Yearly Economic & Market Roundup 2000

January 6, 2001

- *Economy showing sign of pick-up from the slowdown of 1999 with higher growth in export and revenue collection. However…..*
- *Worrying depletion of forex reserves and frequent devaluation of Taka reflect increased risk of macroeconomic instability.*
- *Rich paddy harvest for consecutive three years kept inflation at a low level despite high growth of money supply and spiraling budget deficit of the government, poising a question mark on sustainability.*
- *High interest rates, exacerbated by heavy borrowing of the government, dented private investment expectations reflected in the soaring idle funds in the banking system, though the trend is receding.*
- *FDI inflow declined mainly due to drying out of foreign investors' interest in the gas sector.*
- *Bad loans of the banking system continued mounting and fresh disbursements tightened.*
- *Multilateral donors hinted possible aid squeeze unless reforms expedited.*
- *In the primary market, number of IPOs is still low compared to the market demand.*
- *EU rule of origin for RMG export, allowing cumulative value addition within SAARC region, to receive preferential facilities, gloomed prospects for the textile industry.*
- *Government bowed to US pressure for allowing Trade Unions (TUs) in the EPZs as resistance to setting up a private container terminal by Stevedore Services of America (SSA) continues.*
- *Port congestion and disruption continues to hurt business without any breakthrough on sight.*
- *Law and order and security situation remained non-conducive to business. But …..*
- *The stock market appeared to have gained some strength by penetrating the technical resistance level of the painful hangover from 1996 boom and burst.*
- *Corporate profitability appears to have improved from the post-flood difficulties of 1998 and 1999 as reflected in dividend declarations in the later half of the year.*

Economic indicators improved albeit with higher risks

Economic indicators showed improvement as per the statistics presented by the Finance Minister. Especially, in revenue earning, a remarkable 21.62% growth for an amount of Tk 66.45 billion has been realized during the first five months of the current fiscal year (July-November 2000). Exports also registered a significant growth of 27% during the period with a receipt of $2.2 billion. A GDP growth of 5.5% was achieved in 1999-2000, up from 4.88% of the previous year, attributed to rich paddy harvest with 11% growth. Industrial growth was estimated at 5.5% in the first 7 months of that year against 2.3% in the corresponding period of the previous year.

Government continued with expansionary monetary and fiscal policy with spiraling budget deficit and borrowing from the banking system. The last budget proposed borrowing from the internal sources to the tune of Tk 92.40 billion in addition to foreign loans and grants for Tk 94.21 billion. The Finance Minister claimed that expansionary policies had no impact on inflation, as it was low throughout the year as point-to-point inflation ranged between 3-4% during the period.

However, the World Bank observed that the country bears the risk of macro-economic instability in case of a crop failure or a setback in exports due to a natural calamity or political disruption. A recent WB update on Bangladesh economy mentioned that the government has chosen to take additional risks to overcome short-term problems. There is no room for content because of the current low inflation rate as there is a substantial lag of about 9 months between monetary growth and inflation in Bangladesh. "It is therefore premature to conclude that FY 1999-2000 monetary expansion will not prove to be inflationary,' the report said. We also view that the rich paddy harvest for consecutive three years and poor investment demand from the private sector has kept the inflation low, but the situation can turn difficult abruptly, given that Bangladesh is prone to vagaries of nature.

Another source of risk is the uncomfortable level of forex reserves that dripped to less than 2 months import bill even though there was less pressure on account of food grain import and contingencies due to good harvest. Large scale over-invoicing of import and under-invoicing of exports, payments of smuggled goods, defense purchases and increased use of costly suppliers' credit is attributed to the situation, aggravated by payments to foreign gas and power operators. The Central Bank decided to enhance LC margin to restrict imports as a containment measure and the government reportedly sought a foreign exchange bailout from International Monetary Fund (IMF). However, the multilateral donor has reportedly indicated imposition of their stringent conditions.

