

International Business News

Lanka offers stimulus package to ride out global recession

AFP, Colombo

Sri Lanka announced Wednesday a 16 billion rupee (141-million dollar) stimulus package that included reducing fuel prices to shield the economy from the global slowdown.

"We want to maintain our economic growth rate at six percent or more -- as it has been in the past few years -- through this economic stimulus package," Central Bank of Sri Lanka Governor, Nivard Cabraal, told reporters.

The price of diesel was reduced by 12.5 percent while gasoline was lowered by less than two percent.

Expenses of government ministries, parliamentarians, ministers, the prime minister and the president were slashed by between five and 50 percent under the new scheme.

The price of gas used in cooking stoves was reduced by 10 percent and the government also removed a 15 percent electricity surcharge on the clothing, tourism, leather and rubber industries.

Taxes on rubber exports will be removed, while fertilizer will be sold to small tea farmers at subsidised rates.

Tea, the island's biggest commodity export, will benefit from a suspension of loan repayments. Tea factories are also eligible for one month's working capital through commercial banks at lower rates.

Fed to ramp up purchases of mortgage securities

AFP, Washington

The Federal Reserve said Tuesday it would begin buying mortgage-backed securities in early January under a previously announced plan to purchase up to 600 billion dollars of these assets.

The program was announced in late November as another step in fighting a credit crunch stemming from the collapse in housing that has now engulfed the financial sector and is choking economic activity.

"The program is being established to support the mortgage and housing markets and to foster improved conditions in financial markets more generally," the Fed said in a statement.

The New York Fed, which will carry out the purchases, said it had selected four investment managers for the program: BlackRock, Goldman Sachs, PIMCO and Wellington Management Company.

"The selection criteria were based on the institution's operational capacity, size, overall experience in the MBS (mortgage-backed securities) market and a competitive fee structure," the New York Fed said.

The contract for a custodian has not yet been awarded. The central bank has already begun purchasing up to 100 billion dollars in mortgage-backed securities on its own and will buy up to 500 billion more through these investment firms.



A Debenhams department store is pictured in central London on Tuesday. Debenhams, Britain's biggest department store, is planning to raise extra cash in a bid to reduce debt levels according to the Financial Times newspaper.

Credit Suisse offloads stake to British firm

AFP, Zurich

Swiss banking giant Credit Suisse said on Wednesday it had sold part of its Global Investors business to Aberdeen Asset Management in return for a 24.9 percent stake in the British fund manager.

The Aberdeen Asset Management stake was valued at 250 million pounds (256 million euros, 358 million dollars) as of Tuesday, Credit Suisse said in a statement.

Switzerland's second largest bank, which like its peer UBS, has been badly hit by the global financial crisis, said the deal involves the transfer of most of GI's business in Europe, the United States and Asia-Pacific, with the funds under management involved being worth 75 billion Swiss francs.

Credit Suisse said it will maintain its activities in its home market and continue to operate the GI business in Brazil and through joint ventures across the globe.

It said the deal allows it to focus on its core operations and boost the value of the GI business.

Thai PM says economy could still grow in 2009

AFP, Bangkok

Thailand's new prime minister Abhisit Vejjajiva said on Wednesday that there was still a possibility that the country's economy could grow despite the global slowdown.

The Thai economy was battered by a crippling week-long blockade of Bangkok's airports by protesters earlier this month and has also suffered from the economic problems of its trading partners.

The Bank of Thailand projected Tuesday that the economy will contract at 2.5 percent in the fourth quarter of this year compared to the previous quarter and will be stable at zero percent on a year-on-year basis.

"There is a possibility that the GDP (gross domestic product) will grow on the plus side," Abhisit told reporters, however.

He said he had held discussions with economic experts who predicted that Thailand could maintain growth with a good economic stimulus plan and that the economy could recover by next year's third quarter.

ANALYSIS

Economy rides past strong 2008

SAJJADUR RAHMAN

The economy has passed a resilient 2008 despite an unfriendly domestic investment climate and fallout from the world economic meltdown.

Economic indicators such as private-sector credit growth, call money rate, foreign currency situation, foreign exchange reserves, inflation, exports, import and remittances -- all were positive through 2008.

Although the world credit market was the most direct victim of the sub-prime crisis in 2008, Bangladesh remained completely unaffected. Private-sector credit grew more than 26 percent in 2008.

Domestic credit recorded an increase of Tk 17,412.70 crore or 7.00 percent in July-October of 2008 against a rise of Tk 10,007.60 crore or 4.87 percent in the year-ago period.

