

# Yearly Economic & Market Roundup 2002

January 11, 2003

## *in shaken hopes and convalescence, expatriates pulsate anorexic veins*

### Slanted scorecard

- ⇒ *The creator of SAARC Bangladesh looks east in foreign policy priority shift, for fairer economic opportunities. Renewed ties with Myanmar, Thailand and China may redraw the Southeast Asian economic map.*
- ⇒ *Economy floats on stream with applause in BoP, reserve, revenue collection and remittances in a year of mixed fortunes and lost opportunities.*
- ⇒ *Investment, credit expansion and foreign assistance fell way behind expectations.*
- ⇒ *Stagnancy reigns in trade and manufacturing with low investment manifested in fall of term loan disbursement and slowdown in capital machinery and intermediate good imports by 34.1% and 8.8%.*
- ⇒ *Consumption spree spurs growth of consumer goods import by 73.6% and food grain 125.9%; 5.8% in dollar terms in third quarter.*
- ⇒ *However, as import growth was less than expected, it might trigger recession should there be attempts to achieve the aggregate target of revenue receipt through enhanced collection of taxes on domestic front.*
- ⇒ *Inflation grits as prices of food, fuel and utilities rise, at 4.15% as per government, but CAB claiming at 8.52%; may aggravate as rise in price level is largely cost-pushed rather than demand-driven. Might break loose if expansionary policy steps in to induce demand to ward off looming stagnation.*
- ⇒ *Higher influx of foreign remittance, partial recovery in exports and cautionary containment of import payments improved BoP situation and increased foreign exchange reserve, yet remains to exceed the comfort level.*
- ⇒ *But external balance still hangs in a loose fulcrum, as export recovery remains fragile, remittance flow unpredictable and disbursement of foreign aid and FDI fizzle.*
- ⇒ *Despite positive trends in government borrowing from the banking sector, domestic outstanding debt increased by about Tk62.0b as of August on a point to point basis, mostly due to incremental borrowing by the government through sales of savings certificates.*
- ⇒ *Government strived for fiscal stimuli through the national budget to enhance domestic demand but as credit expansion remained quite dull, Tk1.64b was withdrawn from the rural economy.*
- ⇒ *Reigns put on SOEs as Adamjee gets the hack, followed by another 6 loss-making ones. But SOE losses and bulging non-performing assets in banking sector remained a thorn.*
- ⇒ *IPOs dwindle as corporate bodies still reject the capital market as a friendly source of finance.*

### Ripples and chimes

- ⇒ *An irate PM fires her last cannon in deploying armed forces to reign in Mafioso thuggery in a nonpartisan highhandedness, bringing sigh of relief crosscutting society amid whimpers of custodial deaths.*
- ⇒ *Efforts for quota & duty-free access of RMG and other exportable geared up and search for new markets and products intensified by star performer commerce minister.*
- ⇒ *Dhaka gets rid of polluting two-stroke three-wheelers for good; commuters get a new lease of life with CNG-propelled transports.*
- ⇒ *Amid growing environmental concern landfill of water bodies around Dhaka delta gets a ban and recovery of water bodies including rivers gets a spur.*
- ⇒ *No carrot and only sticks endeavor to improve corporate governance and operational profitability of the listed companies continued.*
- ⇒ *But Bangladesh carried the stigma as the perceived most corrupt nation; measures against corrupt politicians afoot, but take different political hues depending on partisan loyalty.*

### Tall on hopes, short on the platter

- ⇒ *ADP bloated shortly after slashing the previous one by the same amount in a ring master trapeze.*
- ⇒ *Multilateral agencies back down in supporting external balance and tagged further aids to conditions: frustrated finance minister opts to go alone.*
- ⇒ *Political confrontations remain intensified against hopes of accommodation as vengeance, jealousy and rejection continue to haze wisdom.*
- ⇒ *Austerity remains elusive as the bloated cabinet continues to remain obese, gulping a large pie of the revenue expenditure.*
- ⇒ *Capital market fails to turn as usual in slumber despite ritual hankering and some ad hoc throwaway fiscal incentives.*
- ⇒ *Central depository remained in deep freezer as lame duck automation fails to gather interest in bourses.*
- ⇒ *Dawdling in deciding on pipeline gas export exacerbate heated debate on domestic demand and the reserve size.*
- ⇒ *Private TV channel shut by court order on grounds of illegally obtaining license and consent on private container terminal at the sea and land port by past government declared void by judiciary exposing misdemeanor at highest level of government.*
- ⇒ *The government clinched two deals after deciding not to pursue any scheme on suppliers' credit, an expensive mode of non-transparent financing system that whipped up charges of graft in recent years.*

### Globally faltering and unlikely to sober soon

With an epoch-making shift in world order at the backdrop, the global economy was set to achieve a 2.8% growth during the year 2002, as predicted in the World Economic Outlook, against 2.5% in 2001. However, the likely growth is much lower than 2.5%, estimates World Bank (Nick Stern, The Guardian). The world economy is still struggling to pull out of the most severe downturn for decades, with snarled stock markets and rock bottom business confidence likely to delay recovery until late next year. Predictions earlier this year from different corners that the mighty western economies would shrug off the worst of the slump have been proved too optimistic at the end of the year.

Shaken by chilling stock market slides, a wave of corporate accounting scandals and bankruptcies, and tensions over the so called 'war against terror', the US economy managed to weather the storm by a handsome consumer demand, federal spending and interest rate reductions. But the going was considerably rough in Europe, and particularly in Germany, the euro-zone's leading economic power. Japan kept whining about as before as unemployment reached 5% by the end of the year. The euro-zone posted a meager 0.8% growth against 2.4% of USA. Economists see the euro-zone recovery tagged with a rebound in the US and global demand as prospects in the euro zone appear to be tied up to those of the United States.

There lies a 'significant risk' that the global economy would slide into recession in the coming months, jeopardizing hearty attempts to relieve poverty in the developing world, according to the World Bank. Downgrading the economic forecasts it made just six months ago, the WB maintained that volatility in the financial markets and the continued weakness of business investment had held back growth, hitting poor countries especially hard.

In Asia, long-suffering Japan economy shrank by 0.5% last year, but may turn in a better than expected performance in its 2002-2003 fiscal year than in years past. The Chinese economy was the growth leader as usual, and is expected to expand 7.3-7.5% in 2003, according to the December estimates from Consensus Economic Forecast, which put growth at 5.9% in India next year and 5.1% in South Korea. ADB views that developing Asia's economic recovery remains intact and will continue to strengthen in 2002-03, despite the weaker-than-expected economic performance of the US and other industrial countries. However, this might be upset unless there is visible political sanity in the gulf, where a boiling cauldron is now being brewed.

Investment in the developing countries suffered during the year. There was the most sustained fall in FDI since the global recession in 1981-83. World stock markets displayed their most dismal performance in 28 years, sliding down for the third straight year. In New York, Dow Jones Industrial Average was 17% down in 2002, after falling by 7% in 2001 and 6% in the year before, while the technology-dominated NASDAQ index finished 30% down this year. The Nikkei-225 index in Tokyo experienced a 18.6% fall to its lowest in two decades. The story was not much different in Europe. The year's largest decline was staged in Frankfurt, where the Dax dropped about 44%. In Eastern Asia, Honk Kong

and Singapore were the worst performing markets, while Thailand and Indonesia were the two notable exceptions, finishing the year with gains.

However, the stock market movements of Bangladesh can not be linked or compared to the movements elsewhere. Although in Bangladesh, the indices closed in an insignificant but somber note.

### But Bangladesh absorbs the initial shock

The year had to absorb the initial shocks of the aftermath of 9/11 that brought about fundamental changes in world order affecting economies of the south Asian region in particular. Until the fateful episode took place last year the country had been moving at a moderate pace, despite domestic turbulence ahead of an imminent national election, when the Economic Intelligence Unit (EIU) of *The Economist* ranked it second in growth march in Asia with 6.2%. As soon a new world order began to shape up with its catchphrase 'war on terrorism', all signs of a global recession started surfacing rapidly and the economic observers began to prophesy an inevitable slow-down, spearheaded by the Asian Development Bank (ADB), which predicted the growth to be within a range of 4.0-4.5%.

The decline of exports, the propelling force of growth, has profound negative impact on the overall economy. Weak external and fiscal imbalances coupled with dipping global recession in a depressed investment climate made recovery of the manufacturing sector and restoring the macro-economic stability a monumental task in all aspects. But finally the economy was able to stamp a growth of about 4.8% during the fiscal 2001-02, against 6.0% (later scaled down to 5.2%, recalculated by the central bank). Agricultural growth has been measured at 3% against last year's 5.5%, manufacturing by 5% against 6.3% and service sector by 5% against 5.4%.

However, gross domestic product (GDP) and gross national income (GNI) have fallen in dollar terms for the first time in last 11 years during the fiscal 2001-02. Per capita GDP came down from \$363 to \$362, while per capita GNI has gone down from \$377 to \$375, followed by per capita net national income (NNI) from \$349 to \$347. GDP at market prices was \$46,934m compared to last year's \$47,125m. But in taka terms it has increased from Tk237,086m to Tk253,254m. The national savings-GDP ratio has registered a nominal growth by 0.68% to 23.78%, while investment-GDP ratio rose by 0.61% to 23.63% over the previous year.

