B A N G L A D E S H

Yearly Economic & Market Roundup 2001

January 15, 2002

a period of suspended animation in usual hopes and predictable despair albeit with a silver lining in resolve for change but Sancho Panzas still haunt the collective psyche

The scorecard

- *The beauty of democracy was manifested in Bangladesh with the political maturity of opting for change in seeing through a consecutive third time massively participated relatively peaceful, free and fair national parliament election.*
- *Red, Yellow & Green. With three government reigning in, the economy traversed on a stop, look and move tempo.*
- *Balloon of over-ambitious targets punctured and falters in face of local political volatility and global turmoil, activating immediate crisis management sirens as the economy showed sure signs of slowdown at sunset.*
- *With galloping missed target in revenue earnings, the new government, left with no much option, continued with its unabated borrowing spree from the banking system and trimmed the Annual Development Plan (ADP) by 5.7%.*
- *The fallacy of one item and two markets export orientation was exposed pants down in face of global recession and 911 suicide terror as RMG took the feared battering while shrimps trailed closely. Agony of female unemployment looming large indicating turbulence in social fabric.*
- *Export earnings fell alarmingly short of target during the last half of the year, corresponding to first half of the fiscal; contraction being 11% and a new experience in history.*
- *Tails were up with depletion of and precarious fluctuations in foreign exchange reserves grasping at the billion-dollar mark. Remittance incentives and quinine of import restriction served as temporary respite while devaluation possibilities appeared real in the backdrop of 5.5% loss of value during the year, high on heels of 6% in year before.*
- *Continued devaluation of the local currency without impact assessment, electoral expenses of candidates, unabated government borrowing and churning of unaccounted spending in an electioneering year coupled with revenue shortfall and yawning external balance exacerbated inflationary expectations.*
- *In a silver lining amidst the gloom and doom, the toiling farmers continued to comfort the nation with bumper harvest, a perennial ritual for past four years, that contained inflation despite high growth in money supply and soaring budget deficit, highlighting once again that Bangladesh after all essentially remain an agrarian economy.*
- *Risk free rates on savings and debt instruments lowered at the last quarter to cheapen industrial credit and reduce government debt servicing liabilities, rekindling hopes of positive impact on the capital market and development of a viable bond market as the first credit rating company of the country saw the light of the day ending years of hankering.*
- *Declining FDI for consecutive three years did not augur well with the open arm policy and incentive packages.*
- *The hunchback of non-performing assets on the banking sector got trimming under stringent central bank supervision and few bailed out of the problem list, but the sector continues to remain in intensive care with resultant fall out of excessive liquidity amounting about Tk 40b.*
- *Unrelenting losses of the SOEs continued unabated as privatization priorities went in apparent hibernation.*
- *Pervasive corruption and opaque procurement procedures hang as the Damocles' sword devouring 2% of GDP.*
- *Debate on pipeline gas export to India took a front seat exposing vagaries of a classical catch 22 situation on the demand and production in the Oil & Gas Sector.*
- *Mobile telephone connection of private operators crossed the fixed line connection numbers of the state-owned operator during the year.*
- *IPOs were dry and limping but some got warm ovation of multiple over-subscription, an indication of latent demand.*
- *Sancho Panzas were visibly active as the capital market remained clueless in diagnosis of the ailments and the SEC, with its' enigma of being a cowboy or a shepherd, was zealous on legal issues when policy and operational ground realities took a back seat as the index slid 11.32 points or 1.76% in real terms during the past 12 months.*
- *In a silver lightening Bangladesh is seen as Asia's second fastest growing economy at 6% by the UK based The Economist, marching behind the giant China.*

Ripples in continuity and shifts in approach

- Major political shoveling; electorate's massive thumbs down to obdurate misrule, pervasive corruption, patronization of Mafioso culture and cronyism.
- Austerity plan to cope with inauspicious global recession; ADP slashed to forestall crisis and nonessential import restriction to jack up reserve position.
- Multilateral donors step in with assurance of support to wade off the impending external balance crisis.
- Continuation of government borrowing at unchanged pace albeit with pronounced realization of the pitfalls.
- Welcome reiteration of continued open market policy.
- Prioritized privatization; a rejuvenated Commission at work.
- Efforts for quota-free access of RMG to US geared up and search of new markets intensified.
- Environment concerns in the forefront through banning of polythene shopping bags and old vehicles and clearing of the waterbodies in and around the capital city. Dwellers applause, transport sector gets a boost and ailing jute goods sector hopes some resurgence.
- Ministries for Expatriate Welfare and another for Freedom Fighter's Welfare and an independent Division for RMG created fulfilling election commitment.
- Wielding stick policy to improve corporate governance and operational profitability of listed companies as well as

rigorous measures to reign in widespread misdemeanors and misadventure of participants in the capital market.

- Multiple corruption charges against former ministers and high officials of the immediate past government serving as cautionary signal that not all days are drenched in sunshine.
- Sizing up of partisan recalcitrant bureaucrats through massive transfers and retrenchment to instill discipline.
- Crack down on criminalism to arrest deteriorating law and order situation hindering commercial and social life.
- Ruling party MP lands in gallows on charge of extortion; a welcome relief that not all are a Don Quixote affair after all.

