

Economists offer recipe to revamp economy, stocks

STAR BUSINESS REPORT

Stock exchanges and regulators should strengthen monitoring and surveillance over banks, non-banks, brokers, merchant banks and other stakeholders to reinvigorate the capital market, said AB Mirza Azizul Islam, a former finance adviser to the caretaker government.

"Appropriate actions should be taken against violators of laws, rules and regulations," Islam said at a discussion yesterday.

He presented a paper at the discussion on "fiscal policy and capital markets", organised as part of a two-day economic conference by Bangladesh Economists Forum at Radisson Hotel in Dhaka.

Islam, also a former chairman of Bangladesh Securities and Exchange Commission, said the number of listed securities on the stockmarket should be raised to increase market depth.

"There was an explosion of market capitalisation on the basis of price inflation of existing scrips. There were not many new issues of initial public offerings of significant size over the last few years from the private sector with the notable exception of Grameenphone."

The promised off-loading of shares of 26 state-owned enterprises has not materialised, he said at the discussion moderated by

M Syeduzzaman, a former finance minister.

A large number of shares issued by companies from different sectors would help bring about better balance between demand and supply and enable investors to pick and choose on the basis of fundamentals rather than zooming on a limited number of existing shares, Islam said.

The limited number of shares helps to excessively inflate prices and creates conditions for eventual downside, according to the paper.

Bangladesh Bank and the stockmarket regulator should regularly exchange notes and adopt policies with due regard to interactions between money market and capital market.

Policies, once adopted on the basis of mutual consultations between the two regulatory authorities as well as between them and other stakeholders, should be implemented rigorously without being subservient to extraneous influences and should not be changed frequently, Islam said.

A perennial problem in Bangladesh is that wrong-doers in the capital market either go unpunished or there are long delays in disposal of cases, he said.

"It is important that there is close coordination among relevant agencies to ensure speedy legal action against manipulators. Otherwise it will be hard to restore investors'

confidence in the market."

Questions are often raised about the truthfulness, completeness and transparency of audited statements of corporate accounts, Islam said.

This is a vital prerequisite for stock investors to be able to make informed decisions. The establishment of the proposed Financial Reporting Council to exercise oversight over the auditors remains in a state of limbo, he said.

Ahsan H Mansur, executive director of Policy Research Institute, said the budget size would probably need to increase about 28 percent of GDP to face the enormous fiscal challenges by 2030.

Mansur presented a paper on "macro-fiscal management: role of fiscal policy beyond 2030" at the discussion.

The budget for the next fiscal year of 2014-15 is 15 percent of GDP. The increase in spending in terms of GDP would need to be about 0.5-0.65 percentage point per annum, he said.

Such an increase in the size of the budget would allow for raising the education budget by 2 percentage points to 4 percent of GDP, the public spending on health care by at least 2 percentage points to 3 percent of GDP, and spending on social welfare by 2 percentage points to 4 percent of GDP.

"Bangladesh has enormous fiscal chal-

lenges over the medium and long term. Demand for a rapidly growing middle income society for public social services, social protection, and the massive unmet and new demand for infrastructure will be enormous."

Citing a World Bank study, Mansur said Bangladesh needs about \$9 billion (more than 5 percent of current GDP) in additional investment in major infrastructure projects per year to sustain growth at a higher level.

Although the government currently spends about 6 percent of GDP on its annual development programme, one third of the amount is allocated for communications and power, he said. This means current major infrastructure investment amounts to about \$3-3.5 billion.

The government would need to start its public-private partnership initiative in full force to leverage public resources with private investment, Mansur said.

With proper blending, public sector resource use could be limited to about 7-8 percent of GDP and still contribute to significantly improving the quality of infrastructure.

The government's fiscal deficit level should still remain at about 5 percent of GDP so that with 6 percent or more GDP growth in the longer run there would be no question about debt sustainability, he said.

ABB shows ways of reliable power

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The power sector should have compact substations equipped with state-of-the-art switchgear technology to save significant space and execution time in offering technical solutions, analysts said.

They spoke at a recent seminar organised by a leading power and automation company—ABB—in Dhaka.

Over 125 customers and stakeholders from Bangladesh and ABB delegates from different countries, including Switzerland, Singapore, China and India, attended the event, ABB said in a statement yesterday.

Johan deVilliers, regional division manager for South Asia of ABB, discussed at

length ABB's solutions in optimising power generation from fossil fuel.

Presentations were also made on advancement of gas insulated switchgear technologies, substation automation systems, communication network and plant control systems.

Rajarshi Banerjee, managing director of ABB Bangladesh, said ABB as a global leader in innovation and disruptive technologies have strong focus on Bangladesh as a growth market.

He urged the Bangladeshi users to adopt the latest technologies not only for space and operational reasons, but also to insulate the country from technical obsolescence with the fast changing scenario of the global power industry.



Officials of ABB attend a seminar organised by the leading power and automation company in Dhaka recently.

