Star Business

DHAKA FRIDAY JULY 17, 2009

Stocks

DGEN	▲ 0.45%	2,896.49
CSCX	▲ 0.72%	6,378.91

Asian Markets

MUMBAI	▼ 0.02%	14,250.25
TOKYO	▲ 0.81%	9,344.16
SINGAPORE	▲ 0.49%	2,401.02
SHANGHAI	▼ 0.15%	3,183.74

Currencies

	Buy Tk	Sell Tk
USD	68.45	69.45
EUR	94.37	99.64
GBP	110.29	115.82
JPY	0.71	0.80

SOURCE: STANDARD CHARTERED BANK

Commodities

Gold ▲ $936.13 (per ounce)

Oil ▲ $61.16 (per barrel)

SOURCE: AFP

(Midday Trade)

More News

Minister assures all policy support to RMG sector

The commerce minister yesterday assured that the government would extend all necessary incentive and policy supports to the ready-made garments sector to maintain industrial growth. "We hope to shortly organise discussions with RMG sector leaders."

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International

On economy, it's all his now

With four simple words -- "Give it to me!" -- US President Barack Obama took possession of the economy. For months, the White House and Obama's economic team have laid the economic crisis at the feet of President George W Bush.

Nokia profit drops 66pc in Q2

The world's top cell phone maker, Nokia Corp, on Thursday said earnings fell 66 percent in the second quarter as the global recession sapped demand for handsets. Net profit was 380 million euros ($535 million), down from 1.1 billion euros in the same period a year earlier. Sales tumbled 25 percent to euro9.91 billion.

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

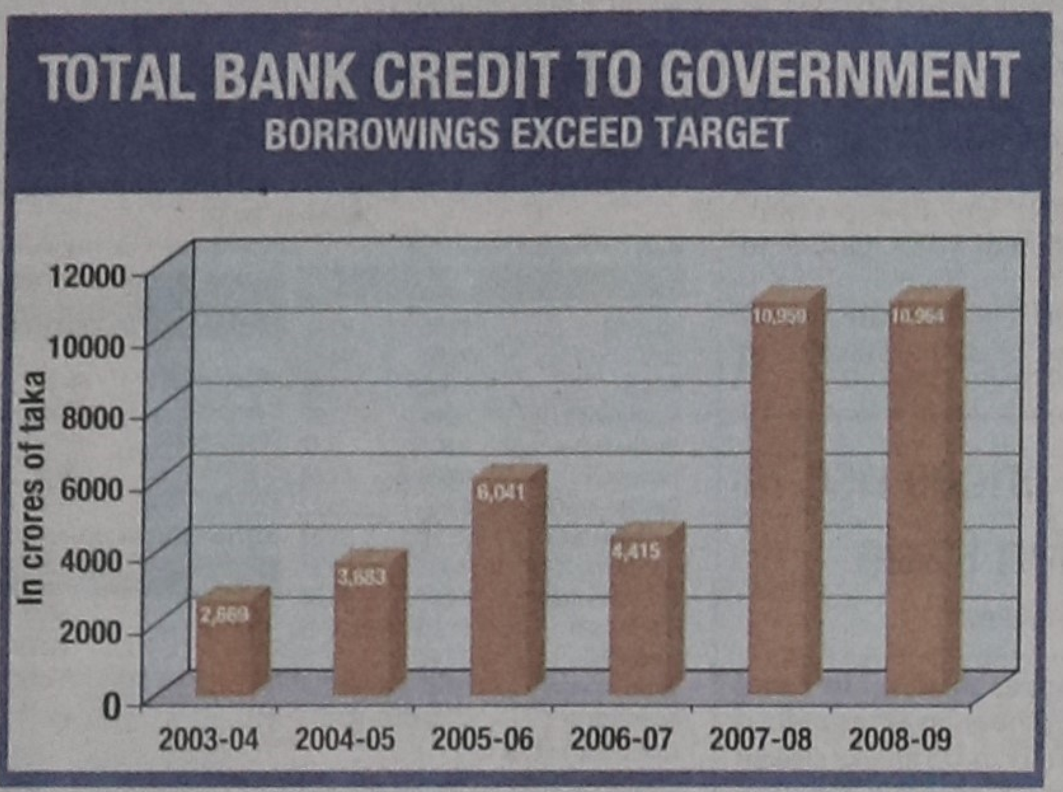
Govt's bank borrowing up

ADP falls far short of implementation target

REJAUL KARIM BYRON

The government's borrowing from the banking system in the last fiscal year was 3 percent higher than its target although the implementation of annual development programme (ADP) is lagging far behind the target. The revised ADP size was Tk 23,000 crore last fiscal year.

In the revised budget for FY2008-09 the government's borrowing target was Tk 10,698 crore. But finally the government borrowedz Tk 10,964 crore. In the current fiscal year (2009-10) a bigger borrowing target has been set at Tk 16,755 crore, which is about 56 percent higher than previous fiscal year's target.



