Bangladesh: managing risks and ensuring sustained growth

ANOOP SINGH

THE global economy, while still undergoing a fragile recovery, is showing signs of improvement. Asia, too, is facing better prospects. According to the IMF's latest Economic Outlook for the Asia-Pacific region, after a year of subdued performance, growth in Asia is set to pick up over the course of 2013 to about 5.75 percent, underpinned by a modest strengthening of external demand and continued robust domestic demand. In the case of South Asia, growth is also recovering on more favourable external demand. However, in several countries in South Asia, including India, supply bottlenecks could exert a drag on output potential, while keeping inflation at elevated levels.

Risks to the global and regional outlook have become more balanced since last autumn, mainly because the risk of an acute euro-area crisis has diminished and the US "fiscal cliff" has been averted. Stronger economic and policy fundamentals have so far helped cushion Asia against global turbulences. However, Asia's open economies remain vulnerable to external shocks, and some home-grown risks have emerged as well. Fuelled by strong credit growth, financial imbalances appear to be building in several economies. A loss of confidence in Japan's efforts to restore economic health or an unexpected slowdown in China would likewise have repercussions throughout Asia.

Sustained rapid growth, macroeconomic stability, and improvements in living standards are some of the remarkable achievements of Asian economies over the past few decades. Nevertheless, important challenges remain. In the near term, many Asian policymakers face a delicate balancing act: guarding against the potential buildup of financial imbalances and gradually rebuilding macroeconomic policy space while at the same time supporting growth. Over the medium term, countries need to strive to maintain robust long-term growth, reduce income inequality, and fight poverty. Building on the progress achieved over the past decade, fiscal policy can play a key role in laying the foundations for sustainable and inclusive growth in Asia. In many economies, including Bangladesh, public investment could help fill the considerable infrastructure gaps. Further space for social spending and countercyclical fiscal policies could be created by reducing complex and poorly targeted subsidy and tax incentive schemes, and by enhancing revenue collection.

Anoop Singh

Let us now turn to the prospects and challenges for Bangladesh economy.

Over the past year, there has been commendable progress in strengthening macroeconomic conditions and structural policies in Bangladesh. The country is now in a better position to withstand adverse shocks, with international reserve levels almost double the lows in late 2011 and a prudent overall fiscal stance. In structural areas, the new VAT law has now moved firmly into the implementation phase following its passage in late 2012. Also the amendments to the Banking Companies Act, currently with parliament, would significantly strengthen bank governance and enhance the supervisory powers of Bangladesh Bank to safeguard financial stability. There has also been significant progress towards achieving the Millennium Development Goals, particularly on increasing access to primary education and eliminating gender disparity in primary and secondary schools.

While the Bangladesh economy has significant growth potential, there are some downside risks in the near term. Political tensions and episodes of violence in recent months are already affecting economic activities, with real GDP growth now projected to slow to below 6 percent in fiscal year 2013 (July 2012-June 2013). In this context, preserving strong policy anchors will be essential to mitigate the impact of domestic tensions and of the resulting uncertainty. The tragic building collapse in Savar, which took more than a thousand lives, poses additional downside risks for the future growth of garment exports. We extend our heartfelt condolences to the families of the victims and strongly encourage the government to continue its efforts -- in coordination with workers, business, and development partners -- to improve working conditions and safety standards, particularly in the garment industry.

To safeguard macroeconomic achievements so far, and put the economy on a sounder footing, actions are needed in several fronts. The authorities need to continue to work towards stepping up tax collections, as recent revenue shortfalls against fiscal targets narrow the fiscal space for social and development spending. Following electricity price adjustments over the past two years, greater emphasis should now be placed on containing the costs of energy generation. The expansion of base power capacity over the past few years should provide opportunities to gradually phase out high cost rental power plants. In addition, the authorities intend to strengthen public debt management to take full advantage of concessional borrowing opportunities and to channel more expensive resources to high social-return projects for which alternative funding is not available, while keeping overall debt contained. It is also important to strengthen the financial position of the state-owned commercial banks. In this regard, the authorities recognise the need to gradually capitalise these banks, along with measures to strengthen banking sector supervision and governance more generally.

The IMF will continue to work closely with the government of Bangladesh, including through the Extended Credit Facility programme approved in April 2012 and through our continued policy advice and technical assistance, in support of policies to safeguard macroeconomic and financial stability and achieve higher, more inclusive growth.

The writer is a director of Asia and Pacific Department at the International Monetary Fund.

Eight garment factories shut amid protests in Gazipur

STAR BUSINESS REPORT

EIGHT garment factories suspended production yesterday after clashes between workers and law enforcers injured at least 20 people, including five policemen, in Gazipur.

Of the injured, Ziaul Kabir, a trade union leader, received bullet injuries and was taken to a local clinic for treatment, workers told our Gazipur correspondent.

Around 2,500 workers of Parkscene Bangladesh Ltd and Parkstar Apparels Ltd started demonstrations for a 12-point demand on the Dhaka-Mymensingh highway at Barabari, police said.

