Oil wealth a blessing, energy dependence a curse for Russia's economy

AFP, *Moscow*

Abundant oil and gas deposits have been a blessing for Russia, but they now feel like a curse as low prices propel the country into a deep economic crisis that shows no signs of abating.

The ruble fell to a record dollar low this past week as global crude prices slumped to 12-year lows, highlighting at once Russia's vulnerability to changing oil prices and the fact President Vladimir Putin's government has squandered opportunities to diversify the economy.

Although the ruble bounced back on Friday after a slight recovery of the oil market, the head of Russia's central bank, Elvira Nabiullina, publicly called for "structural efforts to diversify the economy."

"We should not expect to see oil prices return to high levels," she said.

Calls to develop long-neglected sectors of the economy come as the government faces increasing pressure to react to a crippling economic crisis that has seen inflation soar and Russians' purchasing power shrink dramatically.

Booming oil prices in the 2000s when Putin came to power helped fill state coffers and ushered in an era of prosperity.

Oil wealth, which led to higher living standards after the country's tumultuous transition to capitalism in the 1990s, also boosted Putin's popularity.

But for the past decade, the International Monetary Fund (IMF) has urged Russia use its oil revenues to support revamping the economic sectors that have been overlooked since the collapse of the Soviet Union.

"Oil is both a blessing and a curse," IMF mission chief to Russia Antonio Spilimbergo warned in 2012, urging Russia to improve its business climate and fight corruption to attract foreign investment.

The Kremlin has also acknowledged the need for change. In his 2006 address to the nation, Putin called on his government to restructure the economy to focus on new technologies.

In a much-touted modernisation drive, the country founded Rosnano, a public holding company specialised in nanotechnology, and Skolkovo, an innovation centre that has branded itself as Russia's answer to Silicon Valley.

But these initiatives have not come anywhere close to challenging the deep-rooted public energy giants.

"It's easy to talk a good game on the need to diversify away from energy sectors, but the reality of pushing through the necessary reforms is more difficult," said Neil Shearing, chief emerging markets economist at Capital Economics.

"This is particularly true when oil and gas prices are high."

High oil prices in fact enabled the authorities to adopt a wait-and-see policy and prop up the ruble, which in turn made Russian companies less competitive on the international stage.

"Ironically, it could be the collapse in global energy prices and the ruble that gives the biggest spur to diversification," Shearing added.

The financial crisis of 2008 and 2009, accompanied by an oil price slump, had sounded alarm bells among Russian authorities.

Then-president Dmitry Medvedev said there would be "fatal" consequences to waiting for the oil market to rebound before revamping the economy.

The crisis also prompted a sceptical Putin to finalise Russia's accession to the World Trade Organization (WTO) in 2012, despite fears that opening Russia's market to global competition could result in higher unemployment. But oil prices once again shot up, and Russia's oil production has not slowed down since.

Russia pumped a record 534 million tonnes of crude oil in 2015, even as it reeled from a fall in oil prices. The state has reinforced its presence in the sector, turning state oil company giant Rosneft into a global goliath and developing ambitious plans for the Arctic.

But this time, authorities expect no quick rebound in oil prices, finance minister Anton Siluanov said.

Siluanov said the government was preparing an anti-crisis plan to adapt budgetary policy to "new realities."

For economist Lilit Gevorgyan of IHS Global Insight, weaning the Russian economy off its oil dependency would "require serious long-term political efforts" to solve lingering issues such as corruption, red tape and the judicial system's lack of independence.

AB BANK

Shamim Ahmed Chaudhury, managing director of AB Bank, hands over a financial support cheque for the CCTV Surveillance Project of the Dhaka North City Corporation to Annisul Huq, mayor of the city corporation.

PUBALI BANK

Md Abdul Halim Chowdhury, managing director of Pubali Bank, and Mohammad Ali and Akhtar Hamid Khan, deputy managing directors, attend a managers' conference for the bank's Dhaka and Narayanganj operations, at the bank's head office in the capital.

AARONG

Sir Fazle Hasan Abed, founder and chairperson of Brac, and Taufiqur Rahman Mollick, a director of Brac Dairy and Food Enterprises, pose at the launch of Aarong Dairy Borhani at Brac Centre in Dhaka.

Study TPP's impact on Bangladesh

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She urged Bangladesh to diversify its industries from garments to others that will link and upgrade the global value chain.

Fruman, who is in Dhaka now to attend the two-day Bangladesh Investment and Policy Summit, also talked about the challenges related to foreign direct investment and infrastructure.

