

INTERVIEW

Growth hinges on energy

EBL chief speaks on how better infrastructure will lead to higher economic growth

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When policymakers forecast 6-7 percent GDP growth in the years to come, a top banker believes Bangladesh has the potential to grow at a much higher pace.

The country can break into double-digit growth in three years if the government substantially improves the condition of energy and physical infrastructure, says Ali Reza Iftekhar, managing director of Eastern Bank Ltd (EBL).

He says the construction of Padma Bridge and Dhaka-Chittagong four-lane road would add 0.5 percentage point and 0.4 percentage point respectively to GDP (gross domestic product). Full-swing activities in the manufacturing sector, now stagnant due to energy crisis, can increase GDP by 2 percentage points.

He sees no reason why Bangladesh cannot achieve a double-digit growth rate if China and India can do it with a huge population.

"We must salute the private sector. They are doing excellent despite all the limitations," Iftekhar told The Daily Star in an interview.

Iftekhar, 50, has spent half of his life in the banking industry. He talked on many issues such as industrialisation, trends in banking business, banks' over-exposure to stockmarket, and retail banking.

The banker also explained how EBL has transformed into a strong brand value. EBL offers a wide range of depository, loan and card products to cater virtually for every customer segment. The bank got the biggest recognition when national flag carrier Biman Bangladesh Airlines mandated pre-delivery purchase deal to it for two Boeing at \$118 million.

Iftekhar says the banking business has severely been hurt because of a declining investment demand from the manufacturing sector. The situation had forced the banks to go to the capital market as an alternative to making money. The banks have also tried to open new windows of business, including strengthening retail and Islamic banking.

The banker says everything was all right for the



Ali Reza Iftekhar

banks until December last year, when inter-bank call money market broke all records following the rise in cash reserve requirement (CRR) and statutory liquidity ratio (SLR) by the central bank.

The EBL boss points out that the banks are now opening import letters of credit (LCs) for power equipment, and there is no business with textile, chemical and other manufacturing industries.

"There must be a quick decision on coal policy

and its extraction," he says.

There has not been any significant improvement in gas exploration for many years. No new industry was given gas connection. The existing industries are running on low pressure of gas.

Considering the overall situation, Iftekhar fears that the banks' bad debt might rise in the just concluded year because of the inability of the businesses to repay the loans.

Although the banks made hefty profits from their stockmarket operation last year, he says it is not sustainable.

The highly exposed banks earned more than 40 percent of their total revenue from stockmarket business, while it was 18-21 percent for the moderately exposed banks, according to Iftekhar.

"This was a windfall gain and is not sustainable," says the banker. "Too much dependence on the stockmarket is not healthy for a bank."

The banker has stressed the need to diversify business. Already many banks have become involved with business like leasing, brokerage and merchant banking.

Iftekhar says getting involved with the insurance business may be another opportunity for the banks.

"Why should not I use my quality human resources in other businesses, like insurance," he says. EBL has decided to buy a stake in a life insurance company.

According to him, SME (small and medium enterprise) and retail banking will increase gradually.

EBL has a good reputation for its innovative products and services. During the last five years, the bank has introduced 12 new-to-Bangladesh financial products and services. EBL Matribhumi (the bundle product for the expatriate Bangladeshis), insurance-covered monthly savings scheme, VISA corporate cards, remittance card and mobile-based remittance solution are just a few of those.

The bank has a strong position in syndication financing. EBL closed syndication deals worth Tk 1,500 crore in the last five years.

EBL is a listed company on Dhaka and Chittagong stock exchanges with a paid-up capital of nearly Tk 300 crore. The bank has given bonus shares for consecutive four years till 2009. One right share was given against two shares in 2009. The price of an EBL share was closed at Tk 125 yesterday.

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Dealing with debt in 2011

Continued from yesterday

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The sovereign debt crisis will likely to remain at the top of the agenda and will affect economic and market developments in the euro-area over the next few years. In order to bring government budgets back on a sustainable path, all euro-area countries -- particularly the periphery ones -- will tighten fiscal policy in 2011. The measures will have a negative impact on economic growth for the euro-area on average and will contribute to a large divergence in 2011 and 2012 between the fiscally strained periphery countries and the healthier core countries. In an environment of weak domestic demand, we expect inflation to stay low. While the ECB is likely to reduce its non-standard measures further in the near term, rates are likely to be unchanged until 2012. But, with signs of higher money or credit growth or increasing inflation expectations, the ECB might act earlier.

