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Sterling jumps on London forex market

LONDON, June 21: Sterling skyrocketed on Friday on the London forex market, pushing up to heights it had not seen since September 1992 due to expectations of a rise in British interest rates, dealers said in late afternoon, reports AFP.

The pound was up at 1600 GMT to 2.8613 marks against 2.8426 Thursday evening, and to 1.6544 dollars against 1.6483.

"The market is revising its forecasts on British monetary policy in the light of UK retail sales announced this week, and is betting on higher credit costs, even if the chancellor presents a tight budget," said Bank of America chief economist Jeremy Hawkins.

"But nothing particular happened today that could explain the pound's sudden takeoff," he added.

The Labour government's first budget will be presented on July 2 and is expected to include measures aimed at avoiding economic overheating.

At the same time, operators are no longer counting on a rate rise in the United States, and they think the Tankan Report next week by the Bank of Japan on the Japanese economy will call for steady Japanese interest rates, whence a flow of capital into British securities, Hawkins explained.

"Some people on the market are even starting to talk about a 2.95-mark pound," said the expert. That was its central rate when it joined the European monetary system in October 1990, out of which it was forced in September 1992.

But Hawkins said he thought it very unlikely that sterling would reach such a high level, since that would harm British exports.

Euro-US investors shifting funds out of Asian stock markets

TOKYO, June 21: Institutional investors from industrialised countries have begun shifting funds out of Asian stock markets to other regions as Asian economic growth slows, a report said Saturday, reports AFP.

European and US fund managers were shifting money to Latin America, East Europe and the Middle East with higher growth potentials, the Nihon Keizai Shimbun said.

Over the past six months, Asian stock markets slumped except for Hong Kong and Taiwan, which are upbeat on the British territory's return to China in July. Latin American and East European markets rose 20 to 100 per cent during the same period, the daily said.

The foreign capital outflow is likely to darken the future of Asian economies, the major business daily said, adding the trend may be prolonged amid fears that economic woes in Thailand can spill over into neighbouring nations.

British Investment Trusts, a major investor in Asian stocks, reduced their weightings on Asian equity to 6.8 per cent of the total in the January-March period, down from 8.0 per cent a year before, the paper said.

A major US investment crust has also decided to cut weightings on Asian stocks since the Thai currency debacled last month, it said.

Clinton welcomes Russia's joining
G-7 summit begins

DENVER, June 21: Claiming Russia's place among the world's elite democracies, President Boris Yeltsin opened discussions on a wide agenda of political and economic issues at the annual summit of industrialised nations, reports AP.

After six years on the outside, Russia was initiated Friday as an equal partner among the exclusive group, completing an improbable journey from the era when the Soviet Union was the primary antagonist of summit policies.

President Bill Clinton called it a "hopeful moment for the world," and praised Yeltsin for his "vision and persistence" in pursuing democracy and reforms after seven decades of communism.

Russia also won another eagerly sought prize: membership in the Paris Club, a group of wealthy countries that sets debt terms for poor countries. Russia's inclusion will give Moscow greater bargaining power for collecting the 120 billion dollars it has loaned to Cuba, Iraq, Iran and others.

The United States hailed the step as tantamount to "the financial end of the Cold War." Yeltsin spokesman Sergei Yastrzhembsky called it "a morning blessing" after all-night negotiations in New York.

Yeltsin joined leaders of America, Britain, Canada, France, Germany, Italy and Japan for three days of summit meetings. Without Russia, the group had been known as G-7, but Clinton renamed its meeting "Summit of The Eight."

The leaders began work at a dinner — lobster consomme, spring vegetable and lamb — at the mansion of Colorado Gov. Roy Romer.

The shaky peace in Bosnia was at the centre of opening talks. Italian Prime Minister Romano Prodi voiced concern about the potential for renewed conflict if the Dayton peace accord is not fully implemented. The country remains split in two, with little integration between the Serb and the Muslim-Croat controlled areas.