High hopes and cold waters

- Contagious political confrontations intensified against hopes of subsiding as vengeance and rejection continue to haze wisdom and sagacity.
- Capital market failed to pick up once again despite significant overcharging in legal and governance issues and national level political changeover.
- Central Depository remained a paper castle even after years of hullabaloo.
- Submarine cable to link with global information highway failed to be submerged jostling expectations.
- Nod in principle to pipeline gas export before assessing actual reserve condition and domestic demand ignites heated debate; the nation stands divided on major issues.
- Increase of utility tariffs by inefficient state-owned service providers to cover up operating & system loss and theft, as a ritualistic year-end parting gift, adds to cost of living and doing business by triggering inflationary pressures.
- Port remains congested with no visible movement on the proposed private container terminal, facing resistance from vested quarters across the political divide.
- Demon of deteriorating law and order situation appears to remain unmoved despite renewed efforts.

Of suspense, hopes and despair

The year 2001 was rather turbulent for Bangladesh, both in politics and the economic front, as it went through a political transition and faced hitherto unknown external challenges. As an electioneering year it was that of suspense, clamors sedating to changeover and seeing three governments reigning in a year. The incumbent Awami League (AL) ended its five-year tenure in July by handing over statecraft to an interim neutral caretaker government headed by the immediate retired Chief Justice, as per constitutional provisions, that arranged the 8th National Parliament Elections on 1st October. The election marked by sporadic violence in the led up experienced a magical serene environment that encouraged overwhelming turnout of female voters which saw a resounding two-third majority victory for the opposition Bangladesh Nationalist Party (BNP) led four-party right of center alliance.

Through placing the last national budget for the fiscal 2001-2 (July-June) before parting, the AL government ended its final act of fiscal governance at the backdrop of a 6% plus GDP growth during the passing fiscal. True to general expectations of spending spree in an election year, the no new tax budget with a size of Tk 447.65b (growth being 4.45%) set ambitious revenue targets (12.57% growth) and current expenditures (12.25% growth) while relying more on internal borrowings (Tk 89.17b) and unsubstantiated foreign loan and grants (Tk 102.22b) to finance a colossal Annual Development Plan (at Tk 190b with 8.57% growth) in which contribution from local resources dwindled to 48.70% only.

On top of it, the government at its fag end hastily executed and closed some high profile and big ticket deals, allegedly on political and partisan considerations, in the infrastructure and the power and energy sectors, most tinted with suspiciously costly suppliers credits that appeared dubious. Doling out of unaccounted funds and food grain stocks in the guise of development projects under opaque procedures, punching money supply and inflation raised eyebrows of economists.

In one of their first act in the backdrop of the September suicide terror and resultant global fallout, the caretaker government had to put a leash on projects financed under suppliers' credit and put on hold non-essential development programs and imports in a bid to arrest depleting foreign exchange reserves and shrinking revenue earning. High hopes of capital market resurgence during a period of relative calm got a jolt but they could just get away without resorting to devaluation of the currency.

In analyzing the national election debacle of the past ruling party, political connoisseurs while citing the mathematics of alliance vote bank also attributed the alarming law and order situation, patronage of terrorists, arrogance, corruption and cronyism, where as many as two dozen former ministers and top-notch candidates lost the race. Politically blessed bank defaulters and godfathers also suffered ignominious defeat, rekindling confidence on the collective maturity of the populace in exercising their newfound power. However, it brought some controversial politicians opposing the independence struggle close to the power orbit.

During the year a global recession brewed up that plunged both the industrially developed and emerging economies into a chasm of despair. The situation was later aggravated by the unprecedented terrorism in USA that led to a regional conflict in South Asia. Industrially developed nations in Europe and USA soon tasted a drastic fall in civil aviation, insurance, banking, shipping, and tourism industries. This led to a disastrous trade with poor economies like Bangladesh, which experienced an unnerving export fall. The crisis is now likely to shape the country's domestic development plan as well as costs of living at least for the months to come.

Predatory politics profanes power and pounds resources

During the year political volatility continued to dent economic progression. Almost all sectors, whether economic or social, succumbed to political interference to a growing extent. The immediate long run casualty is foreign direct investment (FDI). The question of gas exports and setting up of a private container terminal tapered to a non-consequential merry-go-round of political maze for consecutive years.

Power politics that profanes good governance also extracted dearly. A recent study showed that politicians, urban and rural elite, and civil servants devoured 27% of the total foreign aids received since 1972. Almost all development works fell to the whims of political cronyism and business subjected to an unnerving interference of politico-hooliganism. The nation had to wear the ignominious crown of the most corrupt nation labeled by the Transparency International. Another study claimed that pervasive corruption and opaque government procurement procedures digest about 2% of the annual GDP.

Reversal of the situation has become a challenge and a resolute commitment of the new government and it emphasized on austerity in a bleary future. In the ADP low-priority programs, for over Tk 10b including the prestigious Non-Aligned Movement (NAM) summit has been guillotined.

The government also emphasized on reining in the law and order situation and combating widespread corruption hindering investment and development. As a starter the former Prime Minister and six other ministers have been charged with graft in dozen-odd cases filed by the Bureau of Anti-Corruption (BAC), while investigations are proceeding on more. In reshaping the administration to instill discipline and professionalism, it has sent over hundred top civil servants to forced retirement and the police and civil service faced massive reshuffles. In a remarkable move a well-known ruling party Member of Parliament has been thrown in the gallows on charges of extortion, awakening some glimmer of hopes on the system.

