EU clinches budget deal, moves towards reconciliation

AFP, *Brussels*

EU leaders clinched a budget deal early yesterday after long hours of intense diplomacy, ensuring a flow of vital funds to poorer new members from the east and averting a new crisis that could have paralysed the 25-member bloc.

"This is an agreement that allows Europe to move forward," British Prime Minister Tony Blair told reporters. "If we'd failed to reach an agreement at all, I think that Europe would have been in a very severe crisis."

After some 30 hours of talks that saw alliances form and dissolve around key parts of the plan for European Union spending from 2007 to 2013, the British EU presidency announced it had sealed a compromise at about 2:30 am (0130 GMT).

The budget deal would see Britain effectively cut 10.5 billion euros off its jealously-guarded budget rebate, with funds being shifted towards the poorer mainly former communist countries which joined the EU last year.

It also agreed to boost the spending to nearly 862.4 billion euros.

In exchange, Blair won a loose commitment for a review, and potential modernising of the package during the seven-year period to include the EU's expensive farm subsidy system that France so staunchly defended.

"This is a good accord for Europe which will provide it with the means to finance its ambitions, its common policies, and this agreement will allow for the adequate financing of enlargement," French President Jacques Chirac said in Brussels.

The budget includes the EU's 10 newest member states for the first time, and accounts for Bulgaria and Romania which are due to join in 2007, and the final accord was held up as the biggest of them, Poland, held out for more aid.

When the deal was done, and after winning some four billion euros more than originally offered by Britain, normally austere Polish Prime Minister Kazimierz Marcinkiewicz punched the air shouting "Yes, Yes" in celebration.

"It is a budget of solidarity. It's good for the sake of Poland and for the sake of the development of Europe," he told reporters.

PHOTO: STS HOLDING

Farhad F Ahmad, chief operating officer of STS Group, and David Davies, academic services manager of Edexcel International, an international body approved by the UK government, sign a memorandum of understanding (MoU) recently in Dhaka. Under the MoU, STS Group will set up an 'International Training Centre' in the capital to offer a range of globally recognised programmes through Edexcel International.

PHOTO: BANK ASIA

Syed Anisul Huq, president and managing director of Bank Asia Ltd, and Hamidul Huq, MD of United Commercial Bank Ltd, exchange documents after signing an agency arrangement recently. The agreement will facilitate channelising remittances and cash management between the two banks. Other senior officials from both the sides are also seen.

US current account deficit narrows slightly

AFP, *Washington*

The US current account deficit dipped slightly in the third quarter on a jump in payments from foreign insurance companies, data showed Friday, but economists said the gap remains a threat to the dollar and the economy.

The broadest measure of trade and capital flows, the current account gap fell one percent to 195.8 billion dollars, the Commerce Department reported.

The decrease was due mainly to claims by US companies from foreign insurance companies in the wake of the extensive damage caused by hurricanes Katrina and Rita, officials said.

Economists said the underlying trend remains worrisome for the United States.

"Obviously, this quarterly swing is a one-off event," said Jay Bryson, economist at Wachovia Securities.

"Recent growth rates in exports and imports suggest the current account deficit will swell further going forward. The big question is: Will foreigners continue to finance the US current account deficit?"

The figure was narrower than expected on Wall Street, where analysts had predicted a widening to 205 billion dollars.

The report marked the second straight quarter of a narrowing deficit after the current account reached a record 198.7 billion dollars in the first quarter.

A look at novel banking products

SYED SULTAN UDDIN

Commercial banks can help meet their customers' financial and investment goals by offering a comprehensive range of innovative banking products and services. They can diversify financial products under same or separate legal framework. With a variety of financial products, commercial banks can provide alternative sources of investment option. Here is a glimpse of some innovative banking products and services.

Asset Securitisation

Securitisation allows conversion of pool of assets into marketable debt securities. The deal starts with an Originator [Banks] selling part of its assets to a body called the Special Purpose Company (SVC) -- such as ICB in Bangladesh, which then converts these assets into cash in order to raise new fund.

The SVC raises the money by issuing Debt Securities and uses the proceeds to pay off the Originator. Debt Securities issued by the SVC originally are backed by receivables of the selected asset pool. In the event of any receivable are not realised, the collateral securities are to be enforced and realised. Normally there is enough collateral security against each loan to support the obligation of debt security holder.

In Bangladesh several Financial Institutions have started Securitisation under Private Placement basis but no Financial Institution so far has offered Securitised Debt Securities in the Public Market. Under Private Placement the bank can place securities to individuals or institutions on behalf of the issuer for a fee. The bank can also acquire shares or securities for its own portfolio.

Securitisation enhances quality of credit as it demands better quality asset (loans & advances). Poor quality assets NPL (non performing loan) cannot be securitized, as few investors will be interested to buy it. Banks can gather pool of its assets (loans & advances) for securitisation purpose and mobilise cash for which it has to wait for the tenure of the assets. But before the tenure by securitisation it can sell its assets (loans & advances given to its customers) within shortest possible time before the maturity of the asset pool. This is not possible in conventional systems for deposit mobilisation or liquidity enhancement.

For investors, securitised debt securities are fixed income securities and risks free. They have attractive yields (rate of return), backed by high credit quality.