Bangladesh have made good progress in both increases in income and reduction of poverty during the past decade. In about a decade, poverty incidence has been reduced by 9%. But the level of social inequality has heightened and rich-poor gap widened, much more in urban than in the rural areas. The Household Income and Expenditure Survey 2000 reveals that the incidence of national poverty has declined from 58.8% in 1991 to 49.8% in 2000. Level of consumption inequality increased to 36.8% from 30.7% in urban areas and 27.1% from 24.3% in rural areas during the period. Average household income in rural areas increased from \$927 in 1987-88 to \$1,348 in 1999-2000, with 3.2% growth. The rural income grew from the sources of remittance, trade

and business and non-rice agriculture, but income from rice farming and agricultural wage declined in absolute terms.

However, Bangladesh still lag behind her neighbors in its stride. Her ranking among 30 fastest growing economies has dropped to 14<sup>th</sup> in 2002 from 8<sup>th</sup> in 1990 due to decline in GDP during the year, revealed the World Bank, which is much below than that of Indonesia, South Korea, China, Vietnam and India, all of which had 5%+ growth during the period.

Now signs of recovery are visible in the horizon. With a relatively higher but anticipated inflation of 4.15% (up to September), higher than projected economic growth (4.8% against 4.5% prophesied by ADB), current account surplus of \$250m, comfortable foreign exchange reserve of \$1,670m and fall in trade deficit by \$146.2m (December 2001 to October 2002), it is all but moving down any further one year after the fateful 9/11.

### ADP charts expansionary trajectory

As a sequel to the expansionary policy, the immediate past government set the Annual Development Program (ADP) at Tk190.0b, which was trimmed by Tk30.0b by the newly elected government after a mid-term review, to Tk160.0b, basically to match expenditure with the availability of resources. The original ADP became excessive and unrealistic due to low level of revenue collection, and was facing criticism from the multilateral donors. But shortly afterwards the government proposed a similar size of ADP, of Tk192b, for the 2002-03 budget. The size swelled over sheer political considerations, hatched to placate the electorate. Although there was a 21.35% reduction in project aid, from Tk95.9b last year to Tk75.4b, for the current fiscal, a major foreign aid was expected to fuel the development projects, but it is yet to materialize. Moreover, it is feared that numerous politically biased low-priority projects might outweigh and impede the genuine priority projects in the 1,296-project ADP.

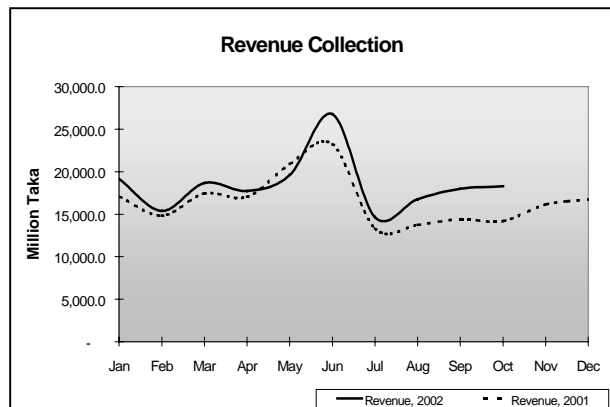
In early June the government formed the much-avowed Public Expenditure Review Commission (PERC) headed by a retired bureaucrat that carried out an interim review and recommended ditching of at least 120 politically motivated projects from the ADP. It viewed that some of the projects being implemented would take over 70 years to complete at current pace. The commission suggested selection of projects on priority basis while making allocations, and having a well-devised and transparent defense policy. It also suggested reducing the number of the existing ministries and departments, as well as the size of the cabinet, and put a cap on expenditure.

An interim Poverty Reduction Strategy Paper (PRSP) has been mooted last year, like other 62 countries around the world, as a part of condition to qualify for soft lending facilities from the International Monetary Fund (IMF) and World Bank (WB). IMF hinted a \$533.33m SDR standby credit. The PRSP, to take shape by June 2003, drew warm debate at different corners that urged the government to reduce dependency on donors to design and run poverty alleviation programs. The economists and industrialists suggested that local government bodies and non-

government organizations (NGOs) should be involved in the endeavor. Despite initiating fiscal and banking reforms, including restructured interest rates on some saving instruments and withdrawing some as well as shutdown of some white elephant SOEs, since it could not meet other conditions like floating exchange rates and reducing ADP size, the government eventually failed to win the facility.

### Revenue collection scrambling

Revenue collection was rather strenuous vis-à-vis the target during the first half of the year, but there was a healthy inflow in the second half. The National Board of Revenue (NBR) collected total revenue of Tk202.73b in fiscal 2001-02 against Tk187.75b in the previous period, with a growth of 7.98%. The national budget (with Tk448.54b outlay) for the fiscal 2002-03 estimated revenue receipts of Tk330.84b. Up to October 2002 revenue collection of Tk185.074b marked a growth of around 11.36% over that of the period last year. The finance ministry is now contemplating withdrawal of self-assessment in personal income tax for the professionals (doctors, engineers, architects, lawyers, businessmen, etc) to augment collection. The number of income taxpayers has reached 1,229,007 in October from last June's 1,173,396, showing signs that the government is in hot pursuit for enhancing collection. Recent hike in petroleum prices would enable the exchequer exact an additional Tk10.0b from the public sector importer of petroleum as duty.



During the last fiscal revenue-GDP ratio was 10.05%, and expenditure-GDP ratio, 8.13%. The former, however, has been languishing below 10% since independence, might reach as much as 11.5% if the government succeeds in achieving both the 6.0% GDP growth and ambitious revenue target of Tk34.0b for the next fiscal. Such a ratio, if achieved, might be a record high for Bangladesh, but will remain much below the other developing nations, and even south Asian economies. It hovers around 16-17% in India and Pakistan and 15% in Nepal, compared to a usual 9% in Bangladesh.

### Long shadow of corruption unlimited

Pervasive corruption in Bangladesh, or rather the perception of corruption, reached a new height with formal endorsement from the Bangladesh Chapter of Transparency International (TI) that measured annual loss due to corruption at Tk112,562m in calendar year 2001, equivalent to 4.7% of GDP of 1999-2000. The TI in its annual Corruption Perception Index (CPI) had ranked Bangladesh

at the top for consecutive two years. Identified most corrupt departments include law enforcing agencies followed by education, health, forest and environment sectors where rampant abuse of power, sheer cronyism, grafts and misuse of resources by the first class government officials, in most cases, were recorded. The highest figure, Tk53,165m had been found drained in the forest and environment sector. Allegation against such corruption is too strong to deny as in 86.3% cases the reporters could submit key documents, and half the officials admitted the reports to be true, 22.5% claimed to be partially and only 1.2% could refute them with necessary evidence in their favor.

The dismay is further corroborated by the observations made in the annual report of the Comptroller & Auditor General (CAG) that detected misappropriation and irregularities involving around Tk148.6b in 24 ministries and government agencies during the last seven years, of which defalcations worth Tk126.0b are in communication ministry alone. Other major irregularities are with the ministries of finance (Tk2.02b), local government (Tk1.57b), works and housing (Tk1.30b), water resources (Tk1.20b), health and family welfare (Tk2.11b) and law and justice (Tk1.96b). The finding was based on 73 annual and special audit reports that contain 1983 audit objections on the defalcations, mostly of embezzlement, theft, wastage, non-deduction of VAT, income and other taxes and noncompliance with financial rules and regulations. During the last fiscal year (2001-02) defalcations to the tune of Tk15.98b have been detected in 14 ministries.

Political criminalization has been identified as the single major reason for breeding the ubiquitous corruption apace that now devours the economy and the society as a whole. Bangladesh Economic Association (BEA) proposed a 12-point way out plan for purging the society off crime and corruption. The researchers pointed out that lack of political will and consensus, weak and inefficient bureaucracy, political criminalization, very low pay structure, indifference by the civil society and social experts, lack of good governance and justice and complete degeneration of social values as major sources of corruption. The suggestions for mitigating corruption include downsizing the government, separation of judiciary, freeing information flow, introducing e-governance, changing the very structure of government, appointment of ombudsman and the like. Unless political parties purge themselves off corruption and at the same time help the bureaucracy get purged of corruption, no perceptible positive change in economic development and social uplift can be envisaged within a foreseeable period.

### Premier shock therapy

The other vice for Bangladesh in recent years has been the outrageous failure in enforcement of law and lack of order. Amid growing deterioration in the law and order situation a visibly frustrated Prime Minister possibly fired her last cannon by highhandedly deploying the armed forces in aid of civil administration to launch preemptive raid on criminal dens, gangsters, toll-collectors and extortionists. The drastic measure, congruent with the ruling party's most radiant election pledge, has rekindled hope among ordinary citizenry and businessmen. So far around 2,000 illegal arms

have been recovered and about 10,500 suspects including 2,300 listed criminals across the political party divide have been rounded up since the crime combat operation began on 17 October last. In fact most of the rounded ups are from the ruling party. However, it has also given rise to blaring controversy of excesses due to over 40 custodial deaths and allegation of harassment by the political opposition. European parliament and many human right canvassers expressed concerns over fundamental right violations, but the public at large has heaved a sigh of relief at the visible improvement of situation. Trade and commerce bodies have all praised and welcomed the surgical operation to reign in the tumor, with guarded optimism as the million-dollar question of what would happen when the army moves out lingers in the mindset.