However, public apprehension is yet to wither away in face of threats to communal harmony in the aftermath of the election and a 60-member cabinet, largest in the country's history estimated to cost around Tk 1.0b annually to maintain, is anything but belt tightening. There was no hot pie for the capital market either other than stirring the hornet's nest of 1996 scam cases in the first 100-day agenda. But hopes are alive that it would not end up as much ado about nothing.

ADP sized up as suppliers' credit throttled

Bangladesh ended the millenium in a positive note with average GDP growth during the on going plan period at over 5.5%, registering 6.06% in 2000-01 which set the tone of an over ambitious Annual Development Program (ADP) in a election year. The newly elected government however had to purge some 1,383 low-priority project to prune about Tk 10.83b in the face of global recession that exacerbated with the US suicide terror directly affecting premier exports as well as internal revenue short fall. Outlays on some 495 ongoing projects were also slashed.

The last three years of the immediate past government saw indomitable borrowing by the government to finance yawning budget deficit hovering around 8.5% of GDP as debt servicing raced to near 30% of the budget. The new government admitted the fallacy of bank borrowing but could not put a leash as yet.

Marked decline in the flow of grants and concessionary loans from multilateral agencies as well as alleged harvesting of personal pecuniary benefits tempted a large number of public enterprises to resort heavily on costly suppliers' credit that soared to over $1,523m in 2001 from a meager $ 192m in 1998. During the year the past government signed 12 major deals under suppliers' credit of about $600m with an interest costs of $100m. Questions of debt sustainability and impact on exchange reserve position was raised and amid precarious level of external balance coupled with huge costs in implementation of the economically non-viable projects, the new government sent most to the plans in deep freezer.

The World Bank (WB) though had a positive note on progress reporting poverty level drop from 47.9% in 1995-96 to 44.9% in 1998-99, it cautioned that budget deficit has risen at an average 2% of GDP in past 3 years, mainly owing to losses of SOEs at over Tk 30b. Government borrowing from domestic sources also increased by 2% of GDP during past 3 years, and is projected to grow up to 2.6% in 2002.

Revenue dips in trauma

Collection of revenue was healthy during the first half of the year as it achieved the July-June fiscal year target with ease when some Tk 188.08b was collected against Tk 151.22b of last period, with a growth of 24.37%. Around 53.4% of the collections were under import duty and 18.7% from income tax. The number of taxpayers in the country stood at 1,173,396 and registered VAT payers at 218,407.

The ambitious budget for fiscal 2001-02 proposed a target for mobilizing Tk 272.39b in tax and non-tax revenue and Tk 220.38b in expenditures. However, revenue earning fell short of target by Tk 2.37b, or 2.68% during the first half (Jul-Dec), but exceeded the last year's actual corresponding collection by 8.03% at Tk 86.25b against the target of Tk 88.63b.

Serious financial irregularities involving Tk 9.8b were detected in 36 annual audit reports of the public sector, covering a seven-year period (1993-2000) that identified embezzlement, wastage, noncompliance of financial rules and non-realization of applicable taxes causing hemorrhage to the economy.

Debt shoots so servicing leaps though rates sliced

Government borrowing continued unabated from banks and through savings instrument as gross borrowing stood at Tk 207.35b at the end of December 2001, up from Tk 176.77b at end June. The new government though acknowledged the straightjacket dilemma, resigned to the fate of continued borrowing for sometime but shifted more towards the central bank for concessionary rates. Even then, net borrowing from banking system alarmingly shoot up to Tk 30.57b during the last six months of the year, corresponding to first six month of the ongoing fiscal year, registering an increase of about 45%.

Net government borrowing from the national savings schemes continued to hive with its high yields and stood at Tk 13.27b at September 2001 up from Tk 10.97b the year before, with 22% growth. The new government sliced between 1.28% to 2% off the rates on varying instruments asking commercial banks to follow suit in their lending rates. Retirees and individuals whimper but corporate and capital market operators welcomed the move hoping affordable industrial credits, renewed investor interest in the stock market and facilitation of a bond market, while helping to reduce government debt servicing liabilities.

According to another estimate per capita borrowing stood roughly at $124 and the total outstanding foreign loan of the country at $16,658.95m. Bangladesh have so far received around $34.8b in foreign assistance of which grant allocation was $16.8b. The rest $18.0b are mostly concessionary loans. Present size of the foreign loan constitutes 35.6% of GDP, and debt service is about 14.5% of the total export earnings. Debt service to export ratio was 18.5% in 1990-91; up from 12% in 1980-81 but that dropped to 9.0% in less than a decade, thanks to the meteoric rise in export earnings.

Inflation still in tether

Inflation was largely contained at 1.7% till July of the year thanks to bumper crop harvest for three consecutive years. The Consumer Price Index for Dhaka city as measured by the private watchdog Consumers Association of Bangladesh (CAB) however registered increase during the second half of the year by 5.42%.