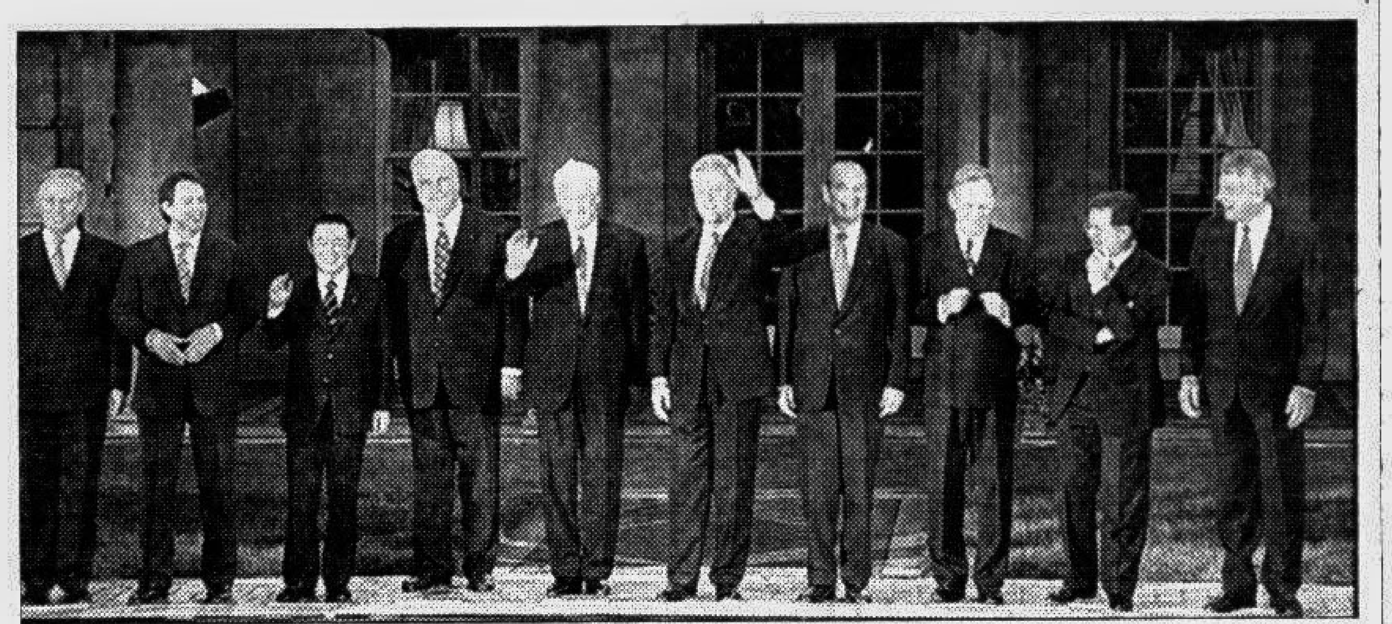
Responding to leaders' concerns that US peacekeeping troops were due to leave Bosnia next summer, Clinton urged them instead to concentrate on accelerating the return of refugees, forming local police forces and holding elections.

At an earlier photo opportunity with Prodi, Clinton praised the Italians for "extraordinary support in Bosnia." He also lauded Italy for taking the leadership of a multinational force in chaotic Albania.

"In the years to come we will look back on the Italian effort . . . as a real watershed in providing European security," Clinton said.

Prodi is leading a campaign to include Slovenia in NATO. Both he and French Prime Minister Jacques Chirac, who favours inclusion of Romania, are unhappy with Clinton's insistence on limiting new membership to Poland, Hungary and the Czech Republic.

Also at the dinner, Japanese Prime Minister Ryutaro Hashimoto sought and won the leaders' support for sending an envoy to look into the violence and political turmoil in Cambodia.



US President Bill Clinton (5th-R) poses with the leaders of the Summit of Eight outside of the Phippos Mansion before a working dinner in Denver, CO on Friday. From L-R are Jacques Santers of the EU, British Prime Minister Tony Blair, Japanese Prime Minister Ryutaro Hashimoto, German Chancellor Helmut Kohl, Russian President Boris Yeltsin, French President Jacques Chirac, Canadian Prime Minister Jean Chretien, Italian Prime Minister Romano Prodi and EU member Wim Kok. —AFP/UNB photo

India, Lanka may discuss trade imbalance soon

NEW DELHI, June 21: India and Sri Lanka are expected to soon begin addressing the issue of trade balance that Colombo complains is heavily unfavourable to it.

