sarkozy who has been urging a broad overhaul of the so-called Bretton Woods system of international finance and commerce put in place during



Customers shop at a Mervyn's store in California. The department store chain will close its doors and liquidate its 149 stores.

WorldWar II.

where we are today should be allowed to do so once again," said Sarkozy.

Sarkozy, who has been an increasingly vocal advocate of fundamental financial reforms, stressed it was urgent that "we as swiftly as possible by coming up with answers."

"Once calm has been emfinance. restored, we must avoid at all costs that those who have led us to where we are today country is the current holder of should be allowed to do so once again.'

Although no date has yet "We must avoid at all costs been set, the first of the summits that those who have led us to will likely be held next month, after the presidential election on November 4, White House spokesman Tony Fratto said.

Critics say the institutions sketched out after the Great Depression -- the World Bank and International Monetary must stabilize the marketplace Fund -- are ill-equipped to deal with the globalised economy and the complexities of mod-

The calls for fundamental reforms by Sarkozy, whose received backing from Spain's around the world.

leader Jose Luis Rodriguez Zapatero. "There has to be a stricter

regulation and international supervision, at least at the level of the European Union," the Socialist prime minister was quoted as saying in the newspaper Publico.

"It is a question of in-depth reform of the financial system." The current crisis began

with high-risk or subprime US home loans last year. The loans, repackaged as complex investment instruments loosely known as derivatives, were the revolving EU presidency, resold to investors and banks