### External aids fickle

Flows of actual external assistance as against commitment have come down substantially in recent years as the country has failed to fulfil many of the prerequisites imposed by the donors. So far a total of \$37,713m has been disbursed until June 2001 since independence as against a total commitment of \$46,073m. Of this amount \$21,133m (56%) was project aid, \$10,553m (28%) commodity aid and the rest \$6,024m (16%) food aid. Food aid has declined from 47.9% in 1971-72 to 4% in 2000-01; commodity aid also fell from 50.8% to 13.0% during the period, while project aid shot up from 1.3% to 82.0%. In 2000-01 donors committed \$2,053m, but ended up with only \$1,368m disbursement. During the first 9 months of fiscal year 2001-02 only \$998.4m was disbursed against a commitment of \$1,925m. The meltdown in foreign aid is reflected in the Tk448.54b-budget for the financial year 2002-03, where tune of the external dependence in ADP has been reduced to Tk86.4b (45.0% of total ADP size) from Tk95.9b (48.7%) last year. Overall, the year 2002 also experienced a drought in foreign aid. Foreign debt has reached \$15,620m, taking per capita foreign debt to \$117.

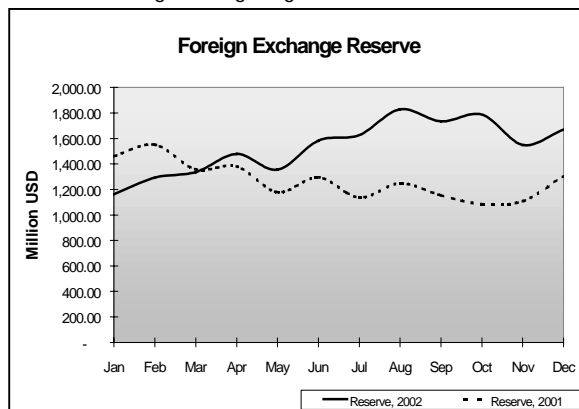
So far bilateral donors outperformed the multilateral agencies in providing assistance. Japan stands out as the single largest bilateral donor to Bangladesh, which provided over \$6,049m as grants since 1972, whereas total support of EU as a whole comes to a little over \$1,162m. The Economic Relations Division (ERD) statistics reveal that Japan shares the largest portion (23.8%) of aids and grants among various bilateral and multilateral donors, accumulating to \$25,442m to the date. The following table shows the tune of assistance as at June 2002:

Donor	Amount	Donor	Amount
Japan	\$6,049m	UK	\$1,274m
ADB	\$4,655m	EU	\$1,162m
USA	\$3,395m	Netherlands	\$1,039m
UN	\$2,438m	Saudi Arabia	\$ 888m
Canada	\$1,860m	Sweden	\$ 652m
Germany	\$1,444m	Denmark	\$ 586m

### But forex reserve convalescent

The gradual erosion of foreign exchange reserve that became a persistent problem during 1998 soon snowballed into a crisis during early March 2001, when large defense outlays began to gnaw on along with an unbridled import spree of consumer goods. The earlier modest growth of remittances by the expatriate workers failed to match the flight, and shortly the situation plummeted to a deeper nadir, sounding alarm bells for the exchequer. When the newly elected government came to office in October 2001, the reserve was only \$1,060m, lowest in past one decade.

The tongue lashing, often stirring controversy, longest serving finance minister in different stints took pains in tackling the situation, more on a top priority mission, and soon a number of measures were afoot to keep the nose above water. The margin of letters of credit (L/Cs) for non-essential imports (100% on import of rice, wheat and sugar) was raised, import duties increased by 5 to 30% on some 40 essential and luxury consumer goods, and the central bank even stooped to direct the commercial banks to deposit their foreign exchange holdings with it. As almost half of the remittances are brought in through illegal channels to avoid transaction hassles and delay, the government embarked on motivating the expatriate workers to remit earnings through legal avenues. The NCBs waived



commissions and launched exchange houses in different countries to attract remittances. The erosion of the reserve came to halt and finally reverted to accumulation.

By the first week of August the reserve crossed the \$1,900m mark, though after payment to Asian Clearing Union (ACU) it again plummeted to \$1,730m. Earlier the finance minister had sounded aloud plans to free float the exchange rate anticipating the reserve to cross the two billion dollar mark by November 2002, but soon retracted as the reserve tapered to \$1,670m at the end of the year. The situation may not sustain longer as there is a periodic Asian Clearing Union (ACU) payment of \$200m, and another slide of \$50m for annual Makka Pilgrimage by January. However, continuing remittance inflow might keep the reserve at around the \$1,500m level.

Meanwhile, to improve the reserve situation the government launched two dollar denominated bonds, US Dollar Premium Bond and US Dollar Investment Bond. These in \$500, \$1,000, \$5,000, \$10,000 and \$50,000 denominations, are now offered only to non-resident Bangladeshis (NRBs).

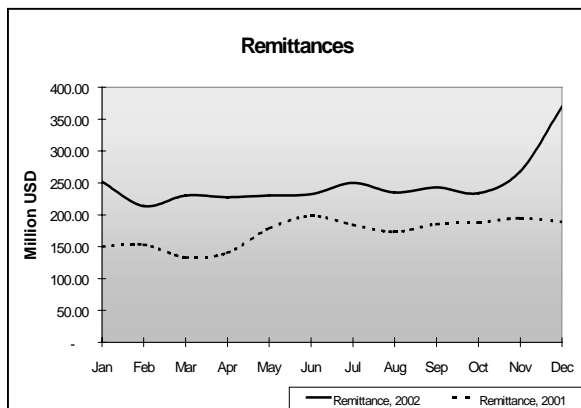
The Premium Bond can be purchased in local currency and its interests, ranging from 6.5 to 7.5%, are to be paid in local currency as well. But the Investment Bond must be purchased through US dollar only and interests (ranging from 5.5 to 6.5%) will be paid in dollars. Interests can be withdrawn every 3 months for both bonds. With a modest beginning in early December, the bonds fetched \$2.1m till the last week of the month.

In order to further tighten the grip on foreign exchange, the central bank has directed the foreign exchange dealers not to strike any forward sale agreement without hedging through forward buying, though this might make the importers vulnerable to currency rate fluctuations. It has also directed all banks to send daily foreign exchange transactions statement instead on a monthly basis, following the renewed pressure on the reserve at yearend.

### Life saving remittance

Remittances from the expatriate Bangladeshi workers across the globe can be conveniently singled out as the major savior of the BoP straitjacket following rapid erosion of the exchange reserve. The timely step by the central bank to curb hundi (illegal transfer of foreign exchange) as well as to reduce expenses and hassles related to sending remittance, especially streamlining the remittance delivery process, appears to have paid handsome dividends. By November 2002 remittances reached a record high of \$2,634m, and the flow continuing, it should soar to as high as \$2,875m by the end of the year, compared to last year's \$2,069m, which would translate to a growth of nearly 39%. This with a 6% decrease in import payments, resulting from the restrictive measures has finally contributed to a healthier reserve position.

Annual overseas employment has been declining during the last two years, as some states in the Middle East, mainly in the gulf region where most of Bangladeshi expatriates are employed, tightened their policy of employment. During 2000 some 222,686 Bangladeshis went abroad with jobs, marking a decline of 16.96% over the previous year, which again fell by 23.50% to 188,965 in 2001. In 2002 some 225,000 people went abroad, keeping Bangladesh at top among 34 manpower exporting countries.



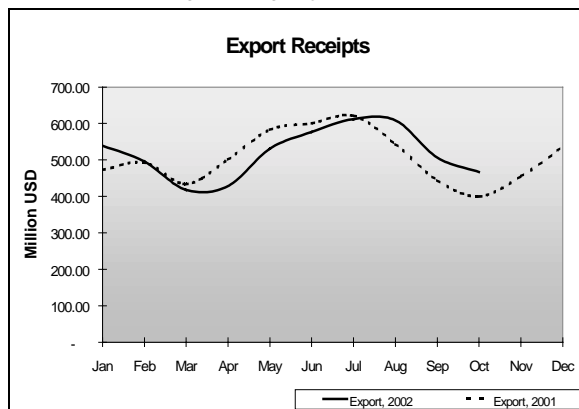
As quantum of remittance gradually grows, Bangladesh has been able to reduce her perennial dependency on overseas development assistance (ODA), by half in the past 10 years, making the 1990s a remarkable decade for 'transition from

aid dependence to trade orientation. Since 1976 some 3.30m workers have gone abroad and sent home about \$23,850m, equivalent to 61% of the \$39,000m total foreign aids received so far. From a paltry \$576m in 1986, annual remittance rose to \$2,636m or 5.6% of GDP in 2001-02, marking an average growth of 9.36% during the period. Of this amount, more than 50% was from Saudi Arabia alone followed by Kuwait, Qatar, USA, and Singapore.

Throughout the past decade Saudi Arabia ranked top among the countries from where the non-resident Bangladeshis (NRBs) sent the largest volume (\$6,975m), followed by Kuwait (\$2,180m), USA (\$1,900m), United Arab Emirates (\$1,235m), Oman (\$880m), Qatar (\$650m) and Malaysia (\$520m). The state-owned commercial banks are at the forefront in the drive of attracting remittance inflow through incentives and at low charges. It is suspected that around 40.0% of the total volume of remittances is channeled through *hundi*, and 46.0% through official channels, while 4.0-6.0% is carried personally by friends and relatives and 8.0-10.0% by migrant workers themselves when they visit home.