The national election, increasingly tending to be money-centric, contributed to inflationary impact on the economy as it spilled as much as Tk 15.0b in less than three months. Currency devaluation was one of the factors that squeezed consumers' purchasing capacity and cost of local production. Year 2002 is expected to experience more inflationary pressures as energy and utility prices was raised at the fag end of the year.

Export spins on recession trajectory

Exports during the first half of the year was encouraging that outpaced ambitious fiscal year target by 2.43%, marking a resounding growth of 12.43% at $6,467m from $5,752m in the past fiscal. Ready Made Garments (RMG) was the usual star performer contributing 52% and knitwear 23.13%, while frozen food made 5.62% and leather 3.93%.

The target for 2001-02 was envisioned at $7,500m with 11% growth but it already appears to be highly ambitious in face of dwindling orders in the aftermath of continued global recession and the September jolt. By the turn of the year, export contraction was by 10.92% at $2,459.86m during the July-November five months against $2,761.53 of last years corresponding period and 17.66% short of target, an unprecedented experience in the three-decades history of Bangladesh. Export volume and price index also went down by 8.82% and 2.10% during the period. Apart from agricultural produce (16% growth) all major export items recorded failure in achieving target as well as fell short of actual performance of past corresponding period. The breakdown is as under:

Export Item	Actual (M US$)	▼ % From Target	▼ % From Last Year
Ready Made Garment	1,287.41	16.49	10.38
Knitwear	594.97	16.00	5.23
Frozen Fish	136.85	15.78	29.43
Leather	86.42	27.98	7.43
Jute Goods	89.10	22.24	15.99
Chemical Products	33.28	27.38	-
Raw Jute	20.24	30.61	18.58
Tea	8.75	30.00	-
Dry Fish	1.70	-	67.92
Handicrafts	2.40	27.93	28.99

The vagaries of a narrow export base with single item and just two market dependence; RMG & Knitwear constituting 75% of exports of which US and EU importing 80%, now stay bare that certainly may not be cured with doses of currency devaluation only. By year-end some 1300 RMG factories were forced to close and over 0.20m workers lost their jobs, of which some 0.16m are women, a recipe of social disorder.

In another sure sign of impending socio-economic turbulence as a fallout of shrinking exports, shrimp also became a major victim of the meltdown facing over 25% price cut in the international market and some 50 culture firms and hatcheries have already been closed down, directly affecting 10m people engaged in the trade.

Smuggling and dumping of low quality Indian yarns plunged the spinning industry in disarray and SAARC cumulation system for duty concession of RMG at EU countries pushed it on the brink of the precipice. While RMG exporters find it a boon to prop up sagging export, local fabric manufacturers view it as a serious threat to growth of backward linkage industry in the textile sector. However, efforts are now on to gain duty and quota free assesses of RMG to US, similar to that enjoyed by Caribbean and Sub-Saharan countries under USTDA 2000. Initiatives have been taken to explore new markets at Japan and CIS countries and also diversifying the product base.

Import reined yet dwarfs export

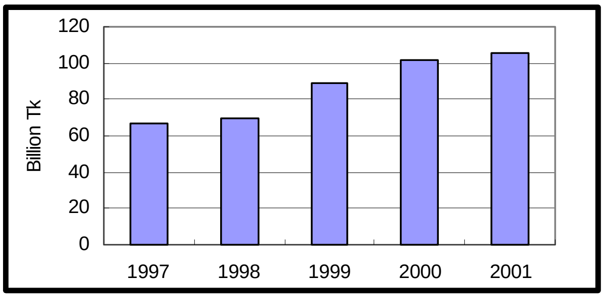
Growth in imports outpaced exports as usual. Import at $8,929.08m registered a growth by 15.5% during the last fiscal when, despite claims of food self-sufficiency, rice worth Tk 6.15b and wheat for Tk 6.15b was imported by the past government. However, belt tightening was effected by the new government in face of export shrinkage and precarious reserve position through hiked L/C margin on imports of 56 non-essential and luxury items, containing imports during the first quarter of fiscal 2001-02 by 5.37% to $2,120m compared to previous corresponding period.

Trade balance tilts to unyielding neighbor

Cross border trade with India, both formal and informal continued to soar shoving balance tilt on the latter. India enjoyed unhindered access to Bangladesh markets, while imposing various tariff and non-tariff barriers to stymie a reciprocal endeavor. Trade imbalance with India during past decade stands at $6.5b, with over $1b a year lately. Recently India resorted to a so-called anti-dumping measure against the fledging lead acid battery export from Bangladesh and continued refusal to grant duty free access to 25 items under South Asian Preferential Trade Agreement (SAFTA) as was agreed in principle years before. Even with traditional trading partner China the gap continued to widen.

Remittance brings respite

Remittance from Bangladeshi expatriates working abroad has been growing steadily since 1976 and it played a messiah role in meeting balance of payment priorities.

