STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES	USD	EUR	GBP	JPY
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI					
▲ 1.98%	▲ 1.92%	▲ $1,526.00 (per ounce)	▲ $101.55 (per barrel)	▲ 1.11%	▲ 1.48%	▲ 0.16%	▲ 0.19%	BUY TK	73.25	103.18	119.19	0.89
5,397.61	9,700.22			18,044.64	9,562.05	3,123.70	2,736.53	SELL TK	73.39	103.39	119.46	0.89

BANGLADESH BANK

Star BUSINESS

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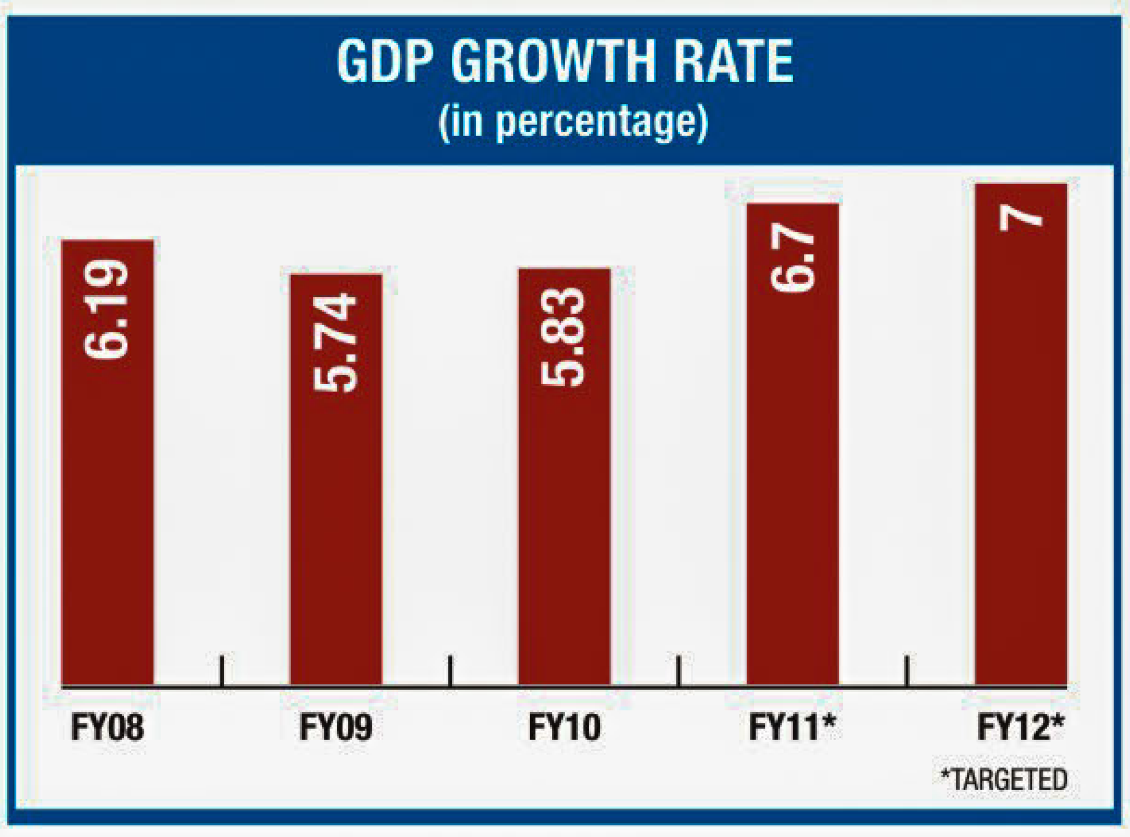
High growth, low inflation on target

REJAUL KARIM BYRON



The government is going to target a high growth and low inflation for the next fiscal year though different fronts of macroeconomy are already under pressure.

A meeting of the fiscal coordination council with Finance Minister AMA Muhith in the chair took decisions yesterday on different matters including the growth targets.

The meeting gave highest priority to stabilising the volatile capital market and exchange rate in the foreign exchange market.

The meeting also decided to increase interest rate on savings instruments, but the rate will be fixed after discussion with the prime minister.

Officials who were present at the meeting said they discussed different steps to encourage the savers under an institutional framework.

The meeting expressed hope that the economic growth target of 6.7 percent for the current fiscal year will be achieved though the World Bank, International Monetary Fund and Asian Development Bank forecast the growth within the 6 percent range.

The meeting set a target of 7 percent growth in gross domestic product (GDP) for the next fiscal year.

