B A N G L A D E S H

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Caustic political vendettas strangle livelihood while subdued investment, stumbling government revenue and lackluster capital market take toll on the economic prospects

The year that was

For the most part, Bangladesh will not be unhappy to see the back of 2013, as the year was marred by political turmoil and violence, human rights abuses through misuse of law, economic stasis, social division and public discontent as the leading political parties' engaged in uncompromising quest either to hold on to or to be in power making a mockery of the democratic process. The prolonged political crisis has left the economy in dire strait as revenue collection, manpower export flows, investment, private sector credit and crops production have all demonstrated a diminishing growth trend while non-development revenue expenditure, inflation and default loans in the financial sector have assumed a surging trajectory. Economists along with the major international development partners are rather pessimistic on the economy's wellbeing in the current fiscal year, envisaging a growth below 6% while inflation is poised to rise as disruption in supply chain jolts prices of essential goods upwards.

The rise in government's revenue generation in recent years is feared to be snapped in the current fiscal year as the collection of taxes and VAT are squeezed owing to fall in trade, business activities and profit. This may in turn induce a decline in government expenditure or propel government borrowing crowding out the private sector investment which has already been stuck in a rut. On the other hand, the financial sector in 2013 was roiled by fresh scams mounting classified loans in both state-owned and private banks. There has been sharp rise in political cronyism driven default loans marking an increase in classified loans and provision shortfall. Moreover the regulators botched to punish wrong doers while bank and insurance licenses were dished out on political consideration. Prolonged weak domestic demand piled on further misery as bank profit earnings is likely to be at one of the lowest levels in recent memory. The abysmal state of the labor and building safety in industrial belts were exposed by the Rana Plaza collapse that took away lives of more than 1100 workers sending shockwaves across the globe. The worst industrial accident in the history of the country expedited the GSP withdrawal by the US which exposed the need for 'soul searching' for all relevant stakeholders shifting focus to ensure greater workplace safety and labor rights.

Despite all the doom and gloom the year witnessed some positive developments that continue to show some hope for the economy. Exports registered a rise regardless of several setbacks in the course of the year while inward remittance though dipped marginally maintained a healthy level. The Foreign exchange reserve hit $18b in December, enough to meet nearly six months' import bills making it the second highest in South Asia after India. In the face of rising reserves the central bank managed to keep the exchange rate steady.

As the practice of confrontational politics lingers on to the New Year the economic prospect remains clouded. Failure to address prompt resolution to the political crisis may ominously nudge the country towards a stagnating economy that fosters increased income disparity, impedes job creation and hampers export growth. The excess burden of banking sector scandals, crisis in readymade garment sector and recession in businesses carried over into the New Year is likely to create additional strain on the economy.

7.2% growth an unlikely

Gross Domestic Product (GDP) growth target for FY2013-14 has been set at an ambitious 7.2% for the second consecutive year despite falling short in the previous years. The ambitious growth projection just like in previous year may once again prove to be unrealistic when economic activities have become stagnant due to political turmoil and mismanagement in macro economic fronts. Politics affected business and economic activities that curbed investment appetite, thereby slowing private sector credit growth and import. Substantial shortfall in investment poise serious risks from longer-term perspective in achieving the GDP target. In FY2012-13, total investment as a share of GDP marginally improved to 26.8% from 26.5% in the previous fiscal year. In order to facilitate 7.2% growth in FY2013-14 the required total investment as a share of GDP will have to be increased substantially provided the incremental capital-output ratio remains at the same level. According to provisional estimate by Bangladesh Bureau of Statistics (BBS), GDP growth for the current fiscal year is expected to be 6.03%, falling short of the target by 1.17 percentage points. Bangladesh Bank (BB) forecasts that the rate is likely to range between 5.7% and 6%. The private think-tank Centre for Policy Dialogue (CPD) forecasted that the real GDP growth would be less than 6% in the current fiscal year as it has dropped to 6.3% in FY2012-13. Moreover, World Bank (WB), International Monetary Fund (IMF) and the Asian Development Bank (ADB) opined that the economic growth targeted for the current fiscal year cannot be achieved. WB estimated that economic growth would slow down to 5.7% in the current fiscal year, which is much lower than the government's projection. The global financial institution IMF forecasted lower GDP growth at 5.5% while ADB foresee 5.8% growth. Export and import has faced setback, production and supply got disrupted and future investment has become uncertain due to the political programs. At the same time slower growth in foreign aid and loan disbursement have emerged as drawbacks. In this back drop the targeted GDP growth appears to be rather quite impossible to achieve.

Patchy ADP plod along

Historically in an election year, the incumbent government tends to push Annual Development Program (ADP) implementation rate in an attempt to sway voters. Even though the ADP allocation for the budget FY2013-14 was prepped in that line the implementation progress in the first five month of the current fiscal has been quite slow due to sustained political instability hampering implementation particularly at the field level, bureaucratic inefficiencies, and project capacity constraints. The inability of the concerned ministries and agencies to utilize donor money has resulted in drastic cut in project aid. Foreign assistance dipped to Tk41.7b in the first five months of the current fiscal down from Tk44.7b in the same period of last fiscal year. During the same period expenditure from internal sources inched down 1.27% to Tk89.8b. The implementation agencies have spent only Tk131.5b during July-November which is 20% of the total allocation of Tk658.72b. The government expenditure is 3.08% lower than the amount of Tk135.74b spent in the same period of the last year. Only 22 ministries and divisions among the 54 implementation agencies have achieved above 25% of their annual target, according to Implementation, Monitoring & Evaluation Division's (IMED) statistics. Moreover, the top ten Ministries/Divisions with large allocation have a completion rate of just about 19%. The bridges division receiving the third highest allocation in the ADP due to the Padma Bridge project dispensed only 2% of its allocation. The health ministry continued its abysmal implementation rate with just about 17% of the allotted amount. With large projects such as the Dhaka-Chittagong four lane highway in stagnation the road division implementation stood at only 20% of its total share. The energy and mineral resources division expended 17% of its total allocation, power division achieved 13% completion rate while housing and public works attained a mere 10%. Nonetheless, with the election on the horizon the projects under the local government which had the highest allocation in the ADP was pushed in place of the large infrastructure projects. According to the statistics from IMED, the local government division has spent 31% of its allocation in the first five months. With an eye on voters the primary and mass education ministry along with the education ministry has spent 30% and 25% respectively of their total allocations. Although development budget is vital to provide impetus to economic growth through infrastructure upgrading and improved socio-economic development, widespread skepticism prevails over project implementation performance of the agencies, priority projects selection and quality of development programs. A slow implementation pace often leads to ministries engaging in an unhealthy competition in a hasty attempt to spend the allocated money during the closing months creating avenues for corruption and wastage of public funds. Half way in to the new fiscal year experts can hardly be blamed for harboring pessimism while envisaging allocation downsize in the revised ADP from the original allocated portion.

