Paddy prices fall on huge supply

SOHEL PARVEZ and KONGKON KARMAKER

THE prices of newly harvested paddy have started falling in the rural and suburban markets in the north amid increased arrivals, creating worries of recurring losses among many farmers.

"The downtrend in the prices began from today (yesterday) as supply increased in the local haats," said Nirod Boron Saha, president of Naogaon Dhanno-Chal Aratdar O Babosayee Samity, an association of rice and paddy wholesalers.

He said coarse paddy was traded at Tk 510-Tk 525 each maund (37.32 kilogram) at various haats in Naogaon. The average price was Tk 13.86 a kg.

Early this week, the prices were Tk 520-Tk 550 each maund, said Saha from Naogaon, one of the wholesale centres for rice in the north, the major rice producing zone.

In Dinajpur, another major rice producing zone, the prices of coarse paddy are also low at Tk 13.73 each kg on an average.

The current prices of paddy are much lower than the preliminary estimate of production cost of aman paddy by the Department of Agricultural Extension (DAE).

The farm extension department has estimated the average production cost of paddy at Tk 18 each kg for the current harvesting season, said an official, who preferred not to be named.

"At the current prices, many farmers, including me, will incur losses. My cost of production has risen due to the increased wages for labours in the last one year," said Delwar Hossain, a large farmer-cum-trader in Raninagar of Naogaon.

After the beginning of the harvest early this month, the opening prices of newly harvested paddy were higher than those in the previous year, creating hopes among many farmers of getting fair prices.

Many of them did not get fair prices in the past harvesting seasons due to increased production and higher stocks at public warehouses.

In Dhaka, the present wholesale and retail prices of rice is at Tk 24.8 and Tk 28.5 each kg. The prices are 13 percent and 8.1 percent lower respectively, than those a year ago, according to Food Planning and Monitoring Unit.

As aman harvesting is going on, the government expects the production of the second biggest crop to be higher than last year's yield of 1.28 crore tonnes as no major natural disasters like flood and cyclone took place.

KONGKON KARMAKER

Sitting on sacks of paddy, Bhabesh Chandra Roy, a farmer, calculates his sales at Pachbari Bazar, the largest rice market in Dinajpur Sadar.

Fazlul Haque, a farmer at Dimla in Nilphamari, also expects that production would be good, which, in turn would cause a decline in the prices. If so, the extent of his losses would be higher, he said by phone.

In Dinajpur, the prices of newly harvested paddy also dampened farmers' hope.

At local markets in Dinajpur, coarse paddy was sold at Tk 1,020-Tk 1,040 each 75-kg sack, meaning each kg of paddy was traded at an average price of Tk 13.73.

Ramjan Ali, a farmer from Dinajpur Sadar, who came to a haat yesterday, feared of losses for selling paddy at the current prices, which, he said were almost equivalent to the prices the last aman harvesting season.

"I will incur losses this season," said Ali, who sold each kg of sarna paddy, a coarse variety, at Tk 13.6 yesterday.

However, Golap Barman, a farmer at Pirgacha in Rangpur, believes that the prices would increase.

"The government will buy rice to make us happy ahead of the election. Because, we did not get fair prices last season," he said.

But the food ministry is yet to take any decision on buying from the current aman harvesting season.

Aman output to drop this year: US agency

SOHEL PARVEZ

PRODUCTION of *aman*, the country's second biggest crop, may drop in the current harvesting season due to inadequate rains and flash floods during plantation, said US Department of Agriculture (USDA).

Area under *aman* rice is estimated to be about 100,000 hectares less than last year's 58.50 lakh hectares, said the USDA in its November issue of Grain and Feed Update on Bangladesh.

The US agency, however, estimates that *aus* production would rise by 4.34 percent to 24 lakh tonnes year-on-year in fiscal 2012-13 due to increased acreage.

"*Aman* rice planted in July-August and harvested in November-December, currently in the filling stage, faced a moderate to severe shortage of monsoon rainfall."

Production was also affected by flash floods, especially in the north and south-western region at the time of planting, said the USDA.

Production may decline by 1.56 percent (2 lakh tonnes) to 1.26 crore tonnes in fiscal 2012-13, it said.

