



# Star BUSINESS

DHAKA THURSDAY JANUARY 20, 2005 E-mail: dsbusins@gononet.com

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## Heavy withdrawal ups call money rate to 50pc

Precautionary demand for money creates stress on liquidity: Bankers

### STAR BUSINESS REPORT

With the banks going on four-day vacation ahead of Eid, the call money rate yesterday hit 50 percent, a trend usually observed during the pre-Eid periods.

Banking sources attribute the high rate of inter-bank transaction to bank customers who withdraw cash heavily from the banking sector.

The demand, which economists term 'transaction and precautionary demand for money', creates a stress on the liquidity, bankers said.

"The resultant factor of the large volume of cash being in circulation in people's pockets rather than being in the banking sector causes temporary shortfall with the banks."

Therefore, quite naturally, the rate by which the banks exchange short term funds jump to higher levels, explained the banker.

He said its only before the last Eid in November, Bangladesh Bank extensively used the Treasury bill Repurchase agreement (Repo)

facility in order to maintain a stability of the rate in the market. During the last Eid-ul-Fitr, the call rate remained relatively stable, as the highest rate was 20 percent.

The rate yesterday peaked at 55 percent among the non-banking financial institutions (leasing, insurance etc.) which are generally large borrowers from the inter-bank market.

In the Repo mechanism, Bangladesh Bank supplies money to the banking sector in exchange of banks' excess Treasury bill held with them for a specified period. Bangladesh Bank supplied almost Tk 500 crore on November 9, 2004 through the Repo facility.

However, the situation had changed since November last. Bangladesh Bank discontinued supplying funds in the banking sector through the Repo facility in the last week of December, a leading banker pointed out.

"As a result, we saw a spike of call rate to 40 percent during the year-end on Dec 30 when banks window

dressed their balance sheet by keeping excess money in central bank", said.

Suddenly on 15th of January, Bangladesh Bank accepted Repo at a higher rate of 10 percent than the usual range of 4.5 percent to 5.5 percent.

To meet the demand from huge cash withdrawals, banks applied for Repo of Tk 770 cr on January 18 this year, which was the last Repo auction before the Eid" the banker said. "However, the central bank accepted less than 1/5th of the bid amount and supplied only 140 cr through Repo, which was also at a higher rate."

Because of this gap, call rates reached 50 percent yesterday and despite repeated requests from the borrower banks, central bank denied to hold Repo auction, the banker explained.

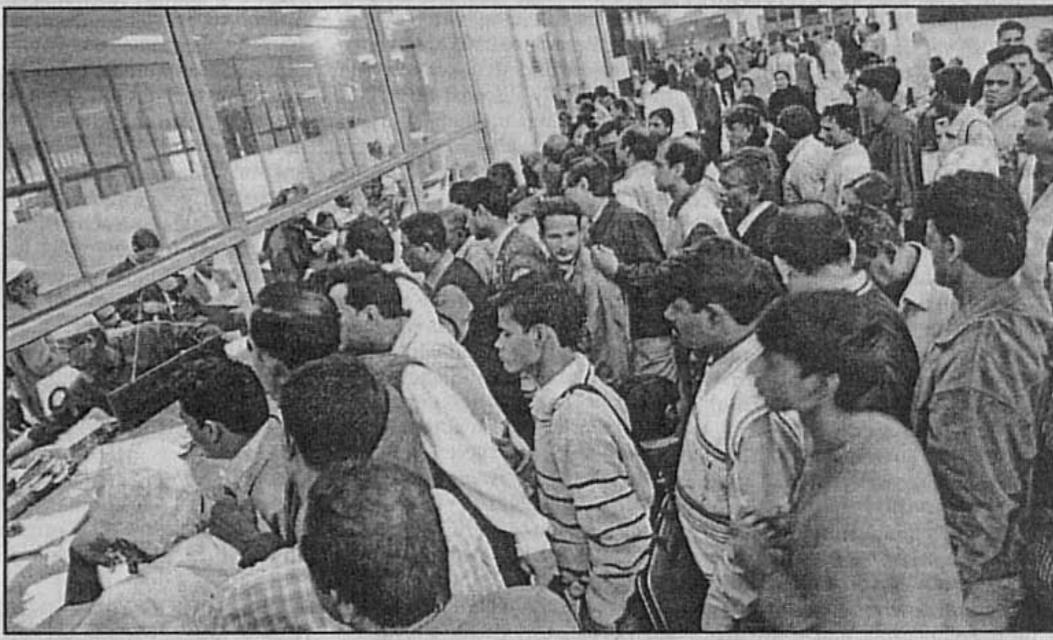
He said that as a result, almost 90 percent of the transactions among banks as well as the NBFIs were settled between 40 percent to 50 percent. Before Bangladesh Bank

decided to supply funds at 10 percent through Repo, most of the banks had closed their shortfalls at high rates. Looking back to last few years, Eid period could have justified an earlier communication to the banks.