Bangladesh needs to increase its investment to 33 percent of its gross domestic product from existing 27 percent, she said.

In so doing, the country will be able to register 7.5-8 percent growth.

The FDI inflow has to be around $5 billion a year from the present $1.6 billion to support higher economic growth.

Bangladesh has to simplify its regulations and laws to attract FDI, she said, while citing the example of India that has taken pro-active measures including regulatory framework and simplification of laws to attract investment from abroad.

In addition to this, poor institutional capacity coupled with infrastructure deficiencies and weak trade logistics remains major constraints to attracting FDI into Bangladesh.

Fruman hailed Bangladesh for its efforts to establish 100 special economic zones (SEZ).

"Setting up 100 special economic zones is very ambitious. Given the present conditions, it is a great solution to attracting FDI and diversifying industries."

Though Bangladesh ranks 174th out of 189 countries in the WB's doing business report, the country has improved in some areas. Reforms have helped Bangladesh save $253 million over the last eight years, she added.

Govt seeks Malaysian investment for Teletalk

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Teletalk is moving towards a major brand overhaul by February with a new logo, website, packages and a modern complaints system, she said.

"Teletalk's network coverage will improve if we can increase the number of base stations. We can also get more subscribers then," said Tarana.

"Celcom also showed us how the services of Teletalk can be modernised."

Teletalk began its journey as the country's fifth operator in March 2005 with a capital of Tk 643 crore. It initially had the capacity to serve only 40 lakh users. The number has now been raised to one crore.

Stocks continue losing streak

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"Stocks plunged in morning trade spooked by heavy sell pressure on large cap stocks."

IDLC Investments, a merchant bank, also said the investors' participation in the market remained sluggish.

Turnover, another important indicator of the market, however, slightly rose 2.2 percent to Tk 427.76 crore, with 15.07 crore shares and mutual fund units changing hands on the DSE.

Of the traded issues, 162 advanced and 118 declined with 41 securities closing unchanged on the premier bourse.

Emerald Oil Industries dominated the turnover chart with 38.63 lakh shares worth Tk 25.85 crore changing hands, followed by United Power Generation and Distribution Company, Alltex Industries, C&A Textiles and ITC.

Among the major sectors, cement declined 0.55 percent in market capitalisation, followed by fuel and power that fell 0.44 percent and non-banking financial institution 0.36 percent.

Conversely, telecom and banking sectors increased 0.55 percent and 0.11 percent respectively in market capitalisation.

Alltex Industries was the day's best performer with 9.89 percent in gains, while the 5th ICB Mutual Fund was the worst loser, shedding 8.33 percent.

Chittagong stocks closed almost flat yesterday with the bourse's benchmark index, CSCX, declining only 0.89 points or 0.01 percent to finish the first day of the week at 8,653.5 points.

Losers beat gainers as 121 declined, 99 advanced, while 34 finished unchanged on the Chittagong Stock Exchange. The port city bourse traded 1.27 crore shares and mutual fund units worth Tk 30.80 crore in turnover.

Govt to export raw jute to Nepal: Tofail

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The jute industry in Nepal is largely dependent on raw jute from Bangladesh and India, Upadhayaya said.

Bangladesh used to export jute to different countries, including Nepal, China and the Middle East.

The government had to impose the ban as demand for raw jute increased in the country after the implementation of the Mandatory Jute Packaging Act 2010.

The government has made it mandatory for traders to use jute bags and sacks to pack paddy, rice, pulses, wheat, fertiliser and sugar.

The first-time rule violators will face a fine of Tk 50,000 or a year in prison; second-time offenders would be subject to both the penalties, according to the law.

Bangladesh will also be benefitted if jute is supplied to Nepal, as many Bangladeshi spinners import jute yarn from Nepal to meet their domestic demand, said Upadhayaya, who led the Nepalese delegation.

The balance in bilateral trade between the two countries is tilted towards Bangladesh. In fiscal 2014-15, Bangladesh exported goods worth $25.05 million to Nepal, while it was $13.68 million in the previous year.

Bangladesh imported goods worth $11.50 million from Nepal in fiscal 2014-15 and $21.50 million in the previous year, according to data from the commerce ministry.

Jamuna Bank re-appoints managing director

STAR BUSINESS DESK

Shafiqul Alam has recently been re-appointed as the managing director of Jamuna Bank, the bank said in a statement yesterday.

Alam has held the post since January 2013, according to the statement.

Alam has been the additional managing director of United Commercial Bank prior to joining Jamuna Bank.

He began his banking career with ANZ Grindlays Bank and has also worked with Prime Bank and First Security Islami Bank.

