Socio-economic trends and prospects

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STEADILY growing but still a low income economy, Bangladesh has over the years developed a social consensus for inclusive socioeconomic growth equitably opening up advancement opportunities for all population segments. To this end, annual national budgets consistently allocate substantial expenditure outlays in the social sector (around a third of the total budget) for pro-poor human development (healthcare, education and training) and social safety net to unleash the creative energies of the entire population; besides expenditure for infrastructure and other areas promoting enabling environment for private sector driven rapid growth.

Bangladesh Bank has been supporting the government's inclusive growth efforts by promoting inclusive financing of all productive initiatives including those of the traditionally underserved farm and non-farm SMEs and other innovative niche area entrepreneurs. BB's inclusive financing promotion takes place within the overall monetary growth envelop of monetary programmes designed to maintain price stability and macro-financial stability. Attention of the inclusive financing initiatives on adequacy of credit flows to SMEs helps enhance macro-financial stability, with incremental output on the supply side and employment and income generation on the demand side.

BB has got the entire Bangladesh financial sector engaged enthusiastically in inclusive financing initiatives on the one hand by invoking their corporate social responsibility, and on the other hand by steering facilitation and adoption of cost saving modes of off-branch delivery and management of numerous loans to SMEs in dispersed locations. *Supervisory attention to end use, recovery rates and asset quality of loan portfolios in the new customer bases accompany the inclusive financing facilitation efforts.* BB's caution-mixed inclusive financing promotion initiatives are serving Bangladesh economy well, as evidenced by stable, steady economic growth amid the global financial crisis and the lingering global growth slowdown. Unlike elsewhere including advanced economies, credit flows for output activities of SMEs in Bangladesh held steady and did not suffer exclusion crunch during or following the global financial crisis, upholding internal demand and output activities on steady long-run growth path.

Main thrusts of the BB initiatives for promotion of inclusive financing include:

i) Articulation of commitment to inclusive financing in BB's Monetary Policy Statements issued ex-ante on half yearly basis to anchor inflation expectations.

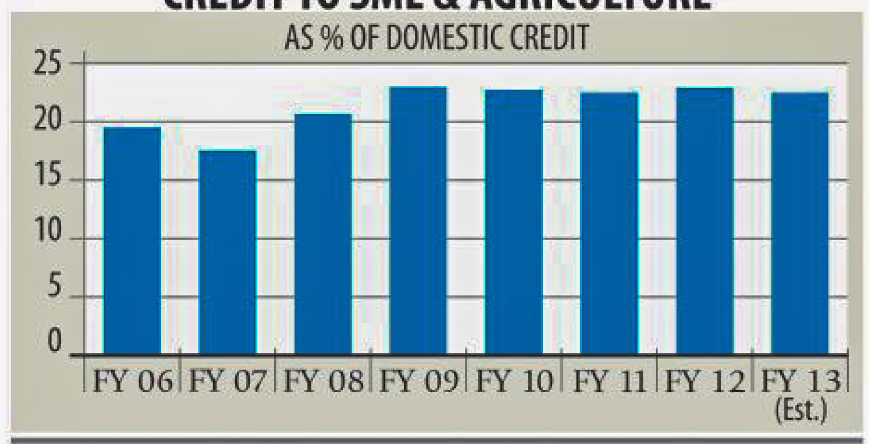
ii) Spearheading and guiding the mainstreaming of social responsibility in corporate ethos and objectives of financial institutions.

iii) Promoting and facilitating adoption of cost saving options of financial service delivery to numerous clienteles in dispersed off branch locations, including mobile phone/smart card based banking using micro finance institutions (MFIs) and other locally active area agents. BB has steered major upgradation of the entire financial sector IT infrastructure, inter alia introducing online interbank clearing and settlement of transactions through diverse platforms interconnected by a national payments switch, and online access to credit information on borrowers including SMEs.

iv) Liquidity support refinance to lenders against their loans to the inclusive financing target sectors including agriculture, SME and 'green' initiatives. The refinance lines are mainly funded by development partners, with small BB participation within the overall monetary growth envelop of monetary policy stance.