The rise in domestic credit during the period was due to a significant rise in private-sector credit by Tk 10,370.40 crore or 5.45 percent, according to Bangladesh Bank data.

"Credit growth suggests that banks will be announcing good revenue growth," said Muhammad A Rume Ali, chairman of BRAC Bank and a former deputy governor of the central bank.

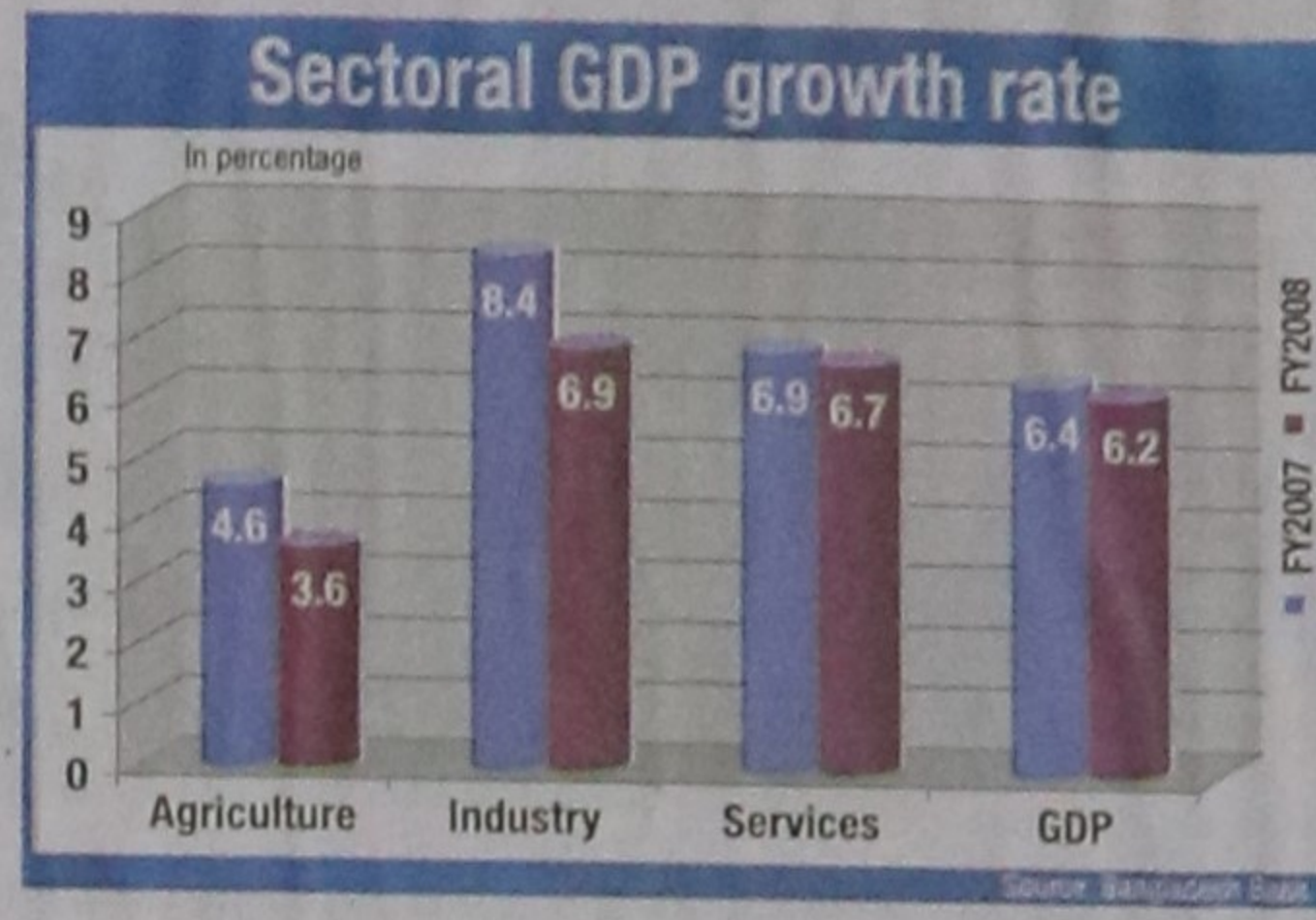
Ali however said profit margins have been under pressure towards the second half of 2008, paring down net profit.

"We have seen growth in 2008 despite a downturn in the global economy," said Syed Abu Naser Bukhtear Ahmed, chief executive officer of Agrani Bank.