However, there is no denial that the economy made a natural recovery from post flood slow-down of 1999 except that the growth figures are high partly because of low bases in the previous year. The improvement in economic performance has also been reflected in the stock market indices. DSE All Share Price Index gained by 32% in 2000 from a record low.

ASSET & INVESTMENT MANAGEMENT SERVICES OF BANGLADESH LIMITED
Chandrashila SuvastuTower (5th floor), 69/1 Panthopath, Dhaka 1205, Bangladesh
Tel : (+88-02) 862 1821-3; Fax : (+88-02) 862 1109; e-mail : aims@aims-bangladesh.com; web: www.aims-bangladesh.com

Taka devaluation may backfire

Bangladesh Bank has made a 6% devaluation of Taka in August this year to restore the declining forex reserve. The measure reflects poor foreign currency management in the past that forced the government to resort to such frequent short-term measures.

We attribute the following reasons behind the government's compulsion in devaluation:

- Low forex reserve that placed the country at risk of serious import constraint if the exports and remittances are in trouble.
- Default in foreign currency payment to international gas and power companies.
- Pressure from exporters especially, Bangladesh Garments Manufacturers and Exporters Association (BGMEA).
- Devaluation of currencies of our export competitors mainly India and Pakistan.

Though negative impact of Taka devaluation was not pronounced, we think there is a substantial risk of high inflation. As Bangladesh is a net importer, the resultant effect of Taka devaluation will be higher payments for the goods for consumption and investment, which exerts pressure on inflation. A record growth of money supply and increasing expenditure by the government is abetting for the worse.

A significant portion of revenue of the government is earned from import duties, which, we fear, will be hampered due to discouraging impact on import due to Taka devaluation. This in turn is likely to force the government to continue with the current heavy borrowing policy from the banking system and general public. The result is less and costly fund available to the private sector for investment. The last budget proposed a reduction of interest on government savings instruments, but the government retreated from the decision later. In the meantime, energy costs i.e. gas, oil and electricity, have been raised by the government.

High cost of import of raw materials and intermediate goods used as input by the domestic industries, high cost of energy, together with high cost of fund - all these will hamper the profitability of the corporations, especially those selling in the local market.

However, the government seems to be deliberately oblivious of the inefficacy of such measures in increasing foreign currency earnings and reserve. Earlier devaluation also did not deliver. Though we concur that devaluation may have a positive impact on remittances and export earning, however, we are skeptical about any significant long-term impact of devaluation on exports which needs diversification, improvement of port facility and logistics, conducive law and order situation and marketing efforts as well as quality control and productivity.

Tightening of foreign currency outflow

Apparently being concerned about the low forex reserves situation, government took steps to impose control on imports. Bangladesh Bank (BB) issued a directive increasing the required LC margin to 30% for import of industrial goods and 50% for commercial goods. The decision was resented by the business leaders which, they described, would create serious working capital shortage and increase cost of fund. Later BB withdrew the 30% margin requirement for import of industrial goods.

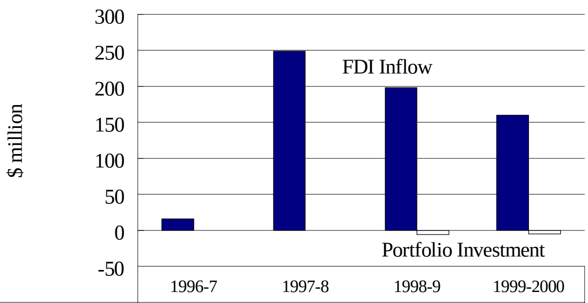
We see the tightening as a reversal of the open market policy of the consecutive governments to tackle the short-term problem.

In another move, BB decided to give few incentives to the Non-Resident Bangladeshis (NRBs) to encourage remittance. Easing the FC account opening procedure for the NRBs and preserving their remittances on their own account in foreign currency denomination for future opening of LCs or transferring to other countries, were proposed. The central bank also decided to liberalize exchange rates, allowing the banks to fix their own rates within the given band of Tk 53.85-54.15 per dollar.

