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## Doubt shadows BB policy targets

### Central bank governor plays down worries at an ERF discussion on monetary policy

STAR BUSINESS REPORT

Economists yesterday said the central bank might not achieve its monetary policy targets for the current fiscal year due to the government's bank borrowing and politicised boards of state banks.

The economists, including former adviser to caretaker government Mirza Azizul Islam, expressed doubts over the targets at a discussion organised by the Economic Reporters' Forum in Dhaka yesterday. The central bank announced the half-yearly monetary policy statement on Thursday.

But Bangladesh Bank Governor Atiur Rahman brushed aside the worries and said the problems in the economy are due to the "pressure of success".

"The rail tracks used for a train running at 50 kilometres an hour are now taking the burden of a train speeding at 150 kilometres," he said. "It is creating some problems."

The BB governor, however, said the problems will ease when higher growth is achieved.

Replying to journalists' queries about giving licence to new banks, the central bank governor said the decision to approve new banks will be taken following advice by the BB board. He also said the central bank enjoys full autonomy except in raising its staff salary.

BB set a target to lower credit growth to cut inflation. In the last fiscal year also, a target was fixed for cutting credit growth but it crossed the target.

Mirza Azizul Islam said the state owned banks control about 50 percent of the bank credit. He said, when he was an adviser in charge of the finance ministry the state banks were given a corporate structure. As a result, the central bank got some control over those.



Bangladesh Bank Governor Atiur Rahman, second from left, speaks at a discussion organised by the Economic Reporters' Forum in the capital yesterday.

"In the recent times we have observed that the bank boards have been politicised. As a result, they are more or less out of control of the Bangladesh Bank," Islam said.

There is a limitation on the part of the central bank as to how much it can cut credit growth in the politicised banks, he said.

It remains to be seen what effect the credit growth is creating as a result of giving loans in agriculture and small and medium enterprises, Islam added.

Loans taken for agricultural purpose is being used for buying motorcycle, building houses or SME loans being invested in the stockmarket, the former adviser said.

Islam said these are the fundamental problems of the monetary policy

and for this reason, in the recent times the targets set in the monetary policy cannot be implemented. He, therefore, has doubts about how much the goals of the monetary policy could be achieved.

He also posed a question as to how prudent the BB advice was to borrow funds for large infrastructure projects from abroad.

Research Director of Bangladesh Institute of Development Studies (BIDS) Zaid Bakht said, the BB monetary policy did not spell out how the target of cutting money supply would be achieved.

He said, in the last fiscal year the banks invested in the share market but the central bank did not take right steps at right time. They awoke from slumber

in December and raised the cash reserve requirement (CRR). The same trend exists now. It is not clear how much the BB will be able to contain it.

Bakht said the public sector borrowing also pushes up inflation but the monetary policy did not have any cautionary message for the government. He also said the biggest problem in government borrowing is that they borrow at the end of the fiscal year. As a result, when the commercial banks face a liquidity crisis they take money from the central bank. Ultimately, the entire amount of the government borrowing comes from the central bank, which increases inflation.

Refuting Bakht's criticism, BB Deputy Governor Ziaul Hasan Siddiqui said the central bank did not suddenly

wake up in December to raise the CRR. He said inflation was increasing every month over the period of about six months. That is why the central bank raised the CRR to control credit.

The exposure of the banks in the capital market is only 3 percent of their liabilities. As per law, the banks can invest up to 10 percent of their liabilities in the stockmarket.

Siddiqui also said the MPS contained clear advice on the government's and state owned enterprises' borrowing.

Senior consultant of the BB Allah Malik Kazemi said, through the monetary policy the central bank succeeded in containing core inflation (non-food inflation). However, the MPS could not help contain food inflation.

Kazemi also said, as the economy sped up quickly in the last fiscal year the MPS had to make some concessions keeping with the fiscal policy. He said he is hopeful of achieving the target set in the MPS for this fiscal year.

Murshid Kuli Khan, another deputy governor of the BB, said the central bank strictly monitors agriculture loans and SME loans. The BB conducted a study which found that the loans have not been spent on other purposes, he said.