The demands include a hike in wages and bonuses and six-month maternity leave.

"Workers of these two factories asked the workers of other factories in the area to join them," Mohammad Selim Reza, inspector of Gazipur Industrial Police told The Daily Star.

After the police intervened, agitating workers hurled brick chips at them starting a clash that left at least five police men and 14 workers injured, Reza said.

Police lobbed teargas shells and fired several rounds of rubber bullets to disperse the workers.

The Dhaka-Mymensingh highway was blocked for two hours until 10am. However, the workers tried to regroup at noon.

They left the area after the authorities of eight garment companies, including Parkscene and Parkstar, shut the factories for the day, fearing further violence.

AirAsia India launch in Q4

REUTERS, *Monaco*

AIRASIA, which smashed order records for Airbus jets to become Asia's largest budget carrier, could buy another 50 planes as it targets aggressive expansion in India, Chief Executive Tony Fernandes said.

Discussion of an order for another 50 A320-family jets, worth $5 billion at list prices, comes weeks ahead of the Paris air show and five months after the Malaysian carrier added 100 jets to its order book to lift total purchases to 475 planes.

AirAsia plans to launch an airline in India in partnership with the Tata Group to cash in on rising demand for domestic air travel among India's expanding middle class. It would start with planes already on order but potentially trigger new orders.

"We're looking at putting in almost a plane every month. We decided that sometimes when we pussyfoot around it takes too long to catch up so we decided just to go for it," Fernandes told Reuters in an interview.

"We've bought a lot of planes but we're still short, we're still leasing planes at the moment, so I was right buying these planes, and we may have to put in another order...(for) 50 or something like that," Fernandes said.

Fernandes said the affiliate, AirAsia India, was recruiting to be ready to launch in the fourth quarter, subject to final clearances. He denied a report the launch had been delayed from September, saying he had always planned the final quarter.

Fernandes was speaking ahead of Sunday's Formula One Monaco Grand Prix, where his Caterham racing team is trailing behind a field that includes cars of Indian drinks tycoon Vijay Mallya - whose Kingfisher Airlines has been grounded by cash shortages.

"I think we run a better airline and he's run a better Formula One team," Fernandes said, asked how his airline would make money in a market known for losses and bureaucracy.

"My point is, we're two very different models. Two very different leaders and you can't compare one with the other."

Fernandes said the sector's boom and bust cycle, which prompted India to open up the sector to foreign airline investors, had given way to a healthier business climate.

"I said that I will come into India when all these guys have paved the way and made their mistakes."

Although Fernandes still wants to buy planes, analysts say AirAsia is mostly shifting from a period of rapid expansion into new markets and placing huge orders, to taking delivery of those planes and focusing on making its routes profitable.

Wind power blows into Africa

AFP, *Cape Town*

GIANT turbines churning in the wind are a rare sight in Africa -- but that will not be the case for long. Until now the meagre amounts of investment in African wind energy have predominantly come from governments and foreign donors.

But this is changing fast, say experts.

Private investors smell profit in beefing-up the continent's over-stretched power grids and swarms of new wind turbines are soon expected to emerge.

If all plans on the table come to fruition, capacity will increase tenfold.

"When you look at the on-going and planned projects, you see actually over 50 percent of the projects being sponsored by the private sector," said African Development Bank economist Emelly Mutambatsere.

Today wind makes up one percent of electricity production, or just 1.1 gigawatts.

But an additional 10.5 gigawatts is in the pipeline.

According to an African Development Bank study of 76 wind projects, two thirds are pending.

Liberalisation of electricity markets has helped prise open the sluice gates for investment.

"The state still plays a big role in a lot of the countries," Mutambatsere told AFP. "But a number of countries have liberalised to some extent."

North Africa -- including Egypt, Tunisia and Morocco -- have led the way. But sub-Saharan Africa is catching up.

This year saw the first large commercial wind farm in the region come on line, a 52 megawatt project in Ethiopia.

Further south, the continent's heaviest carbon emitter South Africa is a striking example of the sector's growth.

The coal-rich nation --gunning for an extra 18 gigawatts of capacity from renewables such as wind -- has opened power production projects to private bidders for the first time.

The first bidding round of 28 projects drew $5 billion in investments, according to the energy ministry.

"There's a huge boom going on in South Africa in wind and renewables," said South African Wind Energy Association CEO Johan van den Berg.

"South Africa previously had eight operative wind towers or turbines and there's about 250 under construction at the moment."

Last year, investment in South African renewable energy increased in excess of 20,000 percent, he said.

Meanwhile in Kenya the $815 million, 300 megawatt Lake Turkana Wind Power Project is hoping to break ground in November.

With wind flow of 11.8 metres per second the project is "a dream" according to chairman Carlo van Wageningen.

According to Richard Doyle of renewable energy consulting firm 3E, tough conditions in key green markets like Europe have played a role in the pivot to Africa.

So too, the healthy returns promised in developing markets.