### Export wounded but kicking, import leashed

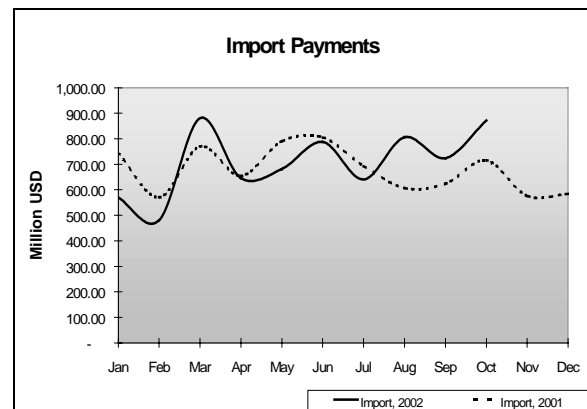
Export had been consistently growing since past decade, until this year that had to absorb the shocks of post 9/11 global convulsion. Since readymade garments (RMG) largely back export constituting the single largest component in import too, import has also suffered retraction. Growth in import during the third quarter was on average 20%, which drastically came down to 4% by October, when muzzle was put on unhindered imports. Earlier, the average export growth has been 13.58% during 1991-2001, and import 10.78%. Exports have formed 32.46% of the import in the fiscal year 1980 that rose to 39.54% in 1990, and 69.07% in 2001. A leading think tank claimed that Bangladesh might graduate as a developing country from a least development country (LDC) if there is a consistent GDP growth rate of 8.0% till 2020. To achieve such a feat, growth rates of exports and imports should be 20.83% and 17.58% respectively. Average growth rate in remittance and foreign direct investment (FDI) must also be at least 15.07% and 21.56% respectively. However, it is feared that even if Bangladesh can achieve the consistent growth rates, criteria for LDC might change by that time.



During the year major export items suffered a double-edged blow, i.e. both in value and volume, in the international

market. Apparel exports from Bangladesh to the US market dropped by 14.0% and 9.33% during the first quarter, which hardly recouped later. Other developing countries from Asia, Middle East and Africa effectively contributed to the dent in Bangladesh's share in the US markets. Some southern African countries (like Lesotho, Kenya, etc) gained most out of a new duty-free status offered by the US for the region.

Up to October 2002 export, amounting to \$5,183m, marked a 1.75% rise compared to that of the same period last year. Export began to wane soon after the 9/11 terrorist wave, as a significant part of the export, specially RMG, was either to US or the EU markets, both of which regions have suffered the meltdown in import, which pervade the entire first half of the year. But at the beginning of the second half volume of export started increasing slowly. Although the quantity of export increased significantly, due to a price fall of around 10%, value of export could not reach a comfortable level. Following a cautionary step by the government, import was harnessed at a paltry growth of 1.62%, from \$6,973m in October 2001 to \$7,086m in October 2002.



Meanwhile, Bangladesh have launched intense economic diplomacy to boost export. It has long been suffering from image crisis, lack of initiatives by the local missions abroad and absence of coordination in their activities are the key reasons behind the weak performances of business and exports. Chamber bodies suggested that foreign missions in countries where Bangladesh do not have any economic or business interest be shifted to other countries where such interests are emerging, as most of them do nothing for trade development. The government also took several steps to rejuvenate the export sector. In last July it introduced a new band of cash incentives for export-oriented industries for the next 3 years. Interest on the term loan for export-oriented industries was reduced by 1% to 9%. Agricultural banks will provide loan at 9% instead of 12-12.5% to the agro-based industries except cold storage.

The incumbent Commerce Minister certainly stands out as the star performer in the Cabinet, trotting along the globe to wither away the clouds over the external trade horizon. His tireless efforts bore fruits of promises, especially through arranging successful trade shows and signing bilateral agreements on easier access of Bangladeshi goods, though at the home front it was tainted to some extent due to unbridled price spiral of essentials.

Bangladesh have effectively adopted a policy for seeking bilateral privileges in boosting exports, which have began to bear fruits. Norway, Canada, and Australia have already allowed duty and quota free access of all goods from Bangladesh as a member of the LDCs, while a similar move by Sweden, Japan, Russia, Oman, and South Korea are being negotiated. Thailand, China, Sri Lanka, Laos, Myanmar and Pakistan have offered limited duty-free access of goods. Recent 'look to the east' policy has enabled the country to gain more duty free access of goods in the markets of China, Thailand and Myanmar. Closer relationship with the latter two, members of ASEAN, might lead Bangladesh to get access to the market of the economic block.

### Regional trade: much ado and nothing

Bangladesh remained ducked in the regional trade as wind blew against it as ever before. Notably, trade in the South Asian region was not much inspiring, it has increased by only 1.2% during last two decades. In 1980 intra-region trade was \$1,210m, constituting only 3.2% of the \$37,880m total foreign trade of the region. It stood at \$5,640m in 1999, but still limited to only 4.4% of the total foreign trade of \$129,730m. Intra-region export of SAARC countries is only 4.6% of their total export, and import is 4.1%. Imports by India and Pakistan are too small, for example, around 0.8% and 1.9% respectively of their total imports in 1999. UK, EU and Japan together make 86% of the total trade of Bangladesh, 56% of India, 60% of Pakistan, 6.8% of Maldives, 76% of Sri Lanka and 61% of Nepal. Among the regional economies, India and Pakistan have the least participation, 2.8% and 2.7% of their total trades in 1999, while Nepal makes the highest, 30.8% and Bangladesh, 9.5%. During the year Bangladesh ranked the lowest in the region in performance, with only 1.4% of its export to the SAARC countries, while over 14.0% of import was made from the region. Intra-region trade currently is only 4.0% of the total volume of trade conducted between the region and rest of the world.

Several high level trade talks with India were held but eventually ended in a whimper, evidently due to a lukewarm response from India, which enjoys a blatantly dominant trade surplus. The long lodged demand for zero-tariff access of 191 items to India under 25-categories, accepted in principle by the Indian Prime Minister back in 1999, to narrow down the bilateral deficit tilting against Bangladesh (at \$1.1b in 2000-01 up from \$150m in 1990-91) and removing tariff, para-tariff and non-tariff barriers on goods had so far been frequently and obdurately wriggled out by the Indians, who tagged such demands with contentious reciprocity and counter demand for transshipment facility. India rather farcically handed over a list of 40 items under 16 partial categories for free entry in India, that too upon Bangladesh's lift of ban on yarn and sugar import through land ports, but the list included products that Bangladesh does not produce, leaving all major Bangladeshi exportable goods with high demand across the border off the list. The growing grudge among local trade and business circle might reshape the typical trade relation with India in near future.

### Relatively stable currency

The local currency was devalued on January 05 by 1.58% at Tk57.40-58.40 from the previous band of Tk56.50-57.50 to the US dollar, the first and only instance of devaluation this year. However, informal rates hovered around Tk60.00, and in early November it crossed Tk61.00 when talks on a likely free float of taka became loud. The devaluation came in the midst of failing exports and worsening balance of payment situation. Since export fall was more demand-induced than cost-driven, the move helped exports little coming hot on the heels of enhanced gas and fuel prices, adversely impacting local manufacturing industries depended heavily on imported raw materials.

### Government borrowing checked, yet

In the face of increasing revenue expenditure, the immediate past government resorted to unrestrained borrowing from both the banking and non-banking systems that eventually raised the cost of governing in the subsequent years. The new government also could not free itself from the hangover yet, as it chalked an estimate in the national budget for 2002-03 to borrow Tk56.0b from the banking and non-banking systems. Net borrowing from these systems during fiscal 2001-02 was Tk55.85b of which Tk16.82b was from banking system alone, compared to previous year's Tk38.85b, with Tk29.04b from the banking system. Borrowing decreased by 23.8% during the period against an increase of 24.1% in the previous year. Later borrowing through purchase of the national savings certificates scheme, rationalization of interest rates, through reducing by a range of 1.28-2.5% on such government instruments, demanded by the multilateral agencies as well as the banking and capital market operators since long, was done in June that reduced the net borrowing from Tk9.11b in August 2001 to Tk7.8b in August 2002. Though decrease in growth of net government borrowing shows positive impact on the national exchequer, the trend also hints some disquieting realities. Government's gradual shift from external borrowing to the domestic market creates more pressure on the exchequer, as it is costlier.

Interest payments for the borrowing were Tk35.85b in 2001-02, of which Tk22.36b was paid on savings instruments, up from previous year's Tk17.82b. Foreign borrowing was Tk62.4b against which interest cost was Tk9.35b, equivalent to 4.1% of revenue expenditure of 2001-02.

However, government borrowing through savings instruments was still on a high note, despite different measures to hold the rein tightly. To curb the tendency of unproductive investments and bring discipline in the debt market scenario, now with an irrational interest rate structure, the government caved in to withdrawing some popular, high yielding savings schemes. Nevertheless, borrowing through such buy and hold savings instruments continues unabated. In July 2002 gross sale of such certificates of Tk7.0b for the fiscal 2001-02, exceeded last year's corresponding amount of Tk6.41b. There are little possibilities of the investments moving to the equity market in search of higher returns, given the dismal confidence level, low yield and sorry state of corporate performance.

In order to strengthen the secondary money market, recently Bangladesh Bank introduced the much-awaited Repurchase Agreements (Repo), and a bid of 7-day tenor for Tk47.5m was accepted at the first historical auction on July 02, open for the commercial banks and financial institutions. It is expected to ensure better liquidity management, as frequent liquidity crunch in absence of an effective money market mechanisms often haunt the banks and financial institutions. With this, the banks would now be able to sell securities at market rates, and lend to smaller banks without risking the principal. Also, institutional investors would be allowed to put their provident funds in long-term treasury bills (2-year or 5-year), which has since been barred from investing in government saving instruments. This could very well be a prelude to the ultimate setting up of a secondary market for the government securities and development of a market determined long-term yield curve.

