

Inflation to affect economic stability

ADB projects this year's inflation at 8 percent and GDP growth at 6.3 percent

STAR BUSINESS REPORT

The Asian Development Bank (ADB) cautioned yesterday higher inflation could affect Bangladesh's macroeconomic stability.

The Manila-based lender projected inflationary pressure is likely to grow due to the sharp rise in global commodity and food prices, the likely further depreciation of taka, the recent hike in power tariff and expected increase in CNG and fuel oil prices.

"Although inflation is still under control, higher inflation could affect the industrial production and macroeconomic stability," said M Zahid Hossain, senior country specialist of ADB, while launching the Asian Development Outlook 2011 at the bank's Bangladesh office in Dhaka.

"Monetary policies are unlikely to fully counter them (supply side pressures)," said the ADB official, quoting the report.

The outlook is the ADB's flagship annual report that analyses its member countries' macroeconomic indicators and accordingly makes its projection.

The lender projected this year's inflation at 8 percent, which would rise to 8.5 percent next year.

The ADB said a major challenge for policymakers in the country would be to balance the needs for taming inflation and to ensure that credit to the private sector is not stifled.

It warned rising oil and food prices could affect the whole developing



Thevakumar Kandiah, country director of Asian Development Bank (ADB), speaks at the launch of ADB's Outlook 2011 at the bank's office in Dhaka yesterday. M Zahid Hossain, senior country specialist, is also seen.

Asia's macroeconomic stability.

Food costs across the region hit record highs in February, the ADB said. Also, crude oil prices surged to two-and-a-half-year highs on Monday with Brent crude topping \$120 a barrel on fears the ongoing conflict in Libya and unrest across the Middle East could disrupt supplies.

"Inflation expectations can fuel wage-price spiral in the region," said the report.

The ADB said growth in Bangladesh's gross domestic product (GDP) would likely increase to 6.3 percent this year, up from 5.8 percent in fiscal 2010, mainly due to rebounding export growth. The GDP is projected

to grow at 6.7 percent in fiscal 2012.

The ADB's projection on GDP is lower than the government's 6.7 percent for this fiscal year and 7 percent for the next year. However, the ADB said its projections were assumed on stable political and weather conditions, said Hossain.

On the sectoral growth projection,

the report said a rise in external demand and higher domestic capacity will increase the industrial production to 7.5 percent this fiscal year, up from 6 percent in the previous year. It will grow further by 7.8 percent in the next fiscal year riding on the improvement in power supply.

The services sector, which

ADB South Asia outlook

GDP growth forecasts, % per year

Countries	2010	2011	2012
Afghanistan	8.2	8.0	8.5
Bangladesh	5.8	6.3	6.7
Bhutan	7.0	7.5	8.0
India	8.6	8.2	8.8
Maldives	4.8	5.0	5.0
Nepal	4.0	3.8	4.0
Pakistan	4.1	2.5	3.7
Sri Lanka	7.6	8.0	8.0

Source: ADB

accounts for half of the country's \$100 billion economy, will rise slightly to 6.7 percent this year, up from 6.4 percent a year ago.

The farm sector is projected to grow at 4.1 percent this year, down from 4.7 percent in fiscal 2010, said the ADB report.

On the fiscal ground, the ADB hailed the robust revenue growth -- 28.4 percent in the first seven months of the current fiscal year till January. The growth is attributed to the rising domestic economic activities and better tax compliance aided by reforms.

Although the report said budgetary allocations for food, fuel and agriculture inputs will be larger this year, fiscal deficit is expected to be contained within the budgeted level of 5 percent, mainly because of under spending for development outlay.

The ADB said current account is likely to show a tiny surplus of 0.2 percent of GDP this year from 3.7 percent in the previous year, due to slow remittance growth and widening trade gap.

Thevakumar Kandiah, country director of ADB, said Bangladesh has three major challenges to exploit its growth potentials. These are: investments in infrastructure, skill development to meet growth requirement and managing the growing urbanisation.

"The government lacks in project development capacity," said Kandiah, regarding the public-private partnership initiative. "I hope to see some results in 3 to 6 months," he added.

Yunus vouches for voice of Bangladesh at G20

STAR BUSINESS REPORT

Prof Muhammad Yunus has urged France to take bold steps to reform the G20 to include developing countries such as Bangladesh in the group, as the global economic system is "much too narrow" in the current framework.

On March 25, the Grameen Bank founder wrote a letter to French President Nicolas Sarkozy, requesting him to give more voices to the developing countries, as the economic system has been the main reason for the widely creeping poverty in many countries.

The Nobel laureate has been promoting the possibility of including developing countries in the group after reforms. G20 countries collectively produce 85 percent of the global gross national product, control 80 percent of the world trade (including EU intra-trade) and accommodate two-thirds of the world population.

In his letter to the French president, the microfinance pioneer has argued that developing countries should commit to taking control of their own future. Through this initiative, developing countries such as Bangladesh would be able to contribute directly to the G25 initiatives.

