

# Things look positive for Bangladesh: IMF

Naoyuki Shinohara, deputy managing director of IMF, speaks on economic growth

REJAUL KARIM BYRON, from Tokyo

**B**ANGLADESH will need to grow by 7 percent to 8 percent a year to achieve its development objectives for the next decade, said Naoyuki Shinohara, deputy managing director of International Monetary Fund.

The skill set of the country's young labour force, along with the basic infrastructure, will need to be enhanced as well, Shinohara said in an exclusive interview with The Daily Star.

"The resilience of the Bangladesh economy over the past several years has been impressive, and GDP growth has been broad-based, thus helping the country achieve 6 percent growth on average."

The agricultural sector, Shinohara thought, has benefited from the good weather conditions, continued policy support, and better access to credit, as well as favourable price trends.

While export-oriented industries, in particular ready-made garments, propelled the manufacturing sector, with a vibrant private sector taking advantage of the low unit labour costs to expand into new markets.

Finally, services have gained from relatively strong domestic demand bolstered by remittances and new policy initiatives allowing more private participation and increased competition, Shinohara added.

Despite the vast progress made over the past two decades, the fact that a large number of households still live below the poverty line concerns Shinohara.

"The IMF is with the government in its fight against poverty by designing policies that help strengthen governance, reduce waste and excesses, and channel resources to growth-critical areas," he said.

"We see it as a two-pronged approach: higher income through

higher growth and targeted benefits for those most vulnerable to adjustment."

The government will need to make a concerted effort to ensure the safety net operations reach the society's neediest, Shinohara said.

The government can, however, expect the other development partners to provide vital support in this regard.

He expects the various reform measures taken under the current external credit facility (ECF) arrangement to consolidate higher growth in the medium-term.

Given Bangladesh's young demographic, vibrant private sector and the fact that it is sitting at the crossroads of the world's most dynamic economies, Bangladesh has great potential going forward, according to Shinohara.

"To take full advantage of this, the government will indeed need to generate more internal resources, mainly in the form of tax revenues, in order to remove social and physical impediments to growth."

Despite the global risks, the IMF expects Bangladesh's economy to expand by 5.8 percent in fiscal 2012-13, he said.

The risks associated to this growth outlook stem mainly from the uncertain external environment, he added.

The pace of expansion is expected to be slower than last year, mainly due to the more subdued growth in garment exports and private consumption.

Shinohara said the fund also expects headline inflation to stay in the 7-8 percent range this fiscal year, after coming down from double digits earlier in the year.

"Policy tightening is expected to further reduce the underlying pressures, but new ones could emerge if global food prices continue to rise. Greater exchange rate flexibility has helped absorb external pressures



Naoyuki Shinohara

and reverse the decline in reserves we saw in 2011."

Shinohara said if the Eurozone crisis were to intensify Bangladesh's export growth could slow even further, seeing that nearly half of all exports receipts come from the European Union.

"At present, we expect a modest recession in the Euro area in 2012, followed by a weak recovery in 2013."

He said if the global slowdown becomes severe, remittances could also be affected, including those from the Gulf countries.

"Having said this, there could be offsetting effects on the balance of

payments. They would arise mainly from a lower import bill due to more restrained imported garment inputs and oil import growth. The impact on the exchange rate would be driven by the supply and demand conditions in the market."

According to the conditions of the three-year ECF arrangement that IMF has approved for Bangladesh in April of this year, the government is committed to undertaking reforms to yield macroeconomic stability, reduce external vulnerability, and, ultimately, achieve higher growth.

In the face of external and fiscal pressures that emerged in 2011,

macro-tightening measures have already been put in place.

"So far, the economy has responded well. Bangladesh Bank has been rebuilding its foreign reserves buffer since the early 2012. The government is also committed to moderate fiscal consolidation aimed at preserving stability."

"While we urge the policymakers to remain vigilant in the face of an uncertain external environment, the IMF is also prepared to step in when necessary to ensure programme targets are accommodating of the changing circumstances."

Shinohara said the budget for the current fiscal year provides good support to Bangladesh's macroeconomic stabilisation efforts.

