Growth performance: off target

Bangladesh economy experienced fluctuating fortunes in FY2013 with the economy moving towards a lower level equilibrium in the course of the ongoing fiscal year. The Centre for Policy Dialogue comes up with an analytical review of Bangladesh's macroeconomic performance in fiscal 2013.

FOR the second consecutive year, GDP growth rate in FY2013 has failed to attain the target. This is certainly a setback for the present government's plan to move the economy towards a higher growth trajectory which is a necessary factor for attaining the middle income status by 2021. According to the provisional estimates from Bangladesh Bureau of Statistics, GDP growth for the current fiscal year is expected to be 6 percent; i.e. 1.2 percentage points lower than the target (7.2 percent) and 0.2 percentage point lower from final GDP growth estimate for FY2012. One may recall that, early projections by analysts were in agreement that the growth rate in FY2013 would remain below 6 percent.

The government planned, according to its Sixth Five-Year Plan, to elevate the average GDP growth rate during FY2011-FY2015 period to 7.2 percent; thus, GDP growth rate was expected to be 8 percent by FY2015.

Indeed, successive failure to meet the target for GDP growth has made it difficult to attain the objectives of the medium term plan. For example, GDP growth rate would require to be 8 percent in FY2013 to meet SFYP target. To cover the present gap between SFYP target and record of GDP growth performance, it will be required to attain a 9.6 percent GDP growth in FY2014. This is a highly unlikely scenario. Consequently, the SFYP targets have by now lost their relevance in view of the track record. Setting a high target of 7.2 percent for FY2014 is also not going to align trends with the SFYP targets.

In FY2013, per capita gross national income of Bangladesh has been estimated to be about $923, which is $83 more than that of the preceding year. On the other hand, per capita GDP also increased to $838 in FY2013 from $816 in FY2012, i.e. $72 increase. The faster acceleration of GNI per capita compared to GDP per capita was attributed to robust growth of remittances. However, the slowdown of GDP growth rate with its consequences in terms of domestic multiplier impacts, is a setback when the target of Bangladesh becoming a middle income country by 2021 is considered.

Even though the forthcoming revision of national income accounting in the country is likely to raise the GDP (and hence the per capita income), the growth acceleration needed to move towards middle income status will remain a question.

According to BBS statistics, a repeat strong performance by the industry sector (9 percent), particularly its large and medium manufacturing component (10.3 percent) is a key driver of the estimated economic growth rate for FY2013; resilient export sector performance in spite of adverse global scenario has contributed to this.

The construction sector comfortably surpassed its SFYP growth target for the current fiscal year (6.8 percent) to attain a robust 8.1 percent growth, backed up by improved ADP utilisation. On the other hand, GDP from crop production is not expected to attain the target. Stabilisation of prices and escalation of production cost may have acted as a disincentive in the backdrop of previous periods when prices were posting considerable rise. The services sector growth also fell below its traditional 6 percent growth rate for the first time since FY2005.

GDP GROWTH (%)

SECTOR	FY12	TARGET FY13	PROVISIONAL FY13
Agriculture	3.1	4.4	2.2
Crop	2.0	5.0	0.1
Industries	8.9	9.9	9.0
Manufacturing	9.4	10.1	9.3
Construction	7.6	6.8	8.1
Services	6.0	7.1	5.7
GDP	6.2	7.2	6.0

SOURCE: CALCULATED FROM BBS DATA AND GED (2011)

CONTRIBUTION TO GROWTH (%)

SECTOR	FY12	FY13	DIFFERENCE (FY12 and FY13)
Agriculture	0.6	0.4	-0.2
Crops	0.2	0.0	-0.2
Industry	2.6	2.7	0.1
Service	2.9	2.7	-0.2
Import Duty	0.2	0.2	0.0
GDP	6.2	6.0	-0.2

SOURCE: ESTIMATED FROM BBS DATA

To ascertain the sources of decline in GDP growth rate, a comparative decomposition exercise of the GDP growth rates of FY2012 and FY2013 was undertaken. Such a scrutiny reveals that the fall in crop sector's (and hence agriculture sector's) contribution to the GDP growth corresponds to the overall fall in total GDP rate (0.2 percentage point). One may interpret that the decline in GDP growth has been mainly predicated by the depressed performance in crop sector growth.

