

## ECONOMIC OBSERVER REPORTS

### **MCCI suggests improvement in law and order, reform in capital market, power and energy sector development**

### **PM urges business leaders to up people's purchasing power**

Prime Minister Sheikh Hasina recently called upon the leaders of Metropolitan Chamber of Commerce and Industry (MCCI) to take initiatives for increasing purchasing capacity of the people for expanding local markets of their commodities.

"People of the country will not be able to buy commodities manufactured by the local industries if their purchasing power is not increased," she said when the newly elected office bearers and former presidents of MCCI met with her at the PM office in the city.

Led by MCCI President Maj. Gen (Rtd) Amjad Khan, the delegation included Barrister Rafiqul Haque, Rokeya Rahman, Latifur Rahman, Anjon Chowdhury, Laila Kabir and Barrister Nihat Kabir.

Prime Minister's Press Secretary Abul Kalam Azad briefed newsmen after the meeting.

During the meeting, the Prime Minister listed various development programmes undertaken by her government for people's empowerment and for their economic and democratic emancipation.

Referring to the recent local and the Jatiya Sangshad (JS) by-elections, Sheikh Hasina said holding of elections in such a free, fair and credible manner under a democratic government is unprecedented in the country's history.

She said the Awami League government has been able to bring dynamism to the national economy as it is working on the basis of its farsighted economic policy.

About the utilization of Chittagong and Mongla sea ports she said a proposal has been given to countries like China, India, Bhutan and Myanmar to use two important sea-ports to bring momentum to the regional trade and economy.

About the implementation of local development projects Sheikh Hasina stressed on public-private partnership (PPP) for comprehensive and sustainable uplift of the country.

The Prime Minister said in full understanding about the demands for Bangladeshi workers abroad her government has imparted training to make them fit through enhancing their professional skill and manner.

Referring to her government's decision to construct a new international air port in the country Sheikh Hasina said plans and policies are being taken, considering the need of the next one hundred years.

Sheikh Hasina mentioned her government's expanded programmes on gas exploration, procurement of gas sector equipment and exemption of import duty on health sector apparatus.

The MCCI, country's prestigious and elite trade body, said they could not imagine what would be the position of the country if Awami League had not come to power in the 2008 election.

"We can't imagine what would be the position of the country now if Awami League did not come to power," MCCI president Maj Gen (retd) Amjad Khan Chowdhury told Prime Minister Sheikh Hasina during a meeting at the Prime Minister's Office (PMO).

Lauding the leadership of Prime Minister Hasina, he said the present government has become successful in many areas.

MCCI made a number of suggestions, including those relating to improvement of law and order, reforms in the capital market and development of power and energy sector for the sake of the country's economic growth.

Its others suggestions included encouragement

to professionalism in bureaucracy, enhancement of regional development and connectivity, increase of agricultural production and ensuring efficiency in the Judiciary.

About law and order, the MCCI expressed its concern, noting that while it has improved but yet it is still not up to the expected level as crimes such as snatching, mugging and extortion are causing a concern to the community.

"MCCI feels that such situation may destroy the good image of your government as well as business-friendly atmosphere and hamper the export growth which is considered one of the key elements of the country's overall development," said the business body.

"Incidents like snatching and extortion have increased as organised groups are snatching away goods-laden covered vans and lorries from points on Dhaka- Chittagong Highway," the MCCI noted in its set of suggestions that were put forward to the Prime Minister.

Terming capital market 'the engine of growth' for an economy, the MCCI suggested that Bangladesh should really focus on improving corporate governance and developing advanced market products.

It, however, mentioned that the recent debacle had tarnished the image of the government to some extent as the similar incident had happened in 1996 too.

Proper investigation must be carried out and those responsible for the situation must be punished for the knowledge of the common investors and furthermore the defaulters must be also be dealt with," the MCCI observed.

The recent drop in the stock market index needed to be evaluated and analysed judiciously, it suggested.

Frequent changes of policies and non-professional handlings of the market situation by the regulators have created this havoc, it mentioned, adding the market regulations should be done more professionally.

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About power and energy sector, the MCCI said despite taking various measures by the government to enhance the energy and power supply, the lack of energy remains still a major hurdle to industrialisation of the country.

To help ease the prevailing power and energy crisis, the MCCI, however, put forwarded some suggestions including, among others, avoidance of gas-based power plants, as their conversion efficiency is low and also there are better uses for the gas.

It also suggested that the price of CNG should be raised to more realistic levels, but be kept lower than that of petrol/diesel, which would encourage savings.