CREDIT TO SME & AGRICULTURE

AS % OF DOMESTIC CREDIT



v) To bring down high borrowing costs for SMEs, a partial risk guarantee scheme for lenders to SMEs with development partner support is expected soon.

vi) Direct SME financing facilitation is being supplemented by 'factoring' or discounting of their receivables against credit sales to buyers of good credit standing, easing pressure on their finances.

vii) A BB supervised, government funded equity and entrepreneurship fund (EEF) extends partial equity support to agro based and IT sector enterprises including SMEs. Private sector venture equity providers have also come up lately.

viii) To facilitate delivery of financial and other services, SMEs are being drawn into suitable local or regional clusters convenient for networking between themselves and with their backward and forward linkages.

BB's Inclusive financing promotion initiatives conducted within the monetary growth envelop of the current monetary stance aim at smoothing out impediments to necessary growth of SME and other target sector financing, and not at creating any credit surge.

The following brief overview of Bangladesh's macroeconomic stability with decade-long above 6 percent annual average real GDP growth would further reconfirm that BB's inclusive financing promotion approaches have served the economy and financial sector well during and following the global financial crisis; protecting credit flows for productive activities and aiding stability both on the demand and supply sides amid global growth slowdown.

Healthy macroeconomic trends upholding BB- and Ba3 sovereign credit ratings with stable outlook, for four successive years now by S&P and Moody's respectively is well supported by robust improvement in all other key macroeconomic indicators. The estimated size of GDP in FY13 stood higher at about $128.8 billion from only $47.1 billion in FY2000, while GNI per-capita increased by about 245 percent to $923 in FY13 from only $377 in FY2000. At the end of June 2013, the amount of international reserves is expected to stand at around $15 billion, which would be more than four months' imports equivalent. At the end of June 2013, government debt, budget deficit and investment as a percent of GDP are expected to reach 37.2, 4.8 and 26.8 percent respectively from 46.4, 6.1 and 23 percent respectively at the end of June 2000.

SIGNIFICANT IMPROVEMENTS

IN SOCIAL INDICATORS OVER PAST TWO DECADES

	1991	2011 / Latest
FERTILITY RATE (births per woman)	4.36	2.20
INFANT MORTALITY RATE (per 1,000 live births)	93.5	36.7
LIFE EXPECTANCY AT BIRTH (years)	59.99	68.94
MALNUTRITION PREVALENCE, HEIGHT FOR AGE (% of children under 5)	76.70	43.20
ADULT LITERACY RATE (% of people aged 15 and above)	35.32	56.78

Robust economic growth with stable inflation:

• Steady progress in overall domestic economic activities along with positive developments in three major subsectors of the real economy aided by various supportive policy initiatives helped in achieving 6.03 percent real GDP growth in FY13 keeping the economy on its long-run growth path despite episodes of internal (floods, cyclones), and external (spiraling commodity prices, global financial crisis) shocks.

• BB's monetary policy succeeded in maintaining stable inflation (mostly in single digit, only rarely at or near double digit level), while prudent fiscal policy helped accumulating higher revenues with moderate deficits leading to declining public debt ratio.

Impressive export growth:

• Exports more than quadrupled over the past decade, still on growth trend amid global slowdown.

• Apparels comprising three-fourths of total exports are keeping steady market share in US and growing in EU.

• Non-apparels exports are also on sustained growth path, in diverse sectors including horticulture and fishery, jute goods, ceramics, pharmaceuticals, leather goods, light engineering, shipbuilding, IT services and so forth.

Rising remittance inflows:

• Remittance inflows from migrant Bangladeshis continue growing at double digit rates bolstering the foreign exchange reserves and external sector viability.

• Government is facilitating migration of workers to job markets abroad.

Substantial poverty decline evidences inclusive growth:

• Population in poverty fell from 61.6 million in 2000 to 44.8 million in 2010.

•Consumption Gini-coefficient remained unchanged at 0.33 over ten years, evidencing social cohesion.

Challenges on medium and longer-term progress path:

• Bangladesh is poised to cross the (lower) middle income country group GNI threshold in a couple of years. Time now therefore to chart the next phase of its progress path aiming at: (i) reaching the upper middle income country group GNI threshold by 2030, and (ii) attaining developed advanced economy status by 2050.

