

Energy trade dominates EU-LatAm summit

AFP, Vienna

Bolivian President Evo Morales moved to reassure investors Friday at an EU-Latin American summit dominated by his warning that foreign firms would not be compensated for nationalized oil and gas resources.

Bolivia will guarantee "genuine, long-lasting legal security" to foreign companies operating on its territory, Morales said in a letter sent to Spanish Foreign Minister Miguel Angel Moratinos on Thursday and made public Friday at the summit in Vienna.

Morales also said Bolivia would like to become a member of the powerful OPEC oil cartel, as he continued a charm offensive since shocking the summit Thursday by saying his government would not compensate foreign firms in his country's nationalization.

Morales has been trying to strike a more reasonable tone since then.

About joining the 11-nation Organization of Petroleum Exporting Countries, Morales told reporters: "Who wouldn't like to be one of those countries?" and added: "How can we enter OPEC if we do not control our natural resources?"

EU leaders used the forum to urge Bolivia, as well as oil-rich Venezuela, to cooperate with foreign powers and keep trade ties active.

British Prime Minister Tony Blair called on Morales and anti-US Venezuelan President Hugo Chavez to use their nations' petroleum resources "responsibly" and "work with foreign investors,"

according to his spokesman.

Blair "sent a double message" in letters to the two presidents although he did not meet them personally, spokesman Ian Gleeson said.

French President Jacques Chirac said Morales had reassured him that there would be no "expropriation" of the goods of foreign oil companies.

Chirac told reporters after meeting Morales that the Bolivian president "is anxious to have talks with energy companies and an agreement, at least this is what I understood, which rules out any attitude of expulsion or expropriation."

UN Secretary General Kofi Annan, also attending the summit, said investors need to know "that the conditions under which they are making an investment will be sustained over the medium to the long term."

Morales claimed a stunning victory in Bolivia's presidential election last December after pledging to take a bigger share of earnings from Bolivia's vast energy resources.

Some 26 foreign companies, which include Brazil's Petrobras firm and France's Total, now have six months to renegotiate their contracts with Bolivia's state-run hydrocarbons company Yacimientos Petroliferos Fiscales Bolivianos (YPFB).

During the transition period, 82 percent of profits will go to the Bolivian state and 18 percent to the corporations.

EU and Latin American leaders at the Vienna gathering warned that

developing trade ties could be hit by populist moves by nations such as Bolivia and Venezuela to protect their energy sectors from foreign control.

The summit of 60 heads of state and government heard calls for more balanced trade relations, with a joint final statement demanding a "more compatible regulatory regime."

The statement does not refer to Bolivia and Venezuela by name, but clearly has them in mind -- as did some of the speakers at Friday's plenary session.

European Commission chief Jose Manuel Barroso called for a "convergence of interests, not only of values."

Mexican President Vicente Fox warned Latin America that populism "hinders meeting the challenges we have."

The 16-page final statement stressed human rights, the fights against terrorism, drugs and organized crime, and concern for the environment, "including disaster prevention," according to a draft.

Alluding to Bolivia and Venezuela, the statement said that "while acknowledging the sovereign right of countries to manage and regulate their natural resources, we will continue and strengthen our cooperation with a view to establishing a balanced trade framework and more compatible regulatory regime."

Recent turbulence in money market: Few learning points

MAMUN RASHID

A latest incident in the money market of Bangladesh has caught the attention of many. Media reported call money rates shot up to 150 per cent on March 30, 2006. We had observed call rates often soaring above 50 per cent during Eid periods. The reason behind had always been the liquidity crunch that the inter-bank market experiences during every Eid season due to cash withdrawals in large volumes. Household consumers carry a lot of cash during these periods, which reduces the aggregate deposit in the banking sector. This event-based demand for money, which economists refer as transaction demand, pushes the overnight interest rates to very high levels twice every year. As a result, pre-Eid-rate-hikes have become just like another regular Eid special topic coverage by the media. But the reason for rate hike on March 30 was rather unfathomable. And what surprised people more was a subsequent statement by the relevant regulator that the call money rates did not trade as high as 150 per cent. High officials of the regulating agency were seen disagreeing with 150 per cent call rate openly in a media conference. All these along with hastily made comments from one or two economists had generated a lot of confusions, which eventually led to numerous discussions among the economists, businesspeople and even common people.

