The Daily Star BUSINESS

DHAKA MONDAY, FEBRUARY 6, 1995

Former DSE chairman says

Loans should be extended only for facilitating stock operators

The proposed relaxation of bank loan against shares should be restricted to financing trading on the floor of the stock market to derive optimum benefit out of the arrangement, a leading market operator said here yesterday.

He told BSS that the loans should be extended only for facilitating the stock operators to smoothly carry out their trading on the floor. Otherwise, open ended provision to give loans against shares may make an adverse affect on the capital market, he said.

Explaining the possible adverse impact, Hamayetuddin Ahmed, Chairman of HMMS Consultancy and Services Ltd., a leading fund managing group, said though open ended provision would increase the capital flow in the market, "we must remember that this fund will be coming from borrowed money and not from savings."

He said it was observed in the past that investment with borrowed money remained less cost effective because the money was tagged with high rate of interest. So indiscriminate use of such loans may push the market downward in general and cause extreme damage to its healthy trend.

Ahmed, who is also the former Chairman of Dhaka Stock Exchange (DSE), was critical of the recent step taken by the Securities and Exchange Commission (SEC) to make it mandatory to have bank accounts for applying primary shares.

He said this step had squeezed the country's investment population especially the small investors. Those who do not have bank accounts will be left out of the investment market. He said it was too early to introduce such a step. "Our market is still very small," he said.

Ahmed said instead of introduction of such a system in a country where very few people maintain bank accounts, the system of slab for restricting the multiple applications for the primary issues is enough, he said.

However, some brokers contradicted this view and welcomed the SEC decision and said the front runners in the primary share market would be discouraged by this step.

UN appeals for emergency food to Rwanda

NAIROBI, Kenya, Feb 5: The UN World Food Programme said Saturday it needs more than 116,000 tons of emergency food to feed millions of Rwandans this year despite an improved harvest from last year's crop, reports AP.

"After the war, there were five million people left in Rwanda who benefited from a crop planted by the country's full population of eight million," said Techeste Zergaber, WFP Rwanda Director, in a statement released in Nairobi.

"We now have a reversed problem - more and more people returning to their homes, but smaller harvest with which to feed them," Zergaber said.

The statement said 116,477 tons are need. It said the amount would have been larger had it not been for the agency's distribution of seeds and agricultural tools to farmers late last year.

The agency estimates the required food would cost some 57 million dollars.

As more and more people return home and farming improves, the agency plans to limit food distribution to orphans, elderly and handicapped people and single-parent families, the statement said.

An estimated two million Rwandans fled to neighbouring countries and millions more were displaced in the blood bath that followed President Juvenal Habyarimana's death in a still unexplained plane crash April 6 last year.

Hannan Shah meets CBAs of BJMC

Jute Minister ASM Hannan Shah had a meeting with the Combined Bargaining Agent (CBA) presidents and general secretaries of the 35 jute mills of Bangladesh Jute Mills Corporation (BJMC) at the BJMC headquarters in the capital yesterday, reports BSS.

The minister reviewed the rate of increase of production in the mills after implementation of new wages for the workers.

He expressed his satisfaction over the increased rate of production and reduced cost of the produce in the BJMC jute mills.

Hannan Shah said a few of the mills are still lagging behind compared to the BJMC standard. The Minister directed the CBA leaders of those mills to increase production immediately otherwise the government will take necessary legal actions against the defaulters.

BJMC chairman Moniruddin Ahmed and concerned officials were present in the meeting.

'94 best year for US economic growth in decade: Clinton

WASHINGTON, Feb 5: Saying that 1994 was the best year for US economic growth in a decade, President Bill Clinton challenged Congress on Saturday to extend the prosperity to the lowest paid American workers by increasing the minimum wage, reports Reuter.

"Nobody can live on 4.25 dollars an hour, and yet 2.5 million Americans are working for just that amount, and many of them have children to feed," said Clinton, who proposed Friday that the minimum wage be raised 90-cents over two years.