Data on ADP implementation until June has not been available yet. However ADP implementation was Tk 14,088 crore in 11 months until May. The government would have to spend Tk 8,912 crore in one month to implement the full size of the ADP.

In the 11-month period the government on an average implemented ADP of Tk 1,280 crore. So it is impossible to spend Tk 8,912 crore in one month, said planning ministry officials. The government can at best implement Tk 4,000 crore to 5000 crore, they added.

Although the government is lagging behind the ADP implementation target by about Tk 4,000 crore, it has exceeded the borrowing target.

Finance ministry officials said revenue income was lower and foreign assistance might not be available as per target that increased the borrowing.

The National Board of Revenue's (NBR) target for revenue income was Tk 53,000 crore. NBR high officials said they would be able to achieve 99 percent of the target, meaning that there might be Tk 500 crore to Tk 1,000 crore deficit against the revised target.

As the government's borrowing increased, its expenditure on payment of interest went up.

The government's total outstanding domestic borrowing was Tk 105,039 crore until April. This year 19.2 percent of the revenue budget would be spent on payment of interest.

In the current fiscal year the amount to be spent for interest payment has been estimated at Tk 15,808 crore. Every year, the actual payment of interest in the revised budget stands higher than the estimated cost on payment of interest.

The estimated expenditure on payment of interest was Tk 12,565 crore last fiscal year, but in the revised budget the actual expenditure stood at Tk 13,314 crore.

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Fahmida Khatun, additional director of the Centre for Policy Dialogue, speaks at the launch of the Unctad LDCs Report 2009 in Dhaka yesterday. Dr Debapriya Bhattacharya, distinguished fellow of CPD, *right*, and Mustafizur Rahman, executive director, *second from left*, are also seen. Economists say policy reforms and institutional capacity can take Bangladesh off the LDC status.

Policy reforms can take Bangladesh off LDC list

Economists tell launch of Unctad report

STAR BUSINESS REPORT

Had Bangladesh reformed its policies and strengthened institutional capacity, it would have come out of the LDC status much earlier than a UN agency prediction, an economist said at the launch of a UN report in Dhaka yesterday.

"It is possible for Bangladesh to come out of the LDC status by 2015, although Unctad predicts the upgradation by 2024," said Dr Debapriya Bhattacharya, distinguished fellow of the Centre for Dialogue (CPD), a private think tank.

"Two tasks have to be done and ensured -- policy reforms and strengthening of institutional capacity," he said.

The Unctad LDCs Report 2009: The State and Development Governance was unveiled by Fahmida Khatun, the CPD's additional director (research).

The LDCs (least developed countries) category was established in 1971, and since then, only two countries -- Botswana in 1994 and Cape Verde in 2007 -- have graduated to developing nations. Samoa is expected to get out of the LDC list in December 2010 and the Maldives in January 2011.

Now the number of LDCs is 49.

Referring to the report by the United Nations Conference on Trade and Development, which suggests good development governance, Bhattacharya said, "If development could not be brought in the centre of good governance, neither development nor good governance is possible."

The economist was upbeat on Bangladesh's graduation to a developing country, linking it to the effectiveness of both the state role and market system.

He pointed out that Bangladesh's economy and human assets will be a good support in coming out from the world's poor-country club. Bhattacharya, however, said, "The global climate change will be a concern for the country, as this change will enhance economic vulnerability or risks," he said.

Pointing to a change in the traditional thinking for development on the back of the recent global financial downturn, he said, "Each country will have to think now for development in its own way."

He also stressed a private-public coalition to ensure investment in every sector for development.

According to the Unctad report, six LDCs, including Bangladesh, did not prioritise governance in their Poverty Reduction Strategy Papers, or PRSP.

While presenting the report, the CPD's additional research director pointed to its observation that inflation rate was not a major problem in recent days. Fahmida said the high real rate of interest is a concern for investment.

"Such a rate jeopardises long-term growth by raising the cost of making public and private investment," she said.

The Unctad report lauded Bangladesh's ability to manage the food crisis during late 2007 and early 2008 through the public food distribution system.

However, the report pointed to Bangladesh's food security's vulnerability to climate change.

The UN report also pointed out that despite LDCs' recent strong performance, high growth rates were unlikely to be sustained in these countries given their excessive dependence on commodity and low-tech manufactures exports, and their vulnerability to volatile external markets.

It said in Bangladesh, the industry sector, the growth of which relied on manufacturing sector (readymade garments, or RMG), contributes about 27 percent to the gross domestic product (GDP) in 2009 and grew at a rate of around 5.9 percent.

Although the RMG sector has created positive externalities and multipliers for economic development, productivity is still low, the report noted.