Inflation reigned to single digit

Erratic inflation in the last couple of years is now showing mixed trends. In January 2013, point-to-point inflation was recorded at 6.62% which gradually increased to 8.37% in April owing to supply chain disruption caused by the confrontational political programs. Later in May inflation rate slightly declined to 7.98%. Political turmoil takes its toll on the economy as prices of essential items go up amid staggering blockades. Inflation was pushed up for the same reason again in November 2013. It is feared that the rate might go up further if the existing problems on both political and economic fronts persists. Overall point-to-point inflation, food inflation and non-food inflation all at national, rural and urban levels increased in the month as supply of essential items became severely disrupted. Overall national inflation rose by 0.12 percentage point to 7.15% in November compared to the previous month according to Bangladesh Bureau of Statistics (BBS). Food inflation increased by 0.17 percentage point to reach 8.55%, while non-food inflation rose by 0.04 percentage point to 5.08%. Overall inflation in rural areas increased by 0.14 percentage point in November compared to that in October, but in urban areas it increased by 0.06 percentage point. Particularly affected were the urban areas where food inflation remained as high as 9.67%, soared to its highest level of this year. Since supply and availability, especially food item and agricultural products, was more in rural areas there the rate was 8.06%. Even though the food inflation was higher, the non-food inflation such as clothing, house rents, furniture, transportation and other non-food items dropped. The Bangladesh Bank's latest monetary policy helped keep the rate of non-food inflation lower.

Meanwhile, Bangladesh Bureau of Statistics (BBS) has adopted 2005-06 as the base year from July of 2013 with a broader basket for inflation calculation, moving away from the earlier base of 1995-96. Considering the recent consumption patterns the Consumer Price Index (CPI) basket has been revised.

	P-to-P Inflation	Food Inflation	Non-Food Inflation	Rural Inflation	Urban Inflation
Jan	6.62%	5.02%	9.09%	5.69%	8.44%
Feb	7.84%	7.45%	8.44%	7.27%	8.97%
Mar	7.71%	7.50%	8.04%	7.16%	8.80%
Apr	8.37%	8.68%	7.91%	7.80%	9.46%
May	7.98%	8.13%	7.76%	7.42%	9.04%
Jun	8.05%	8.26%	7.75%	7.53%	9.08%
Jul	7.85%	8.14%	7.40%	7.43%	8.64%
Aug	7.39%	8.09%	6.35%	6.90%	8.34%
Sep	7.13%	7.93%	5.94%	6.77%	7.82%
Oct	7.03%	8.38%	5.02%	6.78%	7.52%
Nov	7.15%	8.55%	5.08%	6.92%	7.58%

New baskets added 136 products for rural areas and 151 for urban areas while 64 products were excluded from the old baskets. The new urban basket consists of 422 products and the rural basket 318 products.

Blockade threatens to disrupt harvest

The crop sector finished the last fiscal year with a negative momentum, stagnating value addition of the agriculture segment growth. A mere 0.1% increase in boro production failed to prevent decline in rice production by 0.2% in FY2012-13. In recent seasons paddy cultivation have been gripped by inadequate price incentive for farmers leading to a gradual shift in preference. According to Department of Agriculture Extension (DAE) maize, wheat, pulse and vegetables posted production surge by 11.5%, 26.1%, 15.3% and 5.1% respectively. A decline in rice import in the last fiscal year accompanied by lower rice production reduced food stock by more than 200 thousand MT. As a result rice import in the first quarter of FY2013-14 increased which may have a knock on effect in the domestic price determination. Moreover, the production cost of boro in the new season of FY2013-14 is likely to increase due to shortage of fertilizer amid prolonged country wide blockades. Allegations of hoarding fertilizers have surfaced against distributors fueling abnormal supply shortage as they look to exploit the ongoing turbulence. Disruption in transportation has also severely hampered distribution of winter vegetables. According to the Bangladesh Agricultural Research Institute (BARI), an estimated 40,000 tonnes of vegetable worth Tk600m were spoiled for a single day blockade in mid-November to December in 2013. During the same period the poultry industry with an estimated Tk250b investment have been crunching losses of around Tk40b. Economists fear an extended political agitation may severely hamper the country's food security.

Government borrowing continues to surge

From the very beginning of the year the government had to rely on the banking system to pay subsidy bills and meet day-to-day requirements as lower level of revenue collection and poor response from savings instruments restricted cash inflow. Bangladesh Bank (BB) used to source most of the borrowed fund by printing notes. However, since 'high-powered money' has multiple effects on the economy including fuelling inflation, the government altered its debt management policy and started borrowing more from the scheduled banks to ease inflationary pressures. In the first month of the current fiscal year government's domestic borrowing swelled up by 480% and debt burden became heavier standing at Tk51.77b in July, which was Tk8.92b a year ago, according BB. Of the amount, Tk42.31b came from banks, which was only Tk4.31b in the previous year. Apart from bank borrowing, borrowing from savings instruments also doubled and stood at Tk9.45b in the first month of this fiscal year from Tk4.25b a year ago. Earlier, sale of savings instruments has been on the decline for the last few years due to higher interest rate on bank deposits. To regain the lost charisma of the savings instruments the government increased the rates of interest. Banks enjoyed comfortable liquidity against a rather apathetic appetite for credit and therefore started offering lower interest rates on their different savings products. Government borrowing rapidly increased in the later part of the year as before the general election government had to complete its election-related projects to satisfy voters. By the end of Q1 of FY2013-14 the government borrowed substantial amount of loans from the banking sector which stood at Tk48.11b as on October 21, 2013. At the same time the government had easy access to loans in the short term as the commercial banks were strapped with excess liquidity. The government set a target to borrow Tk259.93b from the banking sector in FY2013-14. The net borrowing from the banking system stood at Tk247.76b in the last fiscal year as the government repaid Tk52.52b to Bangladesh Bank. The original bank borrowing target for FY2012-13 was Tk230b which was later revised to Tk285b.

Unenthusiastic investment interest

Real investment scenario of the country was not that very satisfying in 2013. All business activities including export, import have drastically slowed down caused by destabilizing politics. Due to lack of responsive business environment and pop up risks from different sources investors are losing their interest continuously for new investments. In addition the investors were suffering from inaccessibility of fund. Over-conservative approach of the banks made the flow of funds almost dry for new investments. Moreover, a number of ready industries could not start operation due to unavailability of utility connections. Board of Investment (BoI) data showed that in FY2012-13 the local investors registered investment proposals worth $5.59b. The investment involved in such proposals was $6.67b and $7.74 in FY2011-12 and FY2010-11, respectively. Around 1,457 investment proposals had been registered in the last fiscal year. The number was 1,735 and 1,746 in FY2011-12 and FY2010-11 in that order. It is feared that if the present situation continue, the investment growth will witness a negative trend in the next fiscal year. Investments have witnessed a decline by 60% compared to that of the corresponding period last year, according to BoI's January-November 2013 report. Meanwhile, employment generation also plunged by 50% during the first four months of FY2013-14. Though competitive prices for labour and other services make Bangladesh a favorable investment destination infrastructural bottlenecks, prevalence of corruption, lack of good governance and accountability along with confrontational politics remain as major stumbling blocks in bringing in greater share of international investment into the country.

