Malyasian economy set to be bullish next year, says expert

KUALA LUMPUR, Dec 26 : A local economist, Dr Ghazali Atan, said the prospects were bright for the country's economy next year, given its continued strong underlying fundamentals.

He said the Kuala Lumpur Stock Exchange's (KLSE) Composite Index (CI) which was on a rising trend now, should stay on average at the 740-point level next year.

"The market should be optimistic next year unless there is a worldwide financial meltdown. At this point in time, the conditions in Russia and Brazil are of growing concern," he said.

Dr Ghazali was talking to reporters after the announcement of the first dividend payment for the Amanah Saham Wanita (Asnita).

A first and final dividend of eight per cent was declared for the eight-month period ending December 31, 1998.

Asnita, which is managed by the Hijrah Unit Trust Management Bhd, had issued 400 million units of shares on May 5, 1998, at 50 sen per unit with a minimum investment of RM100.

Dr Ghazali, the managing director of Metrowangsa Asset Management Bhd which manages Asnita's assets, said that from present market trends, the world economy was not likely to move up to a good shape next year.

"But for the economies in the Asia-Pacific region, the scenario is different. These economies should have better prospects next year because I have already seen some markets bottoming out and there are signs that some of the hardest-hit markets, such as South Korea, are recovering quickly," Dr Ghazali stated.

Any recovery that would take place next year would most probably be led by Japan, he added.

He also suggested that the selective exchange controls put in place now should be eased to attract an active inflow of foreign funds and allow these funds to take advantage of the strong economy.

He said this exchange control, implemented from September 1, which includes a foreign investment drawback in the equities market within T+12 months, had led to the KLCI being dropped from the worldwide Morgan Stanley index.

"This has put foreign fund managers who want to invest in our Kuala Lumpur Stock Exchange (KLSE) in a relatively uneasy position," he said.

As a result, there was a lack of active foreign capital flow into the local equities market, leading to the KLSE being not liquid enough.

"Easing the September 1 ruling, however, might result in some foreign investors who had been caught long in the market (since the exchange control was put in place) leaving with great haste. But it is only for the short term. For the long term, it will be good as the market will go back to normal," Dr Ghazali also placed emphasis on the current account surplus that had accumulated so far which he reckoned was now relatively strong and reliable.

"From the pace at which it is going, my forecast is that there will be a total (current account) surplus of RM40 billion for the whole of this year. This is double that of the government's earlier prediction," he said.

This should add to a more supportive position for the ringgit. "The ringgit was not overvalued when it was pegged at 3.8000 to a dollar on Sept 1. But now, it has instead become undervalued, as some people feel that its real value has appreciated to 3.5000," Dr Ghazali added.

Commenting further on the local front, he said the KLCI, which is currently hovering at the 550-point level, might consolidate a bit in the early part of next year before moving up again. — Asia Pulse Internet

Ismail Haqiqi, Manager of Gulf Air, at the launching ceremony of Airbus A-340 aircraft on the airline's Dhaka route at a city hotel recently. Members of GSA management are also seen. — Gulf Air photo

Gulf Air launches Airbus A-340 on Dhaka route

Star Business Report

Gulf Air, the national carrier of Bahrain, Qatar, Oman and Abu Dhabi, has introduced Airbus A-340 on Dhaka route from this winter schedule, says a press release issued yesterday.

The introduction of A-340 on the route will help passengers enjoy a new level of comfort and luxury.

To formally announce the introduction of the new aircraft Ismail Ali Haqiqi, Manager, Bangladesh of the airlines recently arranged a dinner at a city hotel.

Speaking on the occasion Haqiqi said that 15 years ago Gulf Air started its operation to Bangladesh with only the weekly flights. Now it is operating seven weekly wide-body flights and playing an important role in bringing Bangladesh and the Gulf and Arab countries closer.

Kasem Chowdhury, District Sales Manager of the airline, said that the new aircraft had 18 full sleeper seats in the first class, 36 full sleeper seats in the business class with padded leg rest and 209 economy recline pitch seats for maximum comfort.

Gulf Air has also launched services between the Gulf and the United States, he said. He also detailed measures taken recently to improve the airline's services.

Malaysian current account surplus exceeds target

KUALA LUMPUR, Dec 26: Malaysia's current account posted a surplus of 29 billion ringgit (7.6 billion ringgit) a year earlier, a report said today, reports AFP.

The surplus far exceeded estimates of 20 billion ringgit for the first three quarters of the calendar year.

