

Global slowdown to affect Bangladesh growth

The chief economist of the central bank speaks on inflation, credit growth and investment

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LIKE elsewhere, the global financial crisis is likely to deal a blow to Bangladesh's economic growth as well. Though the private sector credit outlay envisaged by the central bank for this fiscal year was adequate for achieving the GDP growth target, a slowdown in the Eurozone and the US remains a worry. In an email-interview with The Daily Star, Hassan Zaman, the newly appointed chief economist of Bangladesh Bank, talks about various challenges and the areas of contention on the macro-economic front.

The Daily Star (DS): What are the key macro-economic challenges Bangladesh is facing in the current fiscal year?

Hassan Zaman (HZ): The macro challenges are keeping inflation in single digits and maintaining growth above the historical average. In order to achieve this, it is essential that the broad targets set in the budget and the monetary policy statement (MPS) are met so that the private sector has enough credit for productive activities while avoiding excessive credit growth, which will fuel inflation and asset bubbles. Risks stem from highly uncertain growth prospects in the Eurozone, the possibility of the 'fiscal cliff' materialising in the US and volatile commodity prices. Repeated global price spikes over the past few years have helped to fine-tune policy responses. For instance we now have several stand-by arrangements to finance oil imports should prices spike, so that we can avoid sudden reserve depletion. While external factors are important, a growing middle class is stimulating domestic demand helping to dampen the adverse growth impact of external shocks.

DS: Do you think Bangladesh will finally meet its GDP (gross domestic product) growth target this year?

HZ: We are working on our forecasts and will present them at the

time of the next MPS in January. Growth has averaged around 6.2 percent over the past ten years and our preliminary estimates suggest that this year it may be a little above this average. Given the global crisis, this in itself will mean that Bangladesh will be one of the faster growing economies in Asia. While the overall growth number matters, what is equally, if not more important, is the distribution of that growth. What Bangladesh has shown in the last twenty years by halving its poverty rate and outpacing its regional neighbours in many social indicators, is that the overall pattern of growth since 1990 has been pro-poor. Ensuring that the key drivers of this pro-poor growth - remittances, garments, rural wage growth, widespread access to education and credit, etc -- remain central to policymakers is essential.

DS: How much of the half yearly MPS targets will be achieved?

HZ: We largely met the targets set in the previous two MPSs and we expect to be broadly in line with the targets set in the current MPS. One challenge this time is that due to the higher than expected remittance inflow, money growth has been a little higher than targeted, which is why we are trying to absorb some of the excess liquidity by re-introducing Bangladesh Bank bills for those banks who wish to utilise these instruments.

DS: Is the private sector credit growth target set in the MPS adequate for achieving the GDP growth target in the current fiscal year? Businesspeople often complain they are not getting enough loans from banks.

HZ: The private sector credit growth target of 18 percent is certainly adequate to meet this year's economic growth target. So while Bangladesh's growth rate may be affected by the global crisis, the overall credit envelope will not be the constraint. The main issue is ensuring that banks channel these loans to individuals who are credit-



Hassan Zaman

worthy and ideally use it to contribute to economic growth. From a macro standpoint, the overall banking system has a comfortable liquidity position -- call money rate declining from close to 20 percent at the start of 2012 to less than 10 percent now is one indicator -- though this liquidity position varies across banks. We have heard complaints about difficulties in accessing loans and are encouraging banks to lend using due diligence criteria. We also ensure that credit-worthy borrowers are not adversely affected by the greater scrutiny on

loan-sanctioning processes.

DS: How do you justify the complaint that the lending rate is increasing?

HZ: Nominal lending rates are determined by several factors including the rate of inflation, cost of funds, administrative costs, credit risk premiums and market competition. Inflation and the rate at which banks are lending to each other have declined since the start of the year; in fact the inter-bank rate has more than halved to around 8-9 percent. There is now some indication of an easing of fixed deposit

rates. We, therefore, expect some downward movement of lending rates given the macro trends I mentioned. If one or two of the banks initiate this process, others are likely to follow.