He maintained that it had been observed that since the beginning of December 2004, call rates edged higher than the previous ranges. "Higher call rate is an additional cost, which is finally being passed on to the investors and borrowers from the banks."

In this situation, banks increase their deposit rates to attract deposits which is again needed to be passed on to borrowers, he said adding that when a bank gives depositors 7 percent for their funds, the grossed up cost becomes around 8 percent because of the reserve requirements.

Paying higher costs for depositors' money would force the banks to keep the lending rates higher, he observed.



A huge number of people crowd cash counters of a commercial bank in Dhaka yesterday, the last working day before the Eid-ul-Azha to be celebrated on Saturday. The banks resume transactions on January 24 after a four-day holiday.

PHOTO: STAR

AB Bank arranges Tk264m loan for Basic Dredging Co

Arab Bangladesh (AB) Bank Limited has arranged a syndicated credit facility of Tk 264 million for Basic Dredging Co Ltd to support the land development work in Jhilmil residential project area, Keraniganj, Dhaka.

The other participants in the syndication arrangements for the Rajdhani Unnayan Katripakkha (Rajuk) project is The City Bank Ltd, Kaiser A Chowdhury, president and managing director of AB Bank, Abbas Uddin Ahmed, managing director of The City Bank, and Md Saiful Islam, chairman and managing director of Basic Dredging, signed the agreement on behalf of their organisations in Dhaka on Sunday, says a press release.

New MD of First Security Bank



Mohiuddin Ahmed took over as managing director of First Security Bank recently.

Earlier, he was working as acting managing director of the bank.

Ahmed started his career in 1969 as a trainee officer of the then United Bank, says a press release.

## Expansion of industrial parks on the cards

Says minister

UNB, Dhaka

The industries minister yesterday said the government is now considering proposal to expand industrial parks in the country.

"Our first priority is to identify whether there is still available space in the existing industrial parks," he told a press conference at the ministry's conference room.

Relying to a question, the minister said they were not thinking about any price-hike of fertilisers although the prices of gas and diesel have been increased.

To meet the demand of the fertilisers in the country, he said, the government earlier decided to import 400,000 metric tons of fertiliser this fiscal year.

"We are strictly monitoring production, demand, stock and distribution of fertilisers and hope to fulfil the demand successfully," said Motiur Rahman Nizami.

Clarifying the position of the government towards the backward linkage industries, he said: "We are extending cooperation to the backward linkage industries, not regulating them."

Nizami mentioned the cabinet in a meeting January 17 approved the Industrial Policy. "Because of this policy, foreign and local investors would be interested to invest in the country," he said.

The industrial sector was in total disarray before the alliance government took over power, he said adding that they had restored discipline

within a decade.

He said as recommended in the Industrial Policy, the government would give a national award each year for "Excellence in Productivity & Quality" to encourage production of world class products and efficient management.



Mawzihullah Bhuiyan has been re-elected chairman of National Credit and Commerce Bank Ltd.

The board of directors of the bank also re-elected Khairul Alam Chakdar vice chairman.

Chakdar is the chairman of Technical Bangladesh Ltd and Max Electronics, says a press release.

## Oil prices steady in Asian trade

AFP, Singapore

The stocks report out of the US before they make any particular move and I suppose the slight easing today is just a result of people positioning themselves for the release," he said.

Concerns over a heating oil supply during a cold US winter and the possibility of oil installations in the Middle East being sabotaged have not eased, he said.

"It all depends on the figures released from US. If we see rising heating oil stocks, prices will fall fairly quickly but if stocks are held at the same level or fall, then we could see prices moving even higher."

EU upbeat in public as budget pact revamp starts

REUTERS, Brussels

EU finance ministers set aside differences to report positive preliminary talks on the European Union's budgetary rules on Tuesday, leaving the hard bargaining for later while keeping their sights on a deal by March.

Luxembourg Prime Minister Jean-Claude Juncker, who chaired their meeting in Brussels, told a news conference that countries with the most extreme positions on the future of the Stability and Growth Pact were moderating their stances on a revamp.

"We are making progress, the various positions are moving closer and I hope we can conclude within the deadline," he said.

The pact was designed as a warranty for the euro, to ensure that profligate governments did not knock it off course.

