BB chief remains optimistic despite setbacks

STAR BUSINESS REPORT

Bangladesh Bank Governor ***Atiur Rahman*** *yesterday presented the monetary policy stance for the second half of the fiscal year, which is reproduced below.*

As is well known by now, these half-yearly statements are intended to anchor inflation expectations in the economy, signalling ex-ante the monetary stance for the next half year in light of the domestic and external developments.

1. While external influences on the economy from global developments remained broadly stable over the first half of the fiscal year, in the domestic scene we had to go through some tense, suspenseful spells of countrywide blockades and hartals in the later part of the first half of fiscal 2013-14. Economic activities and daily life were disrupted substantially, including our stakeholder pre-consultations on monetary policy stance. This time, we had to make do with only receiving views or suggestions online rather than the customary discussion meeting events.

2. It is very heartening that our entrepreneurs demonstrated exemplary resilience in protecting the momentum of economic activities from any serious impairment from the disruptions. Our exporters went to great lengths to fulfil delivery commitments to buyers abroad amid the political unrest. This is reflected most clearly in the healthy 18 percent year-on-year export growth in the first half. BB earlier announced a number of financial policy support measures to keep essential fund flows for real sector output activities unimpaired in the face of disruptions, including temporary relaxation in down payment requirement for loan rescheduling and temporary lowering of interest rate on EDF input procurement loans for exporters. These appear to have helped in upholding business confidence amid the uncertainty.

3. Other key domestic and external sector indicators of the economy (agricultural output outlook, inflation, exchange rate, foreign exchange reserve growth, money and capital market) were also broadly positive and stable in the first half. This gives us the confidence that our economy will be able to more than make up for the first half's disruption-related output losses in the second half, and that fiscal 2013-14's GDP growth will, therefore, hover around six percent, provided there is, of course, no major new disruptions again in the coming months.

4. Both broad money (M2) and domestic credit growth have remained below their projected ceilings, indicating easing of inflationary pressures visible in the declining non-food CPI inflation trend. Both private and public sector components of domestic credit remained below their programmed ceilings in the first half, but this does not in itself necessarily imply slackening of investment and output activities. However, both public and private sectors have accessed substantial volumes of low cost short-term external trade credit and longer term external project financing, besides FDI and FPI inflows and equity investments from workers' remittance inflows. The external inflows and growing export receipts have kept net foreign assets (NFA) growth above the program path, sustaining appreciation pressure on taka despite BB's continual foreign exchange reserves build-up by purchases from interbank market.

Atiur Rahman

5. Despite the declining trend in non-food CPI inflation, higher and edging food CPI inflation has kept headline CPI inflation on an upward trend in the first half. Monetary policies only have limited influence on demand for staple food items in the CPI basket, though BB's focused attention on farm credit promotion also makes some impact by helping augment supplies.

6. The new January 2014 issue of MPS keeps unchanged the target of seven percent annual average headline CPI inflation by June 2014. The GDP growth outlook for the fiscal year in the new January 2014 issue of MPS is also unchanged from the projections in the July 2013 issue. The fiscal 2013-14 monetary program therefore remains little changed in the January 2014 issue, with minor adjustments to external inflows-driven higher NFA growth and correspondingly lower net domestic asset growth. The unchanged ceilings for broad money and private sector credit growth are higher than their current levels and more than adequate to accommodate any plausible higher GDP growth scenario in the second half. BB's active engagement in the interbank taka and foreign exchange markets has kept taka interest rate and exchange rate stable with ample liquidity, rendering monetary stimulus by way of policy interest rate or easing of cash reserve and statutory liquidity ratios unnecessary. Besides, any such lowering would not be justified at this stage, with the CPI inflation still hovering above the targeted ceiling.