Let us focus on what had been the actual scenario on March 30. During the week of March 25 to March 30, Bangladesh Bank absorbed a huge amount of funds through the reverse repurchase agreement of treasury bills, which is popularly known as reverse repo mechanism. Reverse repo is one of the widely used instruments by the central banks throughout the world to control the money supply. Bangladesh Bank like all other central banks has the responsibility to maintain a stable growth of money supply to support sustainable output growth. In Bangladesh, three tools— reserve requirement ratios, repo/reverse repo and sale-purchase of treasury bills control money supply. While reserve requirement ratios and sale-purchase of government securities are long-term tools, repo and reverse repo are short-term tools to fine-tune the money supply. Bangladesh Bank sets up a money supply target every quarter and tries to contain the growth of money supply within that target to keep the inflation level within

target. The measurement dates for money supply are the four-quarter ends. March 30 was the end of the first quarter and according to Bangladesh Bank calculations market had excess liquidity compared to the target money supply. This possibly influenced the central bank to mop up funds from the banking sector through reverse repo. A total 20 billion taka was taken out of banking sector in the last few days of March 2006. News of central bank absorbing fund from the banking sector spread out very quickly. As a result, call rates quickly moved up towards 50 per cent in the first few days. As the panic started to swell, call rates went past 100 per cent and a number of deals were struck around 150 per cent. A few deals were heard to be struck at 180-190 per cent. When the news of high call rates reached Bangladesh Bank it reportedly started to call the high officials of various banks to lower the rates. None of the banks was obviously interested to reduce the call rates. Call money deals done between the dealers of two banks are backed up by written confirmation exchanges. The actual deals are recorded through the Reuters dealing system or if the deal is done over telephone the deal-conversations are recorded. Canceling and rebooking the deals at a new rate would lead to a clear breach of the underlying contract and of course unheard of in any other markets. However, the regulator (possibly being panicked by probable criticism from the media, businesses and moreover few economists) was adamant in lowering the rates. Some of the banks gave in and they cancelled and rebooked the deals at the central bank's prescribed/desired rate. However, these interventions failed to serve the purpose—news reached the media. Private TV channels were airing news that call rates hit 150 per cent. A managing director of a private bank was also seen expressing his opinion as to why the call rates hit 150 per cent. So, when Bangladesh Bank said in a media conference that call rates had not moved above 40 per cent, it only added a new level of uncertainty and suspicion rather than addressing the core problem.

Why does it seem to us that we have seen this movie before? Because it was a replica of the incident we had seen in the foreign exchange

market. Due to price hikes in the oil and different commodities, import volumes ballooned in our country last year. The domestic currency, taka, was under severe pressure against the dollar. Taka depreciated very quickly from 65 to 70. A group of people tried to intervene in the USD/BDT market by calling the trading banks over phone and threatening them not to do deals above a certain band. Such instructions were contrary to the concept of currency flotation and free market model. In a floating market, the supply and demand of the currency should determine the exchange rate it should be not be regulated by the central bank. The verbal interventions did not work in the currency market because it was against the market fundamentals. Rather to the dismay of our regulators and stakeholders, multi-tiered rates evolved in the USD/BDT market. Majority of the deals were done in the third currency market, where USD/BDT were traded at a higher rate through a mechanism that masked the effective USD/BDT rate. In the formal regulated USD/BDT market only a fraction (3-4 per cent) of the total volume was traded with a few participants. Moving against the fundamental has caused these banks to incur huge losses at the cost of the shareholders and owners. These banks had tried to persuade all other banks to trade in a government regulated rates. However, the USD/BDT rates moved with its own momentum and had hit as high as 75.50. When the fundamentals came in favour of the BDT—when the trade balance of Bangladesh turned surplus, the foreign currency supply and demand gap narrowed down quickly and taka started to strengthen. Currently, we can see USD/BDT rates trading at around 69.60 in the inter-bank market—a 7.8 per cent appreciation in a quarter.

