

Curbing inflation crucial for growth: ICCB

STAR BUSINESS REPORT

The economy faced a range of risks and pressures last year that may harden macroeconomic management in 2012, the International Chamber of Commerce-Bangladesh said in an editorial yesterday.

The ICCB said the economy has to cope with the effects of soaring inflation, hefty bank borrowings, rise in government subsidies and low foreign aid disbursement in 2012.

Besides, the economy also witnessed a fall in private-sector credit flow, depreciation of the taka against the dollar, higher import of products other than capital machineries and raw materials as well as a current account balance deficit, according to the editorial on the ICCB news bulletin.

"Inflation, unemployment and growth trends are the major factors of macroeconomics. Over the past few decades, the nexus between inflation and economic

growth has drawn the attention of macroeconomists," it said.

However, according to experts, inflation and growth rate have both a positive and negative relationship, depending on the situation; but inflation and unemployment have a negative relationship, ICCB said.

Inflation in India and China affected long term growth rates since 1979 to 2009.

"Today, both the countries are the fastest-growing economies in the world, having one-third of world's population as well as facing the related problems such as unemployment, environmental degradation, poverty, non-performing loans, institutional frailties and structural problems," the ICCB said.

Macroeconomic parameters clearly confirm that both the Chinese and Indian economies are against inflationary capacity constraints. In China, inflation impacts the growth rate, while in India, it has an inverse relationship, according to the editorial.

The ICCB said Bangladesh's inflation rate has maintained double digits since March last year. In the outgoing year, a major reason behind the galloping inflation was depreciation of the local currency against the dollar.

The taka that fell by over 15 percent in 2011 was another threat to the economy as it had inflated the cost of imported goods having a knock-on-effect at the consumers' level and thus, increasing the inflation rate, ICCB added.

Average inflation in fiscal 2011 increased to 10.70 percent from 8.13 percent in the previous year; reaching almost the 1987 inflation rate of 10.82 percent after 25 years.

"The double digit inflation rate, which is likely to continue in the remaining period of fiscal 2012 will hurt the poor and erode their purchasing power," the ICCB said.

In addition to higher inflation, there are some other concerns for the country's economy, like high bank borrowings by the

government that already exceeded the target of the current fiscal year, dwindling remittance inflow, higher fuel imports and lower disbursement of funds by development agencies that are not only causing depreciation of taka but also reducing foreign exchange reserves.

All these are also creating pressures on the balance of payment, the ICCB said.

Against such a backdrop, the Bangladesh economy performed reasonably well in Q2 (October-December) of fiscal 2012, when most of the developed world was in the midst of recession, according to the ICCB editorial, January-March 2012 issue.

On the other hand, after a superb performance of 41 percent growth in exports last fiscal year, even though export growth in the first six months of fiscal 2012 dropped to 14.7 percent, it is still considered to be a respectable figure by any measure.

However, the outlook for exports during the remaining

period of fiscal 2012 is subdued by adverse developments in the Eurozone and a rather anemic recovery in the US economy, according to the editorial.

"The central bank's monetary policy for the second half of the current fiscal year is designed to support the government's revenue policies in pursuit of 'inclusive economic growth' and binding the inflation rate at 7.5 percent, but according to experts it is unlikely to be achieved."

Bangladesh could follow the monetary policy strategy of some of the Asian economies, in particular of China and India, which revised interest rates 12 times in the last 18 months; Bank of China revised two types of loan interest nine times, the ICCB editorial said.

The country needs to pursue drastic measures in controlling the inflation rate in order to achieve its budgetary goals and an economic growth rate of 7 percent or above, the ICCB editorial added.



Md Shahadat Hossain Shohag, head of cards of United Commercial Bank (UCB), and ANM Shahjahan, general manager of Jamuna Resort, shake hands after signing a deal recently. Employees of UCB, its cardholders and imperial customers will get special discount at the resort.

Duty-free garment exports to US hinge on new trade deal

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"This is not the proper time to push the duty-free proposal to the US Congress, because it is the election time in the US," he added. Citing Bangladesh as an attractive investment destination, Mozena said Americans will invest \$1 billion in development assistance to Bangladesh over the next five years.