Revenue in sharp decline

Amid persistent dull economic outlook and political turmoil the major tax paying businesses are on a tight rope. Political events and uncertainty have affected businesses and economic activities. Sluggish investment appetite, slow private sector credit growth and import made it difficult for the national exchequer to fulfill its revenue collection target as the National Board of Revenue (NBR) continues to struggle. In order to pull off the ambitious revenue target set for the fiscal year NBR launched the online TIN (taxpayers identification number) registration system enforcing all income-taxpayers to obtain new 12-digit TINs replacing the existing 10-digit TINs. Revenue from tax is set at Tk482.97b in the national budget for the FY2013-14 which is 36.8% higher than the revised budget of the last fiscal year. However, the overall collection target was Tk1741b. The government has increased the taxable income slabs and made some major alteration to tax and rebate system that might affect collection to some extent. The government, nevertheless, believes the new tax slabs and reform measures including expansion of tax offices will eliminate irregularities and include 0.3m new tax payers this year under the tax net and thus drive up revenue. NBR failed to collect the targeted amount by Tk40.34b in FY2012-13, for the first time in four years. As the political uncertainty leaves an adverse impact on business growth, NBR fears that it might miss collection target of the current fiscal year too. In the Jul-Oct period of FY2013-14 shortfall in revenue collection widened and fell short of target by 8.58% or Tk31.19b. In the period, NBR managed to collect Tk334.93b against the target of Tk366.13b as all the major tax collection indicators are showing a negative trend. Even though the growth was still insufficient but considering year-on-year growth, revenue collection rose by 16% in the first four months of FY14. Income tax receipts grew 30% year-on-year to Tk101.96b, while VAT receipts from domestic industries and service sectors soared 20% to Tk124.15b. On the other hand, tax collection from customs dropped 2% to Tk106.56b owing to falling imports. However, all the three wings of the Revenue Board failed to achieve their respective collection targets. Earnings from custom duties, VAT, income tax and other taxes fell short of the target by Tk7.69b, Tk8.32b, Tk1.39b and Tk1.29b respectively. The targets of collection were Tk114.48b in customs duties, Tk132.48b in VAT, Tk115.84b in income tax and Tk3.33b from other sources in the period. To generate more revenue, attention should be given to fix the loopholes in the existing policy that provides the businesses room for tax evasion, experts suggests.

Export rebound but stiffer challenges ahead

Despite numerous setbacks export earnings in 2013 have been quite resilient and promising. The country earned $27.02b from exports during the FY2012-13, registering an 11.18% rise over that of the previous fiscal year buoyed by a protracted growth in shipment of apparel items rebounding from the shoddy growth a year ago. The country's export earnings however fell $1b short of government-set ambitious target of $28b owing to existing infrastructural impediments and chastened market in Europe and the United States. The largest share of the export earnings was yet again contributed by the readymade garment fetching $21.52b though still missed out on the target of $21.54b. During this period the country exported knitwear products worth $10.47b and woven garments of $11.03b. Addition of two brand new billion dollar destinations with the inclusion of Canada and Italy along with the existing five in USA, UK, Germany, France and Spain played a significant role allowing Bangladesh to bolster its second place grip on the global RMG industry. The export of jute and jute products brought in the second largest contribution with $1.03b by posting a growth of 6.54%. Moreover, exports of agricultural products grew by 33.04%, pharmaceuticals by 23.98%, leather and leather goods by 21.07% and 62.66% while handicrafts registered a growth of 28.87% from that of the previous year. Frozen food exports though fell by 9.12% to $543.84m while home textile export fell by 12.64% to $791.52m in the FY2012-13 from $906.07m in the FY2011-12. On the backdrop of a commendable export performance in the last fiscal year, the target for the FY2013-14 has been proposed at $30.5b with a plan to expand in to new markets like Japan, China Russia, Brazil, etc.

	Export ($ in bil)		
Months	2013	2012	Growth (y-o-y)
Jan	2.55	2.15	19%
Feb	2.25	1.98	13.5%
March	2.30	1.98	16.3%
April	2.09	1.89	10.5%
May	2.54	2.20	15.4%
June	2.70	2.32	16.2%
July	3.02	2.44	23.9%
Aug	2.01	1.95	3.3%
Sep	2.59	1.90	36.3%
Oct	2.12	2.08	1.9%
Nov	2.21	1.77	25.0%

Export earnings in the first five months of current FY2013-14 increased by 18.02% to $11.96b from that of $10.13b in the same period of the previous year which is 2.86% higher than the target. According to the Export Promotion Bureau (EPB) export earnings recuperated in November recording $2.21b while exceeding the target by 6.05% after a dip in October, while the highest growth of 36.26% for the year was registered in September. Despite the growing clout, the garment sector garnered $1.77b as knitwear products brought home $877.61m while woven garments fetched $889.35m in November. In recent times the country's pharmaceutical sector has also been receiving increasing attention from overseas buyers enabling to log $31.04m in earnings registering a year-on-year growth of 34.02%. The export earnings in the latter half of 2013 could very well have been much higher if industrial disasters such as Tazreen and Rana Plaza as well as labor unrest could have been avoided. Also the adverse affect resulting from the political shutdowns in recent months would most likely be felt in the first quarter of 2014. Speculations surfacing in several media reports of purchase orders in the apparel sector worth about a quarter billion US dollar diverting to neighboring India in the past few months have also left experts spooked causing them to trim their forecast figures for the current fiscal year. Meanwhile, competition is set to intensify further for the sector as the EU have granted GSP privileges to Pakistan from 2014 onwards. The entrepreneurs have no doubt demonstrated resilience to overcome odds, both natural and manmade in recent times. Although the export earnings in the first eleven months of 2013 have been admirable, achieving the target of FY2013-14 however may largely depend on the RMG sector performance which contributed 79.63% last fiscal year and the ability of the sector to revive buyer confidence as neighboring countries queue up to pounce on any shortcomings.

Imports dither amid thin investments

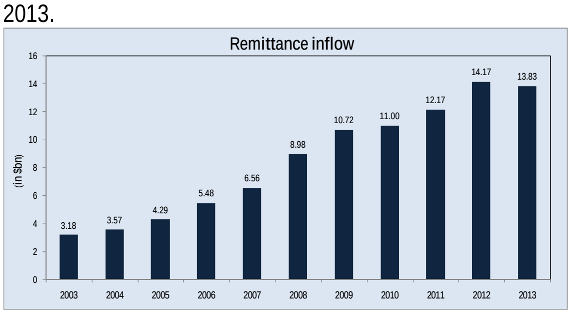
In FY2012-13 overall import of the country plunged for the first time since FY2001-02 by 4.36% as businesses adopted a wait and see approach with national polls on the horizon. Moreover, adoption of a cautious policy by the banks in opening fresh Letters of Credit LCs following numerous financial scams in the banking sector has also played a significant role in the declining trend of import payments discouraging investment and leading to excess liquidity. According to Bangladesh Bank (BB) statistics, the value of settlement of LCs against import for the period was worth $33.97b, compared to $35.52b during the same period of last fiscal year. Though decline in import of food grains following bumper harvest had a positive impact on the economy, diminishing trend in both import of capital machinery and raw materials had adverse effect on GDP growth in FY2012-13. Import of industrial raw material slipped to $13.03b by 2.54% from $13.37b in the previous fiscal year as capital machinery import plummeted by 15.94% to $2.11b from $2.51b in the same period of previous year. A similar trend was expected to continue in the early months of the new fiscal year as political chaos intensified. However, a significant rise in import of capital machinery in the first four months of FY2013-14 have outpaced expectations and raised suspicion of capital flight through over-invoicing on import of capital machinery to take advantage of the depreciating kerb market and appreciating inter-banking rates with no visible sign of increasing local or foreign investment. As the customs authorities lack any structural mechanism to detect transfer pricing, onus is on the central bank to check the alleged irregularities, a practice deemed common prior to national elections.