Declining FDI and indication of possible aid squeeze

Foreign investors' interest in the gas sector, which attracted significant Foreign Direct Investment (FDI), seems to have dried out. Nonpayment of bills against purchase of gas from foreign companies, tussle over the issue of gas export to India and dilly-dally in resolving the equity sharing issue of Block 9 has frustrated the gas operators. The visit of the US envoy of Department of Energy Mr. Calvin Humphrey and his dramatic return within 72 hours of his prior six-day sojourn at Dhaka indicates the trouble in the sector due to resentment of the foreign gas companies.

FDI is on a declining trend after a jump in the power and gas sector in 1997-8 as per the economic report of the Ministry of Finance, *Bangladesh Arthanaitik Shamiksha*.



	1996-7	1997-8	1998-9	1999-2000
FDI Inflow	16	249	198	160
Portfolio Investment			-6	-5

In the meeting of Bangladesh Development Forum at Paris, donors indicated aid flow of $1.8-2.2 billion to Bangladesh. However, they were critical of the slow pace of reforms. The Asian Development Bank (ADB) hinted at linking concessional loan disbursement with:

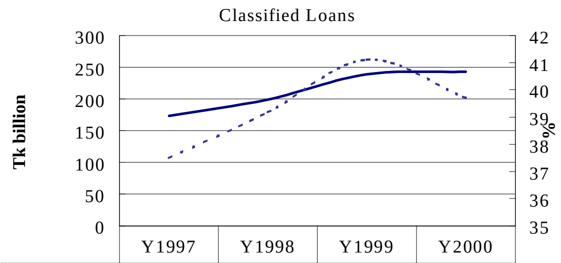
- Progress in macroeconomic management
- Commitment to policy and institutional reforms
- Achievement of good governance and
- Efficiency in implementing projects

The World Bank (WB) has also been warning for speeding up the reform process. A recent proposal of Bangladesh government to the International Monetary Fund (IMF) for a foreign currency bailout has not materialized.

Bad loans in banks mounted amid tightening of fresh fund disbursement

Despite tightening, classified loans in the banking system stood at Tk 242.75 billion in June 2000 against Tk 238.79 billion in December 1999. The pace of acceleration has however declined and the amount as percentage of outstanding loan portfolio has improved to 39.70% from 41.11% the last year. The share of classified loans stood as follows:

Nationalized Commercial Banks (NCBs)	44.62%
Private Commercial Banks (PCBs)	25.78%
Foreign banks	3.74%



	Y1997	Y1998	Y1999	Y2000
Tk billion	173.32	199.03	238.79	242.75
%	37.49	39.18	41.11	39.70

The banking sector also fell short of the required provisioning by Tk 50.57 billion.

A good year for RMG industry

This year the industry exported 90% of US quota. Amendment of EC Rule of Origin to receive preferential facilities, allowing cumulative value addition within SAARC region has given an opportunity to RMG exporters to import fabrics from India and Pakistan at cheaper prices. Fabric and yarn manufacturers in the two countries have the comparative advantage of using locally produced cotton.

We view that Bangladeshi RMG would face difficulty to compete in the world market, using locally manufactured yarn and fabrics, due to withdrawal of market concessions after 2005 under WTO regime. But backward linkage industries have not flourished satisfactorily despite a 25% cash incentive and setting up of new textile mills is not attractive due to capital intensity and reported thin profitability of most of the existing mills. On the other side, RMG sector may not reap full benefit of GSP due to the value addition restrictions.

Progress in administrative reforms was slow as usual

This year no significant achievement has been witnessed in administrative and judicial reform. The latest Public Administration Reform Commission (PARC) in its final report highlighted the urgency of rationalizing the size of the government. The report suggested the following measures for streamlining the administration:

- Merger of 4 divisions
- Reduction of number of ministries from 36 to 25
- Abolition of 6 organizations and setting up of two more
- Reduction of 29,974 jobs and creation of 4,068

At present there are 36 ministries, 17 divisions, 254 departments and directorates and 173 autonomous bodies and corporations in the government employing 730,117 people. Almost half of the government budget is for current expenditure, a significant portion of which is spent as wages to state-employees.