If the trend continues in the final quarter, there is a strong possibility the figure for the whole of 1998 is most likely to be in the region of 40 billion ringgit," the New Straits Times said, citing a statement from the finance ministry.

Malaysia's trade surplus stood at 44.5 billion ringgit in the 10 months to October, reversing a deficit of 1.7 billion ringgit a year earlier.

Federal Ins declares 15pc dividend

The 10th annual general meeting of the Federal Insurance Company Limited was held recently.

Enamul Hoq, Chairman of the company, presided over the meeting, says a press release issued yesterday.

Executive Committee Chairman Alhaj Rafiqul Anwar, MP, Vice Chairmen Alhaj Sabirul Hoque and Alhaj Nurul Alam, Directors, Managing Director AKM Sarwardy Chowdhury and Company Secretary Abdul Haque, FCA, were also present in the meeting.

The company declared 15 per cent dividends for its shareholders for the year 1997. The company's financial statements show an increasing trend of premium income over the previous years.

The gross net premium income of the company for the year 1997 is Tk 20.44 crore as against Tk 17.93 crore for 1996.

The shareholders expressed their satisfaction at the increase in premium income and the overall performance of the company.

On the same day, at a meeting of the Board of Directors, Enamul Hoq was unanimously re-elected Chairman and Sabirul Hoque and Nurul Alam the company's Vice-Chairmen. Meanwhile, Rafiqul Anwar, MP, has been re-elected Chairman of the Executive Committee of the Board.

6 Jakarta banks seek Shariah status

JAKARTA, Dec 26: Six private Indonesian banks have applied to become financial institutions operating under Islamic Shariah laws that waive interest charges, a report said today, reports AFP.

The six banks have verbally applied to Bank Indonesia to change their status from general banks to shariah banks, central bank Director Subarjo Joyosumarto was quoted as saying by the Media Indonesia daily.

The verbal requests came ahead of central bank regulations governing Islamic banks.

Japan plans minimal increase in ODA

TOKYO, Dec 26: Japan plans a minimal increase in funding for its foreign aid programme in the fiscal year starting next April as part of its efforts to help Asian nations suffering from economic crisis, reports Reuters.

The Cabinet approved a draft initial budget yesterday that allocated 1.0489 trillion yen for Japan's official development assistance (ODA) programme, up about 0.2 per cent from the previous year.

The government had cut its ODA budget fog fiscal 1998 by 10 per cent to 10.0473 trillion yen due to budget constraints caused by the region's economic slump.

The Finance Ministry initially planned a further cut of 0.2 per cent in ODA funds for fiscal 1999, but negotiations among ministries this week resulted in the increase of 0.2 per cent.

The budget increase is due to rising expectations in the international community for Japan to help Asian nations in the midst of economic turmoil, officials said.

The draft budget includes 4.1 billion yen grants to Asian nations for infrastructure development and economic structural reforms, 18 billion yen for training programmes and 20 billion yen in special aid to counter the Asian currency crisis.

The allocation for bilateral grants was 250 billion yen, down 1.6 per cent, while allocations for bilateral technology aid was up 1.1 per cent at 355 billion yen.

Spending for contributions to international organisations was up 11.1 per cent at 132 billion yen.

Japan's foreign aid grew steadily from the late 1970s as it strengthen ties with resource-rich developing countries and embarked on policies to boost its profile in the world community to match its economic power.

But aid has been slashed in recent years amid fiscal reform.

The 10th annual general meeting of Federal Insurance Company held at a city hotel recently. — Federal Insurance photo

China's interest rate cut to stimulate growth

BEIJING, Dec 26 : China's recent interest rate cut will stimulate economic growth, prominent Chinese economist Xiao Zhuoji said here.

China has cut the deposit interest rate and interest rate for loans six times since 1996.

As a result, the annual deposit interest rate dropped from 10.98 per cent to 3.78 per cent, and the annual interest rate for loan dropped from 12.06 per cent to 6.39 per cent, a respective drop of 7.2 and 5.67 percentages.

Xiao said that interest rate is the price of capital. The six interest rate cuts in the past three years have been made in response to the changes of the situation and are positive in many respects.

First, it reduced the interest burden on enterprises - some 240 billion yuan off the back of enterprises in the first five cuts and nearly 23 billion yuan off in the current round of interest cuts.

Secondly, it provides incentives to consumption after the consumer goods market completes transition from a sellers market to a buyers market.

Thirdly, as deposit and loan interest rates serve as a reference point for interest rates on treasury bonds, the financial burden on the state in the issuance of treasury bonds is lessened.

Fourthly, it helps to lift the rate of return on the capital market.

