

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES			
DGEN	CSCX	Gold	Oil	MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY
▲ 1.67%	▲ 1.60%	\$1,594.85 (per ounce)	\$93.54 (per barrel)	▼ 0.72%	▼ 1.26%	▼ 1.55%	▼ 0.30%	80.30	102.39	122.49	0.99
5,079.90	9,220.27			15,379.34	8,296.12	2,618.09	2,218.24	BUY TK	SELL TK	81.30	106.54 126.77 1.09

star BUSINESS

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DHAKA TUESDAY DECEMBER 20, 2011, e-mail:business@thedailystar.net

Inflation is a major worry for Muhith

STAR BUSINESS REPORT

Finance Minister AMA Muhith yesterday said high inflation has become a pressing problem for Bangladesh and containing it within a single digit has become a challenge.

The mounting pressure of subsidy has added to economic problems, Muhith said at the inauguration of a regional training workshop at Sonargaon Hotel.

Muhith's remark came at a time when average inflation has crossed the government target of keeping it at 7.5 percent by the end of the current fiscal year.

In November, inflation rose 11.58 percent from 11.42 percent in October spurred by increased prices of non-food and foods.

"High inflation is not simply induced by global inflation but also because of certain domestic policies," he said at the event titled 'Beyond Inflation Targets: Policy Options and Instruments for Sustaining Growth and Equitable Development'.

Bangladesh Bank (BB), United Nations Department of Economic and Social Affairs (UNDESA) and United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) jointly organised the three-day event.

The minister cited government's objective of keeping infla-

tion within a single digit in fiscal 2011-12 and said it has become a challenge. "Somehow we have to keep that," he said.

Apart from high inflation and increased pressure on the exchequer, subsidy is ballooning, particularly because of rising imports of fuel to speed up electricity generation under quick and rental power plants.

This fiscal year the government projected subsidy at 2.7 percent of gross domestic product. The amount of subsidy becomes higher amid an increase in petroleum and fertiliser prices on the international market and rise in oil imports.

Muhith said the subsidy as percentage of GDP becomes higher because of delayed decision in raising fuel prices locally.

"We have really been hurt by delayed decisions," he said.

In the past three months, the government increased prices of petroleum twice to cut pressure on paying subsidy for fuel that is likely to be Tk 28,000 crore in fuel subsidies this fiscal year.

About criticisms against government policy to quicken power generation through establishing quick and rental power plants, he said the rise in electricity production has given incentive to boost domestic output and economic growth.

"It seems that policy of expand-

ing power production with substantial cost was not right. But it is the growth in power that helped achieve growth in industrial production," he said.

"I am not worried about subsidy on power," said Muhith, but added that much more than anticipated spike in fertiliser prices has increased pressure on the exchequer.

"Unfortunately, fertiliser prices have gone up much more than we expected," he said.

Noting the issue of ensuring inclusive economic growth and sustainable development, he said coordination between monetary and fiscal policies is important. And Bangladesh lacks coordination in this regard, the minister said.

Muhith also said bank branches -- now at 7,000 for 15 crore population -- are inadequate to ensure financial inclusion.

"We have to find ways to expand banking services," he said.

Muhith said Bangladesh has been maintaining a good macro-economic balance in the last 15 years although the country faces serious problems in economic management which has of critical importance in the face of low savings rate, very low foreign direct investment and low public expenditure.

Despite all these limitations, he hoped the economy will continue to be like the past.

Muhith asks for caution in comments on economy

STAR BUSINESS REPORT

Finance Minister AMA Muhith yesterday called upon analysts to be careful in giving their views on economic issues, saying daily reporting and comments from analysts create confusion among people, especially policymakers.

There is excessive enthusiasm in commenting and reporting on the day-to-day events, said Muhith at the inaugural function of a regional training workshop on inflation, sustainable growth and equitable development at Sonargaon Hotel.

He said daily reporting in the media on economic issues with comments from analysts creates a sort of confusion.

"A lot of agitation mounted on daily report," he said, calling upon the civil society to be cautious in sharing their views on government activities and economic indicators.

Instead of giving daily comments, he suggested analysts share their in-depth analysis on long-term economic issues.

Taka losing ground

STAR BUSINESS REPORT

The taka continues to slide against the dollar putting further pressure on soaring inflation.

The call money rate, which is an overnight market to serve commercial banks in meeting their immediate liquidity needs and reserve deficiencies, is also going up, ignoring the central bank's cap of 20 percent, bankers said.

According to Bangladesh Foreign Exchange Dealers Association (BAFEDA), the price of the dollar at customer level (import payments) was highest at Tk 81.60 quoted by Habib Bank yesterday. The average rate was Tk 81.07.

The inter-bank exchange rate (also known as wholesale rate) was nearly Tk 81 a dollar yesterday.

"The real rate is higher by 20-30 paise per dollar than the quoted price," said a treasury official of a private commercial bank.

Quoted rate is the indicative price and the banks have right to charge more, said the official.

The taka has depreciated by 13 percent against the greenback (dollar) since January this year. In the beginning of 2011, the

US dollar was sold at Tk 71 for import payments. The exchange rate was Tk 69.34 in June last year.

Analysts said the country is importing inflation with the continued depreciation of the taka meaning, what Bangladesh could have bought by Tk 71 a year ago now costs it Tk 81 plus.

Point-to-point inflation reached nearly 12 percent and the finance minister for the first time admitted that inflation is posing a big challenge for the economy.

The inter-bank call money market has also been showing an upward trend for the past few weeks.

Treasury officials said many banks do not follow the Bangladesh Bank-set cap of 20 percent for the call money rate.

They said some banks settled proposals at 40 percent, but told the central bank it was 20 percent.

"Some banks are concealing facts...it's a bad practice for the industry," said an in-charge of a bank's treasury department. "We've told the BB about our concern," he added.

But bankers questioned the central bank's role in repo support, especially to the primary dealer (PD) banks that get much less money against their demands.

Kingfisher awaits loans

REUTERS, Mumbai

Lenders to Kingfisher Airlines, which has been grounding planes and cutting routes to stay aloft, are awaiting a report on the airline's viability before they approve a \$133 million loan, banking sources said on Monday.

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*Source: HSBC 'The world in 2050'