They made the growth forecasts on the basis of a bumper production in the farm sector and a rise in exports.

In the first 10 months of the current fiscal year, exports grew by around 41 percent, which was around 10 percent in the same period of the previous year.

In April, the export growth was about 46 percent. Imports are also increasing at a faster rate, and a large portion of imports is meant for the local industries.

These two positive scenarios make the government hopeful that a high growth rate will be achieved in the current and next fiscal year.

In the current year's budget, the inflation target was set at 6.5 percent on an average. But by April, inflation crossed the budgetary target and reached 8.54 percent. However, the fiscal coordination committee expects that it will remain within 8 percent in the current fiscal year and will be contained at 7.5 percent next year.

The taka depreciated against the dollar by about 6 percent in the last one year. On May 24, the exchange rate of the taka against the greenback was Tk 73.34, up from Tk 69.32 a year back.

When the taka loses ground, the exporters earn more but it also makes imports costlier which fuels inflation. The Bangladesh Bank will remain cautious so that the exchange rate remains within 73 taka, the meeting decided.

In the current fiscal year, interest rate was lowered on all types of savings instruments, and tax on the profit of the savings instruments was hiked which caused a drastic fall in the sales of those savings instruments.

The meeting decided that the rate of interest and the limit of purchasing amount of savings instruments will be increased.

However, no decision was taken whether the increase will be applicable to all types of savings instruments or Paribar Sanchaypatra and Pensioners' Sanchaypatra.

The meeting also said the National Board of Investment (NBR) may examine whether undisclosed money can be allowed for FDR (fixed deposit receipt) with banks.

The meeting discussed if black money can be allowed for investment in the stockmarket, but no decision was taken in this regard.

However, it decided to direct agencies concerned to remain alert so that no steps are taken which may destabilise the capital market.

Commerce Minister Faruk Khan, the Prime Minister's Economic Affairs Adviser Moshiur Rahman, Bangladesh Bank Governor Atiur Rahman, Finance Secretary Mohammad Tareq, ERD Secretary Musharraf Hossain Bhuiyan and NBR Chairman Nasiruddin Ahmed were present at the meeting.

Nobel Laureate Muhammad Yunus shakes hands with Ed Miliband, leader of the British Labour Party, at Miliband's office in London on May 24. They discussed how to promote pro-poor development and social business.

AIDAN HARRIS

Stocks jump as BB steps in

STAR BUSINESS REPORT

Stocks returned to the black fuelled by a Bangladesh Bank directive that acted like a catalyst to boost the markets.

The central bank has extended time for banks to trim down its single borrower exposure limit by four months to December from August.

Commercial banks with merchant banking or brokerage operations will now have to cut its single borrower exposure to 15 percent of their paid-up capital.

M Shakil Islam Bhuiyan, chief executive officer of LankaBangla Investments, a leading merchant bank, said: "The central bank has extended the time limit to adjust over exposure of merchant banks, which is good news for investors."

The 15 percent single exposure limit means if a bank's paid up capital is Tk 200 crore it cannot lend more than Tk 30 crore to its merchant bank or brokerage house.

But many merchant banks have hundreds of crores of taka in exposures to the capital market. If they now want to bring down the exposure to the new ceiling, they have to sell shares of clients to free money for their owning companies (banks).

The benchmark general index of Dhaka Stock Exchange rose 105 points, or 1.98 percent, to 5,397 points. The selective categories index of Chittagong Stock Exchange increased 183 points, or 1.92 percent, to close at 9,700 points.

A group of investors under the banner of Capital Market Unity Council staged a sit-in in front of the DSE building after submission of a 15-point charter of demands to the Securities and Exchange Commission.

They demanded resignation of Finance Minister AMA Muhith, Bangladesh Bank Governor Atiur Rahman and DSE President Shakil Rizvi.

Saiful Islam, vice-chairman of BRAC EPL Investment and managing director of BRAC EPL Stock Brokerage, said the liquidity crunch pushed down DSE turnover as most institutional investors failed to trade though the market price earnings ratio is 15.

Turnover on the DSE yesterday hit its lowest in 26 months and stood at Tk 296 crore, down by Tk 27 crore from that on the previous day. The earlier lowest turnover on the DSE was Tk 275 crore on March 30, 2009.

Salahuddin Ahmed Khan, who teaches finance at Dhaka University, said it would have been better if the BB had taken the decision to increase the time limit for exposure a few months earlier.

No quick let-up in rising inflation

Research organisation warns

STAR BUSINESS REPORT

Consumers are unlikely to see any immediate respite from the rising inflation mainly due to soaring global inflation and increased import costs.