### Ebbing FDI augurs poor investment climate

The per capita investment in Bangladesh remains too low compared to the world standard. Global per capita investment during 1997-2000 was at around \$1,350, while Bangladesh reached to only \$7, as per UNCTAD report. The scenario on Foreign Direct Investments (FDIs) is not much encouraging either. FDI plummeted to a new low to \$78m in 2001 from \$280m in 2000, marking a 72% dip, despite a 32% increase in South Asia. An UNCTAD report reveals that average FDI inflow in Bangladesh was only \$3m a year between 1985-95, marking a surge in 1997 to \$178m and peaked to \$280m in 2000 followed by a dramatic decline in the next year to less than \$150m. In 2002, however, Bangladesh registered interest for about \$115m up to October, but most of it is yet to be invested. During July-August 2002, only \$7.0m was invested. The clear sign of gradual decrease testifies that despite active support and liberal incentives, the country failed to be an attractive destination for foreign investors. To encourage the non-resident Bangladeshis (NRBs) and to solicit their services and invest in Bangladesh, the BOI has taken a new initiative to list prominent NRBs. Portfolio investment received a jolt at the capital market. In October the SEC introduced a 3-year lock-in on foreign sponsors of listed companies and a 1-year lock-in on foreign private placements, which is not only likely to discourage foreign portfolio investments, but may also affect local investments that at times come from the investors' overseas accounts. Moreover, portfolio investment services are yet to attain a shape in the country that can serve such foreign investors adequately. Observers remains unconvinced about the prudence of this new regulation.

On FDI, two incidents worth mentioning are where law of the land was in action. First, the High Court Division of the Supreme Court in a landmark public interest litigation declared illegal the government approval for building a private container terminal at Chittagong by SSA (Bangladesh) Limited, a purportedly US company, and all its subsequent activities. Secondly, Ekushay Television (ETV), the first private terrestrial TV channel of the country, was closed down as it could not defend the legality of its license, despite it gained vast popularity by setting benchmark of high quality news and other programs and secured foreign investments.

### Image crisis haunts

Bangladesh hit the headlines of international press quite a few times throughout the year, but only to give the nation's image an unwelcome twist. Report on existence of so called Islamic extremist groups in Bangladesh was published in Far Eastern Economic Review and the Wall Street Journal, which had misrepresented the 'moderate' stance of the nation to a great extent. Time magazine rekindled the bubble later in the year with a report titled 'Deadly Cargo', when the resident US ambassador had to stand up in defense of Bangladesh. Bomb explosions in cinema halls at a town in December further fuelled the fire, when even the Reuters fabricated stories.

Bangladesh retained its dubious top position as the most corrupt state, among 104 considered, for the second consecutive year for the Corruption Perception Index (CPI) of the international watchdog Transparency International (TI). Last year, the country was in the top position among 75 states. TI has termed the political leaders and government officials as the most corrupt elements. The TI has measured annual loss due to corruption at Tk112,562m in calendar year 2001, which is equivalent to 4.7% of GDP of 1999-2000. The report was based on 2,570 reports on corruption published in 23 dailies over the year. Meanwhile, organized crimes, extortion and gangsters have been identified as the major obstacle for investments in Bangladesh in the Global Competitiveness Report (GCR) 2002 under preparation by the Center for Policy Dialogue in partnership with the World Economic Forum (WEF). The report observed that during 2001-02 Bangladesh ranked 71 in competitiveness among total 75 countries surveyed.

The poor perception had its toll as Bangladesh lost credit-worthiness to foreign banks because of risk factors stemmed from sociopolitical and economic fields. Its ranking has come down below all other South Asian states, according to an assessment by the Export-Import Bank of the USA, the state agency for providing guarantees and insurance coverage to the US companies on transactions with overseas private and public institutions. The country could barely outperform Pakistan and Nepal with their long drawn extra-territorial insurgency problems, but even small economies like Bhutan and Maldives ranked ahead. The EXIM Bank charges higher exposure fees for countries with lower ranking, in covering credit risk.

Bangladesh also performed poorly in human development. It now ranks 145th, unchanged from the last year, in the annual Human Development Index (HDI) of UNDP, revealing that Bangladesh ranks far behind all other South Asian states. Of the total 173 countries ranked, there are 53 in the high human development (HHD) category, 84 in the MHD, and 36 in LHD. Bangladesh's position is 8th from the top among 36 LHD, above only the poorer African states.

However, not all could be grumbling for the citadel of the concept of micro-credit and its resilient populace. Bangladesh have made noteworthy progress in both increases in income and reduction of poverty. In about a decade it has reduced poverty incidence by 9%. But the level of social inequality has heightened and rich-poor gap widened, much more in urban than the rural areas. The Household Income and Expenditure Survey 2000 reveals



that the incidence of national poverty has declined from 58.8% to 49.8% between 1991-2000. To reduce the projected poverty by 50% by 2015, Bangladesh must sustain a GDP growth of 7% per year over the next 15 years.

### SOEs gobble up the pie

Ever since their inception and inherited state, the state-owned enterprises (SOEs) could never live up to expectations as they had little opportunity to undergo any restructuring, downsizing or even modernizing that ended up in flagrantly poor performance what has now become a ubiquitous phenomenon. Due to lack of proper managerial skill and priority in resource planning from the government's end, almost all SOEs incurred losses soon after they were constituted. The annual gross losses in the SOEs are so colossal that now they equal to 30% of annual spending on education and health. Studies revealed that the substantial part of these losses is actually the impact of corruption, theft and misappropriation that swelled the purses of the unscrupulous urban elite and middle class.

Losses incurred by the state-owned enterprises (SOEs) have during past three years rose to an average Tk21.0b (losses in the last year alone stood at Tk30.0b) and their gross deficit increased to the equivalent of 2.6% of GDP a year. Net financial losses is now at around Tk9.0b a year, while return on assets hovered at a paltry 0.1%, and shortfall in returns averaged at 4.9% of GDP. In the backdrop of hemorrhagic losses of the SOEs sucking the lifeblood out of the national economy and irking development partners, quick privatization has been the demand of the day.

All governments tried in vain to recover their productivity, and doled out a very large part of the state resources into their bottomless coffers. Budgetary resource transfer to these SOEs was high compared to limited resources, about 2.7% of GDP annually. And the quantum is also very high compared to resources transferred to other social development sectors. For example, two major power entities receive 30% of the budgetary spending on health, and 13% of education. Budgetary resource transfer on loans and equity financing to SOEs due to interest subsidy and poor recovery of interest and dividends is equivalent to 2.4 to 3.1% of GDP annually during 1997-2000.

A significant part of the default loans in the banking system is lying with the SOEs. It was reported that while outstanding loans owed by the SOEs have risen over the past year, to Tk60.0b in February 2002, the proportion of overdue loans has declined to 21%. But it is not clear to what extent the reported improvement in overdue loans is due to loan recovery as opposed to debate on rescheduling or write-off backed by recapitalization by the government.

### Privatization: snail in sunshine

Privatization was very slow in early 2002, but later there were some quick fire actions in shutdowns. Adamjee Jute Mill faced the first slam with 30,000 workers retrenched through golden handshake. The shutdown was amazingly accepted without a much-anticipated uproar by the just jobless workers. However, the shutdown was expected as it

made a total loss of Tk12.0b since the first loss began to grin in early '70s. Soon a number of loss-making SOEs followed quick shutdown in lieu of being privatized. The closure of Khulna Newspaper Mills, North Bengal Paper Mills, Thakurgaon Silk Factories, Rajshahi Silk Factories, and Sylhet Pulp & Paper Mill came to effect from 30 November 2002. Rajshahi Silk Factories and Thakurgaon Silk Factories, burdened with some Tk230.0m losses, were closed. North Bengal Paper Mill, with Tk5.09b losses and loans, never earned profit after '80s.

At the beginning of the year the Privatization Commission listed 78 state-owned enterprises (SOEs) including Rupali Bank for immediate divestment through public tender, offloading shares or by any other suitable means. The cabinet committee on economic affairs selected 53 out of those. Among the selected SOEs were BSRS, 4 jute mills, 5 textile mills, 5 handloom, 4 chemical, 3 steel mills, 3 sugar mills, 5 tourism, 6 energy, 4 tea and 14 other units, with 30,000 workers.

Meanwhile, a World Bank report on SOE performance review reveals that Bangladesh was the second poorest performer in privatizing its SOEs among the East and South Asian nations during the last decade. During the 1990-99 period, Nepal topped the table of privatization of public enterprises with only \$15m, while Bangladesh secured the next position with \$60m. During 1993-2000 the Privatization Board (PB) was virtually ineffective, although later it was converted into a Commission, it miserably failed to perform any laudable role in furthering the privatization process. By adopting a dynamic policy, China has been able to rank the top performer in selling her SOEs worth \$20.05b, followed by Malaysia (\$10.16b) and India (\$8.98b). The WB concluded that public sector involvement in energy, manufacturing, railways, telecommunications, infrastructure and utility services has been inefficient and expensive for the economy.

The privatization commission was empowered with new powers to decide on the pricing and other issues related to privatization. It has framed new guidelines and given instructions on the terms of bidding and pricing of the SOEs to ensure transparency in the process. Workers are to be paid off under a golden handshake program with 18% additional benefits. In another welcome move to smoothen the privatization process, the government decided to keep off the burden of accumulated losses of the state-owned enterprises from its buyers. Intending buyers will be free from all long-term liabilities of the SOEs on sale and valuation would be done on net assets. As responses to the sell tenders were lukewarm, the commission is trying to make the offers sweeter to generate interest.