Average wage growth is likely to be modest suggesting little underlying inflationary pressure. However, with upside pressure from higher commodity prices and rise in administered prices, inflation in 2011 will roughly be in line with the ECB's target of 2 percent. The ECB is unlikely to increase interest rates any time soon and will leave rates unchanged up to early 2012. However, as the ECB has a strong desire to avoid keeping rates too low for too long, upside surprises from money and credit growth and/or rising inflation expectations might trigger an earlier increase in ECB interest rates. Before raising rates, however, the ECB is likely to withdraw additional non-standard measures in the near term.

China

China's economy keeps running at an impressive speed. Despite a mild deceleration observed during the third quarter of 2010, Chinese GDP is



A family poses for photos with inflatable numbers as they attend a New Year party in Hong Kong on January 1.

on track to expand 10.5 percent during 2010. November trade figures showed acceleration in both exports and imports, signalling vibrant economic activity. Supporting this view, urban fixed investments also posted a slight acceleration expanding by 25 percent year by year. Throughout 2010, Chinese monetary authorities have taken some policy actions to prevent the economy from overheating due to large credit growth and booming real estate markets. The People's Bank of China (PBoC) has raised the required reserve ratio on five different occasions during 2010, and the interest rates on deposits

were also raised in the last three months. In addition, tighter credit standards were imposed on real estate activities.

China will initiate major reforms in 2011 and beyond as the 12th five-year plan begins. First, China will probably pursue a slower GDP growth target. Second, it would promote domestic demand to achieve balanced growth among consumption, investment and exports. Third, it would initiate wage normalisation, individual income tax cut, and more fiscal spending on social security and healthcare in order to elevate household income. Fourth, government will speed up the pace of

urbanisation in order to achieve balanced growth across regions. Finally, the service sector will be deregulated to absorb excessive liquidity and lift investment.

There are many risks in 2011. First, if China's inflation comes in earlier and much higher than expected, policy authorities may overreact and cause a sharp slowdown later in the year or in 2012. Second, if global liquidity were to spark inflation and asset bubbles, foreign policy reversal could burst bubbles in China. Third, trade war and thus export slowdown may trigger high bankruptcies and social unrest.

India

Growth has recovered to near pre-crisis levels with fiscal year 2011 (FY11) GDP likely to come in at 8.4 percent and rise further to 8.6 percent in FY12. Trends in consumption on the rural side have been supported by the government's employment program as well as the good harvest, while urban consumption reflects pent-up demand and consumer confidence. On the investment side, the upturn will likely be supported by the government's emphasis on infrastructure. While the headline inflation may decline

from the current 8.5 percent levels to about 6 percent in 2011, there are continued concerns on: (i) the continued stickiness in prices of food crops possibly due to the growing dominance of structural factors (rising incomes, changing dietary patterns and stagnant yields); and (ii) possible increases in fuel costs on the back of a liquidity-driven global commodity price rally. The Reserve Bank of India is most likely to increase interest rates in 2011.

Russia

In the absence of significant increases in oil prices, we expect Russia's annual economic growth to stay below 4.5 percent in the medium term. Growth in 2011 will be driven by a post-crisis recovery in investment and moderate consumption growth, supported by credit expansion. Inflation will average 8 percent in 2011 and fall to about 6 percent in the medium term. Given the modest growth rate, there will be no rise in interest rate in the near future. At the same time, balance of payments inflows into Russia will be moderate and the rouble will become more flexible and increasingly dependent on domestic real rates. Fiscal policy will remain neutral in the coming years with annual deficits of about 3 percent of GDP into 2013, raising public debts from about 10 percent of GDP now to 15 percent by 2013.

Global outlook: As the US recovery wavered and Europe immersed in its acute sovereign debt difficulties, China and India's continued economic expansion propelled the global economy to positive growth territory in 2010. This strong performance will continue to have a positive impact in 2011. The economic performance in 2011 will be largely determined by the evolution of Europe's sovereign debt situation and the success of policy makers across emerging markets to manage the complex trade-off between high growth and rising inflation.

Chowdhury is a professor of economics and adviser to the Federal Reserve Bank, US.