Economist Qazi Kholiquzzaman Ahmad said inflation cannot be contained by the monetary policy only; it has to be coordinated with the government's revenue, import and trade policies.

World Bank senior economist Zahid Hussain said limiting the government borrowing will be a big challenge.

Director General of Bangladesh Institute of Bank Management Toufiq Ahmad Choudhury said the government will have to play a big role in achieving the policy targets.

## Bulk electricity tariff goes up 6.66pc Monday

UNB, Dhaka

Bulk electricity tariff will rise by 6.66 percent, effective from Monday.

Tariff of each unit of electricity at the bulk level will go up to Tk 2.80 from the existing Tk 2.63 now, according to an earlier decision of the Bangladesh Energy Regulatory Commission (BERC).

On February 8, BERC raised the bulk electricity tariff in two phases by a total of 18.14 percent.

An 11 percent rise in the first phase came into effect from February 1 and the second phase with a 6.66 percent rise becomes effective from Monday.

In the first phase, each unit of electricity for bulk consumers went up to Tk 2.63 from Tk 2.37.

Responding to the plea made by the Power Development Board (PDB), BERC had raised the power tariff for bulk consumers. At that time, an interim 5 percent tariff increase was made for retail consumers.

The bulk tariff is applicable only for the power distribution agencies such as DESCO, DPDC and REB that buy electricity from the Power Development Board for their retail consumers.

## Govt cuts rice import plan

SOHEL PARVEZ

The government has cut its food grain imports target by 22 percent for the current fiscal year due to better stock and internal procurement, a food department official said.

The government will import 17 lakh tonnes of grains -- eight lakh tonnes of rice and nine lakh tonnes of wheat -- in fiscal 2011-12 against its actual import of 22 lakh tonnes last year, said Ahmed Hossain Khan, head of the food directorate.

"We had to import higher last year because of poor opening stock and lower than expected procurement from the domestic market. This year, the situation is better and so we will not require importing at that level," he said.

In the current fiscal year, the food department began with a stock of 9.5 lakh tonnes of grains -- almost double the amount in the opening position last fiscal year.

Khan said the government is buying rice and wheat in line with its import plan. Already, 2.5 lakh tonnes of rice and 1.5 lakh tonnes of wheat are in the import pipeline.

Recently, the food directorate decided to purchase 50,000 tonnes of rice at \$429 a tonne and 50,000 tonnes of wheat at \$309 a tonne from an Indian bidder.

Currently, Thai rice prices, the benchmark for Asia, remains over \$500 a tonne.

The government's plan to slash import came after wheat and rice imports surged 54 percent to 53 lakh tonnes in

fiscal 2010-11, the highest in 12 years. Last fiscal year, total rice import was 15.59 lakh tones, of which 81 percent was imported by the government.

Earlier, Food and Agriculture Organisation (FAO) had predicted that Bangladesh's import of cereal will fall this year compared to the previous five years, owing to good domestic production and some stockbuild-up.

The total food grain output, including wheat, rose 3.88 percent to 3.44 crore tonnes last fiscal year compared to the previous fiscal year, according to Bangladesh Bureau of Statistics.

Abul Bashar Chowdhury, chairman of Chittagong-based food grain importer BSM Group, however, said import by the private sector will depend on crop situation, especially the standing aman, the second biggest crop after boro.

The harvest of aman, which faces threats of floods and cyclone, begins from November.

The wheat import by the private sector may drop 10-15 percent this year compared to last year's peak of 37.51 lakh tonnes.

Despite a good crop, Khan said the government does not want to buy higher quantity from the domestic market to avoid spike in the prices.

In the current fiscal year, the government aims to buy 29 lakh tonnes of food grains, including 11 lakh tonnes from the domestic market, according to the food department officials.

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## Padma Oil investors caught in quandary

SARWAR A CHOWDHURY

Thousands of investors face uncertainty due to trading suspension of Padma Oil shares that resulted from changes in dividend ratio by the state-run fuel company.