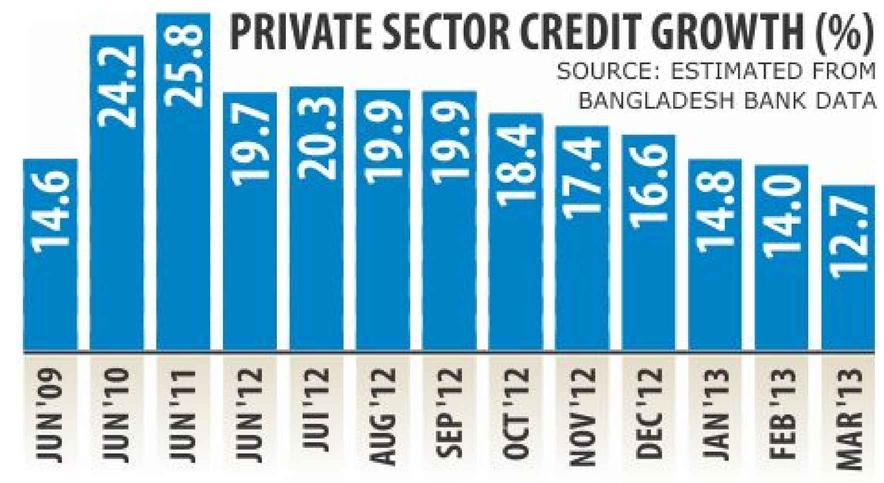
The services sector's contribution to GDP growth is also expected to decline to 2.7 percent from 2.9 percent of preceding year. In contrast, the industry sector will improve its GDP growth contribution marginally.

The provisional estimate of GDP for FY2013 is expected to be revised at a later date based on data for full fiscal year. Indeed, this estimate did not fully capture the adverse impact of the prolonged disruption of economic activities arising from volatile political environment. Hence, a number of adjustments would need to be made in finalising the GDP estimate for FY2013. The provisional estimates of growth rates for the industry and services sectors and import duty may require downward adjustments while the crop sector's (and hence agriculture sector's) growth rate may call for some upward revision. Overall, the final estimate of GDP may be revised downward to below the 6 percent threshold.

The deceleration of GDP growth in FY2013 is expected to be accompanied by drastic fall in private investment. In a welcome development, public investment will compensate for this decline and will likely pull the total investment above the level of preceding fiscal year, according to the provisional estimate by BBS. As a result, total investment as a share of GDP will improve to 26.8 percent in FY2013 from 26.5 percent in FY2012. However, public investment figure is expected to be revised downward following the trend of previous years under the present government. On the other hand, in FY2013, domestic savings as share of GDP remained stagnated at 19.3 percent while national savings as share of GDP somewhat improved to 29.5 percent (29.2 percent in FY2012) perhaps in the backdrop of robust remittance flows.

PRIVATE SECTOR CREDIT GROWTH (%)

SOURCE: ESTIMATED FROM BANGLADESH BANK DATA



For private investment, FY2013 has been one of worst years. The provisional estimate by BBS for FY2013 anticipates a distinctive fall in the share of the private investment in GDP. It shows that private investment is expected to decline as a share of GDP to 19 percent in FY2013 from 20 percent in FY2012. This is an outlier because such a fall in private sector's share has never been experienced in the history of Bangladesh (since FY1981). This would mean that level of private investment would now move back to the level of FY2007. This would also mean that, private investment in FY2013 will be 3.7 percentage points lower than the SFYP target. This will surely have a dampening consequence from the perspective of the expected acceleration of growth rates.

Indeed, almost all private investment related indicators evince a subdued scenario. Import payments for capital machineries declined by (-) 10.6 percent during the July-March period of FY2013 compared to the corresponding period of FY2012. Detailed information is available for July-February period; which shows that for most manufacturing industries, capital machinery import fell by a significant margin.

Growth of credit to private sector continued to fall since July 2012. As of March 2013, growth of private sector credit declined to 12.7 per cent. One may recall that the target for private sector credit growth at the end of FY2013 was 18.5 percent.

In contrast to the depressed private investment, public investment has increased steadily since FY2009 and surpassed the SFYP target in FY2013 (6.9 percent of GDP) by about 1 percentage point.

According to provisional estimates of BBS, public investment is expected to be about 7.9 per cent of GDP in FY2013. This implies that public investment (as a share of GDP) will improve by 1.4 percentage points in a single fiscal year -- such an improvement had never happened before. Indeed, public investment as a share of GDP will also be the highest in the history.