The use of CNG in private motor vehicles should be phased out in the near future, it further suggested.

Terming the country's coal deposits 'considerable and invaluable, for power generation, the MCCI mentioned that the coal extraction should begin after resettlement of people and ensuring high environmental standards.

It also stressed the need for early finalisation of the draft coal policy.

Relying on imported coal for our power generation will make the country's energy security dependent on foreign supply and the cost will be prohibitive, it mentioned.

The MCCI also pleaded for allowing industries to import captive power equipment without any charges, as enjoyed by export-oriented industries only, along with exemption of license fees.

Fiscal incentives should be given to factories that generate their own power using fuel such as furnace oil or diesel, it suggested, adding power generation using domestic coal should be given priority.

The chamber called for effective efforts to reduce system and other technical losses must

be reduced so that the general consumers, particularly those in the industrial sector, do not have to bear the consequential effects of such losses.

For development of industries, infrastructure in the form of roads, ports, railways, airports are critical, the MCCI noted while suggesting for setting a clear timeline for execution of different stages of the Padma Bridge project.

The approach roads on both sides of the proposed bridge should also be taken up simultaneously, it suggested, adding that the Mongla Port has also to be developed, so that there is synergy from the projects.

About the efficiency of the judiciary, the MCCI said a section of judicial officers such as 'peshkars,' court clerks, officials, peons and others are virtually in total control of everyday proceedings of the court.

Pleading for reforms in the labour market, the MCCI suggested that necessary steps should be taken to address labour problems, while terming the same as a big hindrance to the country's industrialisation.

It also stressed on the need for development of manpower skill.

The MCCI furthermore suggested that the existing restrictions against capital account transfer to foreign countries should be relaxed. "It is absolutely essential for Bangladeshi business community to avail themselves of the opportunities in the international markets and also for promoting Bangladeshi products abroad", it added.

"Further relaxing the restrictions on foreign currency transfers in current accounts would play a significant role in improving our engagement as an IT outsourcing destination for the developed world," it said.

MCCI said the shipping charges from Bangladesh are the highest in the region. To carry a LCL (loose container load, which is about 28 cbm) from Chittagong to Jakarta costs 40 per cbm; the same container load from

Calcutta costs 30 dollar, and from Karachi costs 25 dollar, it pointed out.

The MCCI said the public private partnership (PPP) model, adopted in 2009-10 budget, has a high potential to draw substantial investments from local and foreign investors. It is, however, still in a preparatory stage, it noted.

About urban planning, the MCCI noted unplanned urbanisation is causing severe losses to the economy while stating that concentration in few cities, such as Dhaka, is harmful.

As long as there is a significant wage differential between the urban and rural areas, the migration to the urban areas cannot be controlled, it mentioned.

Factories should be moved out of urban areas, with appropriate incentives and infrastructure facilities, it suggested.

It also suggested that the Special Economic Zones should be made operative. Urban development organizations like RAJUK, Chittagong Development Authority etc., should be more effective in discharging their responsibilities.

About traffic congestion in Dhaka, it noted that the economic loss due to traffic jams is immense.

The cost of congestion in additional fuel is about Tk 11.65 billion every year, it mentioned, adding that similarly the direct income loss due to traffic congestion by bus operations every year is nearly Tk 141.19 billion and the same for the auto-rickshaw and CNG is about Tk 17.29 billion per annum.

**WB upbeat on economy : 6.3pc GDP growth predicted for next fiscal year; warnings ring out over low remittance, high inflation**

The World Bank has forecast higher economic growth for the next fiscal year in Bangladesh, but warned of low inward remittances and high inflation in the days to come.

About GDP (gross domestic product) growth in Bangladesh, the WB said the growth will be 6.1 percent in the current fiscal year and 6.3 percent next year, up from 5.8 percent last year.

Other South Asian countries such as India and Pakistan will slow down slightly compared to last year, but Nepal will see higher growth, it said.

“A major domestic challenge facing the policymakers in the region is bringing inflation back down to the low levels observed in the pre-boom period,” the WB said in its report, *Global Economic Prospects (GEP) 2011*.

It said inflationary pressures were up across most economies in the region last year. In part, rising inflationary pressures stem from recent firming in international fuel and food prices.

The report also said domestic drivers also contributed to higher prices, included elevated capacity utilisation rates, accommodative macro-policy stances and increased inflationary expectations following several years of rising inflation.