The trading of the company has been suspended for four months in the secondary market, and the investors do not know when the suspension would go.

The Padma Oil issue became so complex that the premier bourse management and even the market regulator could not take a decision on its trade resumption.

The Dhaka Stock Exchange management is seeking instruction from the Securities and Exchange Commission on the resumption of trading of Padma Oil. But the regulator cannot decide on what to do about the issue.

The company management is also repeatedly requesting the SEC to resume its share trading in the secondary market.

But, the complexities did not arise because of only one factor. First, after filing of a writ petition by a shareholder -- Aziz Ahmed -- the High Court on January 2 stayed the recommendation made at the board meeting of Padma Oil for three months.

The recommendation made in the meeting on December 12 last year includes shareholders' entitlement of 100 percent cash dividend, record date for entitlement and holding annual general meeting.

The market price of each Padma Oil share fell from Tk 1,250 to Tk 900 following the dividend declaration.

The petitioner took the opportunity of going to the court, as the company did not provide any prior notice to the commission and exchanges regarding holding of board meeting for consideration of its audited accounts and dividend.

But as per rules, a listed firm is required to provide such prior notice to the SEC and the bourses.

### Italian bank to cut 3,000 jobs

AFP, Rome

Italy's second largest bank, Intesa Sanpaolo, reached a deal with unions on Saturday to cut 3,000 jobs by 2013 under a plan also aimed at bolstering the lender's capital reserves, Italian media reported.

The agreement will also see 1,200 new hirings and 5,000 existing posts reallocated within the bank's network over the same time period.

BY THE NUMBERS	
Paid-up capital	Tk 29.40cr
Face value	Tk 10
Last close price	Tk 733.20
Trading suspended	March 30
Listing year	1976
Market category	A
Government stake	50.35%
Institution holding	31.34%
Public holding	18.31%

Secondly, Padma Oil itself made the issue more complex by changing the earlier declared dividend ratio and announcing a new ratio. The company on March 20 recommended 50 percent cash and 50 percent stock dividends, revising the previously declared 100 percent cash dividend.

Dividend declaration for the second time was a worst step, as a listed company cannot change or adjust the ratio of already declared dividend as per securities rules.

Thirdly, the spot transaction of Padma Oil shares for dividend adjustment and entitlement was held on March 30.

This is the most complex part of the Padma Oil issue. Now, if the company goes back to its previous position (when it declared 100 percent cash dividend) to comply with the securities rules, a shareholder may go to the court.

However, the spot trade cycle could not be completed, as the DSE management stopped the trading of Padma Oil on March 30.

When asked, Padma Oil Managing Director AHM Shamsud Duha said they took legal opinion prior to announcing the dividend for the second time.

Padma Oil in a letter to the commission on May 30 said it had sought legal opinion from a senior counsel, Dr M Zahir.

According to Zahir, the decision regarding record date and date of annual general meeting taken by the company on December 12 can be kept at its original form or taken afresh if the date expired in the meantime, complying with relevant laws.

Relying on the senior counsel's opinion, the company declared fresh date of annual general meeting, and split the dividend into cash and stock, keeping intact the original entitlement, the company said in the letter.

"Now, the issue is pending before the court, and the whole thing depends on the court verdict," he said.

The DSE in a separate letter to the commission on June 5 said M Zahir clearly mentioned: "please take care that this time you (Padma Oil) conform to Regulation 30 of the DSE Listing Regulations and any other requirements of SEC."

The company did not comply with the SEC notification that says declared dividend cannot be changed or the ratio of dividend cannot be adjusted.

Before stopping the trade, the DSE had taken legal opinion from barrister Rafique-ul Huq who had said the DSE should suspend the trading until this matter is solved by the issuer and the SEC.

Talking on the issue, a senior SEC official said Padma Oil itself made the issue complex, especially by changing the dividend ratio.

Now, it is a matter of the court, he said, adding that the commission is waiting to see the court verdict, and it will take decision in line with the verdict.

The last closing price of each Padma Oil share on the DSE was Tk 733.20.

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