



August – September - October 2008

## **EFFECTS OF GLOBAL FINANCIAL CRISIS ON BANGLADESH ECONOMY**

BD shows a similar reaction to the global financial crisis as most developing countries. The direct effects on the financial sector seem to be minimal as a result of limited connectivity to the global financial system. Concerning the indirect effects, it seems too early to draw firm conclusions. However, a drop in export, FDI, ODA, and remittances are being feared.

Exporters fear fallout from the global financial turbulence on the local garment industry as the major export destinations are hit hard by the economic turmoil.

More than 72% (USD 3.50 billion) of the total export earning from knitwear comes from European countries and more than 20% (USD 8.5 million) from the USA. Other major destination for knitwear products are Canada and Japan.

The Bangladesh Knitwear Manufacturers and Exporters Association have urged the government to increase cash incentives to safeguard the rubble-torn RMG sector, which contributes 76% to the total export.

The Bangladesh Bank (BB) urged exporters, mainly the ready made garments sector, to cautiously receive orders from new buyers since the latter risks turning bankrupt due to the present global financial crisis.

BB also advised all financial sector regulatory bodies to be more vigilant in the

present global context, so that the local financial sector does not suffer.

Commercial banks have transferred most part of their foreign currency holdings from overseas banks to the BB for avoiding possible risks.

Local commercial banks had around USD 500 million in NOSTRO accounts with the foreign banks operating outside Bangladesh. These banks are now keeping their foreign currencies with the BB's clearing accounts.

## **BANGLADESH DECLINES IN WB DONING BUSINESS REPORT**

Bangladesh fell six steps to the 110<sup>th</sup> position among 118 countries in ease of doing business according to the Doing Business Report 2009, published jointly by the World Bank and IFC. In 2007, Bangladesh ranked 104<sup>th</sup> and in 2006 Bangladesh ranked 88<sup>th</sup>.

According to the survey, Bangladesh is the fourth easiest country in south Asia for doing business. The Maldives, Pakistan, and Sri Lanka precede Bangladesh. Nepal, India, Bhutan, and Afghanistan show lower scores.

Bangladesh did reduce the time for registering property and simplified procedures to start-up business.



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## **CONTINUED GROWTH IN BANGLADESH PUTS PRESSURE ON CERTAIN KEY RESOURCES**

The Second Investment Climate Assessment (ICA) of the World Bank states that continued growth in Bangladesh has put a pressure on key resources for private sector development such as electricity, finance, land, and skilled labor.

Especially SME's are constrained by the poor allocation of resources, which hampers their potential for productivity gains, employment generation, and poverty reduction.

## **TRADE DEFICIT RISES BY 65% TO USD 6.3 BILLION**

The foreign trade deficit in FY2007-08 amounted USD 6.26 billion, which is nearly USD 2.5 billion more than in the previous fiscal year.

The 65% rise in the trade deficit was mainly caused by a robust rise of commodity prices. Increased export earnings failed to balance the higher trade deficit.

## **BANGLADESH RANKS 10<sup>TH</sup> IN CPI REPORT'08**

Bangladesh ranks the 10<sup>th</sup> position from below in the Corruption Perception Index (CPI) 2008 of Transparency International (TI).

The Berlin-based global graft watchdog said Bangladesh's ranking rose three places from last year's seventh, due largely to worsening grades that other countries have received in its ranking.

In the latest TI score-sheet Bangladesh received 2.1 points. Last year Bangladesh scored 2 points. The report indentified three main factors for the country's poor score – absence of administrative reforms, influence on the judiciary, and insecurity and uncertainty in the business environment.

## **FDI INFLOW WANES – 16% DROP IN 2007**

The World Investment Report 2008 reveals that the inflow of foreign direct investment (FDI) in Bangladesh fell by 16% in 2007 compared to the previous year despite an 18% rise in FDI inflow in Asia. Total FDI in Bangladesh in 2007 was USD 666 million of which USD 102 million was invested in the textile sector, USD 89 million in the telecom sector, and USD 71 million in the gas sector.

Political uncertainty, indecision over some big proposals, and infrastructure constraints are considered to be the major reasons for the FDI fall.

## **LOCAL INVESTMENT PLANS SPIKE**

Domestic investment proposals in terms of numbers and volume, are set to surpass all records this year, even though foreign investment has witnessed a broad decline.

1055 domestic investment proposals worth USD 1.63 billion have been registered with the BoI in the first nine months of 2008. Domestic investments were in textile, services, chemical, ceramics, light engineering, food, pharmaceuticals, and leather and tannery.