Invest heavily in transport, logistics

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Bangladesh specifically needs improvement in customs, infrastructure, competence of logistics service providers, and tracking and tracing, Khan added.

Rebecca Konrad, head of the transport and logistics department of the International Finance Corporation's Asia Pacific region, said Bangladesh was the 45th largest economy in the world in 2015.

But when it came to logistics and transport, it stood at the bottom third globally.

She said public-private partnership would be the key to raising investment for improving the country's transport infrastructure.

PPPs for airports and river ports do not require any outlay from the governments other than providing the land for the project and connecting infrastructure.

This is in contrast to PPP for the power sector, where the government usually has to buy the power from the project, Konrad said. The private sector can also be involved in air transport, which would spur positive competition among the public and private carriers.

Allowing private operators to operate alongside the state-owned enterprises (SoEs) on a level playing field is another way of getting the benefits of private sector investment and innovation.

It will also provide incentives to the SoEs to improve their services.

About the Chittagong port, Konrad said the growth in container traffic will be much higher than the country's economic growth. It may grow at 15 percent annually.

"How is the Chittagong port dealing with this growth?"

In the last 10 years, there has not been any significant improvement in the container handling capacity relative to the growth in twenty-foot equivalent units.

To attract private investors to PPP projects, Bangladesh will have to provide commercially viable tariff level, operating autonomy and termination compensation.

"We at the IFC are looking forward to supporting more private sector investments in Bangladesh's transport sector in the years ahead," she added.

Kazuhiko Higuchi, country director of the Asian Development Bank, said the role of the private sector is becoming greater as Bangladesh moves towards the higher middle-income country bracket.

To become a higher middle-income country, the ADB recognises the need for transport and infrastructure development.

The Manila-based bank is already financing roads and railway projects in Bangladesh, and is planning to work on linking Bangladesh with Nepal and Bhutan through India.

It is also looking at the potential of a transport link between Bangladesh and India through Dhaka-Sylhet-Northeast India and a corridor between Dhaka and Kolkata through Benapole, Higuchi added.

ASM Mainuddin Monem, deputy managing director of Abdul Monem Ltd, said highly efficient connectivity is needed for the growth of regional trade.

Mahbubul Alam, president of the Chittagong Chamber of Commerce and Industry, said connectivity is very important for businesses to survive. "Trade-friendly infrastructure must be developed," he said.

At present, a direct shipping line is missing in the country and the Chittagong port management is not up to the mark.

Despite modernisation and upgradation in facilities, time taken for customs clearance is still beyond the acceptable limit at Chittagong port.

"So, the main focus should be on an integrated supply chain for smooth movement of goods and people," he added.

Earlier in the plenary session, Investment Opportunities Unbounded, speakers also identified infrastructural bottlenecks as the major obstacle to attracting investment.

Millions of working hours are being wasted on roads because of traffic congestion, and nobody knows when the construction of Dhaka-Chittagong four-lane will be completed, they said.

While moderating the session, AK Azad, principal secretary of the PMO, said the government is aware of the infrastructural bottlenecks; a number of projects have been taken on a priority basis to solve them.

"Invest in the country. The government will provide the policy support and security," he said while addressing the local and foreign investors.

Abdul Matlub Ahmad, president of the Federation of Bangladesh Chambers of Commerce and Industry, said almost all the sectors are open for investment.

Abrar A Anwar, chief executive officer of Standard Chartered Bangladesh, said there is no human resource dearth in the country.

Only four out of the 2,000 people employed by the British bank in Bangladesh are foreigners.

Kamran Bakr, chairman of Unilever Bangladesh, said his company did not face any problem since its establishment in the country. It did not face any trouble in repatriating profit either.

While chairing the session, SA Samad, executive chairman of BoI, said: "We are learning. Things are happening. Things are not falling on deaf ears."

The summit was organised to showcase the private sector investment opportunities in Bangladesh, said Asif Ibrahim, chairman of BUILD.

MTB

Mahboob Rahman, chairman of The Peninsula Chittagong and managing director of Sayeman Beach Resort in Cox's Bazar, and Anis A Khan, managing director of Mutual Trust Bank, pose at the signing of an agreement at the bank's head office in Gulshan, Dhaka. The bank's customers, management and employees will enjoy up to 50 percent discounts on room rent, venue rent, food and other services.

BMBA

Md Sayadur Rahman, newly-elected president of the executive committee of the Bangladesh Merchant Bankers Association, poses with the members of the association's new committee for 2016 and 2017, at Lakeshore hotel in Dhaka on Saturday.