### Insecure insurance

Insurance emerged as the only sector that marked a 10% and above growth among all. The sector grew at 13.5% on an average during the 1997-2001 period, with the highest 14.95% in 1998, and the lowest 12.95% in 2001 fiscal. In 2002, insurance hit the headlines when general insurance companies defied a controversial order of the NBR to deposit the VAT collected against insurance policies on the day of issuance, which was later withheld by the NBR.

Government removed the much talked about agency commission on general insurance effective from March 01, and a ban on credit business (issuing insurance policies without receiving premium). Different studies of the ADB and WB highlighted the necessity of strengthening the Office of the Chief Controller and placing the sector under the Ministry of Finance from the Ministry of Commerce for greater integration of the finance sector.

Despite impressive growth over the past few years, the sector remains riddled with numerous problems. As time demands, an 11-member high-powered committee has been formed to streamline the insurance sector as per international norms and practices and to suggest changes in the existing laws like Insurance Act 1938, Insurance Rules 1957 and the Corporation Act 1973. All these measures are expected to propel the growth of the sector further and uplift its contribution to GDP from a paltry 0.33% currently.

The state of affairs in the state-owned insurance enterprises is quite alarming. Jiban Bima Corporation (JBC), the lone state-owned life insurance company, has been losing its ground fast, and may embrace a premature death due to its mismanagement and stiff competition from the private sector. Two local private sector companies have challenged its long-held first position in the industry for the first time in its life of three decades. Last year it experienced a negative growth, while life insurance industry as a whole posted a 25% growth. Since 1996 the corporation has had no full-time professional MD. Last year JBC earned net premium of Tk1.5b, with a renewal rate of 30%, much below the minimum requirement.

### Central bank overhauling

Reforms in the central bank became a mission for the new finance minister during the year, as there is also pressures from the World Bank. To transform Bangladesh Bank into a modern central bank, the World Bank has suggested dissolution of 15 divisions out of a total 27 or merger with others, and reduction of some 404 redundant positions, and redefining some positions. Accordingly there are now some loud thoughts on restructuring. Autonomy for the bank has long been in question, which the government has already begun to address in phases. Recently it has been allowed to take over some responsibilities from the Ministry of Finance. It has now been empowered to deal with misdemeanors committed by the officials of the state-owned banks as well as government-nominated directors of the private commercial banks, a clear graduation from the role of a mere investigator of alleged corruption to the executor. It would now also be able to enforce decisions like raising paid up capital and reserves by the commercial banks, formation of subsidiary companies, etc.

The central bank has held the top management of four private banks responsible for having alleged connection with irregularities in sanctioning loans to 3 business groups who have received huge loans under different false names against inadequate or fictitious collateral. The scams have galvanized the BB to increase the rate of reserve against risk-weighted capital of the PCBs from the existing 8.0% to

9.0%, and ask them to keep the core capital at more than 4.5% of the total capital.

The central bank is set to introduce a few mandatory ethical standards for bankers for the first time, banning involvement in political activities, direct participation in any political election, association and organization, involvement of their families as to solicit or accept any commission or fees, lend in private capacity or borrow under any pecuniary obligation to a customer, or serve as employees in other organizations, provide guarantee in their private capacity, indulge in any parochialism, favoritism, victimization, and willful abuse of office to attain personal gains and engage in any immoral or unethical activities like drinking, gambling, racing or speculative dealings. It also prohibits the bankers to use their own money in the business of the bank clients, live beyond their means and indulge in any sort of pomposity on personal ceremonies. If implemented, the standards are expected to bring substantial improvement in good governance in the banking sector.

### Banking reeling in default mires

The banking sector has long been in trauma that inevitably multiplies each year essentially with accumulation of new loans turning bad. In particular, the nationalized commercial banks (NCBs) and specialized development banks (SDBs) are now in thick soup with their unrelenting stale assets. Even after refreshing default combating measures, a major part of the new loans could not escape the viscous trap. Staggering non-performing assets with scant recovery during last five years continued to wreck the banking sector.

Default loans, amounting to Tk246.25b, or 33.62% of total credit (Tk732.55b) on 30 June 2002, still much higher than the standard 8%, leave little room for complacency. The shares of classified loans in total outstanding were 33.49%, 40.65%, 41.11%, 34.92% and 31.49% during 1997-2000 period. During the January-June 2002 period, amount of disbursed loans has increased by more than Tk35.0b, but classified loans have also increased by Tk10.26b, though in percentage terms it has reduced by 0.12%. Nonperforming agriculture loans soared to Tk66.01b, about 67.0% of the total agriculture loan disbursed, as at June 2002. Total outstanding loan in the sector is now Tk113.55b. The overall loan scenario at 30 June 2002 is as follows (in mTk):

Banks	Classified loan	As % of disbursed	Bad loan	As % of classified
NCBs	130,701	38.49%	111,230	85.10%
PCBs	50,977	17.38%	48,850	95.83%
SBs	63,332	59.39%	51,600	81.48%
FCBs	1,240	2.72%	1,013	81.69%

The quality of bank loan portfolio in Bangladesh is worse than that of many developing countries. In India, as a comparison, bad loans amounted to Rs709.04b or around US\$14.7b, with an 11.23% rise alone in 2001-02 fiscal year. However, proportion of bad loans to total advances fell to 10.4% from previous year's 11.4% due to substantial recovery. The ratio of bad loans less provisions to net advances also fell from 6.2% to 5.5%.

The PFIs in Bangladesh, accounting for 61% of bank credit, and with much higher proportion of classified loans than private banks, have the largest share in the quality deterioration. Provision shortfalls in the banks have in fact soared with quantum of defaulted loans increasing. As per reports, at 30 June 2002 the provision deficit was Tk45,146.3m, against Tk42,402.1m on 31 Dec 2001. As per rules, provision against regular loans should have been Tk107,473.6m, against which there was only Tk62,327.3m. The deficit in the state-owned commercial banks (SCBs) was Tk42,451.7m, and in 15 private commercial banks (PCBs) it was Tk3,878.1m. While on 31 December 2001, it was Tk38,844.6m in SCBs, and Tk3,469.2m in PCBs. Interests in suspense account with banks against classified advances were Tk71.92b. Accumulation of interest suspense in the 4 state-owned commercial banks (SCBs) were Tk32.79b, in PCBs Tk12.12b, in foreign banks (FCBs) Tk618.8m, and in SBs and DFIs, Tk43.80b.

The central bank had since long been striving to reign in the soaring default trend and mitigate the effect to a tolerable limit. Continuing with the battle against default culture and propensity, the Bangladesh Bank has made it mandatory for banks to opt for consortium financing in sanctioning loans over 50% of capital of the banks, of which 30% could be funded and the rest contingent. Banks have to obtain prior clearance from the central bank for issuing any large loan above 15% of their capital.

Despite sincere steps, ranging from enhancing legal coverage to improving management skills dealing with default loans, it yielded little impact. Some of the measures worked well, but some emerged to be scuttling own boat. The National Board of Revenue (NBR) offered exemption of income tax on money earned abroad and remitted for repayment of default bank loans. A similar offer made earlier to whiten unaccounted money at home with just 10% 'no question asked tax' was later withdrawn amid sharp criticism from genuine taxpayers. Again, in a new directive the BB advised that banks could reschedule term loans by accepting 10% down payment on the defaulted installment instead of the provision of realizing 10% of the default loan amount. It also changed the loan disbursement policy of scheduled banks by deciding to deduct 50% contingent liabilities in calculating big loan liabilities (i.e. 15% of total loans to a single client), instead of 100% as earlier.

A joint IMF-World Bank team has recently reviewed the banking reform performance and reported that most of the state-owned banks, which shoulder the major burden of the non-performing loans, were weak and financially poor, inefficient in management, outdated in technical aspects, and trampled by unabated political interference. In order to manage bulging defaults, it recommended keeping the NCBs free of political interference and trade union activities. It suggested downsizing of these institutions and eventual privatization, keeping only one as savings bank. The team also strongly suggested that the NCBs approve no new loans.. Lack of good governance and weaknesses in quality loan performance have been identified as the major reasons for the default trend. High average interest rate (as much as 14%) was also another spoiler, despite it is claimed to be

lowest in the region, compared to India's 17% and Sri Lanka's 25%.

In an effort to bail the state-owned banks out of tormenting default loan crisis, inefficiency, corruption and unhealthy trade union activities, the central bank has started performance review meeting with the management of the NCBs where large corporations or business conglomerates are among the single largest defaulters. As an example, the Beximco Group reportedly failed to pay defaulted loans to at least 20 banks and Janata Bank alone had a huge default loan of Tk2.0b, which is about 3% of the bank's total bad loans.

The finance ministry has initiated a program to rationalize the loss making branches of the NCBs through merger. The banks were asked to identify branches that incurred losses for the last five years and draw a rationalization plan that will see only one NCB operating in an area. Some 806 such branches were identified for axing. Around 200 losing rural branches will however escape the axe since there is no other bank within an area of 5 km. Sonali Bank planned to close 165 branches out of 307 loss making ones, while Agrani Bank to close 86 out of 142, Janata Bank 170 out of 249, Rupali Bank 42 of 82 and BKB 10 out of 71 losing branches. However, amazingly some of the earmarked branches turned profit overnight and due to both union pressure from inside and political pressure from the outside rationalization process could not proceed much further.

