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Govt moves to create sovereign wealth fund

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Nazmul Ahsan

The government plans to create a sovereign wealth fund to invest its excess reserve in attractive financial assets including the US Treasury bonds, a senior official at the finance ministry said on Thursday.

The finance division of the ministry of finance on Wednesday formed a 10-member committee, headed by Bangladesh Bank deputy governor SK Sur Chowdhury, to carry out the plan. All the members of the committee are senior officials from the finance ministry and the BB.

The move, meanwhile, has surprised many senior finance officials and central bankers, as they said only countries with budgetary surpluses create such fund for future generations. Since Bangladesh from the beginning has been suffering from budget deficit, it is ridiculous to create such a fund banking on foreign currency reserve alone, they added.

It was learnt that a number of foreign investment bankers have been lobbying for the creation of the fund to get involved in the process as agents or advisors.

Finance minister AMA Muhith past week directed his ministry to go forward with the concept and create the fund if found viable, sources said.

The division, in its notice, asked the committee members to draft the modus operandi for the proposed fund, examines its feasibility and technical and regulatory aspects. The committee has been given till April 30 for a complete report on SWF, outlining its pros and cons.

‘Planning to create the SWF does not necessarily mean we have already decided on the issue. We will examine the whole aspect before any final decision,’ a senior finance official told New Age on Thursday.

A sovereign wealth fund is a state-owned pool of money that is invested in various financial assets. The money typically comes from a nation’s budgetary surplus. When a nation has excess money, it uses a sovereign wealth fund as a way to funnel it into investments, an expert said.

The motives for establishing a sovereign wealth fund vary by country. For example, the United Arab Emirates generates a large portion of its revenue from exporting oil and needs a way to protect the surplus reserves from oil-based risk, thus it places a portion of that money in a sovereign wealth fund.

Many nations use sovereign wealth funds as a way to accrue profit for the benefit of the nation's economy and its citizens.

Besides gulf countries, Japan and Norway also have their own SWFs, as the countries have budgetary surplus. A BB official said above \$22 billion foreign reserve alone cannot justify establishing a SWF, saying, 'a buffer reserve situation is largely related to a slide in imports.'

'I don't understand how a country having fiscal deficit could create a SWF,' the BB official said.



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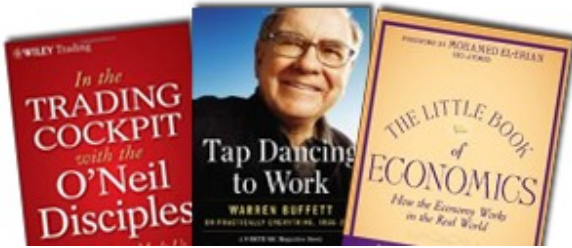
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