However, the agriculture ministry says production will not fall from the previous year because there has been no major incident of natural disaster and pest infestation this year.

"We are hopeful of attaining our production target of 1.33 crore tonnes," Anwar Faruque, additional secretary to the ministry, told The Daily Star.

"The crop loss due to floods is insignificant. We promoted cultivation of late varieties of paddy in the affected areas after the flood water receded," he said.

The food ministry's Food Planning and Monitoring Unit (FPMU), in its latest Bangladesh Food Situation Report, said production target is likely to be achieved.

"*Aman* plantation in the current year received an initial setback due to lesser rainfall. However, subsequent intermittent rains proved to be conducive to *aman* crop growth," said the FPMU.

The agriculture ministry is working to ensure production of 3.44 crore tonnes of rice in fiscal 2012-13, up from the actual production of 3.38 crore tonnes a year ago.

Ericsson helps Iran telecoms, letter reveals long-term deal

REUTERS, London

THE Swedish firm Ericsson is working with Iran's largest mobile telecom operator to expand its network and has promised to support another Iranian mobile carrier until 2021, according to interviews and an internal company document.

The involvement of Ericsson, the world's largest mobile network equipment maker, comes at a time when many Western companies have stopped doing business in Iran because of international sanctions or concerns about damage to their reputations. While Ericsson argues in the internal document that telecommunications are a "basic humanitarian service," Iranian human rights groups say Iran's regime has used the country's mobile-phone networks to track and monitor dissidents.

Though standard telecommunications equipment does not fall under sanctions, four major equipment makers, including Ericsson, have all said they plan to reduce their Iranian business. They have said they will not seek new contracts, though they will honour existing ones.

Fredrik Hallstan, a spokesman for Ericsson, confirmed the company is currently working on a new expansion project for Mobile Communication Co of Iran (MCCI), but said the venture, which the carrier calls Phase V, is covered under a contract Ericsson signed in 2008. "We have not extended any agreements ... with MCCI and we have no plans to do so either," he said.

He declined to discuss the nature of the work Ericsson is undertaking, its value or how the company will be paid. Foreign firms have had difficulty taking funds out of Iran because of tightening economic sanctions on Iranian financial institutions. The sanctions are designed to deter Iran from developing nuclear weapons; Iran says its nuclear program is aimed purely at producing domestic energy.

Finnish-German venture Nokia Siemens Networks, which had worked previously with MCCI, is not participating in the expansion project, the company said. A spokesman for China's ZTE Corp, another telecom equipment maker that does business in Iran, said: "As far as I know, ZTE is not involved in the MCCI network expansion project."

A spokesman for Huawei Technologies Co Ltd, the Chinese telecom supplier, did not confirm or deny that his company is involved. In a statement, he said Huawei is "limiting our business activities with existing (Iranian) customers." But he added: "For communications networks that have been delivered or are under delivery to customers, Huawei will continue to provide necessary services to ensure communications for Iran's citizens."

Hallstan said Ericsson's promise to continue supporting a second Iranian mobile operator, MTN Irancell, for many years falls under a 2006 contract. MTN Irancell is Iran's second largest mobile carrier.

The sensitivity of Ericsson's work in Iran is made clear in a letter written by an executive of the company. On January 19, an Ericsson vice president wrote to MTN Group, a South African company that holds a 49 percent stake in MTN Irancell. In a letter marked confidential, the executive stated that Ericsson undertakes "to not take actions that could unnecessarily bring any extra press scrutiny and that could potentially destabilise the working arrangements in Iran," according to a copy reviewed by Reuters.

COLUMN

India's economy unmoved by shock therapy

ANDY MUKHERJEE

THE slowing Indian economy is not responding to shock therapy. The stock market rally that began in September after the government unveiled its high-decibel reforms programme is fizzling out.

The BSE Sensex failed this month to surpass its October peak - a bearish sign for chart watchers. The rupee has weakened 7 percent since October 4.

In some ways, the Indian selloff mirrors the fate of risky securities globally. The MSCI Emerging Markets Index is now lower than when the Federal Reserve launched its third round of quantitative easing on September 13.