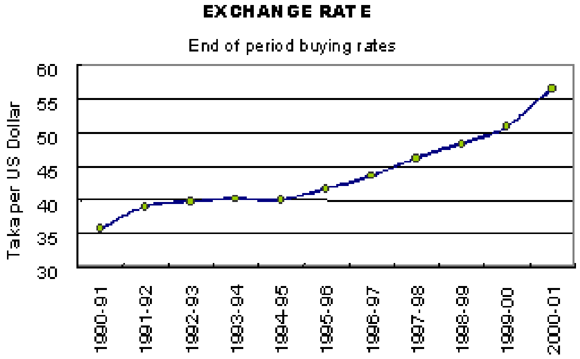


During the first five months of fiscal 2001-2 (July-November) such remittance was for $930.57 with 20.53% growth against $772.4m of last corresponding period. The healthy inflow helped ease pressure on foreign exchange reserve, though it is estimated that 40% of expatriate remittance still come through informal channels and are thus not accounted for. However, the number of permanent returnees has increased in recent years and net job losses have been recorded.

Devaluation munches buying capacity

During the year Taka faced a major devaluation that brought it at Tk 57.50 to the US Dollar. The value of Taka depreciated on a cumulative basis by 33.49% during the five-year reign of the past government since July 1996.

Importers and manufacturers were apprehensive of the measure, adversely impacting cost of production and living but exporters, especially RMG pressure groups, welcomed and begged for more However, it could not boost export volume in the long haul, as was apprehended by many.



The local foreign exchange market was characterized by active trading and higher demand. The inter-bank foreign exchange market experienced no major volatility but the informal market went through tailspin at occasions, under devaluation expectation and crack down on illegal remittance. The premium at the informal market was generally thin.

Exchange reserve erosion defies hard brake

Foreign exchange reserve hit nadir throughout the year, loitering between $1,005m to $1,420m. Big-ticket defense purchase, payments to private gas and power companies, high-interest suppliers' credits and dwindling exports gnawed the reserve.

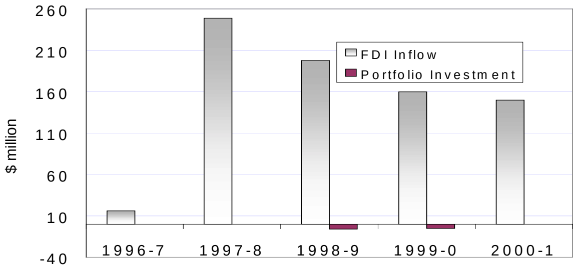
To keep the neck above water, payments to Asian Clearing Union (ACU) was deferred, certain imports made dear, incentive and facilities for inward remittance announced, crack-down measures on laundering and illegal channel flow initiated and lastly distress signal to IMF and other multilaterals were sent out. At the end of the year reserve was at $1,269.81m only, with overdue ACU payment for $306m.

Investment and assistance thins while confidence wanes

Both foreign and local investment remained subdued during the year under political unrest and policy indecisiveness. During the past fiscal year investment-GDP ratio stood at 18.0% against a target of 19.88%. The Export Processing Zones (EPZs) however continued to attract investments crossing the cumulative one billion-dollar mark (at $1.065b) and recording a cumulative total export of $4.82b since 1983-84. Some 163 different type of industries from 20 countries operates at the three EPZs.

But foreign direct investment (FDI) seemed to have eluded endeavors. Weak governance, lack of rule of law, corruption, political instability and violence, cumbersome procurement process, extortion, power brokering and cronyism smudge image that repels foreign investment. Recent trend shows a constant decline that substantiates the image crisis, as there was no dearth of policy and incentive supports. FDI was $190m in 1998, $179m in 1999, $170m in 2000 and below $150m in 2001.

Foreign assistance also continued to wane during the past few years. Till Feb 2001 only $733m was disbursed against commitment of $1,800m, that was even lower than the annual debt servicing liability at $767m. Disbursement in 2000-01 marked 28% decrease from last corresponding period mainly attributed to non-implementation of ongoing aided projects, failure to put up matching funds and lack of confidence of the agencies on proper utilization of fund.



Resurrected endeavor for bailout emerge

With the new government in office WB, IMF, ADB and other development partners pronouncedly resurrected approach towards collective efforts in development strategy.

Multiple high-powered delegations from WB and IMF made forays to explore avenues of intervention. Availability of funds from IMF's low-interest Poverty Reduction & Growth Facilities (PRGF) and the Standby BoP Support facilities for over a billion-dollar appears a real possibility as the new government initiated some reform and austerity measures in face of an inhospitable environment. Bangladesh's firm and clear stand on current international issues as well as visibly emerging as a model of moderate Muslim democracy sensitive to poverty alleviation and women empowerment had a salutary effect on perception.

The ADB, with support from AIMS of Bangladesh Limited, conducted a diagnostic study on the finance, industry & trade sectors and arranged a high profile workshop to deliberate the prioritized issues and recommended agenda of action. DFID of UK, the EU and other countries at bilateral level sent positive signals of technical and material support and assistance in withering the crisis and challenge Bangladesh now faces. The change of mood is quite apparent.

Spasm for privatization as SOEs gobble billions

Loss by the state-owned enterprises (SOEs) continued to soar, at around Tk 30.30b, roughly equivalent to Tk 123,000 per worker. Out of the total bank credits of Tk 47b to the SOEs Tk 13.83b is already defaulted. Identified losses add up to Tk 33.11b against Tk 21.97b last year. The highest loss of Tk 19.27b were by three commercial corporations, followed by a loss of Tk 9.25b by five utility institutions and Tk 5.25b by the industrial enterprises. Transport sector suffered most incurring loss of Tk 584.3m from a position of profit last year.