"In our view, revenue targets are reasonably ambitious, factoring in ongoing improvements to tax policy and revenue administration. Expenditure levels are broadly appropriate, although we believe the annual development programme spending is higher than what the current capacity allows."

As a result, a lower-than-budgeted deficit target would be prudent, also factoring in the availability of external and domestic financing.

Shinohara said a major challenge for the government, as in the previous fiscal year, will be to keep subsidy-related costs under control and to ensure safety nets are in place to cushion the impact of administered price increases on the most vulnerable.

"Over the programme period, generating more tax revenues and better prioritising expenditure will also be crucial in reducing poverty and achieving the medium-term growth objectives."

The second instalment of the ECF loan is scheduled to be released in November. An IMF mission visited Dhaka in September to review implementation of the IMF condi-

tions.

"The IMF mission has been generally satisfied with the progress made so far, particularly with respect to the quantitative targets set out under the ECF-supported programme."

He added that most of the targets were met by the end of June 2012, which was the ECF arrangement's first test date and one of the main bases for going forward.

"However, discussions are still ongoing with the authorities on the forward-looking reform agenda, with further actions needed over the near-term to ensure structural reforms remain on track, notably those related to new VAT and banking legislation."

"Once satisfactory progress has been made in the programme, we would make a recommendation to the IMF's executive board to complete the review. Approval thereafter by our Board of this request would trigger the release of the second disbursement under the ECF arrangement."

The IMF official said the fund expects the government agenda to remain focused on reforms aimed at strengthening the tax policy, revenue administration, public financial management, monetary operations, financial sector and the trade and investment regime.

Under the ECF arrangement, the IMF is already working with the government to improve the taxation system, he added.

Shinohara urged the government to make efforts to woo in investors.

"Pre-election political uncertainty is not unique to Bangladesh. We, however, are confident that the government will remain committed to a reform path for a better future of the country," he said.

"If this is the case, we believe investors -- both local and foreign -- will continue to pursue opportunities in Bangladesh."

## When will India's reforms show results?

DH PAI PANANDIKER

**A**FTER a long silence the spell has finally been broken. The second phase of reforms in the country has begun with almost the same conviction as the first but under different conditions. The 1991 reforms were under compulsion but the present reforms are voluntary. This is because the last 20 years have been a test to prove to ourselves that reforms help and they have substantially helped to make the country an emerging market economy.

The first phase of reforms was dramatic and resulted in a total change in the structure of policy. Industry was protected from the market in a closed economy, but with reforms they had to prepare themselves to face competition within the country and from outside. That meant restructuring of managements, technologies and scale of production. It therefore took quite a while for industry to position itself in the new environment and show results.

The time taken to show results in different sectors vary. Stock and currency markets react instantly. It's no wonder that with the recent announcement of reforms -- which are yet to be completed -- the Sensex shot up from around 16,500 to over 19,000 and the rupee hardened from 56 to 52 to the dollar. Both markets are important not only because they restore business confidence but enable companies to mobilise capital.

But the real question is: when will industry respond to the present reforms?

After 1991, industrial growth remained low for more than three years. It picked up gradually but it

was only after 2003 that industry blossomed and growth bounced to more than 10 percent to take the economy among the fastest growing in the world.

The present reforms are in the nature of taking the 1991 reforms further and do not call for any fundamental adjustments. Hence the time lag between reforms and results should be much shorter.

Considering the corporate decision making process, it can be expected that foreign direct investment should come in retail and insurance in one or two years. That should energise domestic investment as well.

Results from the reforms could be faster had the economy been buoyant. But industrial growth is currently less than one percent, mainly due to structural imbalance between industry and agriculture and fiscal imbalance resulting in high budget deficit. Both combine to double the rate of inflation and rate of interest.

Also, food inflation is diverting demand from industry to agriculture, and excessive borrowing to cover budget deficit diverts savings to consumption. Stagnation in the U.S. and EU and increase in domestic costs have made also exports difficult. All these issues will delay the fruits of reforms.

That said, reforms are not for the short term. They show real results only after a time lag. But this is not 1991. If short term problems are addressed and resolved early, the results from the present reforms will be much faster.

The writer undertakes research on current macroeconomic issues of interest, mainly to industry, as president of RPG Foundation, a private think tank.