While the world currency market is still recuperating from the shock of the financial crisis, the taka showed impressive stability. The taka remained broadly steady at 68.50-69.50 against the dollar throughout the year.

Although the taka stood out of the league showing strong character against the dollar, other currencies in the region, such as PKR (Pakistan rupee) and INR (Indian rupee), lost ground against the greenback.

By the year-end, INR stood at 48.8 against



the dollar, down 24 percent from the previous year. The PKR was down 28 percent to 78.80.

Non-US majors that include the euro and the pound were extremely volatile against the taka in tandem with their volatility against the US currency.

The euro went up to 111 against the taka in the middle of July and came as low as 88 against the Bangladesh currency in November before bouncing back to 100.

The pound went up as much as 141 against the taka in March but went down as low as 103 in November.

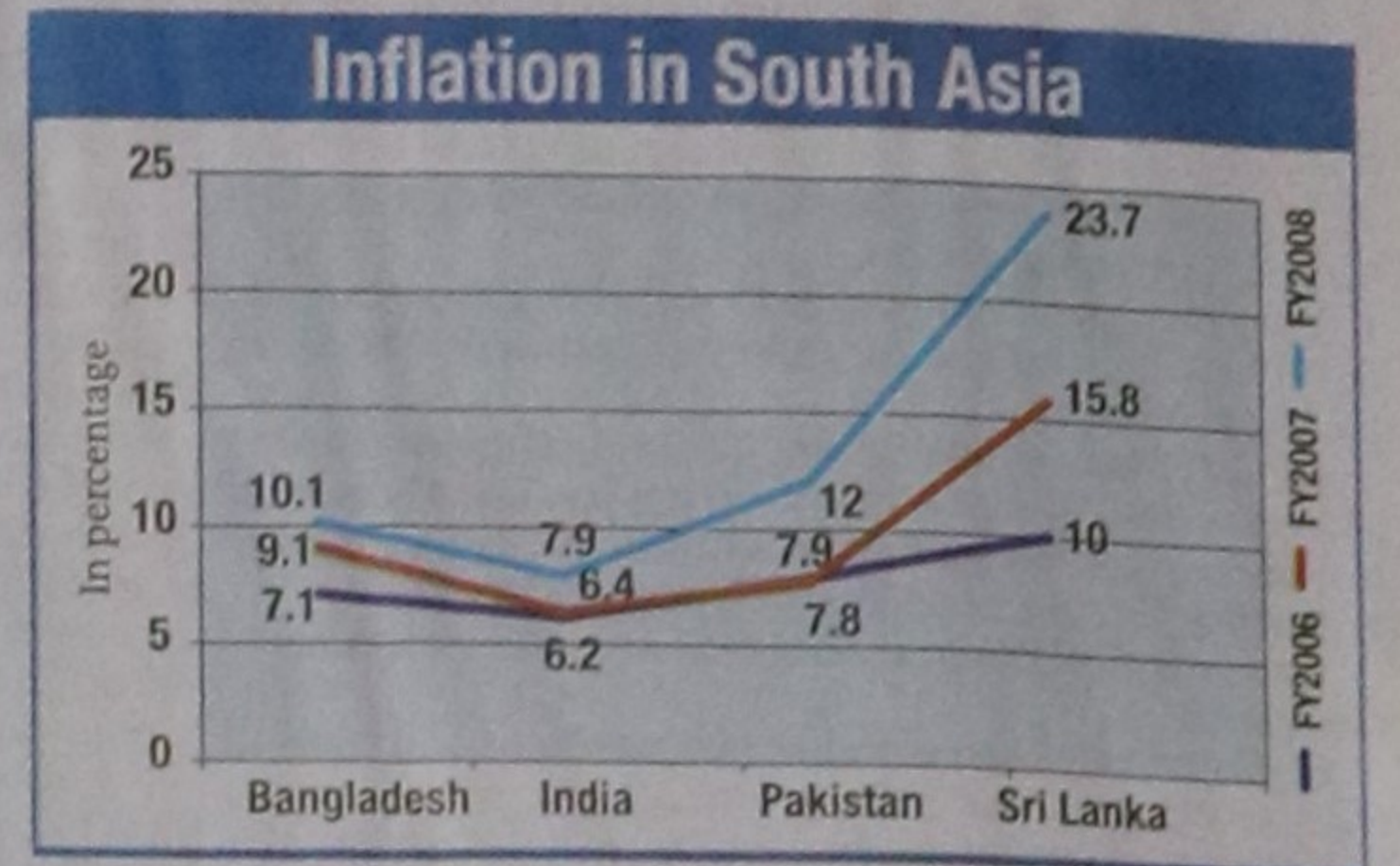
Although import growth outpaced exports, record high remittances eased the pressure, leading the rate to move within a limited range.

