Pressure on forex reserves to ease in months: BB

STAR BUSINESS REPORT

The central bank yesterday said the pressure on foreign exchange reserves would ease in the coming months due to a fall in the opening of new letters of credit and restraints on domestic credit environment that is expected to limit import growth further.

The Bangladesh Bank said the number of LC openings fell 8 percent in January compared to the same period a year ago.

A more restrained domestic credit environment will cut down import growth, the BB said in its Monetary Policy Statement for the second half of the current fiscal year.

The weaker taka will support export and remittance growth, the central bank said in the MPS released yesterday.

The central bank said the recent trends suggest that the pressure on foreign exchange reserves would ease in the coming months.

"We expect that new external sector equilibrium will be reached soon," the BB said.

On January 18, foreign currency reserve was at $9.04 billion, down from $10.91 billion on June 30 last year.

The BB also said the external sector is facing a challenging environment, and addressing this is an integral part of the bank's monetary stance.

Export growth, which was 14.7 percent during July-December last year, lagged behind the import growth at 22 percent between July and November, partly due to the projected 57 percent rise in petroleum imports in fiscal 2012 compared to the previous year.

November 2011 witnessed a negative current account balance for the first time in recent years as the negative trade balance was not compensated by remittances that grew by a robust 9.3 percent in the first six months of the current fiscal year, the BB said.

It said a sharp decline in net foreign aid (total aid minus payments) is another major reason behind the mounting pressures on the balance of payments.

The net aid for the July-November period in 2011 was $69 million, which accounted for only 7 percent of that received in July-November 2009.

"As a result of these multiple pressures, the exchange rate has depreciated, with the taka's value falling by around 15 percent vis-a-vis the US dollar in the twelve months preceding mid January 2012. The foreign exchange reserves have also fallen from $10.1 billion in to 9.2 billion during this period."

The central bank said remittances appear to have responded positively to the depreciation of the taka.

Migrant workers sent home a monthly record of $1.15 billion in December last year. Data from the first half of January points to a similar figure repeating itself, the BB said.

The central bank also said the fiscal stance is supportive of the government's growth strategy but the lack of foreign aid and unanticipated spending pressures have led to rapid growth of borrowing from the banking sector.

This reflects significant shortfalls in foreign borrowing, higher-than-expected subsidy payments and low levels of non-bank borrowing.

The non-bank borrowing can be enhanced if upward revisions to the interest rates on national savings schemes are made, the BB said.

The rising subsidy costs are piling up pressures on the government's domestic financing requirement, as state-owned enterprises providing fuel and electricity continue to make large losses, despite recent fuel and electricity price increases.

The subsidy is estimated at 3.4 percent of GDP or 19.1 percent of total spending in fiscal 12 compared to 1.3 percent of GDP or 8.8 percent of total spending in fiscal 2010.

Inflation, which was 10.7 percent in December, is much higher than the 7.5 percent average projected in the current budget due to a number of factors including higher food prices globally, high domestic credit growth and recent upward adjustments in energy and petroleum prices.

Point-to-point inflation declined from a peak of 11.97 percent in September to 10.63 percent in December. However, non-food inflation is still steadily increasing, partly due to energy and petroleum price adjustments.

The BB suggests that the focus on curbing inflation to single digit levels needs to continue.

MONETARY AGGREGATES

(Y-O-Y GROWTH IN PERCENTAGE)

	Actual					Programme
	FY09	FY10	FY11	Sep-11	Dec-11	June 2012
1. Net foreign assets	27.2	41.3	5.3	-0.8	-8.6	-8.9
2. Net domestic assets	17.8	18.8	25.0	24.3	22.9	21.9
Domestic credit	15.9	17.6	28.4	27.2	25.7	19.1
Credit to public sector (including govt)	20.3	-5.2	39.9	52.4	62.0	31.0
Credit to private sector	14.6	24.2	25.8	22.0	18.0	16.0
3. Broad money	19.2	22.4	21.4	19.6	17.4	17.0
4. Reserve money	31.9	18.1	21.0	17.6	12.5	12.2

BRAC BANK

Syed Mahbubur Rahman, managing director of BRAC Bank, and Jamal Mohammed Abu Naser, managing director of National Life Insurance Company, shake hands after signing an agreement in Dhaka recently. Under the deal, customers of the insurance company will be able to deposit their premium at all branches of the bank.