	Import ($ in bil)		
Months	2013	2012	Growth (y-o-y)
Jan	2.77	3.22	-14%
Feb	2.54	2.82	-10%
March	2.73	2.87	-5%
April	2.79	2.76	1%
May	2.70	2.89	-7%
June	2.88	2.39	21%
July	3.24	2.84	14%
Aug	2.50	2.54	-1%
Sep	3.09	2.73	13%
Oct	2.82	2.65	6%

Overall import increased by 8.71% in the first four months of the current fiscal year, propelled by higher import of food grains to meet the domestic demand. According to the latest BB data, the settlement of LCs during this period stood at $11.64b which was $10.71b during the same period of last fiscal year. Settlement of LCs in the first four months of the current fiscal year for rice and wheat was worth $561.43m against $246.66m during the same period of the last fiscal year registering a growth of 127.61%. The consumption of petroleum products on the other hand has dropped substantially compelling the state-owned lone oil importing agency to cut procurement target set for January 2014. Lesser fuel consumption indicates lower level of economic activities adversely affecting growth, earnings and employment. As the year drew to a conclusion, political uncertainty, prolonged countrywide blockades and looming money laundering suspicion threatens to impede overall growth of the economy.

Remittance surge snaps

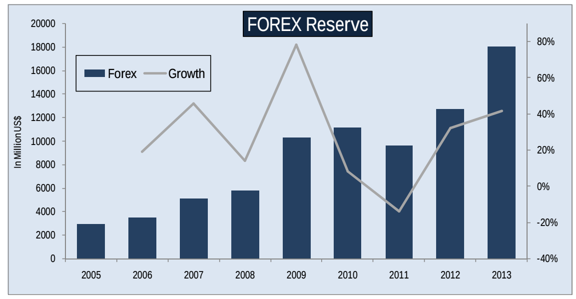
The annual remittance inflow suffered its worst slowdown in a decade in the just concluded calendar year. The dip in the second largest foreign currency earner has dented the rising trend which until last year registered an average growth of 18.4% since 2003. The highest monthly remittance receipt of the year was $1.33b recorded in January followed by $1.24b in July while remittance inflow slipped for a third straight month in the second quarter. In August remittance receipt plunged to $1.01b, the lowest for the year, and by December the inflow was on track to plummet for the first time in a decade. Shrinking manpower export, lack of comprehensive policies, lesser migration of skilled hands and political instability caused the reduction of remittances inflow. According to Bangladesh Bank, remittance inflow decreased by 2.39% to $13.83b in 2013 compared with that of a rise of 16.49% to $14.17b in 2012. The expatriate Bangladeshis sent greenback worth $12.17b in 2011. A falling remittances inflow is likely to dampen future growth prospects. In the recent past Bangladesh was in a comfortable position as regards to remittance inflow as the central bank earlier took a series of measures to encourage the expatriate Bangladeshis to send their hard-earned money through the formal banking channel to help boost the foreign exchange reserve. Value of Taka had been continuously gaining in strength against the US dollar since the last couple of months due to a lower import growth. Meanwhile, the central bank has been continuously purchasing US dollar from the local commercial banks to keep the exchange rate within the favorable region for remittance while taking special initiatives to ensure faster delivery. However, there are impending risks stemming from a potential decline in remittances further in future as departure of migrant workers is on a declining trend. Declining manpower exports signify potential future decline in remittance levels as well as growth. According to Bureau of Manpower, Employment and Training, 6,07,798 workers were employed overseas during 2012 but only 3,99,333 workers went abroad till December 22, 2013.



Forex reserve at historic high

Bangladesh in 2013 started with a foreign exchange reserve below $13b. At that time, the central bank struggled to keep the reserve stable against the backdrop of the huge import payments particularly for fuel oils, edible oil and fertilizers. Bangladesh Bank (BB) revealed that the forex reserve hit a historic high by breaking all previous records when it reached $18.05b on December 19, 2013. Increase in export earnings despite a series of domestic odds and lower import payment in the last few months, buoyancy in inward remittance and stable exchange rate against the dollar mainly aided to build the reserve. Moreover, release of fourth installment of the International Monetary Fund (IMF) loan under its Extended Credit Facility (ECF) also contributed to improve the forex reserve. The reserve has accumulated gradually and made a number of records by crossing historic highs. It touched $14.27b on March 07, 2013 and crossed yet another milestone on May 07, 2013 to stand at $15.07b then crossed the $16b-mark for the first time on August 13, 2013. It crossed the $17b mark on October 22 after which it increased to $17.60b on November 07. However, after a routine payment of $890m to the Asian Clearing Union (ACU) against imports during the September-October period of the current calendar year forex reserve came down to $16.63b on November 10, 2013.

According to international rule of thumb standards, a country needs to have forex reserve enough to meet import bills for three months while with the current reserve payment for more than six months can be made. BB purchased US dollar worth $2.28b between July 01 and December 19 of FY2013-14 to keep the inter-bank foreign exchange market stable, which played a role in breaking all previous records.



However, the impact of holding robust forex reserve may not be very positive for the economy as it holds huge opportunity cost. Nosedive in imports, especially of capital machinery and industrial raw materials, at the back drop of slow economic activity and political unrest, has already hit private investments. The forex reserve may increase more in the future if imports do not pick-up in accordance with the required demand from the industrial sector. At the same time it is also very crucial to properly manage the already pilled up reserve to generate optimum benefit for the economy.

Poor compliance dawdle aid disbursement

In FY2012-13, the country's total foreign assistance receipt stood at $2.78b, registering a growth of 31% though the initial commitment was set at $5.92b by the development partners. Yet again a lackluster capacity utilization dragged foreign aid disbursement to a mere 47% against the hefty commitment. Of the total receipt $2134.3m was in loans and $651.7m in grants. During the same period the government repaid $1121.38m which includes $919.19m in principal amount while the rest of $202.19m as interests. Despite a persistent row over the much publicized Padma Bridge Project between the government and the World Bank (WB), the Washington-based lending agency yet again provided the highest amount of foreign aid to the country. At the end of FY2012-13, World Bank's disbursed $764.5m in foreign aid, followed by $670.4m from the Asian Development Bank (ADB), $630.4m by JICA, $203.9m by the UN system and 68m from the EU. With development project implementation stuttering as political violence intensified in the latter half of 2013 the trend of meager foreign aid disbursement continued in to the new fiscal year. According to the Economic Relations Division (ERD) statistics, at the end of November 2013, inflow of foreign aid to Bangladesh increased marginally by 1.9% to $987m which stood at $969m during the same period of last fiscal year. Out of total $987m aid flow during the period, the government received $740.8m in loans and $246.7m in grants.

On the other hand the size of committed loan has been restricted due to the embedded stringent condition under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF). The IMF considers a loan carrying less than 35% grant element as non-concessional or hard-term loan. Even though several multi and bilateral lenders are prepared to sanction loans for development purposes the government could not access non-concessional loans beyond the stipulated threshold of $3b. As the government had already borrowed $2.86b from different donors until end of June 2013, a leeway of $140m non-concessional loan remained until the threshold is extended further following revision by IMF. In late November 2013, the IMF executive board completed its third review of Bangladesh's economic program under the three-year ECF arrangement, and approved the fourth installment of $140.4m taking the total tally of disbursement to $561.4m from the total commitment of $982.5m. The IMF review board acknowledged the various reform initiatives of the government which have ensured significant progress in structural reforms particularly in the new Value Added Tax and amendments to the Banking Companies Act as well as meeting various performance criteria under the ECF guidelines.