Privatization received top priority in the new government's agenda. The rejuvenated Privatization Commission (PC) identified 71 SOEs to be divested immediately. It has already privatized 24 at Tk 2.35b and sold shares of 14 others for Tk 1.79b during the last 8 years. Out of 228 SOEs under three sector corporations, 115 have been divested but bureaucratic maze and union resistance have been hampering handing over of 18 already sold-out SOEs.

The visiting WB Vice President opined that if SOE losses can be eliminated, Bangladesh would not require any assistance.

In a positive move the government has introduced cost audit for the public limited companies and the SOEs. Initially all sugar mills will implement the directive.

Energy occupy headlines

Gas and power issues continued to draw special attention of the government and politicians as well as multilateral agencies, trade bodies, IOCs, economists and the general public. During the past regime interest on oil and gas exploration possibilities thrived as 9 PSCs were signed with multinational giants, taking the total to 13. The deals culminated in a proposal of pipe-line export of gas to India, in face of low local demand though there are no such provisions in the PSCs. Apparently at the urging of USA, the new government, in a major policy shift, inclined to favor such exports that ignited fierce debate and fresh reserve appraisals. Local experts are rather largely skeptical arguing that the present recoverable reserve would end up by 2015, turning all usage plans topsy-turvy.

Gas is the only energy source for the country, now spending over $800m to import 3.35m ton petroleum products annually, while gas substitutes save 9m tons of oil equivalents valued at $1350m. Officially recognized estimate of recoverable reserve stands at 20 tcf that can run up to year 2025, as per usage plan of Petrobangla. Detractors argue that the proposed export might reduce the sustainability down to as early as 2020.

Power sector naturally remained a thorny issue as only 18% of the populace have access to electricity, while the sector is mired in inefficiency, system loss, dwindling quality of assets and dried investments. A World Bank study revealed that power shortage reduced industrial output by an estimated $1b and stagnating GDP growth by 0.5%. Private investments are allowed under BOO and few large IPPs have gone into operation with foreign investments. But with huge amount of defaulted bills and system loss, the state-owned Power Development Board is unable to pay the producers timely in foreign exchange.

It is estimated that the country will need an investment of around $6-9b in the next 5 years in the power sector to meet the projected demand for electricity. Energy ministry has forecast in next 5 years the country's demand would rise to 6,700mw from existing 3,000mw, taking an average annual growth of 14%. Of the total investment, generation segment will need 40%, transmission 40% and distribution, 20%. But multilateral agencies like the WB and ADB refuses to provide finance to this sector.

Troubled waters keep ships at bay

Seaports remained a pain costing international trade and local manufacturing as inefficiency, insecurity, theft, shutdown, congestion and other menacing handling & storage problems plagued the facilities severely. Gross inefficiencies at Chittagong port now cost the economy $600m a year or 12% of the budget, claimed FBCCI, the apex trade body, iterating that earning of the ports would increase by about 30% if the inefficiencies can be removed.

The Stevedore Services of America (SSA) has long been proposing to set up a private container port at Chittagong on BOO basis at a cost of $438m. But the offer is tangled in policy indecision, mired in allegation of noncompetitive and unsolicited contract awarding procedure as well as resistance from the labor unions across party divide.

Banking under trial and tribulations

During the year banking sector showed some signs of improvements in liability marketing and fund management as well as recovery drive. Deposits soared even after cut in interest rates. Commercial banks had idle money of over Tk 31.02b by the turn of the past fiscal. Excess liquidity, in spite of increased government borrowing from the system pushed the inter-bank lending rates, increasing cost of fund. The private commercial banks registered a marked growth in profitability. Some 27 banks made operating profit of Tk 12.66b, which however is likely to be much lower if provisions are made accordingly. Some banks could get out of the problem bank list, under strict central bank supervision, and declare cash and stock dividends after years. In reaction, the stock market elevated some bank stocks to blue chip status.

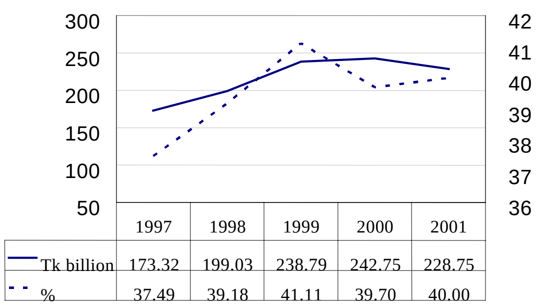
Three new private commercial banks, including one sponsored by BRAC the famed NGO, commenced operation during the year. A new local private bank drew attention by taking over the Bangladesh operation of NovaScotia of Canada and the Muslim Commercial Bank of Pakistan. However, new banks faced a precarious crisis of confidence, as deposit of government funds with them was restricted to 15% and banks operating for less than 5 years were barred from receiving government deposits.

The non-banking financial institutions (NBFIs) also expanded their business and one leasing and another infrastructure finance company started operations. The total number of NBFI reached 26, with capital in excess of Tk 6.5b and financing at Tk 15.0b in different sectors. The Statutory Liquidity Reserve (SLR) requirement of the NBFIs were slashed from 10% to 2.5% for those that do not receive public deposit and 5%, with 2.5% Cash Reserve Ratio (CRR), for those that does. The relief is expected to release additional investable fund of around Tk 2.5b and reduce cost of funds of leasing companies by 2 to 3%.