## Four IPOs get SEC's green light

STAR BUSINESS REPORT

**T**HE Securities and Exchange Commission yesterday approved two new and two revised initial public offerings (IPOs).

The approvals came at a meeting of the stockmarket regulator chaired by its Chairman M Khairul Hossain.

Using fixed-price method, Golden Harvest Agro Industries will float three crore ordinary shares of Tk 10 each at an offer price of Tk 25, including a premium of Tk 15, to raise Tk 75 crore from public.

The company's earnings per share (EPS) was Tk 4.72 and net asset value (NAV) per share was Tk 25.53 as of June 2011, according to a statement of the SEC.

Banco Finance and Investment

and Royal Green Capital Market are the issue managers of Golden's IPO.

Bengal Windsor Thermoplastic will float 1.60 crore ordinary shares of Tk 10 each at an offer price of Tk 25, including Tk 15 as premium, to raise Tk 40 crore from public.

The company's EPS was Tk 3.62 and NAV per share was Tk 19.45 as of June 2011.

ICB Capital Management is the issue manager of Bengal's IPO.

As per the revised IPO, Summit Purbanchal Power Company will float three crore ordinary shares of Tk 10 each at an offer price of Tk 40, including a premium of Tk 30.

Previously, the Summit Purbanchal IPO was approved at Tk 45. But considering the current market situation, the com-

pany reduced the premium by Tk 5 and the commission approved it, according to the statement.

Argon Denims, as per its revised IPO, will float three crore ordinary shares of Tk 10 each at an offer price of Tk 35, including a premium of Tk 25.

Previously, the Argon Denims IPO was approved at Tk 44.

The SEC also gave permission to Envoy Textiles to resume its IPO subscription period, which was postponed in July.

The regulator also finalised a new rule on issuance of debt securities through private placement to bring the fund raising process under regulation.

A gazette will be published soon on the approved rule, Securities and Exchange Commission (Private Placement of Debt Secu-

rities) Rules, 2012.

Presently, there is no specific rule or guideline on issuance debt instrument. The SEC has so far been giving permissions to issue debt securities under its capital issue rules.

Debt securities or debt instruments evidence the indebtedness of the issuer to the investors in the form of bond, debt, or any other instrument of indebtedness, whether secured or not.

The SEC also approved Renata to raise Tk 100 crore through issuing a two-year maturity period bond, which will be unsecured, non-convertible and subordinated in nature.

Renata, also a listed firm, will use the fund in business expansion. Face value of each unit of the bond will be Tk 1 crore.

## Samsung to launch Galaxy S Mini phone in Europe

REUTERS, Seoul

**S**AMSUNG Electronics Co plans to unveil a smaller version of its popular Galaxy S III flagship smartphone in Europe on Thursday, the head of Samsung's mobile business said, raising competition against Apple Inc's new iPhone.

The model will be in direct competition with the iPhone 5, which was unveiled in early September and boasts a bigger, 4-inch screen than its earlier models.

Samsung's original Galaxy S III, unveiled in late May, has a 4.8-inch screen. Strong sales of the flagship phone helped Samsung post record \$7.3 billion operating profit in the July-September quarter.

"We think there's strong demand for 4-inch screen models



A man tries Samsung Electronics' Galaxy S III smartphone that is on display at a store in Seoul.

in Europe," a Samsung spokeswoman cited JK Shin, head of its mobile business, as saying on Wednesday.

There has been market specu-

lation that Samsung would launch a stripped out, cheaper version of the Galaxy S III to win market share in the mid- to low-end smartphone segment.

Samsung said on Wednesday the Galaxy S III Mini would not be an entry-level model.

Samsung is beefing up its product line-up with such products as the latest phone-cum-tablet Galaxy Note and ATIV smartphones that run on Microsoft's new Windows system to compete with Nokia's Lumia series.

Samsung plans to introduce its first ATIV tablet next month and ATIV S smartphone in October or November.

Separately, Yonhap news agency quoted Shin as saying that Samsung did not plan to use its 4G LTE patents to attack its rivals, suggesting it was not considering expanding its legal battle with Apple to 4G technologies.

A Samsung spokesman was not immediately available to confirm those comments.