3G triggers impetus to Telecom sector

The year 2013 marked a significant progress for the telecom industry as the country finally embraced the much touted third generation (3G) mobile broadband licenses. Industry experts believe entry into 3G mobile environment following the revolution of social networks; apps and smart phones have opened up new avenues for growth and development of the sector. Paucity of funds kept Citycell abeyant while Teletalk had already received 3G license on a trial basis. As a result four out of the six telecom operators participated in the auction for a total of 40MHz spectrum with a validity of 15 year period. In order to lure leading mobile operators to participate in 3G auction the NBR had to cave in to demands to reduce the rates of VAT on 3G services and SIM cards. Under the new guidelines mobile operators will have to pay 7.5% VAT charges instead of the 15% previously charged while charges on SIM cards have been reduced to Tk300 instead of the Tk600. However the tug of war between NBR and the four largest mobile operators over SIM replacement tax claims of Tk31b lingered on without any resolution. In early 2012 GP, Robi, Banglalink and Airtel have been accused of evading taxes through sale of old SIMs to new clients. The mobile operators though have persistently denied such accusations.

Despite the launch of much awaited 3G service the mobile phone subscription witnessed a modest growth of 12.6% during the first ten months of 2013 reaching 111.8m subscribers at the end of October 2013. Initial elevated enthusiasm of the consumers hit a little snag by the end of the year as mobile operators failed to deliver nationwide 3G services which has resulted in slow market penetration and voice call drop leading to lack of service availability. As of October 2013, the mobile internet user base remained the largest with 34.7m subscribers out of the total 39.2m internet users. With significantly low revenue generation from data portion, 3G services may allow mobile operators to enhance revenue stream as telecom companies continue to invest significantly in network development. Sustaining the 3G hype and achieving the desired favorable connectivity will be largely depending on the ability of the telecom service providers along with the regulators working in tandem to enhance the coverage and network quality.

Trying time for FIs

Last year should be marked as one of the worst for the financial sector. Multi-fold setbacks emerged owing to corruption, management imprudence, regulatory stances and lax monitoring dampening the performance as well as financial health of the overall sector. Banks and Non-Banking Financial Institutions (NBFIs) struggled to retain their profits as the real economy was affected by the political impasse. Financial health of the banking industry is deteriorating over time due to various irregularities and scams. Credit and risk management status is unsatisfactory. The amount of non-performing loans is gradually increasing. The net aggregate profits of banks are likely to shrink mainly due to fall in their earnings of interest income and difficulties in repayments of loan installments by their clients, amid disrupted economic activities during the last few months.

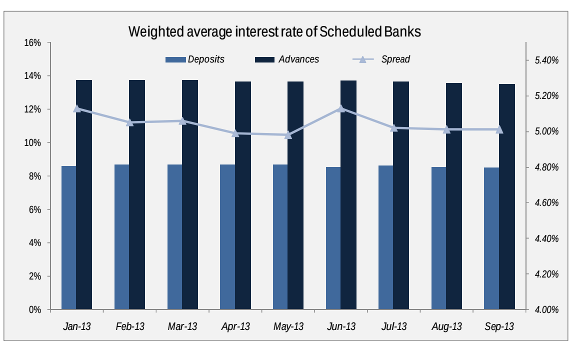
On the other hand, the NBFI segment is also affected by the economic slowdown. Higher provisioning requirements for non-performing loans and losses from capital market investment along with rising default loans ate-up their profits. Most of the NBFIs witnessed downtrend in their third quarter profits and as this sector is now passing hard times it is feared that some of them might have to close the year in the red. Bangladesh Bank (BB) however relaxed loan rescheduling policy for NBFIs for the next six months to facilitate financing for the businesses affected by political unrest.

Bank Company (Amendment) Bill 2013 passed finally

To keep pace with the demand of time, improve good governance and bring discipline in the banking sector the Parliament finally passed the Bank Company (Amendment) Bill, 2013 in to an Act. The amendments were made largely to fulfill the conditions set by the International Monetary Fund in relation to its Extended Credit Facility (ECF). As per the amendment a director of a bank can hold the position for a maximum of two successive terms of three years and can return to the position after a gap of minimum one term. A director would not be able to hold the same position in more than one financial company at the same time. Giving in to pressures from the influential quarters the cabinet moved back from the previous decision to lower the number of directors. Therefore, the number of directors will be intact at 20 including three independent ones while the new banks will get two years time to conform to the provision. If any bank has less than 20 directors the number of independent directors will be 2. The Act further proposes that after one year of passing only two family members will be eligible to hold directorial position in a bank at the same time. As per IMFs condition from now on BB has got the power to remove the top officials of the state-owned banks. However, the authority to remove the chairmen and directors of the banks remains at the hand of the government. Job experience of applicants for the position of Managing Directors has been lowered to 10 years from 15 years. BB has tried several times to rein in the banks that had invested funds in the overheated stock market beyond the allowable limit. From now on the banks will not be allowed to make investment in stocks not more than 25% of their regulatory capital replacing the existing allowable limit of 10% of their liabilities. Any current over exposure will have to be phased out by July 21, 2016 in line with the newly enacted Bank Company (Amendment) Act, 2013. The banks will also have to submit their stock market investment reports on a monthly basis. However, the ongoing depression in the financial sector also has affected the market performance of the bank stocks. The banking industry that traditionally used to occupy the largest share in stock-exchange turnover has lost its shine in recent times as investors are losing interest. Half-yearly profits of most of the listed banks witnessed downtrend due to political uncertainty hurting private sector credit growth. Among the 30 listed banks, only 6 could book higher profit than the same period of 2012 while 23 had negative growth, according to disclosures made to the stock exchanges. Out of them 10 banks posted significantly lower half-yearly earnings. Meanwhile, as most of the listed banks declared poor dividend last year, stock-market investors switched from banking stocks to other sectors.

NPL gnaw bank earnings

Another reason for the commercial banks witnessing yet another stressful year is the sharp increase in Non-Performing Loans (NPL), sluggish import and presiding anti-business climate in the run-up to national polls. Moreover, increased provisioning against default loans following new loan classification and rescheduling rules by the central bank have led to further profit erosion of the banking sector. Twenty-two out of 30 listed banks with the capital market posted a lower profit in the first nine months of this year compared with the corresponding period of 2012. The abysmal situation is best depicted in the performance of Islami Bank Bangladesh Limited (IBBL), the largest private sector bank, which made a profit of mere Tk2m in third quarter of 2013 against Tk830m earned during the same period of last year. The profit earned by the IBBL during the nine-month period of 2013 stood at Tk1.94b as against the corresponding earning of Tk5.05b in the previous year. During the same period the profit earning of Prime Bank limited, another leading private sector bank declined to just one-fifth of the earnings posted in the corresponding period of last year. National Bank was among the worst performer incurring losses of Tk3.8b from January-September period against its profit of Tk1.20b in the same period last year. Meanwhile mismatch between credit and deposit growth led to gradual decline in bank interest spread which has also adversely affected the profitability of the banking sector. Banks hoarding excess liquidity were compelled to slash deposit rate while at the same time decelerating domestic consumption demand led to decline in lending rates. The weighted average rate on lending came down to 13.42% in October while the interest rate on deposits was at 8.47%. Overall interest spread in the banking system was 4.95% at the end of October 2013, down from 5.01% in the previous month.