Public investment in FY2013 increased by 36.6 percent compared to the previous fiscal year. One may reckon that the provisional estimate of public investment has considered a fuller utilisation of original ADP (to the tune of Tk 55,000 crore). ADP was later downsized (revised ADP) and hence, the final expenditure figure should be lower. Nevertheless, it appears that public investment beyond ADP has also experienced a considerable rise.

It appears that, the estimate for public investment in FY2013 is somewhat on the high side. However, significant rise in public investment (as a share of GDP) may be expected in FY2013, when the final estimate will be prepared.

A number of positive features with regard to ADP implementation may be observed from the available data. First, overall ADP implementation has improved in FY2013. During the first three quarters of FY2013, 49.5 percent of the ADP allocation was implemented, which was 44.8 percent in FY2012. Second, the top five ministries (with highest allocations) did better than the average, as they spent about 57.5 percent of total allocation during the abovementioned period. Particularly, among the top five ministries, performance of Local Government Division, Power Division and the primary and mass education ministry were notable as they spent more than 60 percent of their allocation during the aforesaid period.

Indeed, 12 among 53 implementing ministries/divisions implemented more than 60 percent of their respective allocations. Third, the aforesaid improvement was driven by better project aid utilisation and 42.4 percent of the total project aid allocation was spent during July-March of FY2013 (only 32.8 percent in FY2012). This also had a positive impact on financing of budget deficit and on the balance of payments. However, the top 20 aided projects with highest allocations in FY2013 also spent 43.1 percent of their aid component (45.2 percent of their allocated total).

Moving on, the big 20 projects which were approved at different times during the tenure of the current government had also utilised 65.5 percent of project aid allocation during the first three quarters in FY2013.

However, one needs to consider the fact that a single project from the power sector contributed 11.8 percent of total aid utilisation by the entire ADP during the reporting period. If we keep aside the aforesaid project, the project aid utilisation of other top 19 aided projects with highest allocations in FY2013 drops to 34.5 percent. This implies that the improvement in project aid utilisation may not be a broad-based phenomenon. Furthermore, it is also observed that the progress during the early months somewhat lost its momentum during the last two months (February and March). Hence, ADP implementation may once again rely on the performance during last quarter.

One may recall that the ADP for FY2013 envisages allocation of 46.4 percent of the total allocation for either concluding projects or carryover projects. Among the major sectors, the power and transport sectors had more than 50 percent of their allocations for such projects.

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Indian bankers suit up for war on debt defaulters

REUTERS, *Mumbai*

FED up with a profitable textile company's failure to repay its loan, UCO Bank has taken its grievance public, placing newspaper ads last month that brand the industrialist owner of S. Kumar's Nationwide Ltd a defaulter.

State Bank of India (SBI), Bank of India Ltd and Bank of Baroda are also preparing to name and shame corporate borrowers which are not paying them back, bank executives told Reuters.

This aggressive tactic for dealing with bad debt marks a major departure from the traditional laid-back approach of Indian state lenders.

Weighed down by stressed loans of nearly $150 billion - equivalent to more than 10 percent of bank assets in the country - and against a backdrop of the slowest economic growth in a decade, Indian banks are bringing an unprecedented intensity to their recovery efforts.

"We are going hammer and tongs to recover loans," said M.S. Raghavan, executive director at Bank of India, which last year began opening debt recovery branches to pursue defaulting borrowers.

In the banks' arsenal of debt recovery tools are the power to seize and sell assets, take deadbeat borrowers to court, sell loans to investors, and beef up debt recovery teams, although a slow-moving legal system and the lack of a bankruptcy process limit their effectiveness.

Officials at state banks, which account for about three-quarters of lending in India, expect the push will cut bad loan ratios by at least 1 percentage point.

Bank of India's non-performing loan (NPL) ratio improved slightly to 2.99 percent of total assets at end-March from 3.08 percent at end-December.

"If we don't intensify, nothing is going to come to us," Raghavan said.

Traditionally, Indian lenders, especially those controlled by the government, have tried to nurse customers through tough times by easing terms or "evergreening" loans - giving new loans to pay old ones - an unlawful practice that many in the industry say is common.

In a country where businesses thrive on personal relationships, Indian banks have typically avoided involving the courts or liquidating assets - time-consuming efforts which often yield only minor results.

Even the so-called "fast-track courts" for banks, formed in the last decade, can take more than two years to resolve a case.

The central bank has called for better management of bad debts, and wants to strengthen oversight by lenders.

Banks tried to recover on $10.9 billion in bad loans but managed just a quarter of that through liquidation and lawsuits in the year ended March 2012, the latest data from the central bank shows.