#### Bear scratches stocks as usual

During the year the capital market passed another period of lethargy and resignation. The DSE All Share Price Index closed at 848.41 on 30 Dec 2002, compared to last year's 829.61, marking a paltry 2.27% rise, while the DSE Weighted Average Index stood at 822.34 from last year's 817.79, with just 0.56% appreciation. Market capitalization made a stride of 8.11%, from the last year's Tk63.53b to Tk68.68b this year.



Soon after assuming office, the finance minister expressed firm commitment in improving the overall lackluster situation of the capital market, which was reiterated in June during the budget, but apparently could not make 'time' to look into the state of affairs and thus the promises remained hollow as usual.

Indicators	30-Dec-02	30-Dec-01	Change
DSE All Share Price Index	848.41	829.61	2.27%
Weighted Average Price Index	822.34	817.79	0.56%
DSE 20 Index	1054.89	1075.72	(1.94%)
Market capitalization (mTk)	68,677.28	63,527.82	8.11%
Market capitalization (m\$)	1,184.09	1,176.42	0.65%
No of listed securities	257	250	7
No of listed companies	239	231	8
No of listed mutual funds	10	10	0

(table continued.....)

Indicators	30-Dec-02	30-Dec-01	Change
No of listed debentures	8	9	(1)
Total issued capital (mTk)	35,242.49	32,494.16	8.46%
Total issued capital (m\$)	607.63	575.12	5.65%
No of IPOs floated	8	11	-3
No of issues listed	11	10	-1
Cap raised through IPO (mTk)	450.2	572.2	(21.32%)
Cap raised through IPO (m\$)	7.76	10.13	(23.36%)
Companies held AGM regularly	186	182	4
Companies with min 10% div	119	113	6

During the year some 8 companies issued initial public offering (IPO), against 11 last year, which together collected a total Tk450.2m, against Tk572.2m last year, marking a 21.32% decline. Some 8 securities were eventually listed with the stock exchanges, while a debenture was redeemed. Square Textiles, a subsidiary of Square Group, was listed with DSE as the first company under direct listing regulations of the bourse (without IPO). The following were the IPO and listing position (figures in mTk):

Company	Private placement	Public subscription	Capital injected
Fine Foods	15.00	17.00	70.00
Modern Cement	40.00	60.00	173.22
Information Services	10.00	25.59	71.18
Padma Cement	38.00	100.00	276.00
Midas Financing	15.00	29.60	100.00
Bdcom Online	20.00	30.00	100.00
InTech Online	0.00	25.00	40.00
Fahad Industries	0.00	25.00	50.60
Square Textile	0.00	0.00	251.90
Metro Spinning	15.00	15.00	60.00
Al-Amin Chemicals	10.00	10.00	40.00
<b>Total</b>	<b>163.00</b>	<b>337.19</b>	<b>1,232.90</b>

No debenture was issued in 2002, but proposal of a securitized bond got nod from the SEC and it gave consent to AIMS to act as the Trustee of a Special Purpose Vehicle (SPV) to be established by BRAC, the largest NGO in the world, to issue debt instruments. BRAC plans to issue 'securitized bonds' against its micro-credit receivables, an idea that has not yet been tested elsewhere.

During the year overall performance of the listed companies was little better than that of the last year. Despite best efforts to instill corporate ethos in the listed companies, there was no remarkable development in market sentiments. About 186 companies, or 79% of the total listed, held AGM in time, against 182 companies (77%) last year. Of them some 119 companies declared dividends, mostly cash, against 113 companies last year. Only 3 banking companies offered stock dividend, along with cash. Some blue chip companies fared below expectation compared to last year, and created clamor in the market.

The Beximco Group, the largest conglomerate with 11 listed companies and having over 10% of the market capitalization, declared considerably low dividends, but without announcing the AGM and book-closure dates. In a knee-jerk reaction the SEC suspended trading of the companies sending shivers. Reacting to the step, the group served a legal notice

challenging the action and threatening to take the matter to court since SEC failed to show similar due diligence in taking action against similar defaults by a number of other companies. The Group also challenged the constitutionality of the law (newly inserted Section 2CC of the Securities & Exchange Ordinance 1969) under which SEC assumed pervasive powers that was being wielded arbitrarily or selectively without any impact assessment. The wisdom of the abrupt decision was also severely questioned by the institutional investors, the bourses as well as the Bangladesh Association of Listed Companies (BALC) which termed the move illegal and market unfriendly. The SEC eventually withdrew the decision but by that time the market reacted negatively on the dividend announcement, with selling pressures across the board. But in an unprecedented move shareholders of Beximco Pharma forced it to adjourn the AGM to raise the already declared dividend of 10% to 15%, which alarmed the SEC. Although the investors have welcomed the development, an unhappy SEC resorted to scrutinize the legal implications.

Among the listed companies banks fared much better than all other sectors, as most of the private commercial banks claimed healthy operating profit growth in 2001. In the entire sector 29 banks announced profits amounting to Tk13.52b registering a 45% growth over last year, with top 7 exceeding 100%. It however is a misnomer since provisions and taxes were not considered. The post provision figures should reveal a completely different picture as in last year when many banks claiming high operating profits ended up with actual losses. Due to lack of a standard performance presentation, vital statistics like CAMEL rating, provision and capital shortfalls as well as quantity and quality of non-performing assets were not declared anywhere in the reports of the banks, but they showed unusual enthusiasm in declaring so-called operating profits that in fact tantamount to market manipulation. The following table shows the profitability and dividend scenario (considering the profiting companies only that declared dividend):

Sector	EPS Tk	Average dividend %	Average yield %
Fuel & Power	106.60	31.30	3.41
Bank	59.28	29.29	9.42
Food & Allied	52.74	47.70	11.38
Pharmaceuticals	40.82	12.38	5.36
Insurance	24.71	19.37	7.07
Engineering	20.54	20.27	5.66
Investment	19.60	12.10	7.56
Cement	16.58	6.20	6.66
Jute	14.95	10.00	4.67
Textile	14.26	6.76	7.49
Miscellaneous	12.72	8.16	6.86
Service & Real Estate	10.28	9.60	11.14
<b>Market</b>	<b>29.76</b>	<b>15.64</b>	<b>7.73</b>

As the above table shows, fuel & power and banking sector fared best in earning profit, while food & allied products and banking sector have paid the best rate of dividends. However, in terms of dividend yield, though food and allied products, service and real estates and the banking sector

securities are considered best investments, it offered a return much below the average rate of one year fixed deposits with banks at 10%. Therefore, stock investment still may not appear attractive to the general savers and investors.

There was virtually no significant volatility during the year. Budget speech in early June also had little impact on the market as was the power changeover in October last year. However, like all other years junk shares were used to create an ephemeral upsurge that naturally fizzled out shortly after the first flow of rumblings. The market suddenly vibrated with life at end-September with the junk shares dumped in the Z-Group that fare the worst in corporate performance or are not in operation at all. Among them the star performers were Renwick Jaineswar (195%), Shyampur Sugar (69%), Karim Pipes (65%), Texpick Industries (55%), BEMCO (54%), Zeal Bangla Sugar (54%), Bangladesh Autocars (48%), and Mark Bangladesh (29%) with substantial gains.

During the year brokers were put in financial stress due to enhanced cost of the wide area network (WAN) connection for electronic transactions after the Bangladesh Telecom Regulatory Commission (BTRC) introduced multimetering system (MMS) for local telephone calls in July. In late October BTRC exempted the brokerage firms from the system after the Ministry of Science and Information Communication Technology recognized their business as e-commerce. However, the exemption is yet to take effect.

There was no new mutual fund during the year after AIMS First Guaranteed Mutual Fund was introduced back in 2000. The second private mutual fund also under management of AIMS and sponsored by the famed Grameen Bank was not publicly floated as anticipated, due to ongoing impact assessment of the changed rules effecting operational leverage. All 11 listed closed-end funds performed little better compared to the last year. Average net asset value (NAV) of the funds was Tk179.17 at the end of year compared to last year's Tk169.70, marking a 5.58% appreciation. Investment Corporation of Bangladesh (ICB), on an uneven playing field, enjoyed some leverage over the privately managed mutual funds, like right to borrow, ample funds and keeping NAVs unpublished before the yearend. These give the ICB funds an edge over the private fund. However, in a rare departure, ICB for the first time in its history announced the NAV of its 8 closed-ended listed mutual funds in November, although of a very old date, 31 July 2002. Amazingly the NAV of the 7<sup>th</sup> and 8<sup>th</sup> ICB Mutual Fund was below paid-up capital by 24% and 4% respectively, but both of it declared dividends at 14.5% and 13.5% respectively, casting question on their viability and rationale.

### Parastatal irritations

According to media reports, an independent committee formed by the Ministry of Finance detected that a high official at SEC had been awarded 5 increments in a single year violating rules, while another having forged certificates got appointment. Another official who earlier retired from a SOE under golden handshake was appointed violating rules and is now allegedly involved in corrupt practices of receiving

grants from listed companies through intimidation, acquiring residential houses and cars under false names, depositing unusually high amount of money incongruent to known source of income and engaging in stock trading. Besides the Legal Advisor and a foreign Consultant have also been paid large amount of fees without valid grounds. The report was to be submitted to the Prime Minister for further action. A member of the SEC had to resign reportedly after being asked by the high-ups in the Ministry allegedly on some charges of anomalies brought against him. The SEC has been continuously short of 2 members which depicts the lack of sincerity of the part of government in strengthening the capital market.