According to BB reports, interest spread in 21 banks was more than five percentage points in October. Among the private commercial banks Brac Bank had highest spread of 9.40% and among the foreign banks Standard Chartered had the highest spread of 10.24%. State owned and specialized banks have lower spreads ranging between 2% to 5%. The average spread of the four government-owned commercial banks is 3.25%, private commercial banks 5.20%, foreign commercial banks 8.48% and specialized banks 2.88%.

Bank ADR slumps as liquidity swell

On the back of bleak investment condition the disbursement of loans to the private sector remained sluggish throughout 2013 as companies postponed investment decisions possibly till after the elections. Countrywide blockades and shutdowns owing to the unrelenting political wrangling has further dented confidence of the prospective borrowers both in urban and rural areas on top of the existing impediments such as energy and infrastructure deficiencies, spikes in lending rate and cautious stance of the banks in providing loans following numerous scams. The overall credit growth in the banking sector slowed to 8.01% in the first eleven months of 2013. Political violence spread to the rural areas disrupting disbursement of farm and small and medium enterprise loans. Moreover, there seems to be hardly any demand for trade and working capital loans which usually make up a major portion of the total credit disbursement as business activities and transportation remain largely inhibited. This in turn may lead to proliferation of bad loans and any further credit quality slippage would dampen earnings of the banks triggering a plunge in government revenue. The Advance-Deposit Ratio (ADR) of the commercial banks, deemed an important indicator of the demand for money, has been on a tailspin for the past one year. As of mid-November the ADR in 32 scheduled banks dropped below 75% as credit demand in the private sector continued to drop. The overall ADR in the banking sector dropped to 71.91% as of November 14, 2013 which was 76.59% on December 31, 2012 and 80.33% as of June 7, 2012. The prescribed upper limits of ADR as per BB guidelines for the conventional commercial banks are 85% while Islamic banks and Islamic wings of the conventional commercial banks are allowed to invest up to 90% of their deposits. In 2010-11, when the demand condition was quite high, BB had to warn a significant number of banks directing them to bring the ratios down within the prescribed ceiling. But by the end of 2013 the tide has completely reversed as the credit demand from the private sector continued to plummet. According to BB's statistics, during mid-November deposit growth was 17.26% while credit rose by 8.01% thereby surpassing credit growth by 9.25% points. The rate of growth of the disbursement of the industrial term loan stood negative at 15.53% in the first quarter of FY2013-14, the lowest among the last five quarters while in the last quarter of the FY12-13 growth of the disbursement registered a positive rate of growth of 4.49%.

ADR of 32 Banks

Bank	ADR	Bank	ADR
Bank Alfalah	74%	Commerce Bank	65%
Krishi Bank	74%	HSBC	64%
Trust Bank	74%	NRB Commercial	63%
Bangladesh Development	74%	Union Bank	62%
Southeast Bank	74%	Agrani Bank	62%
Mercantile Bank	73%	Janata Bank	61%
IFIC Bank	73%	Worri Bank	61%
Commercial Bank of Ceylon	73%	Rupali Bank	60%
Dutch-Bangla Bank	72%	Uttara Bank	59%
Pubali bank	72%	State Bank of India	54%
Mutual Trust Bank	71%	Sonali Bank	54%
Prime Bank	70%	Midland Bank	48%
Standard Chartered Bank	69%	Meghna Bank	42%
Habib Bank	69%	Citibank NA	37%
South Bangla Agri Bank	66%	Farmers Bank	8%
Jamuna Bank	66%	NRB Bank	5%

The low level of demand for credits by the private sector is further illustrated by the ample liquidity pilling up in the banking sector. Excess liquidity reached over Tk900b at the end of November 2013 which was Tk800b in July, 2013. The weighted average call money rate in the inter-bank market receded to 6.69% at the end of November, which was 12.2% in mid December last year. Sporadic investment opportunities have left banks compelled to invest significant portion of the surplus liquidity in T-bills and T-bonds with low interest. As economic growth is intertwined with growth in investment, the persistent decline in the credit growth is sounding alarm bells among experts as subdued domestic consumption demand may continue headwinds to GDP growth.

Scams cripple banks: erodes capital & escalate default loan

The condition of banking sector in Bangladesh has been deteriorating in terms of growth, disbursement of credit and risk management which in turn has lowered the rate of growth of the economy. Default loan condition with banks has deteriorated and grew uncharacteristically high due mainly to poor recovery and shoddy deals. Businesses were already distressed due to gas and power shortage and many creditworthy entrepreneurs could not pay back loans on time. Moreover, the overall economic and political conditions hampered the regular economic activities. Also after implementing the tighter loan classification and provisioning policy the volume of default loan reached a record high level. According to the Bangladesh Bank (BB), the overall defaulted loans as on September 30, 2013 reached Tk567.20b from Tk427.26b as on December 31, 2012. As per BB regulations, the provisioning requirement for the outstanding balance of loans classified under Sub-standard, Doubtful and Bad or Loss categories are 20%, 50% and 100% respectively. Moreover, financial scams have pushed up defaulted loans and created provision shortfall in some of the banks. Of the total defaulted loans, the four State owned Commercial Banks (SCBs) accounted for Tk241.74b as on September 30, 2013 from Tk215.14b as on December 31, 2012. The default loan volume of the Private Commercial Banks (PCBs), Foreign Commercial Banks (FCBs) and Specialized Banks (SB) in September last reached Tk223.07b, Tk14.54b and Tk87.83b respectively from Tk130.34b, Tk8.45b and Tk73.30b as on December 31, 2012.

Default Loan of Banks

(Tk in billion)

Bank	Jun,13	Sep,13	Bank	Jun,13	Sep,13
Sonali	124.61	125.70	MTBL	2.68	3.31
Janata	42.14	47.87	NBL	19.31	24.28
Agrani	46.06	51.19	NCC	7.61	7.91
BASIC	9.23	18.63	One Bank	4.58	5.74
BDBL	6.28	7.16	Premier	6.23	7.23
AB Bank	5.65	5.96	Prime	10.06	10.97
Bank Asia	7.62	8.99	Pubali	7.14	8.01
BRAC	7.68	7.84	SIBL	3.51	3.88
City	6.62	8.97	Southeast	6.19	6.33
Dhaka	7.44	7.55	Standard	1.97	2.46
DBBL	4.67	4.74	Trust	2.64	3.06
EBL	5.56	5.98	UCBL	8.71	9.47
Exim	8.18	10.03	Uttara	5.18	5.60
First Security	1.92	2.18	HSBC	0.86	1.09
ICB Islamic	7.22	7.50	NBP	3.51	6.55
Islami	19.50	27.86	SCB	4.09	4.20
Jamuna	5.94	6.05	SBI	0.81	1.31
Mercantile	6.61	6.97			