Fears of untimely fiscal cutbacks in the United States and a deepening of the sclerosis in the euro zone are weighing on sentiment. But skittish investors are only one part of the story. A much bigger challenge for India is the deteriorating financial cycle. A Breakingviews analysis of 16 years of monthly bank loan data shows that - after stripping out trend growth and seasonal fluctuations - the cyclical downturn in credit that began in early 2008 is yet to level off, let alone begin a recovery.

That's hardly unusual. Financial downturns tend to last several years, while a typical business cycle recession tends to be over in about 12 months, according to a study by Bank for International Settlements researchers Mathias Drehmann, Claudio Borio and Kostas Tsatsaronis.

In a bank-dominated financial system like India's, the lending and borrowing cycle is of particular relevance to investors. The benchmark Nifty equity index more than quadrupled during the credit boom that began in late 2003 and lasted through early 2008. It is currently trading 11 percent below its January 2008 high.

By pruning fuel subsidies, and announcing its decision to open up retail, aviation and insurance industries to greater foreign participation, the government has stoked expectations of an investment-led revival in an economy that grew as little as 5.5 percent in the June quarter, its worst fiscal first-quarter performance in a decade.

But recent economic data from New Delhi belie expectations of a quick recovery. Capital goods production, which has been lacklustre for almost a year now, collapsed in September even as the country's trade deficit widened to a staggering 14 percent of GDP on an annualized basis last month. With consumer prices rising about 10 percent year-on-year in October, investors are not expecting more than a couple of quarter-percentage-point interest rate cuts in the first half of next year.

AFP

Activists with links to Indian Left parties sit outside Bharti Walmart during a protest against foreign direct investment in multi-brand retail, in Hyderabad on Monday.

A token reduction in the central bank's policy rate of 8 percent will have some impact on borrowing decisions; but it will be small and come with a considerable lag. Meanwhile, more existing bank loans will go bad. By March next year, 10 percent or more of Indian lenders' loan books will consist of either non-performing or restructured debt, according to Fitch Ratings. It isn't easy to revive investments when lenders, especially state-run banks, are struggling to cope with past mistakes.

Borrowers, too, are in dire straits. The most intrepid investors between 2004 and 2007 were home-grown entrepreneurs and business families. They behaved very differently from government-owned companies and multinationals by gallantly expanding into industries about which they knew little. These "growth champions" are today among the most indebted Indian businesses, according to research by brokerage firm Jefferies.

One obvious solution is for the government to inject fresh capital into state-run banks. The $3 billion that the government has set aside for this purpose in this year's federal budget is inadequate. Just one debtor - Kingfisher Airlines - owes lenders more than $1 billion. If the grounded carrier doesn't fly again, very little of this amount may be recovered.

As the controlling shareholder, the government should do much more to bolster the balance sheets of state banks. But it is also cash-strapped. A recent auction of telecom spectrum fetched the exchequer less than a fourth of the $7 billion revenue target. The annual budget deficit is at risk of wildly overshooting finance minister P Chidambaram's revised goal of 5.3 percent of GDP.

Chidambaram is trying a different strategy to end the credit downturn. He has asked the central bank to start giving out new banking licences quickly. Tactically, it is a smart ploy. New private lenders will bring in fresh equity and give the jaded banking system an additional loss-absorbing cushion.

But the Reserve Bank of India, which hasn't issued any new banking licences in 10 years, is holding up the finance ministry's plan, and for good reasons. Before it allows new deposit-taking institutions to be set up, including by non-financial corporate groups, the RBI, which is also the country's banking supervisor, wants the legal authority to sack rogue bank boards. Amendments to the country's banking laws that would have accorded the monetary authority such wide-ranging powers were introduced in parliament seven years ago. They were never passed. The central bank is quite right to be circumspect, even at the cost of annoying the finance minister.

Pending an infusion of new capital into the banking system, the government is seeking to counter the cyclical downturn by cajoling cash-rich state-owned firms to speed up investments. A better strategy would be for the government to curtail its own consumption expenditure and reduce its borrowings. More household savings would then be freed up for corporate investments, and not just by state-controlled companies. But fiscal consolidation in a slowing economy has to be gradual, lest it makes the short-term growth challenge worse.

It's already been about five years since the end of the last big credit boom in India. On present evidence, seven lean years is not a far-fetched proposition.

The author is a Reuters Breakingviews columnist. The opinions expressed are his own.