Since inception the SEC has unfortunately been perceived to have miserably failed to emerge as a responsible, efficient and pro-market regulator. There were demands for urgent reform from almost all concerned quarters. Trade chamber bodies, bourses, market operators, all have called for immediate restructuring and appointment of adequately qualified skilled professionals from the private sector to address the languishing problems of the stock market. With dearth of relevant experience SEC has emulated some rules and regulations from the advanced market that does not seem congenial for the local market at this nascent stage of development. They urged to review the rules, develop policies, introduce new instruments and take other needed reform measures to salvage the market through regaining the lost public confidence.

During the year issuers came down heavily on the SEC for exercising superceding authority over the basic Companies Act, especially on administration of the Z-group companies that provides forced reconstitution of the Board of Directors of a loss making company, leading to its dissolution following subsequent failure to recover. Bangladesh Association of Publicly Listed Companies (BAPLC) strongly maintained that the regulation goes against the spirit of perpetuity of a company, which distinguishes corporate entity from that of an individual and encroaches on the right of the shareholders.

The bourses have undergone some small reforms during the year. In line with the Dhaka Stock Exchange (Council and Administration) Regulations 2000, the DSE has co-opted in the Council 12 non-broker policymakers. The newly selected non-broker councilors have been included in the policymaking body of the bourse. However, despite restructuring of the representation, there is no representative from the investors or the issuing companies. The bourses also tried to discipline their own organization. In a development, DSE declined to accept resignation and sacked its' CEO at the instance of the SEC for professional misconduct, after he was accused of and found guilty of installing and running a defective on-line transaction surveillance software generating misleading information.

There were some technological developments as the Chittagong Stock Exchange (CSE) commenced the cross-border online trading of stocks with the formal launching of Internet trading services (ITS) on July 10. With this the CSE has essentially become geographically neutral as it facilitates trading from anywhere in the world. Thus CSE is again ahead of the country's much experienced and the first stock exchange, DSE.

Although there was significant progress in bringing the much talked about Central Depository of Bangladesh (CDBL) out of the veil, the enterprise failed to get off the ground in 2002 too. Last year it received provisional registration from the SEC, hired adequate hands for initial operation, installed necessary software, and procured equipment. But due to lack of motivation and absence of coordination blended with operational incompetence, resistance from the capital market players and vested interest the company could not gather the much needed momentum.

### Penalties galore

Throughout the year the SEC was quite reactive in reigning in the renegade listed companies. It formed two committees with own officers to carry out detailed investigations against some of the brokers and issuers indicted in the 1996 share scam cases. Earlier Prime Minister's Office took particular interest in unearthing the real causes of the scam and asked the Ministry of Finance to look into the trial status, under its first 100-day program. But as time passed, the interest fizzled out. Yet there were numerous bans and fines on the listed companies and their directors, brokers, as well as the bourses. The SEC fined 23 directors of listed companies for total Tk9.4m on allegation of violation of various rules like failure to hold AGMs, disburse declared dividends on time, submit audited accounts or obstructing special audit; among the punished companies are all 4 of Doel Group, Bangladesh Welding Electrode, Meghna Shrimp, Dhaka Vegetable, Orion Infusion and Pharmaco International. It also slapped fine on some recalcitrant directors of JH Chemicals and Maq Enterprise, and the broker SPM Ltd, Tk3.9m, for not complying with securities laws; JH Chemical's 3 directors were fined Tk1.4m for failing to hold AGMs for three consecutive years, and for failing to produce half-yearly report, while the latter's 6 directors have been fined Tk1.0m for not cooperating with the auditors engaged by the watchdog.

The SEC suspended DSE broker Square Securities for not cooperating with an inspection team. It also caught a representative of DSE broker house red-handed and turned over to police while trying to bribe a Deputy Director of the SEC, to influence an ongoing investigation on unusual transactions of Bangladesh Online Ltd shares. It has dug out a shoddy deal of dumping 7,000 fake shares of different companies through a DSE broker.

The SEC rejected a revision petition of an ex-chairman of the DSE against the imposition of a fine of Tk1.0m after he was convicted for price manipulation of Mark Bangladesh Shilpa & Engineering Co in connivance with the management; the company's alleged criminal involvement in manipulating a price hike through using fake names led to lawsuit against its directors, the auditors, and suspension of activities of a merchant banker.

The SEC was able to successfully push its cause in the court in some cases. Its gazette notification that provides listed companies to get their financial statements audited by partnership chartered accountancy firms who have at least 7 years of experience was challenged by some auditors, but the Appellate Division of the Supreme Court rejected the

leave to appeal petition. It withstood a writ petition filed by Wonderland Toys for suing the company for alluring subscription of Tk50.0m shares by concocting facts and figures and concealing vital information on the prospectus.

The ICAB disciplinary committee suspended an audit firm for one year as gross anomalies were detected in initial public offering funds of J H Chemicals. Another one got the thrash for failing to detect a loan of Samarita Hospital, which was shown as an asset of the company.

While exercising its virtually unlimited power to discipline the market the SEC rather yielded more chaos and retraction in some cases. It failed to enforce due to lack of tenacity in the decision at the first place. It had to rescind a provision of prior permission requirement for declaring stock dividends by companies earlier it introduced; waive lock-in on private placement shares for a company with minimum Tk50m paid-up capital and offering at least 60% of IPO to the general public; re-impose ban on companies from raising fund from the capital market where the company or any sponsor, director, or sister concern is a bank defaulter, earlier withdrawal of which was generally termed unethical; relax categorization criterion of listed stocks by deciding to allow companies having accumulated loss to move to higher grades if they pay dividend and are regular in holding annual general meetings.

Further the SEC had to relax a new imposition on listing rules making it mandatory to effect all transfer of shares through the stock exchanges, even if it is a gift or privately arranged transaction and not a sale, which led the listed companies to demand from the investors proof of transaction through stock exchanges during transfer of their shares that landed many investors in difficulty in transferring as well as disposing their shares in time, and withdraw the suspension of trading of Beximco's listed shares when Beximco Pharmaceuticals filed a writ petition against it arguing that the SEC actions following their declaring higher dividends in an EGM are in violation of the Companies Act; the regulatory body has increasingly got tangled in lawsuits consequent to arbitrary use of newfound rule-making powers. The SEC lost face when company officials of Orion Infusion Ltd frowned at its sanity SEC as it imposed penalty of Tk1.8m for defaulting in holding AGM two days after the AGM notice was already published in newspapers.

In another unprecedented move, major shareholders other than the directors of Rupan Oil Feed Co decided to take over the company and sought court permission over holding an Annual and Extra-Ordinary General Meeting of the company in this regard. The company's share trading has remained suspended since November 1999 after the sponsors and directors of the company were charged with producing and circulating large number of fake share certificates, detected by the CSE. The Managing Director, also an accused in the 1996 share scam case, remains at large since the indictment. The move is expected to deter other unscrupulous sponsors from illegal practices.

### Churning rules

The SEC was untiring in introducing new rules. It introduced the SEC (Merger & Acquisition of Substantial Number of Shares) Rules 2002 that would allow a company or

individuals to acquire shares and ultimately take over a sick company. After procuring a substantial number of shares of the sick company at market rate by an official offer through a public notice, the acquirer would be allowed to take the rest. Willing investors acquiring substantial shares would be allowed to transact through both outside and inside the stock exchanges. However, observers believe that some provisions are devoid of ground realities and may contradict the provisions in this regard in the Companies Act.

It framed a new rule to improve operational and financial performances of 'Z' category companies. Under it the Board of such companies will be reconstituted, by holding an EGM within six months from the notification, taking directors from the sponsors, institutional and general public shareholders group-wise proportionate to the shareholdings in the company on the date of EGM. If the new board of the troubled company fails to improve operational and financial performance within 24 months from the date of reconstitution, the company may opt for dissolution, including merger or winding up.

It has barred sponsors and directors of listed companies from offloading shares through the bourses from the date of board meetings declaring dividends until the holding of the AGMs. It insisted that if the board of any listed company recommended dividend for shareholders, excluding sponsors/directors, the board should also declare the quantity of shares held by the sponsors/directors, which is a price sensitive information.

In a unique rarity of compelling rating of equity issues, the SEC has made rating mandatory for the companies planning to issue shares, including right issues, at a premium. Accordingly Southeast Bank and Dhaka Bank, two second generation private banks, have received a 'single A minus' rating from the Credit Rating Information Services Limited (CRISL), the rating company approved recently by the SEC after years of procrastination.

The SEC introduced a 3-year lock-in on foreign sponsors of listed companies and a 1-year lock-in on foreign private placements, claiming to be in line with the Foreign Private Investment (Promotion & Protection) Act 1980, where any disparity between local and foreign investors has been discouraged. Under the new system a foreign investor will have to open a portfolio account with any registered merchant banker, instead of the custodian bank as has been in practice, which however is not mandatory for local investors. Since the global portfolio managers operate most of the foreign investments, operating through a local portfolio manager that would raise the cost of investment might discourage them, it is feared. The move may also affect local investments that at times come from the investors' overseas accounts.

#### AIMS Mission & Vision Statement

##### *Our Mission :*

To be a household name in Bangladesh and be recognized as a reliable companion in the pursuit of wealth creation.

##### *Our Goal :*

To take the extra mile to meet the customer's needs through continuous innovation of suitable financial products and offering the best services.

##### *Our Values :*

To strive for achieving and maintaining the highest ethical and moral standards to earn the trust of our clients and patrons.

Published by AIMS of Bangladesh Limited  
in association with  
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