• Bangladesh already has two of the most important requisites: (i) the demographic dividend of a large youthful workforce, and (ii) a broad based social consensus on social responsibility driven inclusive development strategy to harness the ingenuity and creative energy of all population segments in overcoming challenges on path of rapid poverty eradication and eventual prosperity.

Demographic window of opportunity:

• While population growth is now 1.5 percent per year, the working age population is growing at 2.5-2.8 percent.

• Growing working age population not only widens opportunity for rapid development but also presents skill development and employment creation challenges.

Other overriding priorities:

• Enduring social cohesion and harmony, fostered by liberal democratic practices tolerant of plurality of views and perspectives;

• Good governance in all spheres of social life, cemented by clarity of roles and responsibilities, transparency and accountability;

• Education, training, skills development and innovation nurturing programmes on massive scale for the young and the working age population, to meet the job market needs;

• Rapid modernisation and integration of the country's financial sector with global financial markets, enabling it to attract and handle the typical massive investment flows in a fast advancing economy. The BB will itself need to modernise and evolve fast, in steering this integration with global financial system in an orderly manner without jeopardising stability.

The author is the governor of Bangladesh Bank. The write-up has been abridged from Golden Series Lecture given in London recently for Official Monetary and Financial Institutions Forum.

Indian banks seize assets from mogul Mallya

AFP, *Mumbai*

INDIAN banks have begun seizing assets controlled by Indian business mogul Vijay Mallya who could lose his luxury Goa holiday home over debts run up by his failing airline, a report said Monday.

Lenders to his Kingfisher airline took possession of one of the group's corporate offices, Kingfisher House, in suburban Mumbai, the Economic Times said, quoting an unnamed bank official.

"Banks have already recovered some money, selling shares and would also look at attaching other physical assets, including Kingfisher Villa in Goa," the official was quoted as saying.

A notice announcing this was pasted on the building's doors, it added. Shares in Kingfisher fell as much as 4.82 percent to 3.75 rupees, close to their lifetime low on Monday.

Kingfisher's spokesman Prakash Mirpuri was unavailable for comment when contacted by AFP.

The carrier, whose planes have been grounded since October, has never made a profit since it began flying in 2005 and it owes vast sums to banks, airports, fuel suppliers and its staff.

Kingfisher has a number of real estate assets that it put up as collateral against its loans, including its offices in Mumbai.

In February, banks started recalling the outstanding loans, estimated at $1.5 billion, which paved the way for the sale of Kingfisher assets held as collateral.

Lessors have already taken back most of the planes which Kingfisher operated, as they were on lease, according to India's civil aviation regulator.

Mallya, a one-time billionaire known for his flamboyant lifestyle, made his fortune in the family liquor business and controls an empire spanning beer, Formula One, fertilisers and engineering.

Mallya shut down the low-cost airline Kingfisher Red in September 2011 to cut down on losses.

With operations of the main Kingfisher airline shut since last October, it is unclear how many of the airline's 4,000-odd staff -- most of them unpaid for months -- are still employed.

Mallya is desperate to find an outside investor to help get the airline running again.

AFP/FILE

Kingfisher chief Vijay Mallya speaks to the media in New Delhi.

S Korean bid wins contract to build Myanmar airport

AFP, *Yangon*

Myanmar has picked South Korea's state-run airport operator to build a new international hub near it's main city, as the once-isolated nation sees booming tourist and business visitor numbers.

A consortium led by the Incheon International Airport Corp (IIAC) was chosen as the preferred bidder to construct the Hanthawaddy International Airport as a second hub for the country's commercial centre Yangon, Myanmar's Department of Civil Aviation said.

The final contract for the $1.1 billion project will be signed at the end of this year, Seoul's transport ministry said in a statement on Sunday confirming the successful bid.

Myanmar, which emerged from outright military rule in 2011, has seen a surge in tourist and business arrivals as reforms in the former pariah state lure holiday makers and potential investors.

Budget airline revolution in Russian skies

AFP, *Moscow*

A Russian budget airline? The thought may fill some travellers with dread but Russia's flag carrier Aeroflot is now taking serious steps to launch the country's first sustainable low-cost airline.