His proposal is encountering resistance in the new Republican-led Congress, where there is a widespread conviction that it would raise business costs and kill jobs.

Drawing a parallel between himself and former President George Bush, Clinton noted in his weekly radio speech that in 1990, Congress raised the minimum wage by the same amount he proposes.

"If in 1990, a Republican President and a Democratic Congress could get the job done, surely in 1995 a Republican Congress and a Democratic President can do the same to uphold the value of hard work for the American people," he said.

Clinton's five-minute radio speech was taped in advance.

About 10 million people, roughly 10 per cent of the labour force, would be directly or indirectly affected by a minimum wage hike.

At a White House news briefing Friday, Presidential Press Secretary Mike McCurry denied that "contrast politics" played a part in Clinton's proposal, saying it was not designed to highlight a difference between Clinton and the Republicans on a working class issue.

"There will be ways in which the President and the Democrats in Congress will be able to contrast their vision of the American future with the vision of the Republican leadership, and Republicans in Congress," he said.

But McCurry added that Clinton would like to see both parties get credit for something "that will ultimately reward those who are trying to work and who ought not to be in poverty because they are working."

Clinton prefaced his challenge to Congress with a glowing report on the state of the economy.

1994 was the best year for economic growth in 10 years in the United States. And the combined rates of unemployment and inflation are the lowest they've been in 25 years," he said.

Clinton said that while he was proud of this record, the national leadership could not rest on its laurels because, "two many Americans are working harder and not getting ahead."

France calls for EU conference on Algeria

PARIS, Feb 5: French President Francois Mitterrand yesterday proposed a European Union conference to help defuse troubles in Algeria, reports AFP.

Speaking after a meeting with European commissioners, Mitterrand suggested the EU hold a conference based on demands set out by Algerian opposition parties in Rome late last month.

"If the European Union could organize a conference in Europe that would draw on the different ideas proposed recently, notably at the Rome conference ... maybe there would be a better chance to see these projects recognized by the opposing parties," Mitterrand said.

Some 20,000 people have been killed in Algeria in the last three years, mostly in violence between Islamic fundamentalists and security forces of the military-backed regime.

The Rome conference in mid-January brought a number of the larger Algerian parties together with the banned Islamic Salvation Front to seek a solution to political and religious conflict.

Mitterrand said he had discussed the idea of an EU conference on Algeria with German Chancellor Helmut Kohl on Thursday.

He warned that economic and social poverty in Algeria were powerful fuel for "terrorism and extremism," and expressed regret that every initiative taken todate to defuse the tension had collapsed.

Mitterrand took care, however, to say that he was only expressing his hopes on the conference and that there had been no political decision on the matter.

Canada's Finance Minister Paul Martin (L) shakes hands with Dr Hans Tietmeyer, President of Deutsche Bundesbank as Germany's Finance Minister Theo Waigel (2nd-R) talks with Kenneth Clarke (R) of Britain at the G7 finance ministers meeting in Toronto on Saturday. — AFP photo

G-7 ministers determined to prevent another Mexico-like crisis

TORONTO, Feb 5: The United States, which upset some of its economic allies with a rescue package for Mexico, appeared to have regained their support Saturday at a meeting of finance ministers, reports AP.

The ministers from the Group of Seven, the world's largest industrial nations, said they were determined not to be surprised again with the sudden economic collapse of an important developing country.

Mexico's economic downturn affected markets and currencies worldwide since December and reminded leaders just how closely the planet's economies are linked.

Canadian Finance Minister Paul Martin, who hosted the two-day G-7 session that concluded Saturday, said the ministers expressed "their total satisfaction with the international efforts to assist Mexico".

US Treasury Secretary Robert Rubin said some of his fellow economic officials "had an understandable view that they would like to have been more fully consulted, and we absolutely agree with that."

Attending the conference were ministers and central bank chief from the United States, Canada, France, Britain, Germany, Italy and Japan, and Michel Camdessus, head of the International Monetary Fund.