Officials of the commerce ministries of the two countries are likely to meet later this month to discuss Sri Lanka's list of 84 items on which bilateral tariff concessions have been sought by Colombo.

The list was first presented in April this year but because there was a caretaker government in place then, New Delhi requested a deferment of the discussion. What also held up the discussion was that India had already announced its export-import policy and could not incorporate new concessions.

Figures compiled by leading chambers of commerce here show that India exports goods worth 550 million dollars to Sri Lanka. In turn, Sri Lanka manages to export goods worth only 50 million dollars to India. Trade experts concede that this is a serious imbalance, though they simultaneously point out that it is unrealistic to think in terms of a perfect balance.

"We know that there can never be equal bilateral trade between India and Sri Lanka but the ratio of over 5:1 is not a fair reflection of Sri Lanka's export potential," a senior diplomat in the Sri Lankan High Commission here said. He said during Prime Minister I K Gujral's visit to Colombo in January this year, when he was External Affairs Minister in the Deve Gowda government, he had offered concessions on 70 to 80 items.

"But we had pointed out that there were non-tariff barriers in India that were stifling our exports," the diplomat said. He said India permitted a lot of imports from Sri Lanka only under special import licence. "This creates a non-tariff barrier. We believe India should allow open general licence," he said.

The diplomat said that India was not addressing the issue of the consumer goods sector with Sri Lanka. The items on which Sri Lanka is seeking concessions include ceramic ware, rubber products, shoes, coconut-based items, toiletries, spices and confectioneries. He particularly emphasised high quality ceramic ware that Sri Lanka specialises in. Brands such as Noritake known for their fine porcelain ware can give a potentially big market in India.

The diplomat said it was in India's interest to strengthen Sri Lanka's export sector since that would help increase its people's purchasing power. "Despite being a country of just 17 million, we provide India a market worth half a billion dollars. A little help from India in terms of allowing more Sri Lankan goods could make that market even more worthwhile," he said.

(Source: India Abroad News Service)

EU announces new bookkeeping guidelines for euro

BRUSSELS, June 21: The European Union head office Friday announced new bookkeeping guidelines designed to ease companies' transition to the euro, the planned single European currency, reports AP.

EU Commissioner Mario Monti, responsible for matters concerning the creation of a single EU market, said in a statement: "These guidelines give practical and comprehensive advice... to those that draw up and use company accounts."

The Commission said the guidelines are not legally binding, but could be of use to individuals and businesses required to compute financial statements in euros.

The Commission statement said the guidelines also could be of use to companies in countries not immediately signing on to the single currency, which "may experience an indirect effect of the introduction of the euro through their subsidiaries in participating member states."

Thai shares face uncertain future

BANGKOK, June 21: Thai shares faced an uncertain future despite a recovery Friday on the naming of a new finance minister to end a week in which prices dropped for per cent, analysts said, reports AFP.

A foreign analyst said he expected directionless trading as he believed the speculative buying that followed the naming of a technically-competent banker to replace Amnuay Virawan was unsustainable.

Concerns about second quarter earnings and bad debts clouded sentiment all week, but the bottom dropped out Wednesday and Thursday, with losses of 3.0 per cent and 3.8 per cent respectively on news of Amnuay's resignation.

Analysts said investors were relieved after the squabbling coalition named a technically-competent replacement, Thai Military Bank President Thanong Bidaya.

But they expressed concerns over the new minister's ability to defend unpopular fiscal and monetary policies against the priorities of other coalition ministers.

"The budget will be presented to parliament towards the end of the week, but any (political) fierworks there should come later in the process," the foreign analyst said.

The analyst noted, however, that the monthly Bank of Thailand statistical release was due Thursday, and May foreign reserves figure would reveal how much money was spent staving off an attack on the baht last month.