“The rise in prices in Bangladesh, Bhutan and Nepal also partly reflects spillover from India, a key trade partner, through higher imported prices,” the WB said.

On the fiscal expenditure side, risks are tied to sharply higher-than-projected international commodity prices, particularly for hydrocarbons and grains, given large regional fiscal subsidies for food, fuel and fertilisers, the report said.

The higher oil prices, in particular, would also lead to deterioration of current account positions for the energy-importing region.

Presenting risks to fiscal consolidation efforts, a long-standing challenge for the region, is raising fiscal revenue mobilisation, the WB said.

Improving tax administration and enforcement would help diminish pressures on fiscal coffers, it said.

On remittances, the report said, although the remittance inflow increased in the region, it has

been slowing down in Bangladesh due to a fall in the number of overseas jobholders.

The report said the world economy is moving from a post-crisis bounce-back phase of the recovery to slower but still solid growth this year and next, with developing countries contributing almost half of global growth.

Inflation is a global risk factor, according to the WB report. The current relatively high food prices are having a mixed impact. In many economies, dollar depreciation, improved local conditions, and rising prices for goods and services mean that the real price of food has not risen as much as the US dollar price of internationally traded food commodities, it said.

### **World Bank praises development efforts in Bangladesh**

World Bank Vice President for Sustainable Development Inger Andersen has lauded Bangladesh for its commitment to growth respecting social and environmental needs at the concluding day of her five-day visit.

“The people and government of Bangladesh have shown what can be achieved by working across sectors to pursue smart policies that respect and protect citizens and the environment they live in,” said Andersen.

During her stay, Andersen visited several World Bank financed projects focused on climate change, transport, disaster risk management and rural livelihoods, and studied the upcoming operations.

Andersen also met with Finance Minister AMA Muhith and senior government officials.

Over the course of the visit, Andersen toured the site of the proposed Padma multipurpose bridge, to be financed in part by the World Bank and being built to remove a major logistical roadblock to economic development in the southwest region.

Andersen also visited the south-western coast to witness the effects of climate change. She saw and spoke with beneficiaries of Bank-financed projects.

The World Bank plans to allocate an additional 1.2 billion dollar fund by 2015 to address the climate change and environment related issues in Bangladesh, she said.

The World Bank has an active portfolio of 500 million dollar addressing climate change and environment related issues in Bangladesh, the vice president added.

The World Bank official also visited Sundarbans, the largest estuary mangrove forest in the world, where the World Bank is supporting analytical work focusing on climate change adaptation, conservation, and alternative livelihoods for forest-dependant poor people.

The World Bank is working on the preparation of a regional wildlife conservation project in partnership with the governments of Bangladesh, Bhutan, India, Nepal, and other south and East Asian states.

"We must work together to protect the Sundarbans," said Andersen, "a treasure not just for those in Bangladesh or the region but for everyone in the world. I applaud the efforts underway by the people of Bangladesh and their government to preserve the Sundarbans."

### **Revised ADP for FY 2011 finalised**

The Planning Commission has finalised the revised annual development programme (RADP) of the current fiscal 2010-11 slashing it by Tk 30 billion in funds to Tk 355 billion.

Planning Commission officials said it has completed revision of the ADP to steer the development of the country's impoverished infrastructure and social sector.

"Now we will place it before the NEC (National Economic Council) for getting approval," a top planning commission official.

The next meeting of the government's highest economic policy making body NEC is expected to be held in the middle this month, he added.

The Planning Commission has cut the ambitious Tk 385 billion development budget

due to the failure of the government agencies to execute development schemes, especially the foreign-funded projects.

We have lessened the donor-supported project aid by Tk 30 billion from the total allocation of Tk 153 billion in the original ADP for the current financial year 2011, to be ended in June, the commission official said.

The project implementing organisations have spent only 18 per cent of Tk 153 billion project aid in the first half of the current fiscal, nine percentage points lower than the average ADP spending rate.

All the project executors implemented only 27 per cent of total Tk 385 billion original ADP during July-December period, when they spent 32 per cent of the Tk 232 billion domestic resources.

"The agencies have still been putting pressure on us to cut allocation of the project aid. On the other hand, they are seeking more funds from the domestic resources," another senior planning commission official said.

"We have not cut the Tk 232 billion allocations from the domestic resources as the agencies seek higher amount from this portion," he added.

"Despite the bleak project implementation performance, the agencies have sought abnormally higher domestic funds cutting their demand on project aid," the official said.