The report also forecast a 2.7 percent real GDP growth for the LDCs as a group in 2009, a decline from an average of 7.4 percent during 2003-08.

LDCs exports are expected to contract by 9-16 percent this year, while foreign direct investment and remittance to LDCs are also set to decline, it said.

Unemployment, poverty and hunger are likely to rise, according to the report.

CPD Executive Director Mustafizur Rahman was also present at the function.

High interest rate sets back growth: Muhith

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Falling investment and a high interest rate are the two major weak spots in the economy, not the exchange rate or market intervention, Finance Minister AMA Muhith said yesterday.

"A high interest rate hurts investment growth," Muhith said at a seminar on exchange rate management under the floating regime.

Bangladesh Institute of Development Studies (BIDS) organised the seminar in collaboration with Manusher Jonno Foundation, a nongovernmental organisation at the BIDS auditorium.

Muhith backed the ongoing floating exchange rate regime and the central bank's intervention in the market and said: "Bangladesh Bank's intervention has so far been justified".

The minister also hailed the country's debt policy and termed it 'unparalleled'.

Muhith defended the current basket of currencies against the taka. "Bangladesh's economy is highly dollarised and even domestic transactions are done by dollar -- sometimes," he said. He opposed a suggestion to widen the basket.

But the minister said the country lags behind in two major areas -- investment and interest rate. The third weak area, according to Muhith, is the capital market.

"Investment cannot grow partly because of the high interest rate," he said. "But it takes time to reduce the interest rate further."

The minister said the capital market must be deepened to enhance investment. "Improving administrative capacity is also vital to utilise public investment for the sake of infrastructure improvement."

Dr Salehuddin Ahmed, the immediate-past governor of Bangladesh Bank, said currency devaluation would not benefit exporters, but would add to the cost of doing business.

"If the taka is devalued to 75 against the dollar from present 69 exporters' competitiveness will 'increase no more than 1 percent," said Ahmed quoting a hypothetical study during his tenure at the central bank.

Ahmed also opposed the dual exchange rate policy once demanded by exporters and a section of economists.

Backing BB's intervention in the foreign exchange market, the former governor said the central bank does it from a neutral approach.

In fiscal 2007-08, the central bank bought $650 million from the market and sold $533 million back. "The intervention depends on the market situation," Ahmed added.

Bangladesh entered the floating exchange rate regime in May 2003. The first ten months remained relatively stable with just less than 1 percent depreciation. The rate kept rising from mid-2004 and reached its peak at Tk 70 against the dollar in 2006 from Tk 58, which means a 20 percent slide.

Since 2007, the market has remained stable and has been moving between Tk 68 and Tk 70 despite global meltdown, declining domestic demand and devaluation of currencies by many countries, including India, Pakistan and Vietnam.

Dr Debapriya Bhattacharya, distinguished fellow of Centre for Policy Dialogue, said those who are promoting currency devaluation are doing it from a narrow export outlook.

"Currency devaluation will not help domestic demand grow," he noted.

Bhattacharya said interest rate cuts are more important than devaluation of the taka.

BIDS Director General Dr Mustafa K Mujeri chaired the seminar addressed among others by former top International Monetary Fund official and Executive Director of Policy Research Institute Ahsan Mansur and economists MA Taslim and Zaid Bakht.

Earlier, Dr Monzur Hossain and Mansur Ahmed, two researchers of BIDS, had made a presentation on the exchange rate management.

India scopes out new markets for RMG exports

PALLAB BHATTACHARYA, *New Delhi*

India is aiming to cut its garment industry's overwhelming dependence on American and European markets, hit by financial downturn.

It is now looking to Southeast and East Asia and Latin America, Africa and Oceania to expand its market.

As part of the market diversification effort, Indian Textile Minister Dayanidhi Maran will be leading India's first-ever joint textile trade delegation to Japan from July 20.

The Indian garment industry faces stiff competition from Bangladesh, Vietnam and China in the US and European Union markets.

Maran will attend Japan International Fashion Fair in Tokyo on July 22-30. Indian textiles and clothing exporters will be participating in the event.

The Apparent Export Promotion Council, along with Sripur Textile Export Promotion Council and Textile Promotion Council are participating in the fair.

To diversify the textiles and clothing exports and reduce dependence on the US and EU, India is promoting exports to Southeast Asia under its 'Look East Policy'.

Japan is one of the biggest consumers of textiles and clothing but India has a negligible market share of 1.12 percent in the Japanese import basket.

As India seeks large foreign direct investment in the textile sector where 100 percent FDI is allowed, Maran will address a business meeting hosted by Japan-India Business Cooperation Committee (JIBC) and will use this platform to invite investment in the Indian textiles sector.

The Indian government is conscious of the fact that textiles industry needs modernisation and there is huge scope for Japanese investment to upgrade spinning, weaving, processing and garmenting facilities.