President Bill Clinton's 40 billion dollars Mexican rescue package foundered on the rocks of Congress, forcing the president to slap together another approach. That involved 20 billion dollars from a special Treasury fund made available to Mexico through executive order and another 17.8 billion dollars from the IMF.

Several European countries, including Britain and Germany, abstained on the vote at the IMF executive board Wednesday. Some Europeans were reportedly unhappy at being drawn into what they see as a North American problem. Others did not appreciate the haste with which Washington threw together the plan.

Rubber talks begin today

HAMBURG, Feb 5: European rubber consuming countries said negotiations on a new multi national trade pact would be ruled by arguments over the pact's reference price, reports Reuter.

The consumer sources were polled before 10-day talks on a successor pact to the International Natural Rubber Agreement (INRA ii) scheduled for Geneva from February 6-17 under UN auspices.

We're resisting a producer proposal to raise the (market intervention) reference price by five per cent in the new agreement," a European government delegate said.

"Global prices are strong now, but you have to think long-term," he said.

Producers at the talks want the reference price, the pivot of the pact's intervention instruments, to rise from the 196.84 Malaysian/Singapore cents it was fixed at in February 1993.

Consumers argue current market prices around 360 cents are the result of short lived speculation and the price trend they agree now needs to apply to anticipated conditions in the five or seven years, from 1996, when INRA iii would apply.

Consumers cite analysts who expect the current high-price-period to encourage an extension of plantings, which will bring additional supply within seven years.

But they have signalled their readiness to raise the pact's so called lower indicative price by up to two per cent.

This is a market constraint or "floor" price unrelated to the reference price. It currently stands at 150 cents.

In return for agreeing to lift the market floor, consumers would like to assure the reference prize was more frequently reviewed and revised, and the pact's duration shortened.

A commodity trade expert said, "it's a political issue which could be either settled quickly, or not at all."

World rubber prices are expected to scale to new highs in coming months as supplies drop seasonally during wintering, when rubber trees shed their leaves.

Rubber prices began soaring in July 1994 when Chinese demand and falls in supply coincided with higher western tyre consumption. All-time price highs were reached in January.

But traders are cautious about market direction later on in 1995 and in the next few years to come.

"The bargaining will be done on the basis of where people see the long term market," a rubber importer here said.

Consumers have started to build stocks, producers are enjoying high prices ... pressure to get a global deal many have eased," he said.

Police recovers stolen diamonds worth $4.84m in Brussels

BRUSSELS, Feb 5: Police have recovered more than half of the diamonds stolen in a major robbery at one of the world's biggest diamond exchanges, Belgian Television said on Thursday, reports Reuter.

The VTM network said police recovered 4.7 kilos of rough and polished diamonds, worth 150 million francs (4.84 million dollars), and 14 million francs (450,000 dollar) in cash. Police were not immediately available for comment.

The diamonds were stolen last December from several safes in the Kring diamond exchange, one of Belgium's best-protected buildings, in the port of Antwerp, the city, the world's biggest diamond trading centre, has four exchanges.

VTM said three people had been arrested but five others, including the three suspected thieves, were still at large.

Police said in December they had issued warrants for Israelis Aviv A, 34, and Alberto, C, 43, and for 45-year-old Brazilian Baruch T.

Police said about 1.0 million dollar worth of diamonds was missing from one safe.

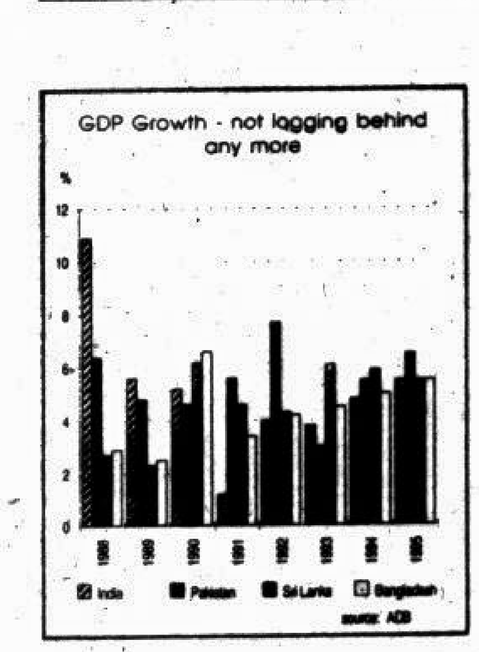
They said the thieves were familiar with operation in the 12-storey building, which has 1,500 safes in its cellars, and there was milling of forced entry.