SOUTHEAST

Alamgir Kabir, chairman of Southeast Bank Ltd, attends its 'Business Policy and Planning Conference 2012' at Ruposhi Bangla Hotel in the capital yesterday. Mahbubul Alam, managing director of the bank, is also seen.

Stocks slip back into the red

STAR BUSINESS REPORT

Stocks returned to the red yesterday with key indices slipping below the 4,500-point mark, the lowest since the market instability set in December 2010.

The benchmark General Index of Dhaka Stock Exchange closed at 4,486.98 points, after falling 77.90 points or 1.90 percent.

Investors adopted a wait-and-see policy ahead of Bangladesh Bank's monetary policy, said market analysts.

Investors expected a stockmarket-friendly monetary policy as the market has been suffering a sever liquidity crisis, analysts said.

Bangladesh Bank will follow a tight monetary policy in the second half of the current fiscal year as BB set a target to bring private-sector credit growth to 16 percent by June.

Improve designs, quality to build up foothold in Japan

Buyers at Tokyo fair ask Bangladeshi knitwear makers

REFAYET ULLAH MIRDHA, *From Tokyo*

Developing suitable designs and improving quality are the two primary requirements the Bangladeshi garment exporters will have to meet to grab more market share of apparel items in Japan, the Japanese clothing merchants were saying at the Bangladeshi garment fair in Tokyo.

Japanese buyers are ready to shift orders to Bangladesh from China, the largest apparel supplier globally, if the two requirements are met, they said while visiting the sixth Knitexpo at Big Sight exhibition venue yesterday.

The buyers now opt for other countries such as Bangladesh, Vietnam and Cambodia as the Japanese government has announced a "China plus one" trade policy in 2008 to reduce over dependence on China.

Also, currently China is an expensive place for garment makers due to a dearth of workers and their higher wages there.

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) organised the knit exposition at Japan Fashion Wear and International Fashion Fair in Tokyo.

The buyers are now looking for new sources of garment items as China has become more expensive because of higher cost of production.

The trend of business growth in Bangladesh also indicates a bright future of its garment exports to Japan. Bangladesh exported knitwear products worth $138.48 million during the January-November period last year.

Bangladesh's position in knitwear export to Japan is seventh with a one percent market share, while China is in the first position with an 85.17 percent share.

The market size of garment items in Japan is worth $25 billion of which $12 billion is for knitwear and the rest for woven garments.

"The future of Bangladesh in garment export to Japan is bright as the cost of production in China has gone very high, but the whole thing depends on how the country changes its designs and improves quality," said Michiyo Suzuki, managing director of Fuji Bangla Tex Japan Ltd, on the sidelines of the exposition.

She said she has gone to Japan to set up a joint-venture factory to produce clothing items at cheaper rate.

"It would be difficult for Bangladesh to grab more market share in Japan if quality is not improved," said Suzuki, who imports trousers and T-shirts, rugs, jute products and leather bags from Bangladesh to Japan.

"I have plans to set up more factories in Bangladesh," she said.

Naomitsu Tanaka, president of Japan-based garment company Tricot-Reve, said 95 percent of his requirement is now outsourced from China.

"But, China is becoming expensive," he said.

He said he has placed a sample order in Bangladesh for producing garment items for women.

"If the shipment qualifies during inspection, I will place more orders," he said.

He said he imports $50 million worth of cotton items a year mainly for women.

"The Japanese customers are very quality conscious," said Tanaka who has some retail stores in Japan.

Echoing the views of other Japanese buyers, Kenya Suzuki, general manager of Yagi and Company Ltd, said he has plans to expand operations in Bangladesh as China has become expensive for garment production.

He is currently operating a joint-venture factory in Bangladesh.

Garment exports to Japan have also been increasing due to the changes in the Rules of Origin under the Generalised system of Preferences by the Japanese government since April last year.

Bakhtiar Uddin Ahmed, general manger of Fakir Apparels Ltd, said the response from the Japanese buyers is so far good.

"I have already signed an agreement with a Japanese buyer to supply 2.5 million pieces of T-shirts. I hope the quantity will increase soon," he said.

Shofiquzzaman Prince, managing director of Sensible Knitwear Ltd, also said the response from the buyers is positive.