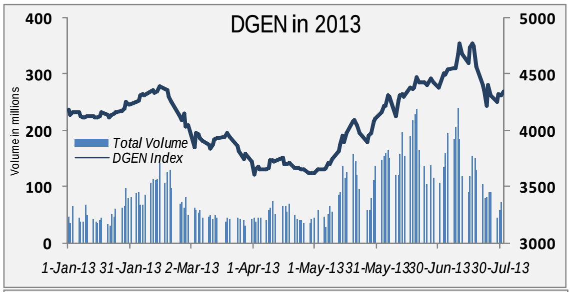
The overall shortfalls in provision against defaulted loans in the banking sector increased by Tk8.19b or 33.25% in the third quarter of the year as 10 banks-Sonali Bank, Rupali Bank, Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank, Bangladesh Commerce Bank, Jamuna Bank, National Bank, Premier Bank and National Bank of Pakistan failed to make the required provisions. The shortfalls rose to Tk32.81b as on September 30 from Tk24.62b as on June 30. Provision shortfalls in the SCBs increased to Tk4.74b as on September 30, 2013 from Tk3.91b as on June 30, 2013, those of the PCBs to Tk3.31b from Tk1.15b, those of the FCBs to Tk2.95b from Tk169m and those of the SBs to Tk21.80b from Tk19.39b. As per the BASEL II accord banks are obliged to keep 10% of their total Risk-Weighted Assets (RWA) as capital reserve. However, the SCBs had Capital Adequacy Ratio (CAR) of 1.32% at the end of September, 2013, the PCBs 11.56%, FCBs 20.25% and the SBs minus 10.18%. The state-run commercial banks and specialized banks and five private banks—National Bank, Exim Bank, Premier Bank, ICB Islamic Bank, Bangladesh Commerce Bank failed to maintain the minimum 10% CAR against their risk-weighted assets as they had to reserve a large amount of provision against their defaulted loans. As a result the size of risky assets with these banks increased significantly. To meet the deficits SCBs are perusing for fresh capital infusion from the government. The International Monetary Fund (IMF) has also lent support to this demand. Consequently, the government is set to inject Tk41b into the four SCBs. Nevertheless, these banks would be liable to carry a string of operational measures to improve their financial portfolios as a pre-condition to have the fund disbursed. For which concerned banks have to revise their credit risk management policies, core risk management guidelines and form risk management committees, according to a directive of the Ministry of Finance (MoF).

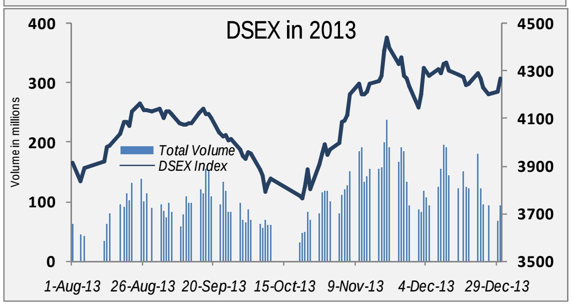
BB on December 23, 2013 has directed all banks to reschedule loans for those defaulting business entities hard hit by the political unrest. Banks are asked to reconsider the matter of loan rescheduling and down payment period on a case-by-case basis for the affected borrowers in all sectors, until June next year. It is hoped that BB's latest directive will help reduce the amount of classified loans, increase recovery rate to some extent and maintain profitability.

Capital market: passed another erratic year

The year 2013 did not appear as a lucky one for Dhaka Stock Exchange (DSE) as it started with poor turnover and declining indices. The bear run continued for the third consecutive year when the simmering political climate exerted negative impact on the market. However, in the last trading session of the year, the key index, DSEX closed off with 4266 points with an increased turnover as the central bank on that day allowed banks another year to adjust their capital market exposure above the allowable limit. The main market gauge, DSEX started the year at 4090.47 points and closed at 4266.55 points. All other market-related indicators suffered the jolts modestly during the period. Daily average turnover dropped by 4.76% to Tk4b against last year's average of Tk4.20b. The total market capitalization went up by 10.16% spearheaded by a general increase in Initial Public Offerings (IPOs), while the ratio of market capitalization to GDP was 25.51 in 2013 against 26.27 in 2012. The government and the market regulators used several tonics to bring stability back to the market, but all failed to halt the fall of share prices. Fading confidence took heavy toll on market turnover with shaky trading patterns. Trade became condensed towards a few number of stocks most of which are newly listed. Continuous price erosion affected the capacity of the large and institutional investors and pushed them to the sidelines. DSE broad index came down to 3438.89 points on April 30, the lowest of the year. After traversing a series of downtrend and volatile trading sessions, DSE started the trail of rebound. The key index touched its highest level of 4439.59 points on November 20, 2013 since the January 28, 2013 launch. Turnover at the same time hit a four-month high of Tk8.89b on November 20, 2013. The highest turnover was recorded at

Tk12.95b on July 09, 2013. Meanwhile, there were some qualitative changes as well. The much-talked-about issue of capital market in 2013 was demutualization of both the stock exchanges which paved the way for separating the bourses management from ownership to improve transparency and accountability.





The market regulator enacted new rules and a guideline for research analysis and private placement of debt securities. It also modified two other rules- the mutual fund rules and the corporate governance guidelines. The capital market of Bangladesh touched a milestone as after 18 years of its membership with the International Organization of Securities Commissions (IOSCO) the Bangladesh Securities & Exchange Commission (BSEC) was upgraded to category ‘A’ from existing ‘B’ category. With this recognition BSEC will receive more international exposure and from now on will be able to take part in IOSCO policymaking process and enjoy voting power in the IOSCO forum.

Free-float based index launched

Dhaka Stock Exchange (DSE) launched two float-adjusted market capitalization based price indices - DSE Broad Index (DSEX) and DSE-30 Index (DS30) from January 28, 2013. A Securities and Exchange Commission committee in 2010 proposed that the DSE should introduce free-floating index to get over the flaws in the calculation process. Opening values of these indices were 4055.91 and 1460.30 respectively. The indices were developed and designed with assistance from Standard and Poor's (S&P). January 17, 2008 is the base date for both the indices. The DSEX which reflects 97% of the total market capitalization replaced the market barometer DSE General Index (DGEN). Base point for DSEX has been fixed at 2951.91 DGEN value of base date. Each of the eligible stocks must have above Tk100m float-adjusted market capitalization along with Tk1m six-month Average Daily Value Traded (ADVT) as of rebalancing reference date. An existing index constituent would remain inclusive if its market capitalization remains above Tk70m and ADVT above Tk0.7m. Additionally the eligible stocks are required to trade at least half of normal trading days each month for the three months prior to the rebalancing reference date. On the other hand, the DSE-30 Index or DS30 in short which reflects around 51% of the total market capitalization replaced the blue-chip index i.e. DSE-20. The index has a base point of 1000 and will be reconstituted twice in a year based on half-yearly trading performance. Stocks having Tk500m float-adjusted market capitalization, Tk5m three-month ADVT and positive net income based on latest four quarters report as of the rebalancing reference date would be eligible for this selective index. The number of constituents in Banks, Financial Institutions, Insurance sector and Real Estate Sub-sector is limited at 5 each and 10 combined for the index. Later on from August 01, 2013 the 12 year old key index of the Dhaka Stock Exchange, DGEN went offline as the index allegedly has been providing misleading information. After the introduction on November 01, 2001 with a base point of 817.63, DGEN went up highest level of 8918.51 points on December 05, 2010 and on its last day on the bourses it closed at 4342.31 points. The flawed computation of the index first came to light following the debut of Grameenphone on the stock market in November 2009 when the DSE general index gained more than 700 points in a single day.