However, there is widespread skepticism about the implementation of the suggestions. So far the administrative reform was only in papers and the present government appears to be no exception. There is a report that 18 commissions were formed since independence to review the public administration system by recommendations and solutions were never implemented. The commission, which will expire in June 2001, attributes lack of permanent institutional arrangement is attributed to such problem.

Central Bank reforms

In pursuance of banking reform, the cabinet approved the amendment of the Banking Companies Act providing independent supervisory authority to Bangladesh Bank to control the banking sector. The amendment proposed to allow appointment of Governor of Bangladesh Bank for a 4-year term for enabling continuity of long term planning. Authority of the Ministry of Finance to appoint Chief Executives of Nationalized Commercial Banks (NCBs) has also been proposed to be vested on Bangladesh Bank in the amendment.

Capital Market reforms

Unlike banking and administration, the reform process in the capital market went through some significant activities. Amendments of the Insurance Company Act 1938 and Trust Act 1882 have been made to allow more funds to be invested in the capital market. ICB has been unbundled into three separate companies for doing merchant banking, brokerage and managing mutual funds. A CDS company was formed to introduce electronic register and scripless trading system. Restructuring has been made in the Securities & Exchange Commission where a new Chairman and a fresh team of Members took over charges. Mutual Fund Regulations are in the process of amendment. Stock Dealers have been barred from doing stock brokerage in the amended Stockbrokers & Dealers Regulation. Cross ownership between an Asset Management Company (AMC) and Merchant Bank has also been barred. The SEC has taken steps to introduce market-making system to encourage trading in stocks with good fundamentals by simultaneously quoting buying and selling rates and enacted a Regulation in this regard.

Though there was not much progress in the process of developing an active bond market, few encouraging developments were there. Bangladesh Bank is promoting the issue and took a five year scheme titled “Financial Institutions Development Project (FIDP)” to improve the liquidity position of Non-Bank Financial Institutions (NBFIs) through issuance of Collateralized Lease Obligations (CLOs) which can be traded in the market. Insurance companies, leasing companies, commercial banks and merchant banks may be allowed to trade CLOs in the secondary market. The International Development Association (IDA) contributed $47m for the project. AIMS of Bangladesh is processing floatation of Securtized Bonds against micro-credit receivables of BRAC, the largest NGO in the world.

However, there are discouragements in this regard in absence of a credit rating company, though the law requires issue of public debt or right shares to be rated by a credit rating agency. SEC declined to give approval to the proposed Credit Rating Information and Services Ltd (CRISL), the only such private initiative in Bangladesh. The Commission is now reportedly reconsidering their decision after CRISL took the matter to the court.

There was also sluggishness in the process of making CDS operational without which fruits of automation of the bourses would remain far from the general investors. The stringent legal requirements for launching mutual funds also discouraged launching of any new mutual fund after the float of AIMS First Guaranteed Mutual Fund, the debut issue.

Market escapes hangover trap of 1996 boom and burst

The analysts and investors will regard year 2000 as a positive year, as the market gained strength to breakout from the trap of the 1996 hangover in this year. The hope started with the publication of prospectus of AIMS First Guaranteed Mutual Fund in February 2000 containing elaborate sector research and stock pick recommendations which triggered the up-trend by breaking the 500 mark psychological barrier. Since then, the market was growing by an average of 4% a month till June. The market took a dramatic turn from July 4, registering 28% growth from 582 to 745 on July 9, in only 5 days. However, the market was not deep enough to accommodate the surge and later declined, though, to a technical support level above the previous one. Since then the market fluctuated with the support levels edging up from the previous one indicating an overall up-trend, though it gradually flattened in the later part of the year. The market closed at 642.68 on December 21, 2000, the last trading day of the year, registering a 31.76% growth from 487.76 at the beginning.