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LAVAZZA

Italian Ambassador to Bangladesh Giorgio Guglielmino inaugurates a Lavazza-branded coffee shop at Banani in Dhaka yesterday. Jasmine Majumder, chief executive officer of Cafe Italiano that owns the coffee shop, was also present.

BEF

A delegation of Bangladesh Employers' Federation led by its President Md Fazlul Hoque meets Labour and Expatriates Welfare Minister Khandaker Mosharraf Hossain at his office in the city yesterday.

ROBOVENDING

Samad Miraly, managing director of Robovending Ltd, has recently introduced its first automated vending machine at the Indian Visa Centre in the capital. Prateek Sabharwal, country manager of PepsiCo, and Md Arif Hossain, market development manager of Transcom Beverages, were also present.

Robovending installs first vending machine at Indian Visa Centre

STAR BUSINESS DESK

Robovending Ltd, an automated retail service provider, has recently introduced its first automated vending machine at the Indian Visa Centre in Dhaka.

It will enable the visa seekers to buy snack and beverage products through an interactive dispenser at the centre.

The machine is the first of its kind in Bangladesh -- branded by beverage partner Transcom Beverages Limited, Robovending said in a statement.

For this, the company organised a ribbon-cutting ceremony at the State Bank of India that manages Indian Visa Centre.

A customer will have to make a selection by typing on the keypad of the machine and insert taka notes into the bill acceptor to get a product.

Vending machines have become an international standard in automated retailing and are found in various locations throughout the world, according to the statement.

"Robo machines will allow people to interact with products in an entirely new way as it is the retailing solution for a new generation," said Samad Miraly, managing director of the company.

Prateek Sabharwal, country manager of PepsiCo, and Md Arif Hossain, market development man-

Economists back BB's strict stance

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Hassan Zaman, senior economic adviser to the BB governor, said, "BB's restrained monetary stance aims to bring inflation down to a single digit in the next few months, and restore a new external sector equilibrium along with sufficient space for private sector credit growth.

He said the average private sector credit growth rate in emerging Asian countries in the second half of 2011 was 15 percent. The 16 percent private sector credit growth in BB's new monetary policy is therefore in line with regional comparators and more than sufficient to meet growth targets, he said.

Zahid Hussain, senior economist at the World Bank Bangladesh, said achieving the targets will require protecting the net foreign assets at very close to the end-December levels.

It will also require not allowing credit to the public sector to grow by more than 4.9 percent and credit to the private sector by not more than 7.7 percent, he added.

"There is thus very limited room for credit expansion to both public and private sectors."

However, Mir Nasir Hossain, former president of the Federation of Bangladesh Chambers of Commerce and Industry, said the target to squeeze credit to private sector would hurt investment and job creation.

He said credit has already become costlier as banks are charging 16-17 percent interest.

He said cost of business in the productive sector would also rise after BB withdrew the cap on interest rate earlier.

Md Shafiul Islam Mohiuddin, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said the central bank's target to reduce credit flow to the private sector would discourage new investments in the clothing sector and affect industrialisation.

"Fresh investment will not come the way we expected," he said.

BB spells out five steps to keep economy on track

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The BB also said the monetary growth targets for fiscal 2012 are on track that established the credibility of the stance taken in the previous MPS.

In November 2011, reserve money growth and broad money growth were 15.4 percent and 17.7 percent respectively, well below the 16 percent and 18.5 percent targets set out in the July MPS.

"This stance was achieved through open market operations, raising the repo rates by 100 basis points in FY 2012 and lifting caps on lending interest rates other than for agricultural and preshipment export credit," said the MPS.

While weighted average lending rates have gone up on average by 1.6 percentage points in 2011, the BB said it is closely monitoring spreads so that they remain in low single digits for all sectors, except SME and consumer credit.

"This stance, along with pro-active liquidity management still ensured adequate year on year private sector credit growth -- more than sufficient to sustain economic growth targets, in line with earlier years and above that of India."

The BB said the extent of crowding out is limited as the weight of government borrowing in total domestic credit remains around 20 percent, which will free up more room for private sector credit growth.

It also said cross-country experiences from around the region illustrate the importance in Bangladesh of using monetary policy to act preemptively to mitigate