

# star BUSINESS

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## Economy to stay stable

### Standard Chartered sees greater risks to consumption and external sector

STAR BUSINESS REPORT

Standard Chartered yesterday attached a relatively stable outlook to Bangladesh for 2017, saying the country is positioned to be one of the fastest growing Asian economies in the year amid a volatile global scenario.

The Asia-focused British lender said it thinks the global economic landscape this year will be very different from that in the previous years.

The US economy's potential deflation -- which is a fiscal or monetary policy designed to expand a country's output and curb the effects of deflation -- is fuelling optimism, but this is overdone as tightening financial conditions may stunt growth before fiscal stimulus takes root.

Tighter conditions are also likely to unleash further volatility, leading to re-pricing of risk in many emerging markets.

"2017 is shaping up to be an exciting but volatile year. In this context, the outlook for Bangladesh is relatively stable," Standard Chartered said in its year-end commentary.

However, the bank expects Bangladesh's gross domestic product growth to slow down to 6.8 percent in the current fiscal year from 7.1 percent a year earlier, owing to the fading impact on consumption of public sector wage hikes, and a decline in remittance inflow.

The government's target of GDP growth for the current year is 7.2 percent.

Standard Chartered sees greater risks to both consumption and external sector in 2017, two important growth determinants.

Consumption is likely to decline in 2017 on the implementation of a

**Standard Chartered FORECASTS**

- GDP growth to slow to **6.8%**
- Consumption likely to decline
- Infrastructure projects to make progress
- Public investment to support growth
- Changes to policy rates unlikely in FY17
- Inflation to be **5.7%**
- Dollar-taka exchange rate to stand at **Tk 80** by end-2017

uniform VAT rate (effectively raising tax rates) and slower exports.

Risks to the external sector include weaker-than-expected global trade and tightening global financial conditions.

Trade with the UK, Bangladesh's biggest export market after the US and Germany, may suffer due to the medium-term impact of Brexit and 20 percent appreciation of the taka against the British pound in the past year.

The bank said public investment is likely to propel growth this year, climbing steadily as Bangladesh seeks to address its infrastructure deficit.

Public investment increased 15 percent annually in the past five years, with a focus on infrastructure projects.

To meet infrastructure development needs, the seventh Five-Year Plan envisages a financing requirement of about \$410 billion -- twice the

size of Bangladesh's GDP.

Standard Chartered said the progress in easing investment constraints has been slow, but there have been some positive developments in the past year.

Padma bridge progress is broadly on track, it said, adding that the recent completion of two critical road projects -- Dhaka-Chittagong and Dhaka-Mymensingh highways -- could potentially reduce travel time and transport costs, boosting productivity and trade.

The government has increased its annual development spending target to \$14 billion in fiscal 2016-17, with the transport and energy sectors receiving the bulk of the allocation.

The bank expects no change to policy rates in fiscal 2016-17 as inflation remains close to Bangladesh Bank's target and growth is expected to hold up well.

The bank forecasts average inflation in fiscal 2016-17 to be 5.7 percent, marginally lower than BB's target, on lower commodity prices and tight monetary policy.

On the foreign exchange front, fundamental drivers of the taka still argue for an adjustment higher in dollar-taka rate in the coming years.

The currency is overvalued on a real effective exchange rate basis, inward remittances are slowing, trade deficit is likely to widen and Bangladesh's exports are losing competitiveness, Standard Chartered said.

However, given the continued balance of payments surplus, the adjustment is likely to be slower than previously thought, it said.

"As such, we adjust our dollar-taka forecasts slightly lower. We now forecast dollar-taka at 80 by end-2017."



Right, Arastoo Khan, chairman of Islami Bank Bangladesh, speaks at a press briefing at the bank's headquarters in Dhaka yesterday. Syed Ahsanul Alam, vice chairman, is also seen. Story on Page 1.

## Foreign partners compelled Islami Bank to usher in changes: Muhith

STAR BUSINESS REPORT

The sudden changes at Islami Bank Bangladesh were made due to mounting pressure from the lender's foreign partners, Finance Minister AMA Muhith said yesterday.

"Many changes came as a consequence of the pressures from the foreign partners," he told reporters at his secretariat office.