Demutualization scheme gets going

The issue of demutualization of the stock exchanges came to the forefront after the massive market crash during 2010-2011. The Exchanges Demutualization Act, 2013 was passed by the Parliament on April 29, 2013. Demutualization would separate the ownership and management of the bourses that is expected to ensure transparency. The board of the bourses would consist of 13 directors. Seven of the directors will be independent, including the chairman. Four will be from among shareholders, and at least one of them will be strategic investor. If effectively implemented, demutualization can help separate stock brokers, share holders and management. This can take the issue of operational transparency forward and enhance confidence of the investors regarding fair trading.

Primary market regains charm

As the secondary market continued to slumber, high opening day return by IPOs stoked investor demand for new shares in 2013, as 12 companies and mutual funds raised around Tk9.3b offloading 532.5m shares and units. During the year a total of 16 new scrips were listed with the prime bourse yielding an average return of 206% in their trading debuts luring investors and companies into the primary market. Prevailing 20% IPO quota for affected small investors, a recent trend of IPO approval with low premium or at face value along with the opportunity to bag massive returns have enticed investors to jump on the bandwagon in pursuit of a quick buck in a short span of time. The clamoring for IPOs was quite evident during the year as on an average the IPO subscription were oversubscribed by more than fifteen times. With seemingly low risk and massive opportunity for high return the investors' were particularly caught up in the IPOs issued at face value as seven scrips offered at face value capped an average return of 266%. Sunlife Insurance gave the highest return of the lot with 721% on the opening day while Familytex and Bangladesh Building System holders earned 385% and 372% return respectively. On the contrary IPO performance of mutual funds were yet again very disappointing as two mutual funds -ICB AMCL Sonali Bank Limited 1st Mutual Fund and Exim Bank 1st Mutual Fund posted 1% and 10% return respectively on the close of opening day trade.

However the market watchdog’s approvals of IPOs such as Familytex (BD) and Appollo Ispat Complex Limited were criticized by different quarters. Appollo drew controversy as both the subscription and listing process was suspended during the year against allegations of different irregularities including claims of classified loans in the company's name.

	Date of listing	Offer Value	Close Price (Day 1)	Return (close)
SUNLIFEINS	Jan 31,13	10	82.1	721%
SPPCL	Feb 04,13	40	57.5	44%
ARGONDENIM	Feb 19,13	35	82	134%
PREMIERCEM	Mar 3,13	22	103.5	370%
GHAIL	Mar 4,13	25	76.4	206%
GHCL	Mar 6,13	20	99.4	397%
ORIONPHARM	Mar 20,13	60	75.2	25%
BENGALWTL	Apr 16,13	25	55	120%
ICBSONALI1	Jun 12,13	10	10.1	1%
FAMILYTEX	Jun 18,13	10	48.5	385%
EXIM1STMF	Jul 16, 13	10	11	10%
CENTRALPHL	Aug 14,13	10	38.4	284%
FAREASTFIN	Sep 17,13	10	19	90%
BDBUILDING	Oct 8,13	10	47.2	372%
PTL	Nov 19,13	28	45.6	63%
APOLOISPAT	Dec 24,13	22	38.1	73%

On the other hand accusation of negligence was laid on BSEC for allowing Familytex (BD) to raise capital as the textile company was downgraded by DSE only after 48 days of listing from 'N' category (new) to 'Z' category (worst performing) for the first time in recent memory. The prime bourse resorted to such measures as the company failed to declare any dividend for the financial year 2012. Many experts believe some mediocre companies may have exploited the hype surrounding the primary market to scoop money. In recent times most of the companies have used the proceeds accumulated through issuance of new shares to repay bank loans rather than business expansion while struggled to meet investor dividend expectations by lowering financial expenses. A general consensus among analysts is that approval of such IPOs would be detrimental to the interest of the prospective investors and development of the equity market.

Given the prolonged moribund nature of the capital market, companies refrained from issuing right shares as they feared they might not receive favorable price and response. The enthusiasm to issue right shares continued to decline in 2013 as only 6 listed companies collected Tk1.8b floating 531.38m shares though right offerings. In 2013 all the six companies issued right shares at par while six out of the nine companies offered right at premium prices last year. In 2011 and 2012 total Tk23.41b and Tk8.65b was mobilized by 21 and 9 companies respectively through the same route.

The BSEC meanwhile is considering to ease the procedure of issuing IPO shares through depository participants (DPs) slashing the current timeframe of the entire procedure to 30 days in place of the existing 75 days.

Amendments flounder to spur MF industry

The mutual fund industry passed yet another challenging year traversing a topsy-turvy market route throughout 2013. Out of the 41 listed closed end mutual funds at the beginning of the year only 29 could declare dividends. On top of it, among them 8 could not declare dividend for consecutive two years. Net Asset Value (NAV) at cost of 23 funds languished below NAV at market revealing ineptness of some fund managers. It exposed the need for fund managers to rebalance their portfolio to ensure greater shock absorption capacity. For a consecutive year private AMC's performance was particularly poor with the exception of VIPB and AIMS of Bangladesh succeeding to declare dividends for all of the funds under their management that completed a full functional year. Eleven funds availed the opportunity of issuing re-investment units to investors following amendment of the Mutual fund rules but even that failed to rejuvenate the sector. Among those NAV at cost of five funds were lower than the market NAV, forcing them to tap in to the reserve. Early in the year, the eagerly anticipated provision regarding dividend distribution in terms of reinvestment units stirred complication and controversy as previously only closed-end funds that included such provisions on their respective prospectus were allowed to issue bonus units. According to the stipulated rule only mutual funds under the management of AIMS of Bangladesh and the state-owned Investment Corporation of Bangladesh were allowed to dish out such benefits. However on the backdrop of severe criticism from investors, the regulator sought legal opinion and finally permitted all closed-end mutual funds to distribute dividend in the form of reinvestment units at NAV and thereby ensured a level playing field and consistency within the industry.

Other notable amendments in the Mutual Fund rules included reduction of mandatory investment in the capital market to 60% from 75%, with 30% of the said portion invested in listed securities. Under the new rule, failure to collect at least 40% and 50% of the approved amounts respectively in case of closed-end and open-end mutual funds by the AMC's will result in refund of the total amount to the subscribers. A 20% quota has also been kept in the mutual fund IPOs for small affected investors in line with any regular IPOs. Moreover, a closed-end fund can now be converted to an open-end fund at the end of the tenor following a three-fourth vote by the unit holders. As a result 8 closed-end mutual funds under the management of ICB were poised to be converted into open-ended fund following expiration of their previously extended tenures on December 31, 2013 in line with an earlier directive. However, considering the present market situation the BSEC backtracked from its earlier stance and extended the tenure of the eight mutual funds by another year up to December 31, 2014. During 2013 two new closed end mutual funds were listed while two matured closed-end mutual funds- ICB AMCL First Mutual Fund and 1st BSRS Mutual Fund has been de-listed, leaving the total number of listed closed ends funds to 41 at the end of year.

High time to reconcile

As the New Year unravels the confrontational politics threatens to spoil the economic burgeoning strides achieved in recent years leaving the economy at a crossroad. Since independence time and again Bangladesh has demonstrated its resilience which provides reason for hope. The economy can still rebound swiftly if an amicable settlement of the political impasse can be attained in the short term. However if the massive gulf between the government and the opposition continue to drag on it may lead to a deepened crisis. Political parties must accept that ensuring continuity of democratic process through mutually agreed political consensus while addressing lack of infrastructure and energy can only propel the country towards achieving its true economic potential.

We look forward.