7. Although announcing no new monetary stimulus, the January 2014 MPS issue mentions the slew of BB's broad based measures on the financial policy side to support and further stimulate output activities in the economy to make good for output losses from disruptions in the first half. Besides the already mentioned temporary lowering of EDF loan interest rate, coverage of the facility has been extended to new export sectors like leather and ceramics. Agriculture, SME and other inclusive socially responsible financing is being robustly supported with revolving refinance lines funded by BB and development partners. Besides the earlier refinance lines supporting lending to sharecroppers, agro-based industries, SMEs and eco-friendly projects, new refinance lines are being introduced to support lending to new entrepreneurs including low-income individuals holding no-frills bank accounts opened with Tk 10 deposits. BB's promotion of mobile phone banking is paying rich dividends by facilitating reaching out to target borrowers of many of the above-mentioned initiatives cost effectively.

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India cuts spectrum fee for big telcos to spur bids

REUTERS, *New Delhi*

TELECOMMUNICATION companies buying airwaves in an Indian auction next month will pay 5 percent of their revenue as an annual fee, a ministerial panel decided on Monday, a move that means lower payments for bigger carriers Bharti Airtel and the Indian unit of Vodafone.

The move scraps the 3-8 percent fee range the country currently levies in an effort to coax previously reluctant operators into taking part in India's third attempt at auctioning two frequency bands for billions of dollars.

The new rate is higher than the 3 percent flat rate suggested by an independent sector regulator, which had proposed abolishing the current levy of five different rates depending on the quantum of spectrum held by a carrier.

The government may lose some revenue it collects as annual fees due to the new rate, Telecommunications Minister Kapil Sibal said after the meeting of the ministerial group, but expects it to help companies buy more spectrum in the auction starting February 3.

"No big losers, no big winners," Sibal said. "A successful auction means greater investment in the sector," he said, explaining the rationale for the new rate.

After two previous attempts to pull off the sale were boycotted by major mobile phone operators that complained minimum bid prices were too high, India cut sharply the floor bid price for the February auction, helping it lure interest from eight carriers including the market leaders.

That still did not guarantee a successful sale as carriers including Bharti and Vodafone demanded a cut in the recurring annual fee they pay on the top of the winning bid price for using airwaves. India expects to raise at least $1.8 billion this year from the spectrum auction.

"I think it's a mixed blessing. We are pleased that it's capped at 5 percent," said Rajan Mathews, director general at the Cellular Operators' Association of India after the ministerial panel's decision on Monday.

Bharti and Vodafone must buy spectrum in the February auction to renew their permits in some key cities and are expected to benefit from the 5 percent cap because they currently pay around 6 percent of their revenue in annual fees in those markets.

World Bank warns Myanmar on corruption as it unveils $2b aid

REUTERS, *Yangon*

THE World Bank on Monday warned Myanmar against corruption as it unveiled a $2-billion aid package designed to provide better health care and improve supplies of electricity.

Despite the country's ongoing reforms, the World Bank has ranked Myanmar 182 out of the 189 countries in its annual Doing Business report.

World Bank president Jim Yong Kim told reporters in the Myanmar capital, Naypyitaw, that he recalled shutting down a program in Bangladesh on his first day on the job in 2012, because of corruption concerns.

"I would not hesitate to do that again if we were to find evidence of corruption in any of the projects," he said, adding that he was confident the Bank would be able to monitor programs in Myanmar to prevent abuse.

About 75 percent of Myanmar's mostly rural population has no access to health care, and more than 70 percent have no electricity, the Bank said.

Part of the aid package will support the government's aim of providing health care to all citizens by 2030, while half will go to expand electricity generation, transmission and distribution, the Bank said in a statement.

The news comes nearly two years after the World Bank announced it would return to Myanmar following an absence of a quarter of a century.

Many donors abandoned the country during its 49 years of military rule, which eviscerated one of Southeast Asia's most promising economies.

In February 2012, the Bank said it would re-engage with Myanmar after a March 2011 transfer of power from the military to a semi-civilian government that kicked off sweeping political and economic reforms.

In January 2013, Japan helped Myanmar's government clear debts left unpaid by the previous ruling junta, allowing the World Bank and the Asian Development Bank to provide financing.

Myanmar's low score on the Doing Business survey last October was due to corruption, Charles Schneider, a World Bank economist based in Yangon, said at the time, though he added the country was improving transparency.