Last year, Yunus had a discussion with the French president about how to enlarge the G20 to G25, by including five low-income and developing countries in the group to enable them to propose concrete, visible steps towards a broader approach to economic governance of global issues.

In response to Yunus's pro-



Nobel peace laureate Muhammad Yunus is seen with former French minister for housing and urban affairs Christine Boutin and French President Nicolas Sarkozy at the official ceremony of presenting an interim report on the social dimension of globalisation in Paris on December 9, 2010.

posal, Sarkozy said on Tuesday that Bangladesh will be part of the specific events France organises as the incumbent chair of G20, and it should be included in the influential group.

As for including Bangladesh in G25, President Sarkozy wrote to Yunus: "Regarding your country's inclusion, which you are warmly advocating, we are considering together with other developing nations, to make Bangladesh part of specific events organised by the French Presidency of G20, even if we cannot extend an invitation to Cannes."

Sarkozy has offered a three-pronged agenda for France's G20 presidency. This includes tackling volatility in commodity prices, exploring changes to the world monetary system and

reforming global economic governance.

He welcomed Yunus's proposal to enlarge the composition of the Group to allow developing countries to participate. He has also invited the Grameen Bank founder to further discuss these issues and to further enhance the initiative on the issue of poverty and exclusion.

Sarkozy wrote that he was counting on the support of Prof Yunus to take forward the G20 in two directions which, as much as Prof Yunus, Sarkozy considers necessary: economic development on one side, and the social aspects of globalisation, on the other.

The French President praised Grameen Bank, which has ensured access to credit for poor

people of Bangladesh. "Please allow me to reiterate, once again, how much your model of a "social business" bank, which has enabled poor people in your country to widely access credit, is admired and respected in France," wrote Sarkozy.

"The world needs innovative projects to fight poverty and inequalities, and the creation of Grameen Bank was an audacious initiative, which has been a source of inspiration for the international community," he said.

The G20 is a group of finance ministers and central bank governors from 20 major economies: 19 countries plus the European Union, which is represented by the president of the European Council and by the European Central Bank.

Four REHAB committee members resign

STAR BUSINESS REPORT

Four executive council members of the Real Estate and Housing Association of Bangladesh (REHAB) resigned yesterday, protesting irregularities in holding the polls.

They are Riad Momen, Syed A Siddiqui, Rezaul Karim and GR Nasir. They claimed that the executive committee is killing time in the name of correcting the voter list and violating the commerce ministry's directive to hold the biennial election in time.

But Nasrul Hamid Bipu, president of REHAB, downplayed the incident as 'illogical' and said July 29 has been fixed as the election date, although the election schedule is yet to be declared.

After his resignation, Siddiqui said: "We have resigned to protest irregularities in holding the election in time. The executive committee did not care about the demands of general members to resolve the issues of increased registration fees and lack of gas and electricity connections."

"The present committee has also failed to protect the interests of REHAB members when the Real Estate Development and Management Bill was passed last year," he alleged.

SEC okays Reliance mutual fund

STAR BUSINESS REPORT

The stockmarket regulator yesterday approved a prospectus of a Tk 55 crore closed-end mutual fund, Reliance One, the first scheme of Reliance Insurance Mutual Fund.

The Securities and Exchange Commission (SEC) gave the nod at a meeting with the commission's chairman Ziaul Haque Khondker in the chair.

The 10-year multi-scheme fund is sponsored by Reliance Insurance Company Limited, a listed insurance firm in Bangladesh.

Of the total fund, Tk 16.50 crore will be raised through pre-IPO private placement and Tk 27.50 crore from the public through initial public offering (IPO). The remaining amount is being sponsored by Reliance Insurance. The face value of each unit of the fund is Tk 10.

AIMS Bangladesh Limited is the asset manager and investment advisor of the fund, while Bangladesh General Insurance Company is trustee and Standard Chartered Bank is its custodian.

Presently, 33 mutual funds are listed on the stockmarket that accounts for around 2 percent of the total market capitalisation.

In another development, the SEC neither approved nor rejected a proposal of issuing bonds by Northern Power Solution.

Instead, the SEC sought further information from the company, as the regulator found deficiency in the power company's proposal of bond issuance.

"A letter seeking further documents on the bond issuance will be sent to the company," said an SEC official after the meeting.

Earlier, Northern Power sought permission from the SEC to raise Tk 175 crore through issuing bonds at 18 percent interest rate through private placement.

The company in the proposal said 50 percent of the bonds are convertible to ordinary shares after a certain period of time.

Moreover, the existing paid-up capital of Tk 91 crore suggests the company should go for IPO as per regulatory requirements. But, the company is planning to issue convertible bonds instead.

Launch of

MTB

24/7 ATM Booth

ATM

মিউচুয়াল ট্রাস্ট ব্যাংক লিমিটেড

Mutual Trust Bank Ltd.

you can bank on us

www.mutualtrustbank.com