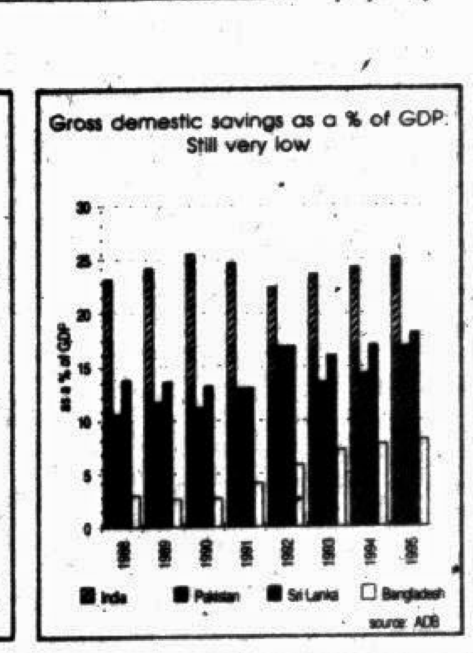
Can Bangladesh be a winner?

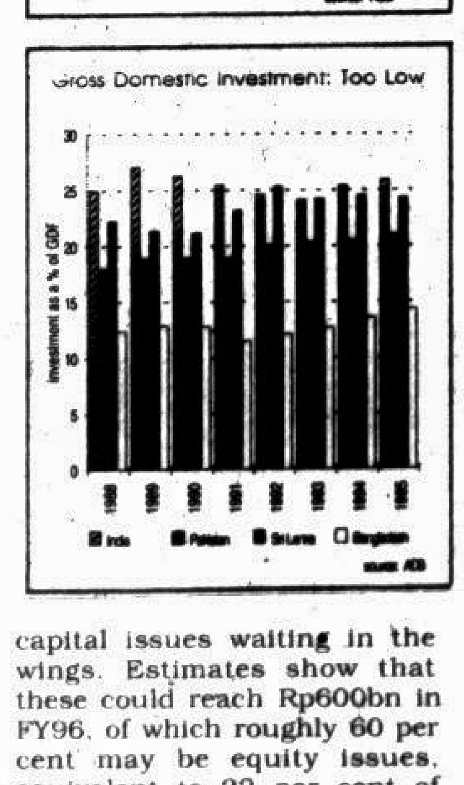
by Helen Callender

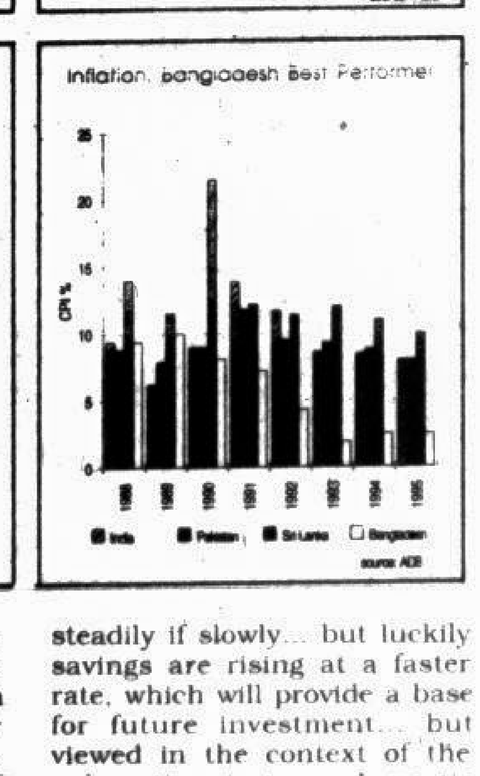
W·I·CARR

BANGLADESH - MACRO-ECONOMICS









WI Carr is one of the first two brokers to devote full time research resources to analysing the Bangladesh stockmarket. As a house we are greatly excited about the long-term prospects for Bangladesh, and I have entitled my paper today — Can Bangladesh be a winner?