The process of securitisation however is a complex one. It is more difficult to manage than acquiring bank loans. The process of selling the best assets of particular company may have other implications for rating agencies, legal coverage and assignment of collateral security. Incase of failure of originator (Bank/FI whose asset is securitised) there must be a third party to minimise risks. Technical expertise in the relevant area is a must before carrying out securitisation.

Factoring

Suppose 'Company A', an SME, is engaged in printing & packaging business. They have a good number of corporate clients and are also known for having quality products and services. Company A approaches 'bank B' for extending credit facility to fund its growing business. Considering 'Company A's market reputation and good customer base, Bank B agreed to extend credit facility, with adequate collateral coverage. Meanwhile, 'Company A' continue to see increased clients and requests additional fund from the bank for servicing the customers. But the bank cannot extend further credit without adequate collateral security.

Factoring comes to rescue. It allows businesses to sell invoiced receivables to any Factor (Bank/Financial Institution) at discounted value, thereby receiving an immediate cash infusion. It enables the customers to realise the maximum portion of the payment after delivery is made to the buyer.

Factoring is a contract between the Supplier and the Factor (Bank) where supplier assigns receivable to the factor. Notice of assignment of receivable is given in writing to the debtor (buyer-who may be a customer of the bank). In other words, the supplier "sells" invoiced receivables at a discount to a bank or a financing house.

The Commercial Banks of our country can make separate wing to perform 'Factoring Services' like SBI of India. There is no legal restriction for providing Factoring Service under separate legal entity.

The main benefits of factoring are ensuring continuous cash flow for the business and availability of fund, getting sales ledger reporting facility (effective Account Receivable Management system) from the factor (bank /FI). Besides collateral is not always mandatory and professional collection as the Factor perform daily and monthly collection activities and customer is informed promptly.

Investment Banking

At present the capital markets are relatively attractive when considering low Price to Earning ratios and high rate of returns. Market capitalisation as well as number of listed securities has increased gradually. Moreover, there are more companies now with strong fundamentals and the capital markets seem to have shrugged off speculative behaviours. Rules have become more comprehensive and the regulatory body has become more active and transparent.

SEC in Bangladesh primarily permits investment bankers to do three broad functions:

& Issue Management. Investment Bankers can carry out all relevant tasks involved in taking a company to public

& Portfolio Management. They can manage portfolio of individual/institutional investors.

& Underwriting. This involves typically buying new securities from the business houses in an attempt to resell those securities at a profit to other investors. Normally Investment Bankers underwriting on Firm Commitment basis.

Over time, we can expect that investment bankers will be involved in other services such as mergers & acquisitions, strategic alliances, joint ventures, and so on.

Securities and Exchange Commission (SEC) has made it mandatory to have Beneficiary Owners (BO) Account when launching Initial Public Offering (IPO) or other securities offerings. BO Account is like bank account, where customer will deposit their scriptless securities. While bank account contains money and BO account contains securities.

Banks can open BO Accounts taking prior approval from CDBL (Central depository Bangladesh Ltd). Through Demat service, paper based securities are converted into scriptless electronic form from respective customer's BO account.

Mutual Funds

Picking stocks is not an easy task. After all, the customer may have neither the time to follow each company' performance nor the expertise to read into the company's financial books.

In a mutual fund, the securities picking task is delegated to professional fund managers and the returns on the portfolio of the fund are distributed to the Investors in proportion to their investments. Mutual funds come in different flavours; some invest according to some investment objectives, some specialise on particular sectors or regions. Normally there are following varieties of Mutual Fund:

a) Equity Funds (invested only equity securities)

b) Fixed Income Fund (invested only in fixed income securities -- risks free investment)

c) Money Market Funds (Short term investment vehicle)

In our country our mutual funds are mixed in nature, which have combination all the above features.

Investments through mutual funds in Securities are spread across a wide cross section of Industries and sectors. Such diversification reduces the risk of investment because all stocks may not move in the same direction and in the same proportion at any given time.

Since mutual funds enjoy larger economies of scale, the maintenance fees are usually smaller than what brokers would charge. Individual investors also enjoy tax exemption benefit.

In Bangladesh, Mutual fund is most strictly regulated investment vehicle. The laws governing mutual fund require in-depth disclosure to the regulator. There are also investment restrictions for fund manager of mutual fund where they are not allowed to invest public money in speculative transaction like option trading, short selling or carry forward types of transactions. Through mutual funds, financial institutions can succeed in mobilising additional saving to investments. Well managed mutual funds can provide stability and increase liquidity to the capital Market.

Commercial Bank can introduce Open-ended Mutual Fund or Close-ended fund. Open-ended mutual funds do not have any fixed date of redemption. Generally they are open for subscription and redemption throughout the year. This fund is much more liquid than closed-end mutual fund. Its prices are linked with Net Asset Value (NAV).

The assets of the closed end fund are professionally managed in accordance with fund's investment objective & policies, which is normally published in fund's prospectus. Like other publicly traded securities, the market price of closed end fund's share fluctuates and is determined by supply & demand in the market (closed end mutual fund normally listed with stock exchanges like DSE or CSE). The fund has specific tenure and fixed date of redemption. The fund is open for subscription only once and can be redeemed only on the fixed date of redemption. The units of closed end mutual fund are listed with stock exchange and tradable through secondary market.

Number of units of open-ended funds can fluctuate on weekly or monthly basis while in case of closed-end it is closed at the time of starting.

The writer is head of leasing, Premier Bank.