Finally, in view of the characteristics of soft assets and hard debts of Chinese banks, it reduces the risks and direct debts of banks.

The announced interest rate is only the nominal interest rate.

The real interest rate has to take into account of the inflation rate.

Take the one-year interest rate for example, the interest rate was 10.98 per cent in 1995, but the real interest rate was -3.82 per cent in view of the inflation rate of 14.8 per cent.

The present interest rate is 3.78 per cent, but the real interest rate is 6.58 per cent in view of the inflation rate of -2.8 per cent. People can understand this.

In fact, the drop in deposits is a good thing as it diverts the financial assets to the consumer goods market and the capital market. This is good for promoting economic growth.

Xiao said there was still room for a further interest rate cut in China.

He said that China was at the intermediate level in the world in terms of the interest rate.

Apart from Italy, which has maintained an interest rate of 3.5 per cent, the interest rate of all the other EU countries is 3 per cent.

The US interest rate has dropped to 4.75 per cent, with China standing halfway between the two.

However, as the US inflation rate is around three percentages higher than that of China, the real Chinese interest rate is still higher than the US rate.

From this perspective alone, there is still room for further interest cut. Xiao said that a 3-5 per cent real interest rate was relatively normal.

On worries about deflation, Xiao said that generally speaking, besides a continuous drop in prices, deflation was accompanied by continuous downslide of the economy.

In China, however, a relatively high economic growth is maintained despite constant drop in prices.

There have been signs of deflation in China, but it is still hard to say that deflation has actually occurred.

As the effects of the loosening of monetary policies at the beginning of 1998 is still not great at the moment, fiscal policies have been adopted in the latter half of this year to expand domestic demand.

The employment of the two macro-control means at the same time is aimed to guarantee high-speed economic growth.

In the long perspective, however, more emphasis should be given to monetary polices.

On the responses of the stock markets dull response to the new interest cut, Xiao said that the fluctuations of the stock market is determined by a number of factors, and interest rate is only one of them.

In the long perspective, however, interest cut will bring higher rate of return on the stock market, ease the money supply and reduce the financial cost of listed companies. — Asia Pulse Internet

Azerbajan, Japan sign $ 2.3b oil exploration deal

MOSCOW, Dec 26: Azerbaijan's state oil company and a consortium of four Japanese companies signed a contract Friday for joint exploration and development of oil deposits in the Caspian Sea, Russian news agencies reported, says AP.

Azeri President Geidar Aliev said that the deal was worth an estimated $ 2.3 million. The deposits, in three areas of the Azeri sector of the Caspian Sea, are thought to contain 100-150 million tons of oil, the ITAR-Tass news agency said.

The Japanese companies are Japex, Inpex, Teikoku and Itochu, the Interfax news agency reported. The contract is for 25 years.

SAIC governing board meet begins today

The three-day thirteenth meeting of the Governing Board of the SAARC Agricultural Information Centre (SAIC) begins at Bangladesh Agricultural Research Council complex in Dhaka today, reports BSS.

Members of SAIC Governing Board from the seven nations of South Asian Association for Regional Cooperation (SAARC) namely Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, Sri Lanka and representative from the SAARC secretariat will participate in the meeting.

The SAIC is the first regional institution under the framework of SAARC, said a press release.

The meeting will review the past achievements and accomplished programmes and will consider new programmes, budget estimate for 1999 and matters related to functioning and administration of SAIC, the press release added.

Slump in oil prices

Iranians may have to tighten their belts

TEHRAN, Dec 26: Iranians were warned yesterday that they will have to tighten their belts in the face of the economic crisis facing the country as oil prices plummet, reports AFP.

"Our oil income has been almost halved, and we must all be careful not to be wasteful," the country's supreme leader, Ayatollah Ali Khamenei, told worshippers at Muslim weekly prayers at Tehran University.

"The rich and the well off, and the state itself, must reduce their spending," he added.

"Unfortunately our economy depends on oil income, and its pricing is out of our hands," he said.

"May God curse those who based our economy on oil revenues," he said, adding he would like to "close down oil wells in Iran, at least for a certain time."

The fall in oil prices, which has been going on for several months, has hit the Iranian economy hard, as its foreign currency income has collapsed, leaving a big budget deficit and a slide in its currency, the riyal.

Iran, the second biggest OPEC producer with 3.6 million barrels per day (2.5 million of which are exported), gets 85 per cent of its hard currency from oil and gas, which account for half of its budget.

Foreign analysts estimate Iran's non-oil exports, led by carpets, at scarcely three billion dollars for the current year, and they expect them to continue to stagnate.