Import growth was 25.63 percent in fiscal 2007-08 against export growth of 15.70 percent, but remittance inflows grew 32 percent to \$7.9 billion that gave a cushion to the balance of payments.

Exports receipts in July-October 2008 increased by \$1,232.82 million or 30.68 percent to \$5,251.49 million from \$4,018.67 million in the same period of 2007.

Import payments in July-September 2008 rose by \$1,637.20 or 34.93 percent to \$6,324.70 million from \$4,687.50 million in the same period of 2007.

Gross foreign exchange reserves stood at \$5,245.40 million as of end-November 2008



against \$5,095.31 million reserves as of end-November 2007.

The rate of inflation on the point-to-point basis also decreased to 6.12 percent in November 2008 from 7.26 percent of October 2008.

Bankers said less exposure to foreign debt markets has safeguarded Bangladesh from the impact of the financial crisis.

"It (less exposure) was a blessing in disguise," said Nurul Amin, managing director of National Credit and Commerce Bank.

Bangladesh in many ways is not as closely integrated into the global economy as the more open economies are. For example, the country's capital outflows and foreign debt inflows are restricted by the forex regulatory guidelines, the capital market has very little foreign equity investments.

Exports remained largely unaffected because Bangladeshi products target lower-end markets in rich countries.

The local money market experienced some volatility in 2008. The market remained calm in 2007, helped by surplus liquidity in the system.

The scenario started changing from the third week of January 2008 and call money rates started rising. The central bank acted prudently and injected liquidity into the system, which helped stabilise the market. Call rates hovered mostly

between 7 percent and 15 percent in 2008, compared to 6.5 percent and 9.5 percent in 2007.

To ensure adequate liquidity in the market, Bangladesh Bank used the repo route by allowing banks to borrow money against government-approved securities and buying back T-bills and bonds that were sold earlier.

Continuous liquidity support allowed banks to manage funding and help credit growth in the economy.

The central bank's steps to activate a deep secondary market for government bills and bonds yielded some initial results in 2008 with a significant rise in secondary trading led by primary dealer (PD) banks and some other non-PD banks. There is now a widespread understanding of bond trading dynamics and settlement processes among the banks.

The BB continued to publish semi-annual monetary policy statements adapting accommodative monetary stances. To keep inflation under control, the central bank hiked the repo rate (rate at which BB lends money to banks) and reverse repo rate (rate at which banks park surplus liquidity with the BB) to 8.75 percent and 6.75 percent from 8.50 percent and 6.50 percent respectively.

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COLUMN

MAMUN RASHID

Economic challenges for the new govt

The oath that the people's representatives will take, or had taken in the past, to uphold democratic values is, or was, mostly for economic emancipation of our people.

The new government despite being elected with a landslide victory will be confronted with the same economic policies and management issues that were taken by the previous government as well as emanating from the global meltdown impact on emerging economies.

With the interim caretaker government mainly focusing on peaceful holding of election, transition to the next elected government, and business as usual, this write up is all about the challenges that the next government is going to face.

Since the life is expected to be little easier with commodity prices coming down globally, the immediate and most important challenge for the new government will be the development of the country's vital infrastructures for sustaining economic growth. The foundation of today's modern economies depends on the robustness of its infrastructures. Unfortunately for Bangladesh, we have seen near collapse of the power sector, perennial congestion and inefficiency at the ports, and mismanagement transportation system. Continuously addressing issues like congestion, container handling, corruption etc at the ports is of utter importance. Besides Chittagong port, attempts need to be made to enhance usage of Mongla port. Equally critical is ensuring supply of electricity in tandem with the growth in demand in consumer and industrial segments. For long-term power supply to the nation, the coal sector should be developed with appropriate attention as it can meet the country's energy needs for the next 30 years, as compared to about 10/15 years of proven gas reserves.

Meantime, we need to fix the gas exploration and supply problems with appropriate pricing policy to attract respectable investments.

Improvements need to be made in the land, river, and air transportation sectors as well in order to reduce the cost of doing business. A vicious circle of corruption wraps the maintenance work of our roads and highways, which

reflects badly on their quality and frequent repairs requirement.

