Star BUSINESS

DHAKA TUESDAY MARCH 29, 2011, e-mail:business@thedailystar.net

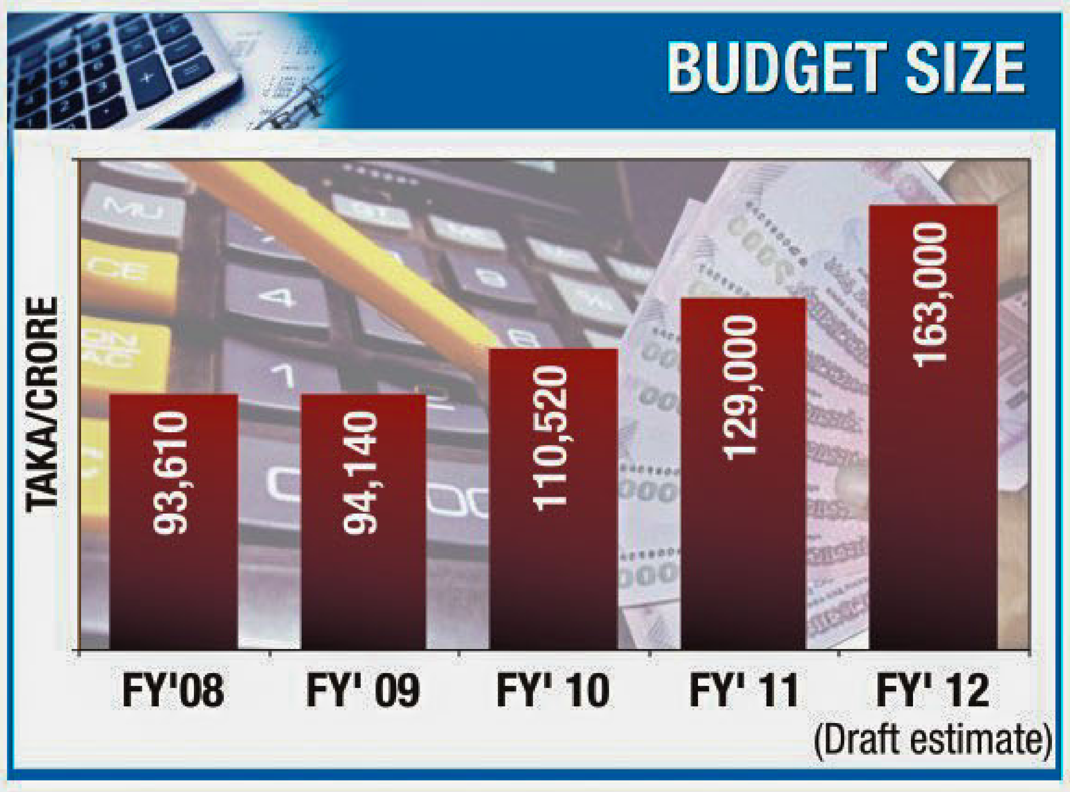
Budget outlay to rise 26pc next year

REJAUL KARIM BYRON

The next budget may increase by 26 percent over the current fiscal year's revised spending to take it to Tk 1,63,000 crore in an effort to attain higher growth.

The total expenditure in the current fiscal year went up by about 19 percent over the last year's revised expenditure.

According to a draft estimate of the finance ministry, both development and non-development expenditures will see a rise. In case of non-development expenditure subsidy, interest payment and expenditure on reform programmes will get a boost.



The size of the budget and macroeconomic situation was discussed on Sunday at a meeting of the resources committee and fiscal coordination committee with Finance Minister AMA Muhith in the chair.

The finance ministry and planning ministry were asked at the meeting to start their work on preparing the next budget on the basis of the draft estimate, officials said.

A finance ministry official said the estimate was made based on the situation two months prior to the budget presentation in parliament in June. A change may come in the estimate if any of the assumptions on which the estimate was made changes in the next two months, he added.

The size of the next annual development programme (ADP) has been increased by about 30 percent over the current year's revised one to put the figure at Tk 46,000 crore.

In the current fiscal year, the original ADP was raised by about 35 percent over the last year's revised one. However, this year's ADP has already been cut to Tk 35,170 crore.

Earlier, the finance ministry had a primary estimate to make the next year's ADP size at Tk 41,000 crore, but to meet the huge demand from different ministries and divisions the size was inflated to Tk 46,000 crore.

According to the finance ministry assumption, revenue income is on the rise, and the government will get a number of deferred budget supports from the development partners from the next fiscal year. As a result, there will be no major problem in financing the ADP.

The non-development outlay will also rise by 24 percent to stand at Tk 1,17,000 crore, up from about Tk 94,000 crore in the revised estimate this year.

The officials said expenditure on account of interest payment may increase by more than Tk 4,000 crore next year, when subsidy on petroleum, fertiliser and food will also see a rise.

According to International Monetary Fund, the government will have to spend Tk 15,000 crore next year as petroleum subsidy only, if the price is not adjusted.

However, energy ministry officials said, after the boro season the government may hike the price a little above the price in India to prevent smuggling.

The finance ministry official said the government will have to continue some subsidy on petroleum even after the hike.

The expenditure on liabilities of different state-owned banks and corporations may double in the next fiscal year's budget.

The next budget will be a little expansionary to achieve higher growth, but at the same time, it will have measures to contain inflation, the finance ministry official said.

Battle for deposits eases

SAJJADUR RAHMAN

A battle for deposits, which erupted a few months ago, is easing following the central bank's strict order to bring down the loan-deposit ratio within 85 percent by June, top bankers said.

Still some private banks are embarking on aggressive campaigns to offer higher interest rates on deposits to gather more resources to reduce their loan exposure in line with the regulatory order.