But France and Germany, suffering from an economic downturn, exceeded the pact's budget deficit limit 3 percent of gross domestic product for a third year in a row last year, and are among EU states pressuring for a loosening of the rules.

Germany, undaunted by criticism from its own central bank, pursued its campaign at Tuesday's meeting, arguing governments should not be systematically subjected to disciplinary procedures when deficits exceed the limit.

## Tesco eyes \$100m garments in '05

British retailer upbeat about Bangladesh's RMG industry

### STAR BUSINESS REPORT

Britain's number one retailer -- Tesco that has 2,380 stores in 14 countries -- has set a target to buy garment products worth US\$ 100 million from Bangladesh this year.

Making a positive note about the future of Bangladesh garment industry, John Hoerner, chief executive officer of Tesco Clothing & International Sourcing, said prices of Bangladeshi products are excellent and this country is driving to be an ethical sourcing for the buyers.

"There are huge opportunities for us to grow in this country and that's why we have expanded our office in Dhaka," said Hoerner, who is on a visit to Bangladesh for the first time and accompanied by other top executives of Tesco.

He was speaking at the reception organised in honour of him by Bangladesh Garment Manufacturers and Exporters Association (BGMEA) in Dhaka yesterday. Commerce Minister Altaf Hossain Choudhury was present at the function as chief guest.

Hoerner said 10 years back Tesco's turnover was nine billion pound sterling and it recorded a tremendous growth in sales during this time.

"Today Tesco's sales went up to



PHOTO: STAR

Annisul Huq, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), presents a crest to John Hoerner, chief executive officer of Tesco Clothing & International Sourcing, while Commerce Minister Altaf Hossain Choudhury looks on at a reception accorded to Hoerner by BGMEA in Dhaka yesterday.

33.5 billion pounds which is equivalent to US\$58.6 billion. We have 2,380 stores in 14 countries of which 1909 are in the UK."

Only low labour cost is not enough, the Tesco CEO said noting that enlightened management and investment in hi-tech are equally important factors for the growth of a company.

Laurent Madelaine, country manager of Tesco, said Tesco started sourcing from Bangladesh two years back. "And our experience here is good."

Responding to the observations of Hoerner, BGMEA President Annisul Huq said garment exporters are trying their best to make this country an ethical sourcing for the buyers.

Around 39 BGMEA well-trained officials are working in its complaint cell and 17 in the safety cell. They are working together to strengthen the capacity of the association so that these complaints are well addressed, Huq added.

Expanding of Tesco operation in Bangladesh is a positive indication for the garment exporters, the BGMEA president observed.

Speaking at the reception, Altaf said: "We have to do more to be competitive in stiff competition of presentage of globalisation."

"The country's economy depends to a great extent on retaining the success of garment exports whose prospects are apprehended to be bleak in the post-MFA era."

"But the initial symptoms in terms of export orders received so far indicate that future might be better than expected," Altaf added.

Customs procedures have been simplified to a great extend and one stop service has been introduced in the Chittagong Port for clearing import and export consignment in an hour, the commerce minister told the reception.

"Japan's economy is expected to continue to recover," the central bank said in the January report.

Exports have been flat and industrial output has been soft, hit by slowing demand in the information technology (IT) sector, but both corporate investment in factories and offices and the labour market were on an upturn, the bank said.

Japan's industrial production rose 1.5 percent in November month-on-month, the first such rise in three months, after falling 1.3 percent in October.

A survey of manufacturers by the trade ministry showed that industrial output may fall 0.9 percent in December, but rise 2.8 percent in January.

But any decision on this would be taken keeping in mind the interests of local farmers, Sharad Pawar told an international oilseeds conference.

The country of more than one billion people, which has the world's fourth-largest vegetable oil and oilseeds economy, does not allow imports of GMO seeds. It also imposes a 30-percent duty on non-GMO seeds, which traders say is too high and not viable.

"In order to overcome the shortage of oilseeds and edible oils, there is a need to encourage imports of high oil content oilseeds and to import genetically modified oilseeds, while protecting the interests of Indian farmers," Pawar said.

The domestic oilseed crushing industry often faces a shortage of oilseeds because of low domestic production.

India imports some 40 percent of its annual needs of 11 million tonnes of edible oil. It imported 4.4 million tonnes of edible oil, mainly palm oil and soft oils, in the 2003/04 (November-October) oil year.

All other terms & conditions of tender shall remain unchanged.

Amended dates

A) Last date of : 30-01-05 (during office hours).

B) Date of : 31-01-05 up to 1:00 PM.

C) Date of : 31-01-05 at 2:00 PM.

opening tender was

opening tender was