The main stock exchange of Thailand (SET) index fell 19.96 points over the week to end Friday at 48.25 points.

Average daily trading volume was 150.7 million shares worth 4.3 billion baht (166 million dollars).

The Thai baht fell sharply in the Singapore market to 25.90 to the dollar, from 24.75 the previous Friday, but the correction brought it line with domestic trading, where prices were relatively stable.

Thailand's central bank had reportedly ordered a slight loosening in controls on baht outflows to offshore markets.

New budget proposals censured

By Staff Correspondent

Left Democratic Front and Bangladesh National Awami Party (NAP) have criticised the proposed budget for the year 1997-98 saying that it will make the country a market of foreign goods.

NAP censured the budget for not reducing expenditure in defence sector, increasing allocation in administrative instead of manufacturing sector and imposing newer taxes on common people.

Reviewing the new budget proposal at a central committee meeting, NAP observed that this budget would make the people very poor, increase the prices of essential goods, expand corruption and make the condition of sick industries worse.

LDF said in the past two decades, every budget had proposed to denationalise different mills and factories but did not give any direction about the fate of thousands of labourers and workers who would be unemployed due to privatisation.

LDF said though the government owned textile sector mills and factories did not give any loss till 1996, the budget suggested to privatise all nationalised industries.

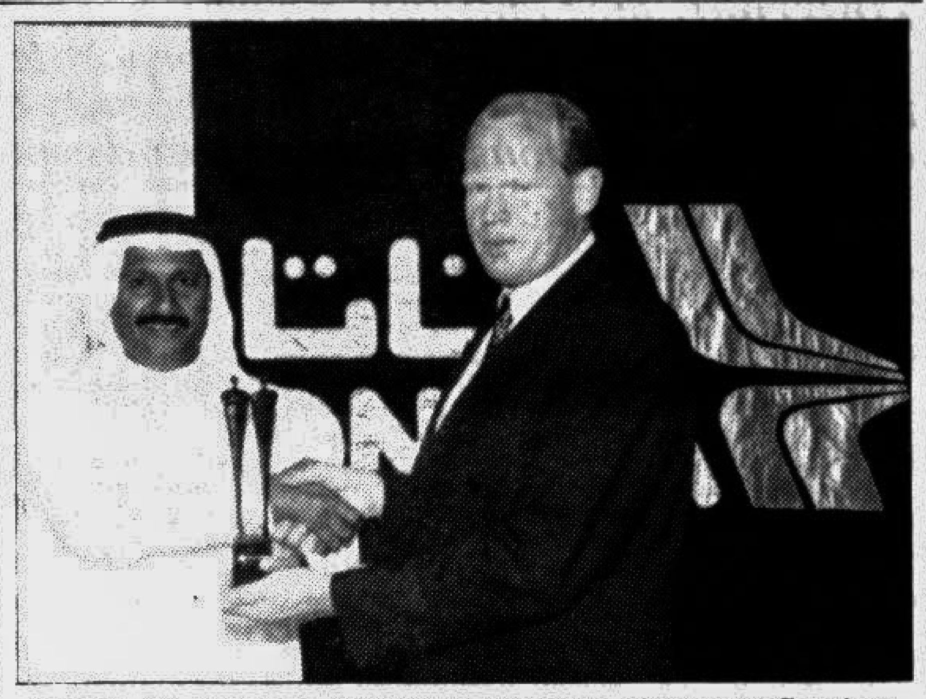
It said that everyday parliament holds debates on various issues, but it never gives any attention to the problem of the country's labours and workers.

Bangladesh Automobiles Assemblers and Manufacturers Association, in a statement last night, said the budget proposal would adversely affect the assemblers of two-wheeler and three-wheeler vehicles.

The imposition of 25 per cent supplementary duty on three-wheeler would lead to closure of some of the industrial units creating unemployment and serious financial complications, it observed.

IUBAT course on shipping begins today

International University of Business Agriculture and Technology (IUBAT) organises a training course on "Shipping in export and import" at the IUBAT seminar room from today, reports UNB.