The total classified loans of the 49 banks and development financial institutions (DFIs) at mid-year amounted to Tk 228.75b that is 34.93% of the total loan portfolio at Tk 654.11b, ranking improvement from over 40% last year albeit with a more relaxed classification criteria introduced through amendment of the stringent law. Of this 95% or around Tk 217.0b are bad debts with faintest possibility of recovery and the rest 5% are sub-standard or doubtful. Thirty institutions had over Tk 46b provision shortfall, with NCBs accounting for Tk 37.7b. Outstanding amount in suspended interest against classified advances aggregated Tk 72.83b. As per a confidential Bangladesh Bank report, the state-owned banks had a capital deficit of Tk 9.24b in June 2001. With weakness in execution of Financial Loan Court verdicts and Bankruptcy Law as well as absence of a Foreclosure Law, the financial institutions were hampered in their efforts of recovery.

The new Finance Minister, who happens to be the longest serving veteran under different governments, after slashing risk free rates on government saving instruments pressurized the commercial banks to follow through with reduction in their lending rates. Bangladesh Bank also declared drastic cut in export credit rates to the RMG sector from 10% to 7%, coupled with 100% refinance facility for six months, in an urgent move to boost exports. Though banks reacted somewhat less enthusiastically to the call, citing high operating cost and burden of classified loans, the long run impact of the cut in boosting economic activities cannot be overemphasized. Lending by commercial banks to invest in government saving schemes were banned during the year. The Bank Rate was also reduced at 6% by the Central Bank with a full 100 basis point cut and a new Governor took charge by year-end.

Classified Loans



The bear still healthy in the lair

The stock market, frail as it is since the uproarious 1996-bubble burst, continued to hang a bearish face as before throughout 2001. New-year index of 642.68 closed at 631.35 on December 30, resulting in a loss of 11.32 points or 1.76% on traditional calculation method. It rebuffed popular expectations of invigoration in October, following change of the government that was not perceived as capital market friendly. It also failed to gather steam earlier after makeover to the caretaker government in July. There were a couple of intermittent hiccups that only deepened the despair. On November 22, a change in the index calculation method was instituted by SEC that saw the DSE index base popping up to 817.62 (the traditional being at 615.48). Under the calculation the general index closed at 829.61 on year-end with 1.54% growth during its five-week life, while another new weighted average share price index with same base ended the year at 817.78 with no apparent movement.

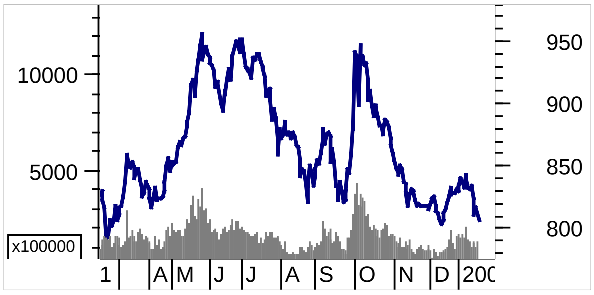
The Dhaka Stock Exchange (DSE) scorecard is as under:

Indicators	21-12-2000	30-12-2001	Change
Index	642.68	631.355	(1.76%)
Market capital (mTk)	61,262.18	63,527.82	3.70%
Market capital (m$)	1,084.29	1,176.42	8.50%
No of listed securities	241	250	9
No of listed companies	221	231	10
No of listed MF	10	10	0
No of listed debenture	10	9	(1)
Total issued cap (mTk)	31,192.00	32,494.16	4.17%
Total issued cap (m$)	577.63	575.12	(0.43%)

Both the regulator and the bourses toyed and experimented for a facelift of the market throughout the year, by new indices, categorization of stocks, shifting circuit-breaker limits, purging over-subscription with restriction on subscription list open time for IPOs, direct listing and attempted forced listings. But since nothing could inject life and vibrancy to the market, at the bottom-line it unfortunately remained a Sancho Panza affair.

Quite frustratingly, the capital market received scant attention from the past government as an alternative source of finance for industrialization. The fiscal budget for 2001-02 had a small piece of afterthought for the market, with increasing of tax exemption limit to Tk 100,000 from Tk 39,999 on dividend income from listed companies. Even the new government, belying expectations, appear to have sent capital market priorities to backburner. Dusting of the 1996 scam case skeletons was the only stock market related action that could squeeze a place in the first 100 day agenda of the new government; perceived only as a gallery show.

DSE General Index movement:



Some 11 IPOs were floated during 2001 involving Tk 572.2m but no right issue was made. The number of listed companies and securities at DSE stood at 231 and 250 respectively. In year 2000 there were 9 IPOs to raise Tk 587.7m and 2 right issues. However, a listed company distributed shares in specie of its subsidiary for the first time in history, after much wrangling with the SEC on legal interpretations of a notification on distributive declaration at the AGMs. Out of 221 companies (other than the newly listed ones), 182 held their annual general meetings, including some overdue ones, of which 113 (over 62%) declared 10% or more dividends.