The part of the ADP outlay is financed from domestic resources, which is usually provided from the revenue income, and the rest of the money in the development budget from foreign loans and grants.

The official said since the agencies have already signed most of the loan deals with donors for receiving the funds to implement the earmarked projects, it will be an extra-burden for the fiscal management to repay loan without utilisation.

During July-December period this fiscal, the agencies have signed record 2.04 billion dollar

aid deals with donors including World Bank, Asian Development Bank, Japan and DFID, but only 818.54 million dollar have been disbursed against their project execution, he said.

The Planning Commission official said some agencies feel contented in spending money from domestic resources as those have comparatively less accountability than that of foreign funds, which attach strict terms and conditions.

"The higher domestic fund demands will not only put pressure on fiscal management, but throw the government in debt as it will have to go for more borrowing from banking sources to minimise the deficit financing," he said.

In the current Tk 1.32 trillion national budget, there is a huge deficit of Tk 393.23 billion, 5 per cent of the gross domestic product (GDP). The deficit will be tamed by Tk 156.43 billion from foreign sources, and Tk 236.8 billion from domestic sources, the Finance Ministry said.

### **EPZ export earnings rise 23 percent**

Earnings from eight export processing zones (EPZs) have marked a 23 per cent increase in the first seven months of the current financial year as investments continue to pour in to the zones due to political stability, officials said recently.

The EPZs have earned US Dollar 2.0 billion between July and January, up from 1.53 billion dollar during the same period last fiscal year, director of Bangladesh Export Processing Zones Authority (BEPZA) AZM Azizur Rahman said.

He said most of the 283 companies operating in the EPZs have ramped up production and recruited more workers to cope with increased orders from the western retailers.

"We think political stability in the last couple of years have prompted the companies to reinvest in their ventures. The overall power situation has also improved during the last few months," he said.

The eight EPZs built up from early 1980s, account for about 19 per cent of the country's

total export earnings. Their export growth, however, fell short of the country's overall 41 per cent shipment expansion during the period.

Chittagong Export Processing Zone (CEPZs) was the highest earner among the zones, aggregating Tk 52.0 billion (Tk 5200 crore) during July-December period of the current 2010-11 fiscal year.

Mr. Rahman said the BEPZA has unveiled a series of new programmes to attract investments in the country's EPZs although most of which are already filled up with foreign and local-owned factories.

He said quite a few plots are available in the Nilphamari, Ishwardi and Mongla EPZs. But many investors are not keen to set up industrial plants there due to an acute crisis of gas.

He added power situation in the EPZs has improved after the BEPZA set up several power plants in the zones and also made arrangement for alternative generators.

According to the latest count, the Chittagong EPZ has 140 industrial units, Dhaka 96, Comilla 18, Mongla 12, Uttara five, Adamzi five, Karnafuli four and Iswardi three units.

The BEPZA director expressed the hope export earnings would surpass the target of 3.0 billion dollar in the current fiscal.

BB won't allow indiscipline in financial sector, says governor  
Economists for strengthening its supervisory capacity

The country's leading economists suggested strengthening supervisory and monitoring capacity of the Bangladesh Bank (BB) to avert any financial crisis, saying that capital market needs to be reformed to check a bubble-like situation.

The observations came at a dialogue on growth, inflation and monetary policy: challenges for Bangladesh in FY2011, organised by the Centre

for Policy Dialogue (CPD), a private think tank, at CIRDAP auditorium in Dhaka recently.

They also said there is a need to remain constantly vigilant regarding the exchange rates' movement considering the ongoing global developments.

Chairman of the CPD Rehman Sobhan emphasised formulating Monetary Policy Statement by the BB's own capacity and without following any directive of any 'orthodox' international institution.

The productive sector in the country is heavily under-utilised, especially in the agricultural sector, he said, adding that the scope is huge for increasing production of the major and minor crops.

The CPD chairman observed that Bangladesh is facing inflationary situation because of the supply-driven phenomena.

Bangladesh Bank Governor Atiur Rahman warned the central bank would not allow indiscipline in the financial sector, saying that none would be allowed to manipulate and cause indiscipline.

"Undoubtedly, we are the owner of the monetary policy. The monetary policy is wholly domestic," the central bank chief said, while responding to the criticism of external influence on monetary policy formulation.

"...BB's monetary policy is not only curbing inflation, but is indeed it needs to be more focused on growth and structural change," Mr Rahman said while explaining the main objectives of the monetary policy.

He said that inclusive growth is now on the top of their agenda and expressed his intention to provide support to the productive sector.