Ismail Ali Albanna, DNATA's Director of Airport Services receiving the award for Cargo Vender of the Year 1996 from Paul E J Parramore, Manager Network Logistics of KLM Cargo.

Memorandum to finance minister
Resolve problems of leather sector by June 25

By Staff Correspondent

Representatives of Leather Industry in a recent memorandum to the Finance Minister, Shah AMS Kibria have urged him to resolve problems faced by the sector through discussion by June 25.

Otherwise, it said, leather sector representatives would have to go for alternative steps. But they did not specify the actions they are taking.

The memo, signed by representatives of Bangladesh Finished Leather and Leather Goods Exporters' Association, Bangladesh Tanners' Association and also of a joint committee of the two associations, called for resolution of their problems by considering the recommendations suggested by a Task Force recently.

The recommendations include, relocating the tanneries from Hajaribagh to Savar Leather Estate, waiving of loan in leather sector, fresh loan disbursement to affected leather industries, allowing export of crust leather till year 2000, withdrawal of import duty, advance income tax and licence fees on raw hides, skins and their pickles and wet blue leather.

Besides, recommendations were also made for providing bank loan for the purpose of BMRE of small tanneries, strengthening of the Leather Technology Institute, infrastructural facilities and ensuring easy supply of water, gas and power.

Chechen-Russian customs accord

MOSCOW, June 21: Chechen President Aslan Maskhadov has put his signature to a Chechen-Russian customs accord, ITAR-Tass news agency reported, says AFP.

Under the terms of the agreement the Russian customs committee will establish a representative office in the breakaway Chechen republic while the Chechen customs committee will open a similar office in Russia.

DUTA chief appreciates proposed budget

The president of the Dhaka University Teachers' Association (DUTA) Prof Mostafa Chowdhury, has appreciated the social welfare measures and other steps to simplify and modernise revenue collection in the proposed budget for 1997-98 fiscal year.

Talking to BSS on Friday on various aspects of the proposed budget, Prof Chowdhury said the government's social welfare measures like introduction of superannuation allowance for the elderly poors, provision of housing facilities for women workers and proposal of employment generation bank for the unemployed youths are aimed at overall uplift of the nation.

He said the proposed budget is by and large appreciable.

The DUTA president suggested reduction of import duty on textile machinery and raw cotton, agricultural equipment and infrastructural development surcharge.

He said taxes on industry should be reduced to encourage industrialisation and overall growth of the national economy.

Referring to the education as the vital sector of our national life Prof Chowdhury said this sector has been given high importance in the proposed national budget.

He emphasised the need for protection of local industries by reducing new tax proposal on this sector.

He also suggested withdrawal of new tax proposal on utility services like water and electricity.

DNATA Cargo wins best award

DNATA Cargo, operator of the Dubai Air Cargo Village, has been presented with the award for Cargo Vendor of the Year 1996 by a major customer airline-KLM Cargo, says a press release.

DNATA Cargo beat 200 stations worldwide providing cargo services to KLM Cargo to win the award.

KLM Cargo introduced its award scheme to acknowledge the best performing suppliers that allow the carrier to meet its customers' expectations. In choosing the winners, KLM Cargo places heavy emphasis on suppliers matching and surpassing pre-set quality standards.

DNATA Cargo was selected as the best provider of cargo handling services to KLM Cargo out of 200 stations worldwide for showing a constant striving to improve quality and for meeting all nine of the carrier's stringent quality criteria.

The award was presented to Ismail Ali Albanna, DNATA's Director of Airport Services, by Paul F. J. Parramore, Manager Network Logistics of KLM Cargo at a ceremony in Dubai.

Ismail Ali Albanna said: "We are delighted to receive this award and can assure all our customers of our continued efforts to constantly improve our quality standard. We share with KLM Cargo a commitment to quality having gained ISO 9002 certification for our processes and having introduced a Total Quality Management system. This is the foundation on which our success is based."