"Bangladesh is one of a few countries that is the focus of all three US presidential development initiatives to promote food security, improve health and address climate change," he said.

Presiding over the function, FBCCI President AK Azad demanded the US government sign a free trade agreement between the two countries allowing wider access of Bangladeshi goods to the US market.

"Let's sign an FTA between the two countries. If we can remove the duty barrier, definitely we can increase trade and we will be able to come out of poverty," Azad said. He said the US is supporting the rich countries like China, Canada, Mexico and Japan through eroding duty.

He said in 2011, the total amount of export of China to the US was calculated at \$377.33 billion with duty at only three percent, Canada exported \$274.77 billion with 0.9 percent duty, Mexico exported \$228.33 billion with a little more than one percent duty while Japan exported \$129 billion with 1.6 percent duty.

"But, Bangladesh, despite being a member of the least developed countries (LDCs) paid more than 15 percent duty," he said. "Only aid is not the solution. We want duty-free market access to the US," he said.

Former FBCCI president Abdul Awal Mintoo said no country on the earth can develop without having

EU-India free trade to hurt Bangladesh exports

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"Bangladesh's garment sector will be affected if India and the EU include the apparel items in the agreement," the official said.

Also, Bangladesh still can negotiate with the EU so the deal covers only goods, he added.

But, generally, an FTA is signed on three sectors -- services, investment and exports of goods, he added.

The EU, as an economic bloc, is India's largest trade partner. In 2010, the EU imported goods worth 33.2 billion euros from India and exported products worth 34.7 billion euros. Exports of services to India stood at 9.8 billion euros and imports from India totalled 8.1 billion euros, according to media reports.

Bangladesh will face a stiff competition in the EU if the proposed deal includes the apparel items, said Shafiqul Islam Mohiuddin, president of Bangladesh Garment Manufacturers and Exporters Association.

"It will be a huge challenge for Bangladesh, as India is also strong in apparel items," he said.

Moreover, India will also enjoy the benefit of lead-time because India has a strong textile sector, he added.

Mustafizur Rahman, executive director of Centre for Policy Dialogue, said there is a possibility of bad impact on the apparel sector of Bangladesh if the FTA is signed because India also produces almost same kind of garments and the country will enjoy preferential duty.

If, India, as a developing country, enjoys zero duty in the EU, Bangladesh, being a least developed country, will be affected to some extent, although at present Bangladesh is quite competitive and strong in the EU, he said.

Currently, Bangladesh enjoys zero duty benefit in the EU under "Everything but Arms" scheme. If the FTA is signed, India too will enjoy such benefit in the EU as the duties will come down to zero in phases, said the CPD researcher.

"Bangladesh should enhance productivity, improve infrastructures and develop skilled manpower so we can offset the impact of the agreement because we have the zero duty benefit due to relaxed Rules of Origin in the EU," he said.



Syed Mahbubur Rahman, managing director of BRAC Bank, and Jamie Harper, president (Southeast Asia) of Microsoft Asia Pacific, shake hands after signing a deal recently. Microsoft will deliver various applications and server software to the bank.



Selim RF Hussain, managing director of IDLC Finance Ltd, and Venkata Subramanian, regional consulting vice-president of Oracle Financial Services Software Ltd -- South Asia, attend a ceremony to mark the implementation of Oracle's banking solution Oracle Flexcube Universal Banking for IDLC recently.

Shine off handmade shoes

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"The higher prices of raw materials, supplementary duty and increased production cost due to inflation also affected the sector," said Mohsin Habib Chowdhury, general manager of sales and marketing of Berger Paints Bangladesh Ltd.

Bangladesh Jewellers Samity, a platform of jewellery makers, appealed to the tax administration to reduce value added tax on jewellery.

They said the increased prices of gold force buyers to pay higher VAT. A reduction in VAT will enable more buyers to buy jewelries, they added.

At another discussion, Academic and Creative Publishers' Association of Bangladesh demanded a cut in import duty on white paper to increase competition in the domestic paper market, mainly shared by local mills.

Osman Gani, vice president of the association, said local mills charge higher prices for paper taking the advantage of higher import duty on white paper.