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This trend shows that local businesses have regained their confidence that they had lost initially due to the political crisis. The interim government formed the Bangladesh Better Business Forum and the Regulatory Reforms Commission improve the business environment.

## **LOCAL FIRMS TO SHELL OUT EURO 52.5 MILLION ON SHIPBUILDING**

Six Bangladeshi business groups will invest over EUR 52.5 million in a year to establish shipbuilding facilities across the country, sensing high export potential of the industry.

The business houses with expertise in real estate, steel sector and engineering works have already formed separate firms and acquired land for their shipbuilding projects. The groups are Rangs Properties Ltd, PHP, Meghna, Khan Brothers, Bengal Electric Ltd and Nitol-Niloy.

Bangladesh came under the spotlight in April 2007 when two German companies decided to build 8 ships in Bangladesh to be delivered by 2010. Moreover, local firms have already bagged exports orders worth nearly USD 500 million since last years.

## **EUROPEAN BUSINESS DELEGATION VISITED BANGLADESH**

A 12-member European business delegation visited Bangladesh late October 2008 to weigh up investment prospects.

The UK-based European Bangladesh Federation of Commerce and Industry (EBFCI) arranged the nine-day visit of the

delegation and meet with members of Bangladesh business community, policy makers and European diplomats stationed in Dhaka to better understand the country's regulatory framework and explore trade and commerce between European Union and Bangladesh.

Formed earlier this year, the EBFCI took steps towards making an EBF chambers in six European countries – UK, Netherlands, Germany, France, Italy and Greece.

## **USA READY TO SEAL TIFA WITH BANGLADESH**

The USA has agreed to sign the Trade and Investment Framework Agreement with Bangladesh now that Bangladesh ratified the UN Convention Against Corruption. Ratification has been a condition for signing the TIFA for the past three years.

The TIFA will cover removal of non-tariff barriers, implementation of intellectual property rights, promotion of trade and private investment, improvement of workers rights, and pursuing WTO talks on the basis of the Doha Development Agenda.

## **USD 1.5 BILLION INVESTMENT IN BASIC STEEL SECTOR PLANNED**

Local industrial conglomerates are preparing a USD 1.5 billion investment in the basic steel sector now that the Indian Tata Group's retrieved its USD 3 billion investment plan. The conglomerates are S Alam Cold Rolled Steel, Abul Khair Steel Products, PHP Groups, Jamuna Group,



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KDS Group and Mehna Group of Industries.

Moreover, a consortium of four steel companies is conducting a feasibility study to set up the first hot-rolled steel plant in Bangladesh, in collaboration with the Indian Essar group. A MoU was signed with the Essar Group in February, the plant should start operations in 2010.

### **SWEATER EXPORTS MARK RAPID RISE**

Many RMG factory owners have enhanced their capacity, or opened up new factories to cope with the growing demand for sweater items from foreign buyers.

Sweater item exports are increasing rapidly as Bangladesh has become a more lucrative destination for these labour intensive items because of the appreciation of the Chinese currency and an increase in workers wages in competing countries.

The Export Promotion Bureau data shows that sweater export was USD1.24 billion in FY2006-07 and this year constitutes USD 1.47 billion.

### **ESKAYEF OBTAINS UK MHRA CERTIFICATION**

Eskayef Bangladesh Ltd., one of the leading manufacturers and exporters of pharmaceutical products, has won accreditation from the UK medicines and Healthcare Products Regulatory Agency (MHRA). The accreditation will allow Eskayef export tablets, capsules and granules to UK and other European countries.

Eskayef is the third company to obtain the MHRA certificate after Square Pharma and Reneta. It exports pharmaceutical products to around 15 countries across four continents.

### **BANGLADESH ENTER IN LATIN AMERICAN PHARMA MARKET**

Beximco Pharmaceuticals Ltd. (BPL), another leading pharmaceutical manufacturer and exporter of Bangladesh, has commenced exports to Chile. With this, BPL has become the first Bangladeshi company to enter the Latin American market.

BPL manufactures and sells generic pharmaceuticals formulation products, APIs and intravenous fluids. It also undertakes contract manufacturing for multinational pharmaceutical companies.

### **THREE FIRMS CLINCH LICENCES TO OPERATE WIMAX**

BanglaLion Communication, BRAC BD Mail Network Ltd., and Augere Wireless Broadband BD Ltd. have won the WiMax licenses. Hong Kong and UK based companies have stakes in these companies.

WiMax (Worldwide Interoperability for Microwave Access) is a wireless digital communication system that can provide broadband wireless access. This technology is expected to boost the current internet infrastructure in Bangladesh.