The fall in oil income has started to impact on Iran's ability to pay its debts.

Latest figures from the central bank show medium and long-term debt amounting to 12 billion dollars, or 22 billion dollars if short-term trade obligations are included.

Russian arms exports to grow 20pc in '99

MOSCOW, Dec 26: Russian arms exports will grow 20 per cent next year, Economy Minister Andrei Shapovalyants told a press briefing yesterday, saying the government would expand export guarantees to boost trade, Interfax reported, says AFP.

The state-run arms company Rosvooruzheniye, which has a virtual monopoly on weapon exports, had led fruitful negotiations with a number of countries including China and India, the news agency quoted him as saying.

In 1999, the government will offer more government guarantees to reliable and solvent companies exporting arms," Shapovalyants said.

Russian exported 2.6 billion dollars of arms last year, a sharp drop compared to the 3.5 billion dollars worth of weapons sold in 1996.

Rosvooruzheniye handles 90 per cent, Russia's weapons sales.

Another report says: Russian armed forces, police and tax inspectors will have their earnings doubled from next July under a decree signed by President Boris Yeltsin, his office announced yesterday.

Presidential spokesman Mitri Yakushkin said the increase would take effect from next July 1.

Morale is particularly low in the armed forces and the government has said the military would receive priority in clearing wage arrears.

In October, hundreds of thousands of state workers demonstrated against arrears. Others affected include medical personnel, miners and teachers.

Earlier this month, Defence Minister Igor Sergeyev won a budget battle, securing six billion dollars next year for Russia's beleaguered armed forces, hurt by years of underfunding, discouraging conditions and loss of prestige.

Military conscripts and lower-ranked servicemen currently receive between 18.5 and 70 roubles a month (between one and 3.5 dollars), and officers between 800 and 2,100 roubles (40 to 105 dollars).

Mithun approves Tk 12 per share dividend

Mithun Knitting and Dyeing (CEPZ) Limited approved a cash dividend of Tk 12 per share in its 7th annual general meeting of the company held on Friday, says a press release.

Chairman and Managing Director of the company Md Mozammel Haque presided over the meeting. Among others present in the meeting were Md Rafiqul Haque, Director, Md Rabiul Haque, Director, Md Atiqul Haque, Director and SM Shahid-ul Arafin, Company Secretary.

Director Md Rafiqul Haque explained different operational aspects of the company and replied to questions raised by the shareholders.

The shareholders unanimously approved the audited accounts of the company and the reports of the directors and auditors for the year ending June 30, 1998.

The 7th annual general meeting (AGM) of Mithun Knitting and Dying Limited held Friday in city. —Mithun Kinitting photo

The year that saw $2.5 trillion mergers

More companies than ever before have joined together as existing industry structures have been swept away, creating the biggest ever oil company, the biggest bank, and the biggest cross-European merger.

Company mergers totalled an astounding $2.5 trillion.

The pace of change has been greatest in those areas exposed to most competition. As oil prices plummeted, even the largest oil companies were forced to seek mergers.

Change has also been forced on the financial services industry too. The coming of the euro led to a consolidation of European financial institutions, while in the USA the deregulation of the banking sector led to a wave of mergers.

Pharmaceuticals and telecoms are both heavily regulated by governments, whose profits are now under pressure.

The merger wave has occurred at a time when the stock market reached record highs after a six year boom. But even the sharp falls in the summer only temporarily dented the merger mania. High stock market prices made it easier to acquire companies by using shares rather than cash and promised big gains for the executives holding stock options.

In most cases the mergers have resulted in job losses as companies set about making savings. Thousands of jobs will be lost throughout the oil industry, financial services and the drugs industry.

There is no guarantee that the mergers will ultimately work. History shows that few mergers add value to company performance and often lead to complacency, but this round of mega-mergers has been much more defensive - the object more self-preservation from intensified competitive pressures - and thus driven by necessity.

Oil sets a record

The biggest merger in history occurred in December when two of the biggest US oil companies - Exxon and Mobil - joined to form a $250b giant.

The new company which will shed 9,000 jobs, will have sales of $200b and oil production of 2.5m barrels a day.

The driving force for the merger was the fall in the price of oil, which dropped from $18 per barrel to $10 per barrel by the end of 1998.

Earlier in the summer, the UK set its own industrial merger record when BP acquired the US oil company Amoco to create the third-largest oil company in the world. The $110b deal catapulted BP into the top table and signalled the beginning of the end of the "seven sisters" - the seven oil companies that have dominated the industry since the break-up of the Rockefeller empire in 1911.