Joy looks to fast rollout of 4G tech

UNB, Dhaka

Bangladesh will roll out 4G telecom technologies during the tenure of the present government, Sajeeb Wazed Joy, the prime minister's information and communication technology adviser, said yesterday.

"We implemented 3G in our previous term. In the present tenure, we'll implement 4G," he said.

Joy spoke at a discussion meeting on Digital Bangladesh, co-organised by ICT Division and Access to Information of Prime Minister's Office at the Bangladesh Computer Council auditorium.

Entrepreneurs, programmers, freelancers and field-level government officials participated in the programme.

"If any mobile operator wants, it can introduce 4G now by taking permission. WiMax service providers are now being given permissions for 4G," Joy said.

"Information technology is not a garment factory. There'll be no work without the new idea in the sector. Investors should understand it. They can invest in a good-performing IT firm."

"This is how brands like Google and Facebook will be built in Bangladesh," he said.

The issue of bank finance for free lancers is under discussion, as they have no asset to keep as collateral, he said.

Nearly 70 government services are being delivered through Union Information Service Centres, and the government plans to digitise all its services, he said. The government also plans to increase the number of union information centres to make services more accessible.

Economic progress lauded

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The British professor however did not forget to remind the government that there are still a lot of poor people in the country.

Speaking on "Farming, fertility, food: why has Bangladesh done better than expected? Can it continue to do so?" he said the country has got a few things roughly right over the decades in three key areas—farming, fertility and food.

The three are closely linked with and are at the heart of shared economic progress.

"But for natural progress of opulence, the government must sectorally act wisely on farming, on helping people reduce their fertility and making the food supply more adequate."

"Or, it could allow the NGOs to act wisely or set a framework for wise private action. Or, it could allow the combination of the two. Otherwise, that progress will never happen."

While Bangladesh has shown strong signs of advancement in case of human development index, more needs to be done, Lipton said.

For the future of Bangladesh, lower child mortality is a precondition though, he added.

"However good the access is to contraception, you will not have people choosing contraceptives if they are scared that their children are going to die. You must have mortality reduction first."

Lipton said the country also needs to clearly capture the demographic dividend before ageing burden hits the country. "Ageing will not happen in Bangladesh until 2040, but it will happen, and then economic growth will be more difficult."

The economist also called for facing the challenges of nutrition in a coordinated manner, as it will cut child mortality. His list of worries for Bangladesh also includes rising obesity and diabetes.

Further pro-poor structural transformation is needed in the agriculture, nutrition and fertility areas, while calling for new institutions for facing new challenges, Lipton said.

AMA Muhith, finance minister, identified the absence of a large-scale manufacturing sector and static private sector investment as two major failures of the economy.

"Unemployment is a serious problem, but somehow people are surviving. It is mainly because of the expansion of service sector and rural activities. Services which could be provided by one person are being provided by three persons."

"Of course, this division of labour has certainly made some quality improvements, and there is still scope for that. But I don't think this is going

to give us the pleasure of having large-scale employment in the country."

He said the manufacturing sector has not responded very well in creating large-scale employment. "I don't know how to approach it."

Political stability is an important matter, only to sarcastically, Muhith said. "Look at this country. Without political stability, it is doing quite well."

Muhith went on to acknowledge that the country faces a serious infrastructure deficit.

"Private investment has been static in the last five years. It is another of our failures. The investment growth has mostly happened in the public sector."

The biggest challenge in future though would come from the absence of land, he said, while calling for human habitation centres to stop using agriculture land for households in a haphazard manner.

"We will have to make sure that services are provided in those centres from one place."

The minister said the government has decided to switch its attention from energy development to manpower development in its current term. "It is very, very important for the nation to develop skills—but not only for our country but also for the export markets."

Rehman Sobhan, chairman of the Centre for Policy Dialogue, called for utilising the expertise of Bangladeshis living abroad.

"Bangladesh has attached a great deal of importance in using the diaspora's financial capital. We get large volumes of remittances, but these do not come to us in the form of usable investible capital."

"We have not been effective in attracting the diaspora's intellectual capital though, which is no less significant."

Sobhan said the country needs a free and fair election for political stability. "For the desired political stability, we need a strong election commission," he said, while calling for continuity on economic policy.

In a separate session, Atiur Rahman, governor of Bangladesh Bank, said the financial sector has performed fairly well overall in supporting steady, stable and inclusive growth of the real economy, while upholding its own systemic stability during episodes of domestic and external shocks, including the global financial crisis.

However, shortcomings in market development, coupled with governance weaknesses arising from encroachments on operational independence of regulators are keeping the financial sector performance below its potential, he said.

Appropriate corrective steps should

be taken with no further delay if the financial sector is to rise up to its call of supporting the nation's quest of attaining the upper middle-income status by 2030, Rahman said.

The central bank's priorities will include continuing the thrust to ingrain a socially responsible financing culture in the financial sector and maintaining the support to agricultural sector and small and medium enterprises, he said.

The strength and capacity of the financial sector would be enhanced such that it withstands the pressures from increasing external shocks as the economy opens up and integrates faster with the global economy.