His comments came two days after the country's largest bank brought wholesale changes to its management, including appointment of former secretary Arastoo Khan as its chairman.

Muhith said Jeddah-based Islamic Development Bank, which has stakes in IBBL, had considered retreating from the venture altogether but later changed its mind.

For the last two years, the bank has been under surveillance, Muhith said.

Questions were raised in the past about how the bank's profit is used. "Where does its profit go ultimately? How is it used? There were questions

about this."

Muhith said he does not think the sudden changes will significantly affect the health of the bank.

But he declined to make any comment on why the changes were made.

"I cannot comment on the recent changes. I have to watch and I will talk to the new management shortly."

About the changes, Muhith said: "It looks good."

The finance minister went on to praise Islami Bank, saying the lender is the country's No. 1 bank in terms of business at the moment. The expansion of the bank is down to the good services it provides its clients.

One of the reporters also asked whether a local business group is taking control of the bank, and whether it would be good for the government's efforts to establish governance in the banking sector if that happens.

Muhith replied with a bit of surprise. "Is any group taking control of the bank? I don't know. I cannot say which groups are involved."

## New VAT law will be introduced in phases

STAR BUSINESS REPORT

The new VAT law will be introduced in phases and not in one go, Finance Minister AMA Muhith said yesterday.

"It will not be implemented 100 percent from July 1. It will be implemented gradually," he said at a meeting with an MCCCI delegation led by its President Nihad Kabir at the secretariat.

Before the VAT law comes into force, rules should be framed so that the businessmen can comply with, Kabir said.

After the rules are made the businessmen must be given a transition period. If that is not done, the businessmen would not be able to make any compliance on the basis of rules.

"Only a few months are left but the businessmen know nothing about the rules," Kabir added.

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State Minister for Telecom Tarana Halim speaks at the unveiling of the new logo of RanksTel at Radisson Hotel in Dhaka yesterday.

## RanksTel rebrands itself with new logo

STAR BUSINESS REPORT

RanksTel re-launched its operation with a fast internet service—1,000 megabits per second—and a new logo yesterday.

The company will create a benchmark with its service quality and achieve customers' satisfaction, State Minister for Telecom Tarana Halim said after unveiling the logo at Radisson Hotel in Dhaka.

"Our vision is to become the largest internet player in the country. And to achieve that target we are offering the fastest internet service with voice," said Romo Rouf Chowdhury, managing director of RanksTel.

Chowdhury said RanksTel introduced new services in the telecom industry by harmonising local talents with global practices, and the subscribers will get trouble-free internet services to be provided with a fibre optic cable.

"This is the fastest internet service in Bangladesh as far as I know," said SM Ashikur Rahman, CEO of the lone private landphone operator.

The operator is initially offering its new internet services only to corporate clients in Dhaka. The services will be made available for other customers in the next two to three months.

At the ceremony, the operator also arranged a live demo session on the internet services and opened an experience booth for the invitees.

"We have already ensured 100 points of presence in the capital with the latest technology," Rahman said.

The data industry is booming and the government wants to see a 40 percent broadband penetration by 2021, which will be achieved with the help of companies like RanksTel, said Tarana Halim.

"I expect the company will expand it to the remotest areas, which would be a milestone in building a Digital Bangladesh," she said.

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## Clerics to motivate people to pay taxes: NBR

STAR BUSINESS REPORT

The National Board of Revenue is going to engage clerics in creating awareness and motivating people to pay taxes, it said in a statement yesterday.

"We are establishing a close partnership with the religious affairs ministry to implement the new VAT law. Clerics will be the main persons to create public opinion about the law," NBR Chairman Md Nojibur Rahman said at a workshop on the VAT and Supplementary Duty Act 2012.

The revenue authority organised the event at the office of the VAT online project to make small and medium enterprises aware of the new VAT law.

The government aims to implement the law from July through the automation of VAT system in a bid to increase VAT collection and compliance.

The law is expected to bring about accountability and transparency in the revenue administration.

NBR Chairman Rahman said small and medium entrepreneurs play the key role in the country's advancement. It is important for them to have thorough knowledge of the new VAT law, he said.

For this, they need appropriate trainings, Rahman said, adding that the entrepreneurs would be trained gradually.

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