Underscoring the need for long-term reforms in the capital market and real estate sector, the BB governor said that they are trying to stabilise these two sectors.

"We're now discussing with the Asian

Development Bank (ADB) to develop the country's bond market," the BB governor noted.

He also said the central bank is vigilant on asset price movements not only for stability of the real economy, but also for stemming the build-up of inflationary expectations.

"Monetary policy is a blunt tool in addressing more volatile food or fuel price inflation," the central bank chief noted.

Former finance adviser of the caretaker government Mirza Azizul Islam said that achieving gross domestic product (GDP) growth of 6.7 per cent would depend on agricultural growth.

He also expressed concern at the low remittance flow and aid flow, lack of new investments, inflation and depreciation of the exchange rate.

Former BB Governor Salehuddin Ahmed expressed concern over the bubble in stock market, saying that any financial crises are preceded by bubbles.

He also suggested the central bank to be more cautious on credit bubbles as well as allowing it to take independent decisions.

"The market is being corrected, it will be corrected further and it needs to be corrected. Intervention in this market will be counter productive. Let the market find its own value," Executive Director of the Policy Research Institute (PRI) Ahsan H Mansur said.

He also said the government should not distract by focusing there, rather it should focus on broader macroeconomic issues. "That market will not undermine the real economy too much and so let's not bother about it for too long and too much," he added.

Regarding foreign exchange market, the PRI executive said there is a tension in exchange market in the midst of export growth.

"If we can't contain or stabilise the market, we need to keep in mind that remittance will not

grow. The same happened in Pakistan. If the market is not stable, people will hold their money or buy assets abroad and will not remit money home. The sooner we stabilise the market the better it is," he added.

"...a prudent exchange rate management will be required to ensure competitiveness of export-oriented sectors without undermining consumer's welfare security," CPD Executive Director Mustafizur Rahman said while presenting the key-note paper at the dialogue.

The paper said the central bank has to play a more proactive role in managing foreign exchange reserve and decide as to how far it can use the foreign exchange reserve to keep the balance between the conflicting interests.

BB's targets for monetary aggregates have systematically failed to match with the actual outcomes, the CPD said, adding that other than credit to the government sector, all other monetary aggregates are likely to surpass the target set for the end of the current fiscal year.

"It was surprising to observe that the central bank did not to rationalise the growth target for the private sector credit flow in view of the growth till December 2010," it added.

About the liquidity situation in the market, Ahsan Mansur said mitigating liquidity expansion is one of the highest priorities. "It can't be a status quo. Private sector credit has expanded to 27 per cent and it is growing," he added.

"It denotes that there is excess demand in the system. If we allow the excess demand any longer, we'll be inviting bigger bubble somewhere else. Real estate is already falling, land prices are excessively high and inflation is worsening. This is the situation we've to take care of anyhow," the PRI executive noted.

Former special advisor of the international labour Organization (ILO) Rizwanul Islam has emphasised productive employment since unemployment and underemployment in the country have increased recently, 5.9 per cent and 28.7 per cent respectively.

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"Gross domestic product (GDP) growth should not be ultimate goal, rather it should be an intermediate goal and reducing poverty should be the ultimate goal for a developing country like Bangladesh," he said, adding that low inflation and stable economic situation are necessary for GDP growth, but not sufficient.

The central bank has kept broad money supply target unchanged at 15.2 per cent for FY11, which is higher considering the country's inflation and GDP growth, Deputy Governor of the BB Ziaul Hassan Siddiqui said.

"It's an accommodative monetary policy," Mr. Siddiqui said while mentioning the definitions between contractionary and neutral monetary policies.

He also ruled out the alleged blunder of enforcing cash reserve requirement (CRR) hike in a wrong time, saying that the central bank has increased the CRR aiming to curb inflationary pressure on the economy.

Investment should exceed savings in a country like Bangladesh, World Bank Lead Economist Sanjay Kathuria said, adding that more attention is needed for ensuring a transparent and regulatory environment for attracting foreign direct investments.

### **'Limited' scale wealth tax likely : Agricultural land to get exemption**

The National Board of Revenue (NBR) is in the process of introducing wealth tax on people having excess land and property.

Introduction of wealth tax for people having excess land and property will check the widening income inequality, the board chief said recently.

The NBR has proposed introduction of wealth tax in the draft of the direct tax act to ensure social justice, he said.

"A household expenditure survey has shown significant differences of earning in the country. It could be checked by imposing tax on excess

property," NBR Chairman Dr Nasiruddin Ahmed said.