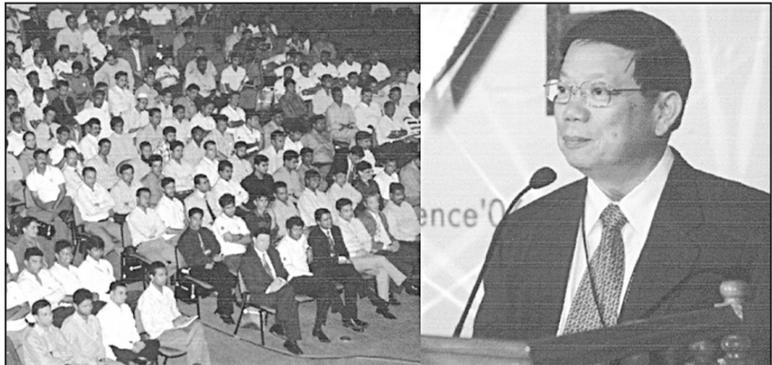
What we cannot understand is that how we repeat the same mistake. Financial market regulations can never be effective if it is not in sync with market fundamentals. Interventions against the fundamentals and policing in the financial market are not expected from any agency committed to market driven growth and reforms. How could we forget the futile attempts during the 'autocratic regime' of the eighties to control and regulate the media? Newspaper offices were often hit by late-night-phone calls with instructions not to publish any news

against the autocratic government. None of these impositions worked, rather the fuming media kept on publishing the 'true stories' that later turned out to be one of the main 'raison d'être' behind the debacle of the autocratic government.

The financial market of Bangladesh is crippled by looming protectionism. Protectionisms promote inefficiencies and breed corruption in the market. If a bank opens import LCs recklessly and cannot fund own foreign currency requirement, it should pay the price. Why do we have to artificially control the USD/BDT rates and let the remitters and exporters suffer? Same rationale should apply for the market driven overnight interest rates—call rates. Banks who cannot manage their asset and liability books should end up paying for inefficiencies. Reward and consequences based on effectiveness and efficiencies of the market players should be implanted at the core of a free market economy. Treasury management, which encompasses the foreign exchange and local currency management, is a specialised avenue in banking. Repeated meetings and discussions among the chief executive officers who do not have any prior experience in treasury business would hardly fetch any benefit for anyone. Time has come for the banks and the regulators to realise these issues. High-powered action committee should be formed only with persons having prior experience in treasury business or bankers actively involved in treasury management. We should not be worried if call rate hits 150 per cent on a day (India has seen this many times during nineties and

Argentina has seen 500 per cent in the recent past), since it does not in any way change the clients' borrowing rate from the banks or overall monetary management stipulated by the regulators. Our finance minister said call rates had hit 2500 per cent in Britain. Infrequent spike in the financial market is a test of efficiency for the free market participants. We should focus on the fundamentals—how to increase the exports, how to channel increased remittance through the formal banking sector or more to say—how to attract more foreign investment. We expect all the concerned parties—regulators, policy makers and market participants would understand the gravity and the peril of moving against the wind after these repeated incidents. Anyone can do a mistake but only the wise learn from mistakes. We have some very good 'money managers' or monetary economists among the senior officials of our central bank and they are being seen maintaining a consistency in bringing in the market reforms or at least attacking the problems in line with the market experiences in other similar countries. We want them to drive changes or reforms with required courage and rationale, not to be influenced by economists or businessmen who do not do their homework or whose comments are not backed by experiences in other countries or not in line with the growth potential of Bangladesh market.

The writer is banker. However, views expressed in this article not necessarily reflect the position of the organisation he works for.



Chye Hoon Pin, chief executive officer of mobile phone operator CityCell, speaks at the 'Distribution Conference-2006' of the company yesterday in Dhaka. Others officials of the company were also present.