"There's been a veritable flood of companies out of their home markets in Europe into developing economies generally and Africa is one of those focal areas."

However, he added that any "boom" tag had to be qualified by recognising conditions elsewhere.

"If markets were less tight in Europe, would as many developers be in Africa? Almost certainly not," he said.

And the Global Wind Energy Council secretary general Steve Sawyer says public financing will always play a role in smoothing out erratic investment flows.

However, he said, there was growing understanding among governments that "in order to create a sustainable energy system, a large degree of private investment is required".

"That level of investment can only be achieved by creating the kind of policy environment which sufficiently reduces the risks to investors such that they are willing to do project finance," he added.

With just 0.1 percent of the 2011 world market in Africa and the Middle East, the continent is still playing catch up.

Large-upfront costs mean wind is a long way away from overtaking dirtier but cheaper energy sources like coal and gas.

By 2030, wind is only expected to account for two percent of Africa's power mix, according to the International Energy Agency.

Coal is set to remain king at 37 percent, followed by gas at 32 percent.

Ryanair: Is it really Europe's most punctual airline?

BBC NEWS

RYANAIR has announced record profits this week, and the purchase of 175 new Boeing airliners. It's evidently one of Europe's most successful airlines at present - but has it even so been blowing its own trumpet a bit too much?

Ever heard the cheerful jingle on a Ryanair plane as it touches down on the runway?

"Last year over 90 percent of Ryanair flights landed on time, beating every other European airline."

Quite a boast. According to the statistics that Ryanair puts out itself, they achieved 90 percent punctuality last year, and have done for the last few years.

But we only have their word for it. There is scant data available to the public on airline punctuality.

The UK's Civil Aviation Authority does collect data on flights arriving and departing from 10 UK airports. It defines "on time" as being within 15 minutes of its stated arrival time.

A website called flightontime.info crunched that data and worked out that Ryanair fell short of 90 percent, achieving only 83 percent at these 10 airports.

Taking the figures for 2012, bmi regional was the most punctual. Eleven other airlines also beat Ryanair's 83 percent punctuality record.

Ryanair's overall punctuality score - taking into account its flights landing at or taking off from other airports around Europe - could easily be higher than 83 percent, says Jim Paton, senior lecturer in the Department of Air Transport at Cranfield University."A big proportion of their network in Europe is operations to small airports that don't suffer from air traffic congestion, as would be the case around London and Paris," he says. This makes it easier to avoid delays.

He adds that Ryanair flies to airports where the facilities are relatively close to the runway, so the plane doesn't spend several minutes taxiing, as it would often have to at airports such as Schiphol in Amsterdam.

GETTY IMAGES

Ryanair prides itself on turning around flights quickly.

The airline says: "Ryanair's published monthly punctuality is calculated as the percentage of all (approx 42,000 on average) Ryanair flights in any month, at all 180 airports, which land ahead of, on, or within 15 minutes of scheduled arrival time."

Punctuality statistics published by third parties are unreliable because their data is based on estimates or incomplete samples, which exclude certain airports, flights or airlines, the company adds.

But the Ryanair jingle also says it is "beating every other European airline" on punctuality. Where does this idea come from?

Ryanair says it is comparing its own punctuality figures with "the most recent Association of European Airlines published statistics".

However, that organisation has not published any new figures since 2009.

In addition, it has only 32 members. Although those members include many big airlines, more than 200 airlines in Europe are not members - including Ryanair.

So there is no published data that proves this claim. And even if there were, it might be hard to take at face value because of a phenomenon known as "schedule padding".

This is when airlines (or other transport companies) stretch their published journey times in order to improve their punctuality record.

"The practice of buffering the airline schedule times is something that is very common, almost universal in Europe and in other parts of the world," says Paton.

He points out that the airlines do after all have to consider the possibility of airport congestion, poor weather conditions, the slot times given to them by the airports, and whether the flight will feed into other flights.

But they also know passengers love to "make up time".

"Some in the industry believe it reduces passenger anxiety. If the aircraft is a little bit late leaving the gate, you might be worried you are going to arrive late," says Paton.

"The pilot comes on the PA system and immediately tells you he is going to make up time.

"That leaves a very positive impact on passengers. They perceive in that situation that airlines are going the extra mile for them."

As Ryanair says it does not engage in schedule padding, we decided to compare its flight times out of Edinburgh airport with those of its competitors.

On the eight routes we were able to identify where Ryanair has rivals, it gave the same or shorter flight times in seven out of eight cases.

Maybe that is because, as Paton says, most airlines pad, or "buffer".

Today British Airways reports a flight time of up to 75 minutes to Amsterdam from London. In 1958 when it was using planes with propellers, it was taking 70 minutes to do the same journey.

What about two other claims Ryanair makes for itself?

Ryanair says it is "the world's favourite airline" because it carries more international passengers than any other airline in the world.

According to the International Air Transport Association (IATA), Ryanair carried 76 million passengers last year while Lufthansa - in second place - carried 50 million.