Banks are particularly needled by business chiefs who sit on huge personal fortunes, but whose companies fail to repay loans.

In March, Finance Minister P. Chidambaram asked state banks to move against rich "promoters" to recover loans from failing companies after a $1.4 billion default by Kingfisher Airlines Ltd, controlled by liquor baron Vijay Mallya.

TARGETS AND TEXTS

S. Kumars and its Reid & Taylor clothing brand, well-known in the country thanks to its endorsement by Bollywood superstar Amitabh Bachchan, owes $19 million to UCO Bank, according to the Kolkata-based lender's newspaper ad.

Another lender, SBI, in May sent a liquidation notice to S. Kumars and Reid & Taylor, said Soundara Kumar, head of the bank's stressed assets management division.

S. Kumars and Reid & Taylor founder Nitin Kasliwal did not respond to several phone calls from Reuters.

S. Kumars earned net profit of 865 million rupees in the nine months to December, according to a stock exchange filing.

REUTERS

A customer enters a commercial branch of the UCO Bank at Mumbai in India.

"What we are now beginning to see is incidents of such prosperous promoters and sick companies are increasing. What we have tried to do is simply send a message across," said a senior executive at UCO in Mumbai, speaking on condition of anonymity because they were not permitted to talk to the media.

There is some evidence that public outing as debt dodgers can goad a company into action.

United Bank of India took out a newspaper ad in April to say pharmaceutical packaging firm Bilcare Ltd's outstanding 515 million rupees loan was in default. Bilcare later said in a stock exchange statement that it was in touch with lenders and was trying to restructure its loan.

Such methods are likely to become more popular, given the absence of a formal bankruptcy law, and the great time and cost of pursuing collection in court.

"Our legal systems move very slowly. We have such a huge number of pending cases in the courts that we are unable to lay our hands on assets that we can recover from," said Shubhalakshmi Panse, chairwoman of state-run Allahabad Bank.

Bankers say errant borrowers often manage to get stay orders from various courts, slowing down the recovery process, and most cases take over two years to be resolved.

Panse said she has given daily loan recovery targets to bank officers and branch managers across India. They send her a text message each day apprising her of the status of those targets.

If borrowers want to stay out of court, they can try the Corporate Debt Restructuring (CDR) Cell, where banks sought to restructure a record $16.6 billion in loans in the year that ended in March 2013, an increase of 38 percent year-on-year.

Samsung unveils first Android tablet

REUTERS, *Seoul*

SAMSUNG Electronics Co said on Monday it will use Intel Corp processors to power a new version of one of its top-tier Android tablets.

Its decision to begin using Intel in a marquee Android device is a coup for the U.S. chipmaker as it races to establish itself in a mobile market it was slow initially to recognize and invest in. Samsung's announcement confirms an earlier Reuters story and media reports on May 30.

Samsung has previously used chips designed with energy-efficient technology from the UK's ARM Holdings for its best-selling mobile devices.

The South Korean firm unveiled two new tablets on Monday, an 8-inch tablet and the Galaxy Tab 3 10.1-inch, which uses Intel chips.

The 10.1-inch tablet, which competes with Apple Inc's iPad, will be powered by Intel's 1.6-GHz dual core processor and run the latest version of Google Inc's Android operating system.

Intel called the shots in the personal computer industry for decades, but was slow to make chips that appealed to makers of smartphones and tablets as the market boomed following the release of Apple's iPhone in 2007 and iPad in 2010.

The new 10.1-inch tablet will support 3G and 4G network connections and the screen will have 1,280x800 resolution.

Samsung said the new products will be available globally this month, but did not provide price details.

Airlines to post $12.7b profit in 2013: IATA

AFP, *Cape Town*

GLOBAL airlines are set to post profits of 12.7 billion dollars (9.8 billion euros) this year, the International Air Transport Association (IATA) forecast on Monday, revising higher a previous estimate.

This compared to $7.6 billion in profits made last year and was an improvement on a March forecast of $10.6 billion.

If confirmed, it would make 2013 the industry's third-best year since 2001.

But IATA head Tony Tyler said business was "still tough" and noted that airlines were operating with a 1.8-percent profit margin.

This was a "four dollar profit per passenger, less than the price of a sandwich in most parts of the world," he told the global airline body's annual general meeting.

Fuel costs had increased by 55 percent since 2006 and airlines were flying against considerable economic headwinds, he complained. "Generating even these small profits under current conditions is a major achievement," said Tyler.