The BP deal left the other big European oil company, Shell, looking unsuccessfully for a partner, after being jilted by Texaco in a European deal. Shell announced a series of restructuring and job cuts to restore profitability, which was badly hit by the crisis.

Shell was also jolted when two of the smaller European companies, France's Total and Belgium's Petrofina, joined forces in December to create the world's sixth largest oil company, and the number three in Europe, after a bidding war with rival Elf-Aquitane.

Some analysts questioned the high premium paid by Total to complete its merger - a measure of its desperation to find a partner.

By the end of the year, it was reported that Chevron, the other remaining oil sister, had also been talking to Exxon and was still looking for a partner.

Banking binge

The other big sector affected by the merger wave has been financial services. Here two factors have been operating. In the USA a change in banking regulation triggered the creation of new superbanks, while in Europe the approach of the euro concentrated minds about the need for greater scale.

Even before 1998 began, Swiss banks UBS and SBC announced a mega-merger which created Europe's largest banking group with $680b in assets.

By the end of the year, Deutsche Bank - the next biggest European bank - topped that with a $10b purchase of Bankers Trust, the New York investment bank, completing its global ambitions with a significant US presence.

Not that the banking scene in the US has stood still. In the spring, Citibank, one of New York's biggest banks, and Travelers Group, a large insurance company which also owned investment house Salomon Smith Barney, merged to form the world's largest financial services company, with a market value of $140b.

Earlier in the year, BankAmerica merged with Nationsbank in a $60b deal, creating the US's first truly national bank. Smaller regional banks Bank One and First Chicago, and Wells Fargo and Norwest also emerged as giants after tying up.

In the UK, insurance companies rather than banks were the main merger players, with Commercial Union and General Accident merging to form CGU, while rival GRE put itself up for sale. But the chief executive of Barclays Bank, Martin Taylor, lost his job for suggesting that the bank should be split up and merged with a continental rival.

Cars and drugs

Cross-border mergers were also more common than ever before, despite the danger of culture clashes.

In the biggest such deal, Germany's Daimler Benz acquired the third largest US car maker, Chrysler, to create a real rival to the US giants Ford and GM.

Analysts expect more shakeouts in the car industry, especially in Europe, as companies struggle with over-capacity.

The UK maintained its position in the European pharmaceutical industry when its third largest firm, Zeneca, merged with the Swedish drug company Astra, owner of the world's best selling drug Losec, whose patent is shortly to expire.

That was some compensation for the earlier failure of the two biggest UK firms, Glaxo Wellcome and SmithKline Beecham, to complete their merger. They fell out over who would become boss of the new company.

But France's Rhone-Poulenc and Germany's Hoechst did join forces, creating a European rival to AstraZeneca and overtaking the earlier Swiss merger that had created Novartis.

Internet drives mergers

The rapid pace of technological change accelerated mergers in the telecoms sector. Most notably, US AT&T acquired cable operator TCI for $32bn - increasing its capacity to invest in fibre-optic cables that would share television and voice signals, and allow high-speed internet access.

AOL, the largest internet service provider, bought Netscape, the inventor of the internet browser, for $2.4bn - transforming the lawsuit brought against Microsoft for trying to dominate the net with its rival browser.

And the consequences of the merger of US telecoms giants WorldCom and MCI - which set off the merger wave - continued.

Cable and Wireless acquired much of their internet backbone.

Mergers on the radar

Still awaiting confirmation by the end of 1998 was the creation of a European defence company - joining together British French and German aerospace companies to rival the US defence giants.

-- BBC Internet

US weekly stocks

Dow Jones ends week higher

NEW YORK, Dec 26: The Dow Jones industrial average posted its sixth straight daily gain on Thursday and was up 3.55 per cent for the week, as investors remained largely indifferent to political uncertainty in Washington, says AFP.

In Thursday's holiday-shortened trading, the Dow rose 15.96 points to finish the day at 9,217.99 US financial markets will be closed on Friday for Christmas.

The NYSE composite index gained 0.12 to finish at 589.07 and the amex composite advanced 3.54 to 100.12.

Closing lower were the SP 500, down 2.26 at 1,226.28 and the Nasdaq, which gave up 9.50 to finish at 2,163.04.

Volume was 251.3 million shares, with 1,511 higher, 1,360 lower, and 617 unchanged.

On the bond market, the yield on the 30-year treasury note, which moves opposite to price, rose to 5.214 per cent from 5.192 per cent on Thursday.