Spiralling fuel and energy prices and fallout from higher government spending are also likely to push inflation higher, according to Bangladesh Institute of Development Studies (BIDS).

The warning came after inflation fed by soaring food prices on the international and domestic market hit 10.67 percent in April on a point-to-point basis, the highest since the 2007-08 food price-led inflation. A month ago, inflation was 10.49 percent.

For the sixth straight month, inflation has continued to rise, putting strains on household budget. Low and mid-income earners are badly hurt.

Higher inflation will require the government to expand food distribution and safety net programmes both in "coverage and entitlement", said BIDS Research Director Zaid Bakht.

BIDS organised the discussion with lawmakers at Ruposhi Bangla Hotel, formerly Dhaka Sheraton Hotel.

Bakht's suggestion came as the government is set to announce the national budget for the fiscal 2011-12 next month to accelerate the pace of the economy, which is expected to head back to upwards of 6 percent annual growth in the outgoing fiscal year after two years' slowdown.

BIDS suggested the government should target 7 percent growth in the next fiscal year. To attain the target, it said, the government will require taking an expansionary budget so that it can scale up public investment to boost private investment by addressing and removing the power, energy and infrastructure bottlenecks.

Bakht said the expansionary budget will require paying higher subsidies amid rising prices of petroleum and essential commodities. It will also require widening social safety nets which will also expand the size of the budget, he added.

Bakht warned of risks of macroeconomic instability.

"The first likely source of macroeconomic instability is fiscal imbalance," said the economist at the BIDS.

Bakht said the fiscal imbalance may stem from revenue shortfall, which may lead to the government's higher borrowing from the public and banking systems and cause a crowding-out effect and contribute to inflation.

"Another source of macroeconomic instability is a vicious cycle of borrowing and higher interest payment," he said.

He said the implementation of annual development programme would rise toward the end of the outgoing fiscal year and government borrowing from the banking system would increase 'destabilising the macroeconomic balance'.

"It implies that revenue efforts will have to be further geared up during FY12," he said, suggesting an increase in tax network.

Prime Minister's Economic Affairs Adviser Mashiur Rahman said tax collections will rise if awareness among people of the need to pay taxes could be created.

"Otherwise it would be difficult for the government to discharge its responsibilities."

BIDS suggested the government go for accepting the demand of local businesses for reducing import duty on raw materials and capital machinery to boost investment and production which will have a favourable impact on inflation by reducing costs of production.

"The resulting increase in the level of economic activity will ultimately result in much higher revenue earning offsetting the initial revenue loss due to tariff reduction," Bakht said.

BIDS recommended taking up development projects on a priority basis instead of taking many new schemes based on political consideration. It asked the government to take up specific measures to curb population growth, develop skills of migrant workers and continue support to growers for farm input.

At the discussion, lawmakers suggested steps to generate power using coal, improvement in railway and actions against alleged manipulators of stockmarket. They also underscored the need for reducing corruption and improvement in governance.

BIDS Director General Mustafa K Mujeri was also present at the programme.

Govt to provide 55pc of ADP

STAR BUSINESS REPORT

The government will provide 55 percent from its own fund if it fails to utilise foreign aid in the annual development programme (ADP) of the next fiscal year.

An ADP of Tk 46,000 crore will be placed at a meeting of the National Economic Council (NEC) on Sunday with Prime Minister Sheikh Hasina in the chair.

Officials of the planning ministry said nearly Tk 25,180 crore or 55 percent will be financed from internal resources. And Tk 20,820 crore or 45 percent will come from development partners.

There will be 1,039 projects in the ADP. Sixteen public private partnership projects will also be included in the annual programme.

The power and energy sector will get top priority in the ADP with Tk 8,512 crore allocation. The transport sector, the second priority field, will get Tk 7,749 crore. Agriculture, water resources and rural development sectors will get a total allocation of Tk 7,240 crore, while Tk 6,124 crore will go to the education and religious affairs sector.

Besides, a block allocation of Tk 751 crore will be kept in the ADP to meet the demand of any ministry's special projects. Tk 2,011 crore will go to the special development assistance sector.

A planning ministry official said the amount all the ministries demand is about Tk 67,000 crore. There is a huge gap between the demand and the proposed allocation, he added.

The planning ministry will seek more allocation from the NEC. The ADP size may be bigger if the allocation is increased.

In the current fiscal year, an ADP of Tk 38,500 crore was taken but later it was cut down to Tk 35,130 crore.

The proposed ADP for the next fiscal year is 28 percent more than the revised ADP of the current year.