There will however be a threshold to exclude people having a certain level of immovable property, he said.

"Initially, the wealth tax will be imposed on a limited scale on the people of major cities. Agricultural land will not come under the purview of wealth tax," he said.

The NBR chairman was speaking at a press briefing giving details of two draft laws on direct tax and Value Added Tax (VAT).

NBR Member Basir Uddin said: "We want to encourage investment in sectors where it is really necessary. Wealth tax will check excess purchase of land and house."

The NBR chairman said the board is discussing the wealth tax issues with members of Parliament to sensitise the latter.

"We have been discussing the matter in parliament since February 26 and the discussion will continue till tomorrow (February 28) to have opinions of MPs for introducing the wealth tax," he said.

The NBR will have a data bank from the holding tax collecting authority and other organisations to find out people having property beyond a certain limit, he said.

NBR First Secretary (income tax) Apurba Kanti Das elaborated the changes in the new draft of the direct tax law.

Barrister Jahangir Hossain, commissioner of large taxpayers unit (LTU) VAT, described major changes in the draft VAT law.

On the draft VAT law, all kinds of distorted systems like package VAT, tariff value and truncated base value have been eliminated.

The NBR has also proposed introduction of single registration system for a company having separate units in different areas replacing the existing geographical registration system.

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The company will have to maintain the same account book to enjoy the single VAT registration system, Jahangir said.

Other fundamental features of the draft VAT law include: transaction value taxation instead of price approval process, scope for getting refund of tax deducted at source, invoice system, withdrawal of restriction on import by enlisted firms under turnover tax.

The draft income tax law has proposed to introduce only 'tax year' to resolve confusion over income year and assessment year.

It has also kept a provision to check transfer pricing by multinational companies to refrain foreign firms from transferring money to their associates.

### **RMG export prospects may dim for production uncertainty**

The country's apparel makers expressed doubt whether they would be able to grab the prospects for export growth in foreign markets as there is uncertainty of production to meet the demand.

Former president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) Fazlul Haque said, "We will have huge opportunities to expand the market in near future across the globe."

"But there is a doubt whether we could increase production due to supply shortages of gas, power and lack of infrastructural development," he added.

Abdus Salam Murshedy, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA) said, "Due to the one-stage GSP facility for Bangladesh to export RMG products to European Union countries and two-stage GSP facility to export Bangladeshi products to Japan will help increase the growth rate soon."

"The earnings from apparel export will be US

Dollar 35 billion within next three years. And within the current fiscal year, earnings from garments export are poised to cross US Dollar 17 billion, driven by soaring shipment to existing markets and surging orders from new nations," he said.

Echoing the BGMEA president, former president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) Fazlul Haque said, "Our recent capacity of production is set to achieve around US Dollar 17 billion and the production has to become double within the next three years to meet the demand of market expansion in the globe."

"It is quite tough to meet the increasing demand as there is hardly any new apparel factories opened in the last few years. At the same time, road and transport congestion and nagging port facilities are disrupting the smooth transition of our products which affects cost," he added.

"A product-loaded truck needs around 16 to 20 hours to reach Chittagong Port through Dhaka-Chittagong Highway, Mr Haque said adding, "we might get some relief if the government completes the Padma Bridge and the development work of Mongla Port is done simultaneously.

"China is losing its market due to high labour cost and the buyers are searching for new markets, and Bangladesh is lucrative to them," said Selim Osman, president of BKMEA.

"If we get gas and electricity supply properly and continue our production then the growth rate of the sector will double," he added.

The BGMEA president said, "The sector has achieved 100 per cent export target in new but potentially large markets such as Japan, South Africa and the Middle Eastern countries."

He said RMG exports clocked an impressive 42 per cent growth in the first half of the current fiscal year, when it earned 8.0 billion dollar. Earnings in the second half are set to hit 9.0 billion dollar thanks to a spike in orders.

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The BGMEA president focused on the manpower development, 25 per cent of the total manpower being unskilled, to achieve the growth rate of local production.

Mr Murshedy said labour shortages have emerged as the main threat to the garment industry's growth as many factories are sitting with piles of orders from global retailers, but they don't have enough workers to execute them.

He urged the government to come forward to make the optimum use of the state-owned technical training centres, saying these institutes could churn out 200,000 skilled operators of knitting and weaving machines a year.

### **Power prices go up**

The Bangladesh Energy Regulatory Commission at a press briefing in its office on recently increased both the retail and bulk prices of electricity with effect from February 1.