Navigable waterways have shamefully been reduced over the years due to lack of dredging. For all these, what is needed is formulation of long-term plans, efficient implementation and candid evaluation. The new government has to meet these challenges with high level of skills.

During the last two decades, the economy of Bangladesh has been growing at a rate of plus minus 5 percent on an average. But the benefit of this growth did not reach the majority of the people. As a result, the gap between the poor and the rich is widening day by day. Wealth is being concentrated in the hands of a small group of people, which is mostly close to the ruling regimes. Most people think that the state is only taking care of the rich, while ignoring the poor, or at the cost of the poor. Regardless of how hard the government tries, its policies are bound to fail unless it wins the trust of the majority. The second factor is the ineffectiveness of vital institutions. Social, political and economic constituents of the state structure lost their credibility due to lack of proper governance and accountability. Dearth of institutional credibility has rendered proper implementation of economic policies nearly impossible.

The new government has to think seriously about how to bring back credibility and effectiveness to the public institutions. It has to work hard to bring about a positive change in the quality of leadership of different institutions, enabling them to make prudent decisions with courage and speed. There is consensus among the political parties regarding open market economy. So, little scope remains for any change on this front. However, we are still at liberty to improve plans on how we will make the market mechanism work for us in this open economic environment.

Recently, the policy-makers were troubled on issues of how the future investments in our economy will be financed to sustain growth.

Our domestic savings are increasing but it is not sufficient to propel the needed growth, as is the case in many developing countries. Alternatives to domestic savings could be foreign aid, loans, or international commercial capital.



Voters line up at a Dhaka polling centre on Monday. The new government will have to tackle a string of pressing economic issues in the days ahead.

International commercial capital could be attained through foreign direct investment (FDI) or loans from international capital markets.

The foreign aid, or debt, that the government receives from donors is usually on soft terms, and of long tenure in nature. These loans are often not associated with proper accountability, raising serious doubts about their effectiveness. Moreover, the amount of such subsidised funds is inadequate for accelerated growth.

The remaining options at hand are FDI and borrowing from international capital markets. However, both options have their demerits too. Corruption and mismanagement create the possibility for improper allocation of the loans collected from international commercial sources. Sourcing of the incremental investment that is needed to sustain and enhance the growth rate would be a challenge for new government, and it should be put on the priority agenda.

There is also a sensitive issue for the new government to handle,

which is how and what amount of subsidy should be given, and why.

The state could give subsidy to the deprived people so they do not get disappointed from the majority. However, it is time to question the effectiveness and justification of subsidies that are drawn in the name of the poor but ultimately end up in the hands of a small group of influential people.

In an economy of limited means, such as ours, prevention of this wastage in the name of subsidy could free up resources for much needed productive use. The new government needs to ask itself the rationale for providing such subsidy. Perhaps, privatisation of the loss making state owned entities, or infusion of private capital, would have reduced losses on the part of the government, along with the blame for failure.

Development of agriculture is closely linked with the improvement of the lives of millions. But lack of proper planning has put our agricultural sector in an adverse and backward position. Agriculture and agro-based prod-

ucts have to be upgraded to an attractive industry through integration of modern technology and application of commercial capital. Added to this is an appropriate pricing of the produced means to keep the farmers happy in the fields and engaged.

We have been perpetually neglecting the domestic capital market in our economic policies and plans. Had there been a vibrant domestic capital market, it would have expedited our industrial growth. Effectiveness of our capital market should be evaluated on its ability to provide the right incentive and support to the industrial and other business entities. Moreover, we need to improve coordination among different execution agencies of the government such as SEC, Bangladesh Bank, Bol, NBR, BTRC, BERC etc.

Information and Communication Technology (ICT) plays a critical role in today's economic lifeline. Unfortunately but true, we do not have any plan on how we can capitalise on this sector to give a boost to our economy. We do not have adequate knowledge of the ICT sector, but worse yet, we do not also think adequately of how we can build our knowledge in this sector. On the other hand, our neighbouring countries have expedited their economic growth by application of ICT.

The new government should think about developing this sector with export-led objectives.

We are standing at a turning point in the history of Bangladesh. On one hand, we have upheld the core values of democracy by holding a peaceful election for the fourth time. On the other hand, the light of realistic prospects for a brighter future is beckoning us from the horizon.

We will probably not get such a great chance again to change the fate of millions of people in this country. At this juncture, the people of this country expect the new government to bring transparency in economic management and policy-making. We all hope that the new government will reach a broad-based consensus with respect to strategy for economic development. For this, we all have to unite, and even be ready to make big sacrifices.

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