

Economy heads back to high growth



Buoyancy in agricultural production is likely to help Bangladesh attain 6.7 percent economic growth this year.

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Bangladesh is expected to head back to more than 6 percent economic growth this fiscal year, after a two-year spell of slowdown due to global recession and dipping exports, according to predictions of World Bank (WB) and Asian Development Bank (ADB).

The ongoing buoyancy in agricultural production and a robust growth in exports of major industrial products are likely to help Bangladesh attain up to a 6.7 percent rise in gross domestic product (GDP).

Over the past one year, domestic demand has been strong, supported by a vibrant rural economy where farmers have got a boost in their spending capacity due to high prices of agricultural products.

A rise in wages, both in the public and private sectors, has kept the internal demand intact.

The government maintains that economy will expand by 6.7 percent by the end of the current fiscal year ending on June 30.

Multilateral lenders such as the WB and ADB say the size of Bangladesh economy will grow by 6.2-6.3 percent this year, widening the scopes for increased job opportunities, income and purchasing capacity.

The national statistical agency, Bangladesh Bureau of Statistics, is yet to finalise its preliminary esti-

2011-12 BUDGET

mate, its officials said.

In fiscal 2009 and 2010, economy grew by 5.7 percent and 5.8 percent respectively.

Between 2006 and 2008, the country clocked over 6 percent growth, according to Bangladesh Economic Review.

"Preliminary signs suggest better economic performances in all sectors this year," says the WB in its May 2011 release on Bangladesh economy.

However, economy faces some challenges -- inflation, liquidity dearth in banks and fear of a negative impact of low remittances amid ongoing crisis in the Middle East and North African countries.

Rising inflation, led by food prices, has already put increased strains on the household budgets, eroding the gains in people's purchasing capacity.

Higher food prices are likely to put an adverse impact on poverty reduction efforts.

The prospects of a rapid boost in investment and economic activities are plagued by the ongoing power and energy crunch, weak roads and port performances.

By solving the infrastructure constraints, Bangladesh can attain over 7 percent annual growth, say

economists.

"There is no doubt about it. It is quite feasible. It's not a fantasy to achieve more than 7 percent growth," said Zahid Hussain, senior economist of the WB.

"But so far the outlook is 6 percent plus," said Hussain.

Since the beginning of the current fiscal year, growers have bagged a good output of rice during the immediate aman and aus season and cashed in on the higher prices of the staple and other food grains on the domestic and international market.

Favourable weather and a cut in the prices of fertiliser also helped the farmers have a good harvest of potato also.

The prospects of a bumper rice production in the principal crop season boro also look bright as the farmers maintained their enthusiasm to grow more to boost their income and purchasing capacity.

Except for a slump in the prices of potato after the bumper output, the growers also got better prices for other agricultural commodities -- vegetables, jute -- and shrimp.

Industrial activities have also picked up in the current fiscal year as the overall exports earnings surged. Imports of raw materials, intermediate goods and capital machinery also increased.

Exports surged 40 percent to \$18.24 billion in July-April of 2010-11 from \$12.94 billion a year ago,

thanks to the recovery in the global demand after the recession. The rising labour costs in Bangladesh's competing countries extended support to robust growth in its exports of garment and textile industry.

Two other main sectors -- jute and jute goods and shrimp -- also fetched good export earnings.

The growth of remittance inflows slumped to 4 percent in the July-April period of fiscal 2011 from 16 percent in the same period the previous year. In 10 months to April 2011, inflow of remittance, which also provides an impetus to domestic demand, stood at \$9.58 billion.

The ADB said the strong rebound in exports will support higher growth.

"The pickup in export-linked domestic industries and tax incentives for domestic industries provided in the FY2011 budget are also expected to bolster economic activity," said the Manila-based lender which predicted a 6.3 percent economic growth.

However Prof Shamsul Alam, a member of the Planning Commission, said economy would attain the targeted 6.7 percent expansion by end of the fiscal year due to a bumper harvest of boro rice, vegetables, including potato, and robust export growth.

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Default loans mark a rise

REJAUL KARIM BYRON

The amount of default loans increased by Tk 1,043 crore or 4.59 percent in the first quarter of 2011, mainly in the private sector banks.

Officials said default loans went up as the central bank imposed strict rules about loan classification.

According to Bangladesh Bank (BB) statistics, on March 30, 2011 banks had default loans of Tk 23,752 crore or 7.27 percent of their outstanding loans, which was Tk 22,709 crore or 7.27 percent on December 31, 2010.