"It hurts readers," said Farid Ahmed, executive director of the association, adding that reduced import duty will help lower prices.

Minister calls for deeper links to boost trade in South Asia

STAR BUSINESS REPORT

Environment Minister Hasan Mahmud yesterday stressed the need for enhancing regional connectivity for the development of South Asian countries.

"We have to focus on connectivity to accelerate economic growth," Mahmud said. Proper connectivity is important as it will not only benefit Bangladesh, but the region as a whole.

The minister spoke at the concluding session of a dialogue on "Strengthening India-Bangladesh relations: sustainable development and poverty eradication" at the PKSF auditorium in Dhaka.

Bangladesh Unnayan Parishad, Institute of Microfinance and Palli

Karma-Sahayak Foundation (PKSF) in cooperation with the Centre for Policy Research (CPR) in India, jointly organised the two-day dialogue.

They discussed the future of India-Bangladesh relationship in terms of trust building and strengthening the non-trade and non-economic relations along with culture, economic and political relations.

Speaking as the chief guest, the minister said the regional connectivity will attract more foreign direct investment to the country, especially from India.

Indian entrepreneurs are now going to North America and Europe for investing in those regions, he added. "So if we enhance the connectivity, the Indian investment will come to Bangladesh."

The development of regional connectivity has some political and mental barriers, said Mahmud.

"We have eased many political barriers; but still there are some mental barriers on many issues," Mahmud said. The minister was hopeful to ease the barriers soon.

At the event, Pankaj Saran, Indian higher commissioner to Bangladesh, said a "very healthy and wholesome relation" is prevailing between Bangladesh and India.

The dialogue discussed four issues: economic cooperation, poverty eradication, climate change management and water management, said Qazi Kholiquzzaman Ahmad, chairman of PKSF.

Professor KC Sivaramakrishnan, chairperson for CPR, also spoke.

New iPad hits stores in India on April 27

REUTERS, New Delhi

The new iPad will be available in India from April 27, Apple Inc said on Monday, a month after it started selling the latest version of its popular tablet computer in 10 countries including the United States.

The third iteration of the best-selling device is priced between 30,500 rupees and 50,900 rupees in the Indian market depending on the variant.

The iPad with 16 GB of memory that works only on wi-fi networks is priced at 30,500 rupees, while the one that can operate on both wi-fi as well as fourth-generation (4G) mobile networks costs 38,900 rupees.

The new iPad is, however, not compatible with the 4G LTE network currently available in India and customers will have to make do with the 3G networks.

Launch of new stock index faces delay

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Presently, 232 equity companies are listed on the prime bourse. A fresh index based on free-float shares is supposed to replace the existing indices of the DSE for a more accurate reflection of market movement.

Under the free-float system, market capitalisation is calculated by taking the equity's price and multiplying it by the number of shares readily available for trading on a particular day in the market.

Instead of using all shares outstanding as in the full-market capitalisation method, the free-float

method excludes promoters' holdings, government holdings, strategic holdings and other locked-in shares.

The free-float method is seen as a better way of calculating market capitalisation because it provides a more accurate reflection of market movement.

The necessity of a fresh index first came to the spotlight in October 2010 through media reports. Later, the SEC also found that the Dhaka bourse did not follow the correct method of index calculation while incorporating new securities.

Although the DSE has made some corrections in counting the index, the previous errors still remain in the index. Now the DSE calculates the impacts of the stocks on the index, taking into account the free float or tradable shares of a listed company.

Previously, it considered the total shares of a company in computing the impacts of price movement -- up or down -- on the index.

Presently, each bourse has three types of indices.

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Md Ehsan Khasru, managing director of Prime Bank, speaks at a press meet to mark the bank's 17th anniversary in Dhaka yesterday. M Reazul Karim, additional managing director, was also present.



Prasad R Muglikar, director for medical services of Apollo Hospitals, cuts a cake to mark the hospital's seven years of operations in Dhaka recently. Shagufa Anwar, general manager for business development, was also present.



Civil Aviation and Tourism Minister Faruk Khan receives a bouquet from the sales and marketing team of Ocean Paradise Hotel in front of the hotel's stall at Dhaka Travel Mart at Sonargaon Hotel in Dhaka recently.