DS: Though inflation has marked a fall in recent times, non-food inflation is on the rise. What is the reason?

HZ: Well, non-food inflation peaked in March 2012 at almost 14 percent and steadily fell to 9.6 percent in August. The last two months have seen incremental increases and in October it was 10.5 percent largely due to increases in electricity bills as well as clothing and footwear prices which in turn could be due to the rise in remittance-fuelled consumer demand prior to seasonal holidays. This is why ensuring that our monetary policy stays on track to absorb excessive liquidity and dampen inflationary pressures is critical.

DS: Recent figures show that the government's borrowing from the central bank is increasing. Will it put any impact on inflation?

HZ: The government's borrowing from the banking system is significantly less than this period last year and is trending below the expected target for this year. We hope this trend continues. The recent uptick in borrowing from the central bank is still not particularly significant and in general our monetary growth targets, which are designed to keep inflation at single digits, are broadly on track.

DS: What is the main reason behind a rise in foreign exchange reserves and to what extent it will be sustainable? Is there any challenge in maintaining the reserves?

HZ: Foreign exchange reserves increased by about 20 percent between July and October mainly because of the 25 percent growth in remittances over the past four months compared to the same period last year and the decline in import payments during the same period. As a result, we now have

close to four months of imports reserve cover (India has about six months). And it is important that we stay above three months so that we have the ability to intervene if there is excessive volatility of the taka or if there are emergency import needs for essential commodities.

DS: How do you evaluate the exchange rate in context of the overall economy?

HZ: The exchange rate is obviously important for many aspects of the economy as it affects inflation and our export competitiveness. While we aim to avoid excessive volatility through our monetary policy actions and through our foreign exchange reserves, we have to recognise that market forces will largely determine that rate. In fiscal 2012, the taka depreciated by 10 percent while the Indian rupee lost value by 24 percent against the dollar and I think we need to develop a greater tolerance for such market movements.

DS: What are the impediments to foreign direct investment and what steps should be taken to overcome those?

HZ: There are impediments which one can deal with quickly, those that need more time, and a few of which little can be done. For instance land availability will always remain a key constraint though there is some re-prioritisation that can be done of existing land held by the public sector. Infrastructure bottlenecks and skilled labour will take time to address though some progress is being made. However, streamlining decision-making and actively promoting Bangladesh as an investment decision can be done immediately. For instance we should immediately be wooing those interested in diversifying out of manufacturing industries in China as that window of opportunity will not last for long and the likes of Indonesia, Vietnam and Myanmar are aggressively attracting these investors as well.

Key buyer backs pay hike for RMG workers

STAR BUSINESS REPORT

BANGLADESH needs to deal with four specific issues immediately -- a wage hike for workers being one of those -- to maintain higher export growth of its readymade garments, said a major international buyer yesterday.

The other issues are ensuring safety in factories, developing mid-level management and improving infrastructure, said David Savman, country manager of Swedish retail chain H&M.

"Bangladesh might not have a lot of natural resources, but the country's biggest asset is a big number of entrepreneurs."

Savman spoke as a panellist at a discussion on 'testimonials of in-country and ex-country experience sharing' at a conference at Sonargaon Hotel in Dhaka.

H&M, with its annual purchases worth nearly \$1.5 billion, has overtaken Walmart as the biggest garment buyer of Bangladesh.

Dhaka Chamber of Commerce and Industry, in collaboration with some other organisations, organised the two-day international conference on Positioning Bangladesh: Branding for Business.

Kihak Sung, chairman of Youngone Corporation, another successful foreign garment enterprise having operation in Bangladesh, said the country's future is good as it has a huge workforce.

Sung, born in South Korea, now considers Bangladesh as his second home, as he has emerged as a renowned garment businessman from this country.

He said he has a plan to increase the number of workers in his factories to one lakh in near future, from



Information Minister Hasanul Haq Inu, fourth from left, speaks at a seminar on "testimonials of in-country and ex-country experience sharing", organised by DCCI at Sonargaon Hotel in Dhaka yesterday.