The private banks are offering a 12-13.5 percent interest rate on deposits in recent months. A few banks were reported to offer as high as 14 percent.

"The deposit crisis has slowed, but still there are challenges," Ali Reza Iftekhar, managing director and CEO of Eastern Bank told The Daily Star.

Shahjahan Bhuiyan, managing director of United Commercial Bank, Helal Ahmed Chowdhury, managing director of Pubali Bank, and Anis A Khan, managing director and CEO of Mutual Trust Bank, also echoed Iftekhar's view on the situation in the deposit market.

"The demand for money has been marginalised due to Bangladesh Bank's intervention," said Bhuiyan.

Recently, banks are facing a deposit crisis, mainly due to funding the rising imports of commodities and power plant equipment. The withdrawal of deposits to take those to the stockmarket has also made the banks deposit-starved since the last quarter of 2010.

The central bank found that some banks' loan-deposit ratio went up as high as 100 percent, well above the ceiling at 85 percent. The Bangladesh Bank has ordered all scheduled banks to bring down the ratio within 85 percent by June to avoid regulatory actions and help reduce the inflationary pressure.

So, banks have two options -- reducing the lending and enhancing the deposits -- to keep the loan-deposit ratio within the regulatory framework.

Finding the first option as 'impossible' to do, the banks have been involved in a fierce competition to attract deposits. Still four/five banks offer 13.5 percent rate for fixed deposits. Dhaka Bank is one of those, which offer 13.5 percent interest rate for one-year fixed deposits above Tk 25 lakh.

First Security Bank and SIBL also give 13.5 percent interest against deposits. BRAC Bank offers 13 percent interest for one-year deposit scheme.

"Things are improving gradually," said Anis A Khan of Mutual Trust Bank. The bank's loan-deposit ratio is at 81 percent, well below the ceiling of 85 percent.

Khan hopes the situation will improve further for taking another measure relating to the participation of primary dealers (PD) into the treasury auctions.

Now, only PD banks are allowed in the treasury auctions, he said, quoting a recent central bank decision. Earlier non-PD banks could also participate in the bidding.

"This is a very positive step; it will boost banks' liquidity," said Khan.

Helal Ahmed Chowdhury blamed some banks for treasury mismanagement by lending beyond their capacity.

"Some banks opened LCs (letter of credit) for capital machinery anticipating a significant improvement in the power sector. Later, they were in trouble to pay against those LCs," said Chowdhury. "These banks are pushing the cost of fund up," he added.

Though the banks are offering higher deposit rates, the real effective rates (deposit rates-inflation rates) are still less than 5 percent.

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Book building reforms hinge on probe report

STAR BUSINESS REPORT

Regulators will decide on reforms to the controversial book building system after a stockmarket probe committee submits its report to the government early next month.

Stakeholders proposed that the stockmarket regulator should decide the fate of the book building system after submission of the probe report. The Securities and Exchange Commission accepted it.

The SEC sat with the stakeholders, who were earlier asked to come up with suggestions on modifications of the book building method. The commission's Chairman Ziaul Haque Khondker presided over the meeting.

Representatives of Dhaka and Chittagong stock exchanges, Bangladesh Merchant Bankers' Association and Bangladesh Association of Publicly Listed Companies Association were present.

Apart from its findings on the recent stockmarket debacle, the probe committee is expected to give advice on amendments to securities rules and regulations, including the book building regulation, an IPO pricing mechanism that was criticised by economists, market experts and analysts before it was suspended in January.

"If so, it will be better putting the issue on the table after seeing the probe committee's recommendations," said an SEC official who attended the meeting.

Ahasanul Islam Titu, senior vice-president of Dhaka Stock Exchange, said: "After reviewing the concrete proposals of the probe committee, if there is any, we will fine-tune the book-building method."

Echoing Titu, Chittagong Stock Exchange President Fakhor Uddin Ali Ahmed said, "A modified book-building method depends on the report of the probe committee that, we expect, will propose a new guideline on the system."

Earlier on March 14, the SEC recommended some changes in the book building method and sought suggestions from the market stakeholders on the proposed changes.

But the stakeholders opposed some of the SEC's suggestions on fixing an indicative price based on price-earnings (PE) and net asset value (NAV), and calculation method of earnings per share (EPS), meeting participants said.

In line with the SEC recommendations, the offer price of a company's share will be no more than 15 PE (price-earnings), or must not exceed five times its net asset value per share, or whichever is lower, under the book building system.

The PE should be calculated based on the company's preceding three years' average earnings per share (EPS) mentioned in the audited accounts.

A committee comprising the Institute of Chartered Accountants of Bangladesh, the Institute of Cost and Management Accountants of Bangladesh and Dhaka and Chittagong bourses will scrutinise the audited accounts submitted by the companies before IPO.

The officials of other departments concerned will also be on the committee. If the committee has any comments or opinions after the scrutiny, those will have to be sent to the commission within seven working days.

The lock-in period for institutional investors has been proposed to be 60 days instead of 15, while the subscription period at 15 days, down from 25.

The SEC also recommended a cut in the institutional bidding period from 72 hours down to 48 hours.

After the bidding, the issuer company and the issue manager will have to submit the final IPO prospectus to the SEC within 48 hours.

The printed draft IPO prospectus will have to be sent to the related institutions and organisations at least five days before the road-show, where DSE and CSE officials will be present.

Global majors shun India auction

REUTERS, *New Delhi*

India failed to woo global players in its latest oil and gas exploration licensing round due to its dim track record of commercial discoveries and sluggish bureaucracy, while most of the 33 blocks went to domestic players.

BP, which has just bought a 30 percent stake in 23 Indian blocks owned by Reliance, did not put in a bid. BG, with BHP Billiton, applied for and won only one block.