The commission increased the retail price of electricity without any open meeting and public hearing.

Consumers will now need to pay to the power distribution agencies at a rate 5 per cent higher than the current price under an interim arrangement after the announcement of the increase in bulk rate of power.

The commission increased the average bulk rate of electricity at which the Power Development Board will sell electricity to five distribution agencies, including the power board itself. The increase by 11 per cent in the first phase will be effective from February and by 6.66 per cent in the second phase effective from August 1.

As a result, the bulk rate of electricity will increase by 18.14 per cent in a year. The power board will then sell electricity to the distribution agencies for Tk 2.8 a unit instead of the existing Tk 2.37 in force till January.

At the same time, the commission asked the government to give the power board Tk 1,500 crore in subsidy so that the board could break even.

The commission chair, Syed Yusuf Hossain, at the press briefing said that they had changed their recommendations for increasing bulk rate of electricity by 21.81 per cent with Tk 1000 crore being given to the board in subsidy at the advice of the government.

In reply to a question about the curtailment of the independence of the commission, commission member Salim Mahmud said that there were provisions for both the parties to make suggestions for each other in greater interest.

The commission, however, did not give any direct answer when it was asked whether it would recommend that the government should not go for expensive fuel oil-fired power plants for which the power board's revenue requirement will increase to Tk 9,308 crore in the 2010-11 financial year.

Yusuf said that the commission would set the retail price of electricity within a month on receiving the proposals from the power distribution agencies for the retail price of electricity.

He said that the commission had kept residential consumers using less than 100 units (Kilowatt-hour) each month, irrigation connections and connections to non-residential religious, social and educational institutions out of the purview of the retail power price increase.

He said that the commission also recommended that the government should keep additional fund in the budget for the Rural Electrification Board as 90 per cent of the irrigation pumps are run in the coverage area of the electrification board.

According to the new power tariff for retail consumers, residential consumers using between 101 and 400 units a month will need to pay Tk 3.47 a unit instead of the existing Tk 3.30 and consumers using more than 400 units a month will need to pay Tk 5.93 a unit instead

of the existing Tk 5.65.

In the flat rate, small industries will pay Tk 4.57 a unit instead of the present Tk 4.35, commercial and office consumers will pay Tk 5.86 a unit instead of the existing Tk 5.58, medium voltage (11kv) consumers will pay Tk 4.38 a unit instead of the existing Tk 4.17, high voltage (33kv) consumers will pay Tk 4.12 a unit instead of the existing Tk 3.92, and extra high voltage (132kv) consumers will pay Tk 3.26 a unit instead of the present Tk 3.10. For street lights, Tk 4.18 a unit will be paid instead of the existing Tk 3.98.

The commission instructed the power board to build 'electricity maintenance and development fund' of Tk 365 crore from the additional revenue that will be collected from power distribution agencies after the increase in the bulk rate in the first phase effective from February.

The commission last increased, in February 2008, the bulk rate of electricity by 16 per cent against a demand for an increase by 42 per cent by the power board and, in March 2010, the retail price of electricity by 6-7 per cent. With this move, both the bulk and retail rates of electricity have been increased three times in five years.

The power board has sought increase in the bulk rate as the buying and generation cost of electricity increased after expensive fuel oil-fired power plants had started supplying feeding power into the national grid.

The commission on November 3, 2010 accepted the proposal of the power board for increasing the bulk rate of electricity by 110 per cent in three years. The power board proposed to increase the bulk price of electricity in six phases to reduce the pressure of price increase.

The commission at an open meeting on January 5 took cognisance of the PDB proposal for increasing the bulk rate of electricity.

The commission's expert committee at a public hearing on January 19 proposed that the government should give the power board Tk 1,000 crore in subsidy instead of the Tk 600

crore which it now receives — or alternatively provide an interest-free loan each year, along with a 21.09 per cent increase in the bulk rate of electricity to make the board breakeven.

### **Arab world unrest to affect manpower export**

The ongoing unrest in the Middle East and African countries is likely to affect Bangladesh's manpower export, the stakeholders said.

Expatriates' welfare and overseas employment secretary Zafar Ahmed Khan said that any 'turmoil' in the receiving countries, whether on political or economic issue, might affect Bangladesh's manpower export.

He said, 'We called up all labour attachés to train them in Dhaka but will

send back the Libyan

labour attaché as there is political turmoil there.'