This year the first approved Asset Management Company of the country AIMS of Bangladesh received SEC approval and successfully floated the first private mutual fund in the country.

The incentives for the capital market declared in the last budget, also had a positive impact on the market. A significant change was made when the Securities & Exchange Commission in a timely move bifurcated the listed stocks in two categories and decided to bar daily netting off on B-category stocks. Companies failing to hold AGM in the last one year or not declaring dividend in the last four years were put in B-category. Later the B category stocks were further segregated to Z-category based on the following criteria:

- Irregular holding of AGM
- Non-operation for more than 6 months
- Negative net-worth after adjustment of revenue reserves, surpassing the paid-up capital

Out of the 221 listed companies, 62 were earmarked as Z-category. The move discouraged speculative trading on non and under-performing low-cap and low-denomination stocks by selling short and neutralizing the position by taking a counter position at the end of the day and enhanced interest in companies with good fundamentals.

In a recent development, ADB decided to disburse the $40 million second tranche of the $80 million loan of the capital market development program after the 24 policy related conditions has been fulfilled.

Punitive actions taken by SEC enhanced confidence

The SEC has taken a number of punitive actions for market irregularities. The merchant banking license of SATCOM Securities & Management Ltd. was cancelled due to involvement in the forgery of JH Chemical shares and allotment letters. Against a case lodged by the SEC, the court attached property of the directors of Rupan Oil and Feed Limited for defaulting in paying declared dividend. The Commission also fined Rahman Chemicals and Sonali Paper for not complying with the reporting requirement and sued T Mashfu & Co, a stock broker and Prime Finance & Investment Ltd. for being allegedly involved in trading of forged allotment letters of Sino-Bangla Industries Ltd. Entertaining conveyance and food in the AGMs was also forbidden.

Chandrashila SuvastuTower (5th floor), 69/1 Panthopath, Dhaka 1205, Bangladesh
Tel : (+88-02) 862 1821-3; Fax : (+88-02) 862 1109; e-mail : aims@aims-bangladesh.com; web: www.aims-bangladesh.com

IPO of Modern Foods was cancelled due to misstatement in the prospectus. The public issue of Raspit Data Management and Telecommunication was also suspended after allegations of overstatement of assets and income. The suspension was later however withdrawn. The Commission also decided to tighten scrutiny of issues seeking consent of IPOs through more interdepartmental checking.

The regulatory body has also taken some transparency measures this year. Submitting half-yearly reports to the Commission has been made mandatory within one month of the end of the half-year. The Commission directed 78 listed companies to submit audit report within 120 days for end of the accounting period conforming to International Accounting Standards.

The primary market

Market saw nine IPOs involving Tk 587.7 million in the Year 2000 with attractive response and enthusiasm from the general investors, as most of issues were significantly over-subscribed. A big amount in private placement of Tk 432.7 million induced the over-subscription of the issues from the general public. The following issues were floated:

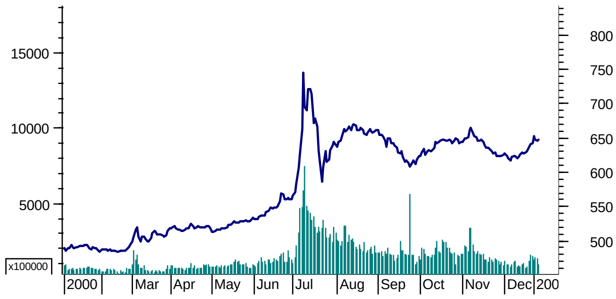
Company	Subscrip-tion Period	IPO (M. Tk)	Private Placement (M. Tk)	Subscription Status
National Credit and Commerce Bank	12 Dec- 7 Jan, 2000	52.5	142.5	Marginally over-subscribed
Miracle Industries	6 Jan- 20 Jan 2000	12.5	72.5	Subscribed 5x
AIMS First Guaranteed Mutual Fund	5Mar- 16 Mar, 2000	10	20	Subscribed 8.5x. Tk 30 million retained. Listed on May 27, 2000
Fu-Wang Foods	April 3 – April 17, 2000	30	30	Listed on May 27, 2000
Modern Food Products	16 Jul- 30 Jul, 2000	10	20	Cancelled
Social Investment Bank	10 Jul- 24 Jul, 2000	10	50	-
Raspit Data Management	November 05 - 09, 2000	10	15	Subsceibed 10x
Prime Insurance Company	November 07-21, 2000	20	70	-
Meghna PET	December 10-21, 2000	10	32.7	-