Bangladesh was one the best performing markets in the world in 1994.

Why?

There are three main reasons:

Portfolios of investment funds destined for "Asia" were awash with cash, searching for anything to invest in. A new market was needed as South East Asian emerging markets were already trading at hefty PER multiples.

Bangladesh is less closely followed than other emerging markets, information flow is weak and market liquidity is limited. You have to hold a stock once you buy it.

The market PER was below the subcontinent average, although in line with other emerging markets as they "emerged" and the stream of new issues was apparently attractively priced.

Normally stock market performance is linked to a perception of economic growth. Unfortunately for Bangladesh, the figures don't yet prove that the stock market boom was caused by a significant shift in the country's economic fundamentals, indeed given the political problems this year, it may be hard to prove that the broad economy has grown much at all yet.

BUT perhaps we should look at Bangladesh differently. I am always a little nervous when I suggest that something should be looked at from anything other than a normal perspective because other people often don't feel the same way, and the reason for this nervousness was shown to us clearly in South East Asia two weeks ago when the latest Mexican debt repayment crisis reverberated throughout regional stock markets, for no real reason other than these markets all can go under the same title "emerging markets with exotic currency bases"... The problem was that some investment managers suddenly found that their over exposure to these markets may not always be a good idea, so sold everything they could to lock in profits and reduce their risk profiles. But back to Bangladesh....

Looking at Bangladesh from a different perspective. Given the small size of Bangladesh's economy perhaps the stock market should be the leading engine for growth in this case....: this should work, provided the government is committed to allowing for the provision of the necessary infrastructure on which this growth can be based. And infrastructure is lacking in Bangladesh.

An example of a country in which the stock market was used as a leading engine of growth is the Philippines during the 1980's, when the government was unable to show strong economic leadership. Since President Ramos took a stronger hold on the economy and the stock market has reflected more closely the real perception of economic growth. In the late 1980's early 1990's companies had to take the initiative to provide their own power due to the inadequacies of the nationalised power companies ... this is expensive, and has taken its toll on GDP growth numbers, but the resulting strength the corporate sector has built should set it in good stead for growth in the future.

In other sub-continent markets, investors have seen an uptrend in the economic growth numbers before committing investment. In Sri Lanka, the government watches closely the opinions of stock market investors and the government is now preparing itself for a privatisation exercise, which will help it to fund its much-vaunted social development programmes. In India privatisation is the largest topic, and assuming that privatisation can improve productivity rates in former state enterprises, this will fuel the next stage of the country's economic growth.

In simple terms, the similarities between Bangladesh and other subcontinent economies are easy to point out:

A change in the macro-political environments in these countries, has paved the way for economic change, which includes welcoming again the advent of foreign capital to these economies in the form of investment rather than aid.

All have a large, low cost (wage) labour base

All are at a level of development which allows talk of the possibility of a growth miracle, similar to those seen in SE Asia.

The question everyone asks is can this growth miracle happen in the subcontinent and in China? — two of the worlds poorest economies... to either encompassing almost half of the world's population.

Political catastrophes apart, I believe both of these huge economies are set on a firm path to growth — but it will be far from straight — sometimes I think that the relatively smooth path along which growth has occurred in SE Asia has led many to believe all too readily that these patterns can be immediately emulated everywhere. The very size of the populations in China and the sub-continent makes the growth task so much harder.