Violent street protests have been raging on against the governments and rulers in Iran, Yemen, Libya, Bahrain, Iraq, and Jordan in the wake of ouster of Egyptian president Hosni Mubarak and Tunisian president Zine El Abidine Ben Ali.

Iraqi people recently staged demonstrations in demand of jobs. Only two Bangladeshi workers went to Iraq in January 2011 against around 2,288 workers in 2010, according to the expatriates' welfare and overseas employment ministry.

Libya hired 12,132 workers from Bangladesh in 2010 but is yet to hire a single worker this year.

The governments in the receiving countries will have to address their public problems, including unemployment, before going for development work and that must affect the hiring of foreign workers this time, Centre for Policy Dialogue senior research fellow Khandaker Golam Moazzem said.

He, however, suggested that the stakeholders should reduce the migration cost as many

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migrants switch jobs and overstay in the receiving countries to recover the money they had spent due to high migration cost and low wages.

Syeda Rozana Rashid, an international relations teacher at Dhaka University who also conducts research in labour migration, emphasised timely diplomatic efforts to promote the country's economic interests by approaching the leaders of the existing and potential receiving countries to address the issue.

'But what may become a cause for concern for us is the employment situation. Any slump in manpower export today will further worsen the unemployment situation in the country,' she said.

According to the expatriates' welfare and overseas employment ministry data, as of January, 25,81,171 Bangladeshi nationals are working in Saudi Arabia, 18,06,601 in United Arab Emirates, 47,962 in Kuwait, 4,07,538 in Oman, 2,14,959 in Bahrain, 49,402 in Lebanon, 27,542 in Jordan, 95,194 in Libya, 7,803 in Sudan, 10,638 in Egypt, and 2,702 in Iraq.

Bangladesh received about 11,004 million dollar in remittances in 2010 against 10,717 million dollar received in 2009 and 8,979 million dollar in 2008, according to the Bangladesh Bank.

### **IMF chief urges global monetary reform**

IMF chief Dominique Strauss-Kahn recently said the currencies of China and other emerging economies should play a greater role in global finance, as part of a bid to promote monetary stability.

Strauss-Kahn, the managing director of the 187-nation International Monetary Fund, backed the inclusion of the yuan in a basket of currencies that makes up the IMF's Special Drawing Rights, a type of reserve currency.

Strauss-Kahn also advocated an expanded role for the SDR to help to bolster the monetary

system in the face of damaging volatility.

Noting the only way the world survived the 2008 financial crisis was through extraordinary international policy cooperation, he warned: "Global imbalances are back."

Issues that were worrisome before the crisis - large and volatile capital flows, exchange rate pressures, rapidly growing excess reserves - were "on the front burner once again," the managing director said at an IMF panel discussion on international monetary reform.

If the problems were left unresolved, they "could even sow the seeds of the next crisis," he warned. Such reform would help address the root of those global imbalances and bolster the system's ability to prevent future crises.

"When we worry about the deficiencies of the international monetary system, we are mostly worrying about volatility: a sense that money sometimes flows around the globe in too volatile a fashion, and that countries need a more stable, more predictable external environment in order to prosper," the former French Socialist finance minister said.

Strauss-Kahn recalled that the IMF has been working to limit that volatility through several approaches: by strengthening coordination of economic and monetary policy, stepping up surveillance of capital flows and improving its financial safety net for member nations in need.

Under a mandate from the Group of 20 developed and emerging economies, representing about 90 percent of global output, the IMF has launched a mutual assessment process that takes into account the global effect of country-level policies.

France, which holds the rotating G20 presidency this year, has put currency reform at the top of its agenda. Strauss-Kahn's remarks were his clearest yet showing an alignment with the remedies proposed by French President Nicolas Sarkozy.

As part of a reform toolkit, Strauss-Kahn suggested a central role for Special Drawing Rights.

"Over time, there may also be a role for the SDR to contribute to a more stable international monetary system," he said.

A key move would be expanding the SDR basket, which currently includes four major currencies: the dollar, euro, yen and pound.

"Adding emerging market currencies - such as the renminbi - could help the process of internationalization of these currencies, which would benefit the system as a whole," he said, referring to the official name of the Chinese yuan.

SDRs were created in 1969 to serve as an international reserve asset alongside gold and the dollar. But they have never been a major player in the global system. Under current SDR criteria, a currency must be freely usable.

The United States, the biggest IMF stakeholder, cautiously welcomed the proposal, but a senior official said the yuan's status would depend on whether Beijing allows the currency to trade freely.