Aeroflot has made huge strides in recent years to lay to rest its image as a disaster-plagued Soviet carrier, becoming a member of the Sky Team alliance and winning international awards for its service.

And now it wants to take another step by creating a Russian equivalent to EasyJet or Ryanair, whose success transformed travelling habits and the aviation industry in Europe.

Russian companies are also keenly aware that low-cost European airlines are already establishing themselves on the Russian aviation market which is enjoying annual growth rates of 20 percent.

EasyJet in March launched its first flights between Moscow and London while Hungary-based Wizz Air will follow in September with flights between Budapest and Moscow.

"Aeroflot's move, in our view, is strategically sound given strong demand for cheap domestic flights, including from passengers who currently travel by train," Sberbank Investment Research said in a note to clients.

Aeroflot announced the plan for a budget subsidiary after a board meeting in late July. But crucially, setting up the budget airline is still dependent on changes to Russia's aviation regulations which are stricter than in Europe.

The airline, which still controls 40 percent of the Russian aviation market, is hoping from 2014 to launch its first budget routes from Moscow to Saint Petersburg and to cities in the south of Russia.

According to the daily newspaper Vedomosti, the new Aeroflot subsidiary, whose name has yet to be unveiled, plans to eventually serve international destinations including Kiev, Yerevan, Istanbul and Barcelona with a fleet that will comprise 40 planes starting with Boeing 737s.

Analysts point to the fact that many Russians are still making long journeys across the vast country by train -- often lasting several days -- and may be easily tempted to fly if the prices are lower.

The budget Aeroflot would likely be based at Domodedovo in the south of Moscow as opposed the airline's main hub at Sheremetyevo airport.

Russia's third biggest airline UTair is also planning to set up its own low cost carrier, pointing to a clear market demand.

"People consider more and more that their time is precious and they are going to want less and less to spend two or three days to get anywhere," its chief executive Andrei Martirossov told Vedomosti.

"It is better to jumpstart the process rather than wait for competitors to lead the way in this promising market segment," it added, warning however of the "high risks for Aeroflot".

Aeroflot is seeking to count on a tried-and-trusted method to set up its budget airline -- reduce costs to a minimum, sell non-refundable tickets and only through the Internet, as well as charging for checked-in baggage and food.

The problem is that currently Russia's stringent aviation regulations outlaw many such aggressive cost-saving practices. Russian law also forbids the hiring of foreign pilots, a major problem in a country whose aviation boom had led to a pilot shortage and consequent high salaries.

"As long as the law does not change, absolutely nothing is going to fly. We are not going to take the risk," Aeroflot's chief executive Vitaly Saveliev told state television.

"Aeroflot is not going to invest 100 million dollars in a project which is not going to make us money."

He called it a "paradox" that Russian authorities have allowed Wizz Air and EasyJet to fly into the country but hasn't levelled the regulatory playing field so Russian companies can use the same business model.

The Russian authorities appear however to have understood the necessity of acting after President Vladimir Putin gave his agreement in principle to the creation of a low cost airline last October. But changes have been slow to come.

New Zealand to investigate Fonterra botulism scare

BBC NEWS

NEW Zealand's Prime Minister, John Key, has launched a ministerial-level inquiry into a botulism scare at dairy giant Fonterra.

Fonterra said last week that batches of concentrated whey product used in infant formula that were exported to China and elsewhere could contain botulism-causing bacteria.

The government inquiry will be over by the end of the year, Key said. Fonterra has announced two of its own internal investigations. The Ministry for Primary Industries has also said it will conduct a separate inquiry.

New Zealand media reported that details of the inquiry would be decided by cabinet next week.

Key said he would go to China after the investigation was completed, to give assurances and discuss the results.

China was one of the first countries to block the imports of the potentially contaminated product. Later, other countries also took similar measures.

Fonterra was criticised in Chinese state media and at home for delays in disclosing the contamination.

Fonterra's chief executive, Theo Spierings, has said questions will be answered. On Monday, Fonterra announced that its board had established an inquiry committee and would conduct an independent review into the chain of events.

"It is critical that we identify... lessons quickly, so our farmers, governments, customers, consumers and unit holders can again have full confidence in Fonterra and its products," Fonterra chairman John Wilson said in a statement.

Theo Spierings