Right Issues were also floated by the Islami Bank Bangladesh Limited (Tk 320 million) and Bangladesh-Thai Aluminum Limited (Tk 83.84 million) during the year.

In the previous year Tk 720 million was raised from the market by 8 issuers.

Yawer Sayeed, Managing Director &CEO
Shamsur Rahman, Senior Manager, Research Group
Mahmudul Bari, Senior Manager, Fund Management Group
Mizanur Rahman, Manager, F&A Group
Md. Moniruzzaman, Assistant Manager, Investment Strategy

Stock Market Movement



	Dec 30, 1999	Dec 21, 2000	+/- %
DSE All Share Price Index[1]	488	643	31.76
Average Daily Turnover,Tk	196,847,099	144,699,286	-26.49
Market Capital,Tk	44,355,693,356	61,262,176,068	38.12
Market PEx*	9.13	9.92	
Market PBRx*	0.86	1.3	
Market EPS, Tk per Tk100*	17.63	24.38	
Market Dividend Yield,%*	7.19	5.18	
1Year Market HPY,%**	-10.76	31.76	

* PE is based on latest reported data of listed companies which registered positive earning, PBR is based on latest reported book values, companies with negative book value have been excluded. The companies earmarked as 'B' and 'Z' category by SEC have also been excluded from calculation. **1 year Holding Period Yield

Top Gainers

Company	Closing Price(Tk) Dec 21, 2000	Closing Price(Tk) Dec 30, 1999	Change %	Avg.Daily Turnover,Tk
National Bank	198	62	219.35	2,809,414
Meghna Cement	422	136	210.29	8,852,886
Niloy Cement	332	108	207.41	7,334,251
Aramit Cement	318	116	174.14	4,247,958
Confidence Cement	518	219	136.53	5,268,475
Square Pharma	1393	653	113.32	3,041,106
Beximco Pharma	67	33	103.03	20,190,917
ACI	56	28	100.00	2,454,547
BCIL	138	71	94.37	206,477
Uttara Bank.	134	70	91.43	6,653

Top Losers

Company	Closing Price(Tk) Dec 21, 2000	Closing Price(Tk) Dec 30, 1999	Change %	Avg.Daily Turnover,Tk
BEMCO	28	95	-70.53	4,973
Paper Processing	54	178	-69.66	1,263,727
Rahman Chemicals	22	58	-62.07	502,699
Renwick Jaineswar	30	89	-66.29	22,630
Texpick Industries	46	132	-65.15	68,802
Padma Printers	6	15	-60.00	271,661
Nothern Jute	11	31	-64.52	810,491
Shampur Sugar	3	8	-62.50	83,247
Saleh Carpet	2	5	-60.00	290,110

Top Turnover Companies

Company	Closing Price(Tk) Dec 21, 2000	Closing Price(Tk) Dec 30, 1999	Change %	Avg.Daily Turnover,Tk
Beximco Pharma	67	33	103.03	20,190,917
Meghna Cement	422	136	210.29	8,852,886
Niloy Cement	332	108	207.41	7,334,251
Shinepukur Holdings	77	47	63.83	6,180,728
Confidence Cement	518	219	136.53	5,268,475
Chittagong Cement	1441	843	70.94	4,883,280
Aramit Cement	318	116	174.14	4,247,958
Dynamic Textile Ind	65	35	85.71	3,607,852
Rangpur Foundry	21	14	50.00	3,541,873