REUTERS

World Bank Group President Jim Yong Kim talks to the media during his visit to North Dagon township hospital in Yangon, Myanmar on Sunday.

Ericsson agrees to end patent dispute with Samsung

REUTERS, *Stockholm*

Ericsson said on Monday it had signed a cross- licensing deal with Samsung Electronics Co, ending a long-running patent dispute and boosting fourth-quarter sales by 4.2 billion crowns.

The world's biggest maker of mobile network equipment sued Samsung late in 2012 claiming the Korean firm had infringed its patents. Samsung, which makes Galaxy smartphones and is increasingly active in network equipment, later made a counter claim.

Ericsson said on Monday the agreement included an initial payment and royalty payments from Samsung for the term of the multi-year license agreement and would increase Ericsson's operating cash flow at the beginning of 2014.

Ericsson said the settlement would lift fourth-quarter sales by 4.2 billion Swedish crowns and net income by 3.3 billion Swedish crowns.

Ericsson shares were up 2.7 percent in early trade at 77.10 crowns, outperforming a 0.4 percent rise in European technology stocks.

"This agreement allows us to continue to focus on bringing new technology to the global market and provides an incentive to other innovators to share their own ideas," said Kasim Alfalahi, Ericsson's Chief Intellectual Property Officer.

Alfalahi would not say how long the agreement with Samsung was valid but said patent agreements generally cover four to seven years.

Ericsson, which invests around 30 billion crowns annually in research and development, did not reveal any further details of the agreement.

AFP/FILE

Tourists leave the Carihuela beach in Torremolinos, southern Spain. The country yesterday announced it raked in a record 59 billion euros ($81 billion) from foreign tourists in 2013, luring an unprecedented number of visitors of whom many splurged more holiday cash.

Russia's economy chief cheers ruble's historic slide

AFP, *Moscow*

RUSSIA'S economy minister on Monday called the ruble's rapid slide to historic lows a boon for exporters which should help industry and promote stalling growth.

The ruble began trending lower in late December and has lost more than two percent of its value against both the dollar and euro in the last three trading sessions alone.

The euro shot up by about one percent to 47.63 rubles in afternoon trading on the Moscow Exchange -- substantially stronger than the 42.25 ruble record it had set in the worst months of Russia's 2008-2009 financial crisis.

The dollar was up 0.9 percent to 34.79 rubles. The level was also its highest against the Russian currency since the end of 2008.

Moscow's VTB Capital investment house summed up the trading floor sentiment by calling the ruble's performance "one of capitulation".

But Economy Minister Alexei Ulyukayev sounded an upbeat note about the decline that is likely only to spur ruble selling.

"I am not a proponent of stimulating the economy through an artificial weakening of the ruble," Ulyukayev told Moscow's Prime business news agency.

"But since what we have now is not an artificial but a natural weakening ... then why not enjoy its positive effects?" he asked.

"This will help improve the competitiveness of a range of industries," the economy minister stressed.

Russia's industrial production was flat last year amid falling investment and reduced demand -- both domestic and foreign -- for such factory staples as steel.

And economic growth of about 1.4 percent delivered a shock to the Russian government which had initially projected 2013 expansion to come in at 5.0 percent and then accelerate in following years.

Traders attributed the ruble's latest drop to highly negative investor sentiment about emerging markets and diminishing Central Bank support for Russia's beleaguered currency.

Concern about a slowdown in Chinese manufacturing sent the value of emerging market currencies plummeting at the end last week.

Moscow meanwhile intends to introduce a fully floating exchange rate starting next year while shifting its focus to the fight against persistently high inflation -- measures roundly applauded by economists but feared by consumers.

The Central Bank eliminated some of its support measures for the ruble earlier this month and no longer spends $60 million (44 million euros) a day on "targeted" interventionist measures.

It still makes between $200 million and $400 million a day in ruble purchases when the Russian currency slips outside the bounds of a predetermined trading band.

But the Central Bank reserves the right to shift that trading corridor to a higher exchange rate as pressure on the ruble mounts -- a step it repeated for the third successive business day on Monday.