Rahman said regulators in the various segments of the financial sector will need fast upgrading of their capabilities of supervising a much more open, and hence a much more vulnerable, financial sector than before.

Speaking on public finance and urban development, Salehuddin Ahmed, former governor of the central bank, said the drastic changes in physical, economic and social structures of urban areas have been posing serious challenges for sustainable urban development.

"Urban areas are now afflicted with innumerable problems ranging from law and order situation to deteriorating environmental conditions."

In his paper, the economist said the environmental problems of urban areas have direct and immediate implications for human health and safety, especially for the poor, and for business productivity.

"Urban environmental problems are of central concern for policymakers since adverse conditions resulting from inadequate waste management, poor drainage, air pollution, lack of access to safe water and sanitation, exposure to excessive noise level, traffic congestion as well as inadequate health services exact a heavy toll on the quality of life."

He said the dependence of local government bodies including urban ones on central government for finance must be reduced.

The present ad-hoc and discretionary practices of central government in allocating resources should be abandoned to achieve fiscal decentralisation.

He called for setting up a permanent local government finance commission to achieve fiscal decentralisation in true spirit.

Hassan Zaman, chief economist of BB, said the country would have to create a lot of jobs for production-based growth. To do so, the country has to woo a substantial amount of private investment, he said.

Infrastructure, political stability key to high growth: analysts

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With fiscal 2005-06 as the base year, per capita income rose to \$1,190 in 2014, according to government-run Bangladesh Bureau of Statistics.

Nevertheless, Ahmed said, this performance is below the potential and much lower than the growth rates achieved by China, Malaysia and Korea, who were also low-income countries like Bangladesh in 1974.

Malaysia and China are now at the higher end of the middle-income group, while Korea has crossed over to the high-income category. "Bangladesh is still at the low-income group, and is aspiring to enter the low-end of middle-income group by 2021."

"There is no reason why Bangladesh cannot achieve higher growth rate than its current one," Ahmed said, while stressing capital accumulation, investment-friendly climate, policies for labour growth, strengthening human capital, developing infrastructure, acquiring better technology and strengthening structure of production for higher growth.

Policies that promote efficiency and improve governance and institutions are particularly important to increase the contribution of total factor productivity growth, he added.

Presenting another paper, "Avoiding the middle-income trap and jobless growth: overcoming binding constraints to growth and getting policies and institutions right", Mohiuddin Alamgir, former president of the Bangladesh Economic Association, said transport, energy, and skill and human capital are the major constraints for economic development.

Quantitative and qualitative policies and investments are needed to improve the situation in the sectors, he said.

Good governance, shift to and adoption of information technology, planning process and integration between planning and budget are also important factors to the growth trajectory, Alamgir added.

Commenting on the two papers, Zahid Hussain, lead economist of the World Bank's Dhaka office, said steps need to be taken to increase political stability by strengthening incentives for groups to achieve their aims peacefully.

"Securing peaceful access to rents should play a crucial role in any negotiation."

He stressed the need to enhance the state's ability to enforce the rule of law impersonally and equitably, especially in its dealings with the non-elite-run political, economic and social organisations.

Hussain also recommended encouraging the business community to seek profits by improving productivity by way of investing in learning, efficiency and technology rather than seeking rents from the state and parking their savings offshore.

The World Bank's Commission on Growth and Development identified five reasons that brought about sustained high growth post-World War II. They are: macro-economic stability, advantage of the world economy, markets to allocate resources, sustained high investment and saving rates and capable governments.

"Bangladesh does very well on the first, reasonably well on the second and third, not so well on the fourth, with a lot wanting on the last," Hussain said.

"By increasing savings and investment rate and the capability of the government while maintaining macroeconomic stability and allowing markets to do what it does best, Bangladesh will make it to the high-income group sooner than many pundits think. However, it may not be in our lifetime."

Mashiur Rahman, economic affairs adviser to the prime minister, moderated the discussion.

Bank borrowing falls far below target

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As a result, the government may not need to borrow the entire amount of its target.

Also, borrowing through savings instruments has reduced the government's dependence on the banking system, a finance ministry official said.

The government's net borrowing through savings instruments was Tk 8,734 crore in the first 10 months of the outgoing fiscal year, according to central bank statistics.

Borrowing through savings instruments has already exceeded the target at Tk 8,000 crore and is likely to go up further. Though it will reduce the amount of bank borrowing, the interest cost will mark a rise.

However, the central bank made a signifi-

cant policy shift in bank borrowing this fiscal year, which has played an effective role in containing inflation.

The government borrowed Tk 21,201 crore from commercial banks during July 1 last year till June 9 this year.

However, it repaid Tk 14,841 crore to the central bank. As a result, the net borrowing was Tk 6,359 crore.

The commercial banks' excess liquidity is huge now and stood at Tk 138,020 crore at the end of March.

This is why the government's borrowing was more from the commercial banks. If the borrowing from the central bank is reduced, non-food inflation goes down, officials said.

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