Loan defaults and classification : A dimension in complex environment

by M Khairul Alam

Bangladesh could not achieve a good economic performance till date in the absence of a healthy banking industry which may entail further deterioration in the coming years. This will be mainly due to the financial environment developed over the past years following unstable socio-economic-political behaviour, particularly non-result oriented and non-accountable traditional bureaucratic delivery system. All these factors are the cult of present default loan culture in the economy.

In the development of bank structure, operation and risk, much attention has been focused on the classification of loans and advances (risk assets), and building adequate provision there against. In the backdrop of loan classification, capital adequacy requirement has been the focal point given the doldrum in the banking sector.

With the rapid changes of political and economic characteristics globally, Bangladesh adopted economic liberalisation programme and allowed banks to operate in the private sector having equity participation of the government to some extent. And to keep pace with market economy, the government adopted financial sector reform programme and as part of its thrust Bangladesh Bank had issued BCD Circular No 34 of 1989 the object of which was briefly summarised as under:

"In order to strengthen credit discipline and improve the recovery position of loans and advances by the banks, it has been decided to introduce a new system covering loan classification, the suspension of interest due, and the making of provisions against potential loan loss."

To achieve the objective, Bangladesh Bank adopted a uniform loan loss provisioning requirement for all banks including NCBs.' The loan amount, as per the said circular and its subsequent amendments, if remains overdue shall fall in any of the three categories:

i) For 6 to 12 months - Substandard
ii) For 12 to 24 months - Doubtful
iii) For 24 months and above - Bad/Loss

Loans are subject to classification usually based on the following criteria:

i) Overdue period;
ii) Failure to repay the required instalments;
iii) Legal action undertaken;
iv) Qualitative judgement of the bank management/Bangladesh Bank.

Provisioning requirement has been introduced against classified loans after necessary value adjustment of eligible securities. Hypothecated goods/machinery have not been recognised as eligible security. Despite upward trend of real estate market, 50 per cent of its value has not been accounted for.

Except 'Substandard' loans, provisioning requirement of 'Doubtful' and 'Bad/Loss' loans remain unchanged since 1989 as under:

i) Unclassified Loans : 1 per cent
ii) Substandard : Increased from 10 per cent to 15 per cent with effect from December 1996.
iii) Doubtful : 50 per cent
iv) Bad/Loss : 100 per cent

Prior to December 1994, banks were required to carry out classification exercise on yearly basis i.e. 31st December but BCD Circular No 20 of 1994 revised the requirement and imposed classification standard on half-yearly basis i.e. 30th June, and 31st December. Again as per said revised circular, classification of loan shall be carried out on quarterly basis with effect from 31st December 1997 i.e. 31st March, 30th June, 30th September and 31st December, and provisioning requirement on Substandard Loans will be increased from 15 per cent to 20 per cent, other categories of provisions will remain unchanged.

As of December 31, 1996, total classified advances of all banks stood at about Tk 130 billion but the health of the banking industry (excepting very few) did not permit to build required provisions — shortfall amount was substantial. It is believed, with proper disclosure system, the non-performing advances may be much more, given the present loan classification methodology.

The recent years have been vulnerable for money market. During 1993-95 interest rates on deposits stayed relatively very low (Bank rate was brought down gradually to 5.5 per cent in 1995 as against nine per cent in 1992) and at the same time undertook breath-taking credit-driven boom — lend to all comers (in the name of rapid industrialisation and economic boom) — the going initially was good. During the period of 1992 to March 1996, as per 'Bangladesh Bank bulletin (January- March 1996), total credit excluding government borrowings, shootup from Tk 220 billion to Tk 340 billion. Low interest rate forced and discouraged the small depositors in particular to withdraw their funds from banks and invest mainly in capital market. The unusual spiral in share market in 1996-97 and its subsequent collapse threw the banking sector partially in liquidity problem in meeting its ongoing credit commitments. Bangladesh Bank also had to go for devaluation of taka with dollar several times during the period. And the banking industry, to cope with the situation, have responded in increasing interest rates both on deposits and lending.

(To be continued)

(The article has been prepared on professional and academic interest and not to undermine any individual or institution. The views are absolutely personal.)