60,000 now.

Youngone has more than \$1.5 billion in annual turnover from operations in Bangladesh, China, Vietnam and El Salvador.

"Bangladeshi people are very dedicated and entrepreneurial. A 40-year-old Bangladeshi man runs my company," he said.

He said the cooperation that he got from his workers during the devastating cyclone in 1991 was an inspiration for him and helped him revive his business in Chittagong.

In his keynote, Sajeeb Wazed Joy, president of Wazed Consulting Inc, said the ruling Awami League government addressed the power crisis on a priority basis.

"We went for quick rental power plants as a short-term solution," said Joy, son of Prime Minister Sheikh Hasina.

Many anticipated a bad impact of the quick rental power plants on the economy, but it did not happen, rather increased electricity helped both revenue and GDP (gross domestic product) growth.

He said, achieving the target of being a middle income country by 2021 is possible with good leadership, political will and cooperation from the businesspeople.

Information Minister Hasanul Haq Inu said, ensuring political stability and combating corruption are two big challenges for Bangladesh.

Mahbubur Rahman, president of International Chamber of Commerce-Bangladesh, chaired the session.

Inu in another session of the conference said Bangladesh has graduated into a trade-led country from an aid-dependent one.

"The world has witnessed the rise of European and US economies. But now it is the turn for the rest of the countries to rise," he said.

The information minister said the growth of Bangladesh's garment exports has declined due to the slowdown in the US economy and European debt crisis.

"So, we need to diversify our export destinations," said Inu.

BRAC Bank's SME loans cross Tk 5,000cr

STAR BUSINESS DESK

BRAC Bank's SME credit portfolio has crossed Tk 5,000 crore as of November for the first time, up by Tk 712 crore from the last year's disbursement.

The bank's SME financing rose 17.63 percent to Tk 4,388 crore in 2011 from the previous year.

The growth is attributed to consistent credit demand for new small business start-ups and expansion at grassroots level as more and more entrepreneurs are being able to have access to SME loan, thanks to SME-focused initiatives of Bangladesh Bank, SME Foundation and trade bodies.

BRAC Bank is the only bank in the country to have a plan to disburse more than 50 percent of its loan portfolio to SME, the bank said in a statement.

The bank has set up 400 SME unit offices across the country to take loan facilities to small entrepreneurs at grassroots level. With average loan ticket size of Tk 6 lakh, the bank is efficiently reaching the rural and semi-urban small entrepreneurs.

A recent study shows that SMEs receiving finance from BRAC Bank have increased their fixed asset by 223 percent, equity capital by 109 percent, sales by 134 percent and profit by 91 percent.

The Impact Measurement Study conducted by independent experts of Dhaka University and commissioned by Global Alliance for Banking on Values

is aimed at assessing sustainability of SME financing on small enterprises.

"As an SME-focused bank, we have witnessed phenomenal growth in SME credit that boosts national economy," Syed Mahbubur Rahman, managing director of the bank.

"Our success also comes with challenges as well. SME financing needs large manpower to monitor small loans scattered in vast geographical areas. The new loan provisioning policy also puts effect on SME financing. Bangladesh Bank has been very supportive to the country's SME sector. With its support and guidance, we will overcome the challenges."

The central bank in assistance from Japan International Cooperation Agency has recently started a Tk 415 crore refinancing scheme to provide easy loan to SME entrepreneurs.

Such facilities from the central bank help commercial banks like BRAC Bank to provide soft loan to small entrepreneurs.

"In its 11 years of operations, BRAC Bank has disbursed Tk 22,000 crore loan to 4 lakh SME entrepreneurs across the country and 92 percent of these loans are collateral free," said Rahman.

"The finance has created direct employment to 13 lakh people. The bank also extended support to 8,000 women entrepreneurs with Tk 360 crore loan till date. With these efforts, the bank has now become synonymous with SME financing."