The euphoria of discovering a new "emerging" market for foreigners leads to a huge rush of investment (relative to the size of the local market), often, as I alluded to earlier, with only cursory "diligence" leaves huge scope for disappointment for investors when things go wrong... which, inevitably, they do in All stock markets.

I would like to show you a few simple examples of how things can go wrong in emerging stock markets. Perhaps some people have learnt a lesson from Indonesia, where foreigners invested blindly as the market opened, but where horrified as promised profitability and growth numbers never materialised ... scandals broke and in fact in stock market terms the market showed no real EPS growth from the start in 1989 until 1993!

China is doing the same at the moment, but given the tiny size of its two stock markets (together they have a market capitalisation of barely US $2bn), with the exception of country fund managers, most investment portfolios have a minimal weighting in mainland Chinese markets. The economic chaos in China is the Hong Kong stock market, and its performance over the last two months very clearly reflects the nervousness investors feel about China's economy and most importantly at the present its politics. It is the perfect example of a stock market that trades at a political discount.... and should be an example to everyone who says that "politics has no impact on the stock market".

A chart of Pakistan will reveal the impact on the market of the scandals within the banking sector last summer, the fiasco over the listing of the Pakistan Telecom Vouchers, without all documentation to allow investors to fully evaluate the company then the upsurge in violence in Sindh and the strike days. Markets are simple things they rise too high on good news and fall for too long on bad news... but in small markets, the advent of bad news — political crises, scandals within the corporate sector can scare investors hugely.

What Bangladesh needs is steady development, foreign investment entering the stock market needs to be ploughed directly into the economy in the form of new investment in manufacturing, construction and so on. Although growth in some areas may not be spectacular, the overall impact on the economy should be positive and, importantly, it will allow foreign investors to feel that their capital is working for Bangladesh and for the providers of their capital. Both India and China are good examples of how a lot of the "new" capital in these markets has been "recycled" into the stock market by the companies raising the capital. They then buy shares in listed companies and trade them for capital gain.... and the appeal of investing in those companies suddenly wears very thin.

Bombay has fallen 20 per cent since November 1994 as politics dominates sentiment, along with fear from foreign investors about the size of new capital issues waiting in the wings. Estimates show that these could reach Rp600bn in FY96, of which roughly 60 per cent may be equity issues, equivalent to 22 per cent of net domestic savings and 7 per cent of market capitalisation.

Looking at the economic picture, on the surface Bangladesh stacks up well against its subcontinent neighbours.

Viewed in isolation investment appears to be growing steadily if slowly... but luckily savings are rising at a faster rate, which will provide a base for future investment... but viewed in the context of the subcontinent gross domestic investment as a per cent of GDP fall well below its subcontinent neighbours — indicating that growth in the immediate future may be slower that of its neighbours and gross domestic savings as a percentage of GDP remains very low Bangladesh isn't yet attracting huge capital inflows from well-to-do overseas Bangladeshis, although perhaps, the stock market will prove to be an initial conduit for this type of investment.

And I come full circle again to the debt service ratio as a percentage of GDP.

Again Bangladesh lags the rest of the subcontinent. This places huge financial strain on the country and the recent problems in Mexico and the response of foreign investors immediately spring to an investor's mind .... will Bangladesh fall victim to the same difficulties in future?

Who knows ... but people generally predict that the stock market in Mexico will not recover from the currency and debt crisis for at least two years.

In terms of the Bangladeshi stock market, any crisis or scandal which frightened foreign investors for two years could be a disaster for the whole economy. This is why it so important that foreign portfolio investment should be directed carefully into the "real" economy, which can fuel growth on which the public sector can then help to build, by in turn attracting foreign investment at more permanent levels, i.e. direct investment in long term projects.

It is important to remember that stock market investors are fickle creatures ... and what a country needs for long term growth is real long term investment. No doubt foreign companies will be keen to invest in operations in Bangladesh when they see that the stock market is providing a healthy sustainable flow of new investment into the country, performing its role as the engine of growth.

(The author represented W I Carr, a global brokerage house, at the recently held Euromoney BOI conference in Dhaka)