....Looking back and looking forward

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Its activities include providing training on safety to more than one million factory managers, workers and security personnel, compensation to displaced workers due to remediation of half of the their factories.

Resources for compensating the victims have been committed from various sources including the government, RMG manufacturers, buyers and donors. The Rana Plaza Donors Trust Fund managed by the International Labour Organization mobilized little less than half of the estimated requirement of USD 40 million to compensate a total 2,849 claims from families of victims and the injured survivors. While the first batch of claimants received compensation in October 2014, the rest remain worried for receiving their share.

Bangladesh is eying at earning USD 50 billion through RMG exports by 2021. Given the potential of the sector and the past growth trend, this is quite a possibility for the country. Along with meeting up compliance requirements, this ambition will have to be backed by improved power supply, and infrastructural facilities. Technological upgradation, skills development and market search are also a continuous process for the growth of the sector.

ANOTHER WORRYING YEAR FOR THE BANKING SECTOR:

The banking sector continues to cast shadow on the overall economic scenario through malpractices and inefficiencies. Low pick up of investment led to low credit growth in the banking sector. Till June 2014 domestic credit grew by only 11.6 percent against the target of 17.8 percent in MPS. Actual growth of domestic credit up to September 2014 was 12.3 percent while the target for December 2014 is 13.8 percent. Both credit to the public and private sectors has been sluggish during those periods. In September 2014 interest rate spread was 5.1 percent, a decline from 5.3 percent in June 2014. Despite demands for lower interest rate, banks in Bangladesh charge high lending rates. Similarly, the deposit rate is also high in Bangladesh due to which banks are reluctant to lower lending rates. The central bank has directed commercial banks to keep the interest rate spread within 5 percent, which is not followed quite often. Commercial banks claim that it is difficult to lower interest rate due to high cost of capital which is the result of inefficiency, high risks and low profitability of the sector.

Lower growth in credit coupled with increasing trend of non-performing loans (NPL) has worsened the performance of the banking sector. During January-September 2014 both classified loans and NPL have increased. Low capital adequacy and poor asset quality of banks are also worries of the State Owned Commercial Banks (SCBs). Primarily due to rise in default loans, capital adequacy ratio of SCBs fell by around 9 percent against their risk-weighted assets as opposed to the required level of 10 percent as of June 2014.

With the objective to improve their capital base, in addition to recapitalization of SCBs by injecting Taka 50 billion in FY2014, the government has also made budgetary allocation of Taka 55 billion in FY2015. However, the core problem of the banking sector lies in inefficiency, weak monitoring, political influence and above all, lack of governance. These are manifested through rescheduling of loans and extension of repayment period for the powerful ones. Rescheduling of these loans may do temporary window dressing to show lower NPL, but the fragility of the sector continue to exist. Hence, allocation for the loss making banks by the government is tantamount to subsidizing the sector for their malpractices and fraudulent at the cost of the common people.

CAPITAL MARKET, THE FORGOTTEN WOE:

Though capital market has been relatively stable during FY2014, it has not recovered from the wounds that it suffered in 2010. A number of regulatory measures have been taken by policymakers including the amendment of the Securities and Exchange Commission (SEC) Act that took away the subordination of SEC to the Ministry of Finance and preparation of corporate governance guidelines. The Asian Development Bank implemented capital market development programme during 2011-14 for undertaking reforms for the sector. It may be a little premature to observe any visible impact of such measures, but capital market needs greater transparency and accountability to reduce its vulnerability. Unfortunately, we are yet to realize the fact that in order to mobilize resources for an emerging economy such as Bangladesh and gain the capacity to absorb any domestic and global shocks, diversification of financial instruments is a must.

GLOBAL OIL MARKET AND BANGLADESH:

Global oil prices have gone record low during the last several months. Lower oil price in the global market is a blessing for Bangladesh as it can save foreign exchange which in turn can be used for other imports. While Bangladesh is in the process of rationalising oil prices through phasing out subsidies and hiking its prices commensurate with the global price, a subdued global petroleum market would imply lesser subsidy requirement. Savings from lower subsidies could otherwise be used for infrastructure development and social protection. A depressed fuel price also provides leverage for the government to keep domestic fuel prices low which in turn will give some respite to consumers, particularly the low and fixed income groups who can then spend their savings for other purposes. Low petroleum prices also help domestic inflation to be low since a significant amount is spent on petroleum products by consumers in Bangladesh.

Globally, such low oil prices have been pushing down inflation below the target. This has affected the manufacturing prices causing deflation in many countries. During such period exporting countries could face low demand which may cause lowering of export prices. Bangladesh depends on RMG exports and remittances through temporary migrants abroad for high foreign exchange reserves. If oil rich countries plan to cut down their apparel imports and reduce employing foreign labour, it will seriously hurt countries such as Bangladesh. Thus the country will need to be cautious and strategise its position to face any such sputtering situation. Proactive role to gain duty free market access to developed and advanced developing countries, diversification of products and markets and skills development of workers are some of the measures that should be undertaken by the government.

The brief overview indicates that the economy could not pick up the steam in 2014 due to a number of challenges. Maintaining macroeconomic stability, increasing efficiency in project implementation, particularly that of the infrastructure and improving governance are some of these challenges. While the upcoming year will not see many changes in case of these challenges, the economy is expected to show a glimmer of hope in terms of higher GDP growth given the relative economic and political stability. However, achievement of the targeted growth of 7.3 percent as spelt out in the budget of FY2015 will require vigorous efforts for boosting investment through gaining business confidence and increased commitments towards reforms, among others.

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