Of the total default loans,

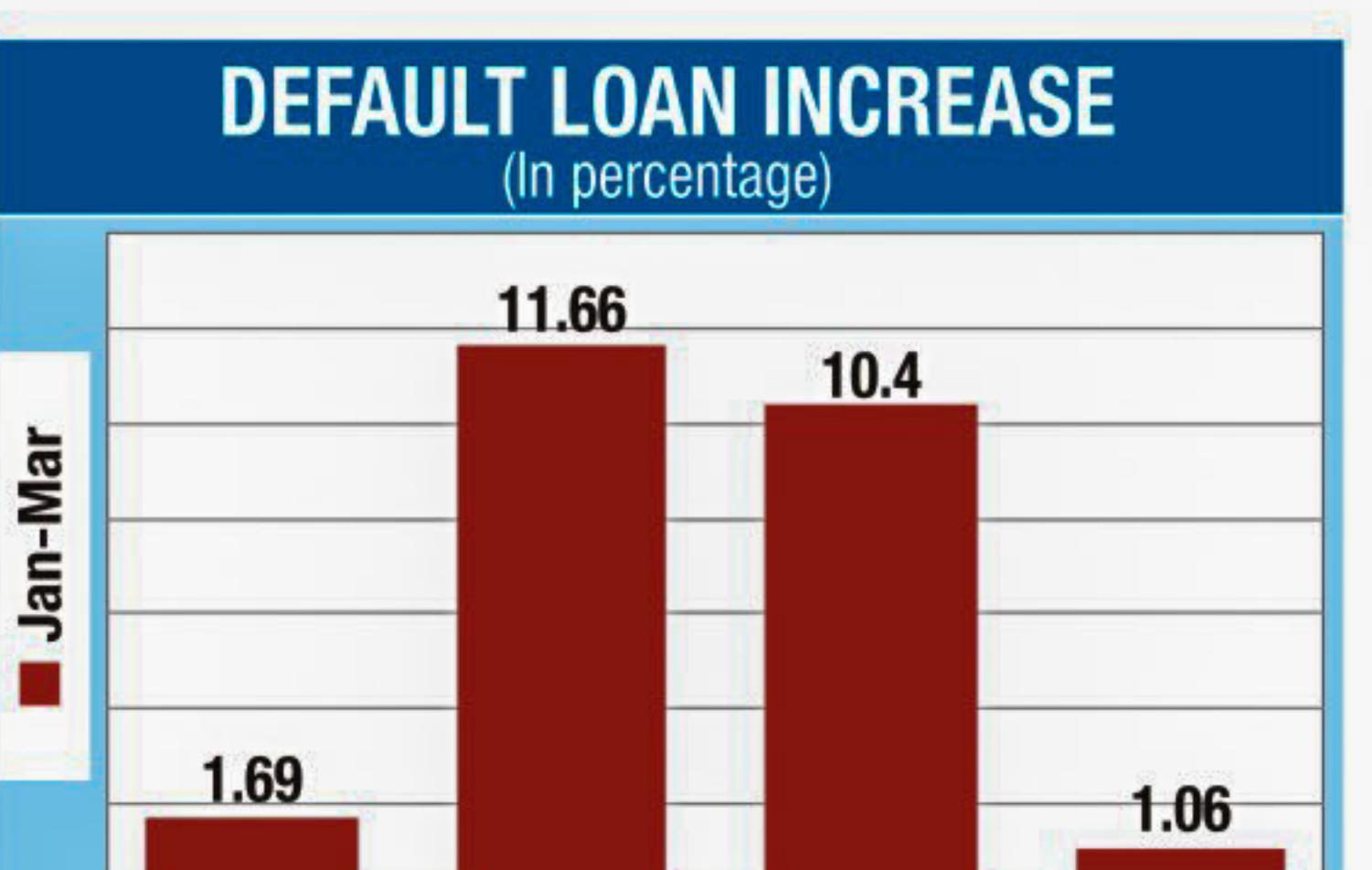
those of 30 private commercial banks increased by 11.66 percent or Tk 750 crore.

Default loans of four state-owned commercial banks rose by Tk 182 crore or 1.69 percent. Nine foreign commercial banks registered an increase of 10.40 percent or Tk 58 crore.

Though the default loans of foreign commercial banks rose in percentage, the amount of their default loan is significantly low -- Tk 611 crore at the end of March, which was Tk 553 crore at the end of December.

Default loans of five specialised banks increased by 1.06 percent or Tk 53 crore.

A central bank official said,



usually the amount of default loans marks a rise in the first

quarter.

Another BB official said there

was a tendency among the private commercial banks to make more profit by showing classified loans as declassified.

A recent BB inspection also found some instances of such practices. The central bank has started strict monitoring of the banks to check the tendency. This also may have caused a rise in the amount of classified loans in the private sector, said the official.

Another reason is that the banks in recent times gave big amount of loans to the SME sector. Some of these loans taken for the SME sector may have been used in other sectors, which may have been defaulted.

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