The market still remains speculation driven and retail oriented and there was not any remarkable achievement that could be reported by the institutional fund managers. The industry leader state-owned Investment Corporation of Bangladesh (ICB) failed again to float any fund for the last consecutive five years. But as a beacon of hope, Grameen Mutual Fund One (GMFO) under management of AIMS of Bangladesh Limited and sponsored by the internationally acclaimed Grameen Bank received registration from SEC. It is now ready for floatation as the second mutual fund of the country under private initiative. AIMS First Guaranteed Mutual Fund (AFGMF), the fist and only privately managed listed mutual fund traversed its debut year of operation and lived up to expectations by declaring a 10% cash dividend as projected on the prospectus. However, the industry also got a jolt from the SEC, with sudden baring of IPO underwriting by AFGMF, drying out a source of income with no defendable benefit for the market.

In another positive development, the South Asian Federation of Exchanges (SAFE) decided in principle to float a US$100m SAFE mutual fund to facilitate cross-border trading and investment among stock markets of Bangladesh, Bhutan, India, Mauritius, Nepal, Pakistan and Sri Lanka. AIMS has offered technical and logistics support to the initiative.

The performance of the over two and a half dozen licensed Merchant Bankers were dismal as before, at the least. In general, the portfolio management activities lacked desired veracity in the backdrop of dwindling liquidity in the capital market. They were found more active in devouring preferential primary issue private placements, only to offload on debut and on the windfall from underwriting business that come by occasionally. In this backdrop SEC decided to allow the commercial banks to undertake merchant banking activities without forming subsidiary companies.

There was some progress in establishing the long-awaited Central Depository of Bangladesh (CDBL) as it received provisional registration from SEC and awarded contract to install necessary software. Although the initiative was mooted to complete the automation process in securities trading way back in 1997, various impedimenta including incompetence, resistance, disinterest and inertia compelled an inordinate delay that is still not beyond suspicion. The Credit Rating Information & Services (CRISL), country's first credit rating agency, also received nod from SEC after long 6 years of procrastination.

As per ADB prescription, ICB formed 3 separate subsidiaries to carry out merchant banking, asset management and stock-broking functions. However, since management of the existing mutual funds is contemplated to remain under the parent company, the efficacy of instilling efficiency is susceptible.

No corporate debenture or any other debt issue was listed during the year. An application from AIMS on floating of securitized debt instruments against micro-credit receivables of BRAC, the largest NGO in the world, awaited disposal from SEC for the better part of the year.

However, in an encouraging progression, the Credit, Bridge & Standby Facility (CBSF) at Bangladesh Bank under the World Bank financed Financial Institutions Development Program (FIDP) arranged, with cooperation from AIMS, an well-attended training course on asset securitization for the Non-Bank Financial Institutions (NBFIs). AIMS also extended support to Vanik Bangladesh Limited, a joint venture NBFI, in arranging a seminar on debt market. It is expected that all these well meaning endeavors will soon culminate in the development of a Fixed Income Securities (FIS) market in the country and complete the capital market paradigm.

High on regulation low on facilitation

The SEC visibly enjoyed policing and muscle flexing with new found rule making powers, not vested to any other Commission set up by the government. However, the reconstitution of the Commission with only full-time internal members, ostensibly under ADB prescription, apparently took away a shred of accountability and check and balance from the institution, as there were complaints at times from the trade bodies and intermediaries citing arbitrary actions. In fact throughout the year the SEC had a heyday in moving legal suits against a number of directors of the listed companies, brokers and merchant bankers to bring much needed discipline. Legal issues received preponderance over policy matters where propensity to dilute the dividing line between a wish list and legal framework got increasingly blurred.

In its continuing war, the SEC has reached a position to claim victory in successfully trenching acceptance of performance based stock classification and battle to weed out the menace of counterfeit share certificates. It also detected and nabbed hackers who intruded into main server of DSE, apparently for trawling sensitive data. Pinning down unscrupulous brokers for resorting to unlawful means and forcing AGM and dividend dodger companies to fall in line also received kudos. It took a hard line on listed companies for concealing material facts in prospectus or suppressing price-sensitive information.

However, going against liberalization policy of the consecutive governments, the manpower crisis ridden SEC re-imposed mandatory policy of prior approval to raise capital or to declare stock dividends by any public limited company, including non-listed ones, having paid-up capital of over Tk 10m and on top of it imposed a fee on the process. It also attempted to impose forced listing of all public limited companies having capital of Tk 50m or more but had to abort the initiative against threat of legal action by the trade bodies. SEC also had to abort another unrealistic proscription on subscription list of IPOs to close immediately on receipt of 100% subscription.

A new Market Maker Rule and amended version of Mutual Fund Rules with hefty charge schedule and deeply intruding in operational details also failed to allure institutions in testing the waters. But option for direct listing and establishment of OTC Market appears to be generating interest. Direct intervention of SEC in matters under the domain of the bourses, being self-regulatory organizations (SROs), like authority to deal with any malpractice by the brokers created frictions between the regulator and the exchanges.

Though in the final analysis efforts towards resurgence and development of the long ailing capital market of the country during the past half a decade is characterized by adhocism and scant piecemeal initiatives as against a comprehensive program, the seed of institutional and infrastructure reforms sowed should bear some fruit through proper nursing in the long run. But much is left required to be done when time is running out at a fast pace. The waiting game should not go on for long.

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