

US props up troubled Citigroup

AP, Washington

Rushing to rescue Citigroup, the US government agreed to shoulder hundreds of billions of dollars in possible losses at the stricken bank and to inject a fresh \$20 billion into the company.

Regulators hope the dramatic action will bolster badly shaken confidence in the once-mighty banking giant as well as the nation's financial system, a goal that so far has been elusive despite a flurry of government interventions to battle the worst global crisis since the 1930s.

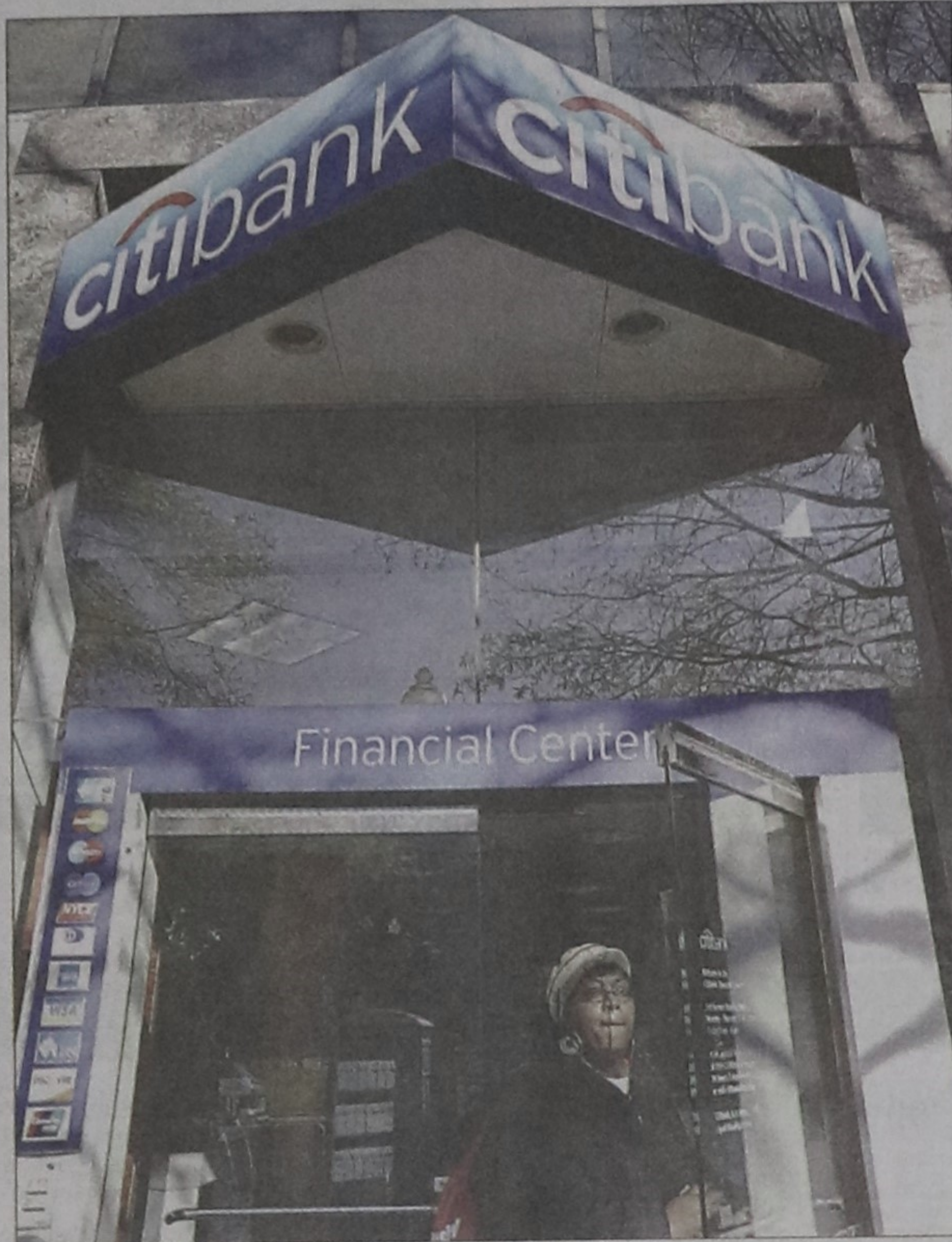
The action, announced late Sunday by the Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corp, is aimed at shoring up a huge financial institution whose collapse would wreak havoc on the already fragile financial system and the US economy.

"With these transactions, the US government is taking the actions necessary to strengthen the financial system and protect US taxpayers and the US economy," the three agencies said in a joint statement. "We will continue to use all of our resources to preserve the strength of our banking institutions, and promote the process of repair and recovery and to manage risks."

Analysts said a Citigroup failure would have seized up still fragile lending markets and caused untold losses among institutions holding debt and financial products backed by the company.

"It would create chaos," said Winson Fong, managing director at SG Asset Management in Hong Kong, which oversees about \$3 billion in equities in Asia. "Simply put, you couldn't borrow or lend for a while. This is a nightmare scenario."

The bold move is the latest in a string of high-profile government bailout efforts. The Fed in March provided financial backing to JPMorgan Chase's buyout of ailing Bear Stearns. Six months later, the government was forced to take over mortgage giants Fannie Mae and Freddie Mac and throw



A woman walks out of a Citibank branch in Washington, DC. The US government offered a new lifeline to Citigroup in the form of fresh capital and a guarantee on assets.

a financial lifeline -- which was recently rejiggered -- to insurer American International Group.

The Citigroup rescue came after a weekend of marathon discussions led by Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke. Timothy

Geithner, president of the Federal Reserve Bank of New York, who is being tapped by President-elect Barack Obama as his Treasury chief also participated.

Vikram S Pandit, Citi's chief executive officer, welcomed the action. "We appreciate the tremendous effort by the government to assure market stability," he said in a statement issued early Monday.

Citigroup

- CEO: Vikram Pandit
- Founded: 1812
- Employees: 350,000
- Accounts: 200 million
- World reach: 100 countries

Results 2008
(in billions of dollars)

1st Q	2nd Q	3rd Q
-5.1	-2.5	-2.8

Source: Citigroup

SUMMARY OF TERMS

- ◆ Citigroup receives \$306 billion of government guarantees for troubled mortgages and toxic assets
- ◆ It gets a \$20 billion cash injection from the Treasury Department
- ◆ In exchange for guarantees, the government will get \$7 billion in preferred shares of Citigroup
- ◆ Citigroup is barred from paying quarterly dividends to shareholders of more than 1 cent a share for three years unless the company obtains consent from the three federal agencies
- ◆ The agreement also places restrictions on executive compensation, including bonuses

earlier one -- of \$25 billion -- in Citigroup in which the government also received an ownership stake.

As part of the plan, Treasury and the FDIC will guarantee against the "possibility of unusually large losses" on up to \$306 billion of risky loans and securities backed by commercial and residential mortgages.

Under the loss-sharing arrangement, Citigroup will assume the first \$29 billion in losses on the risky pool of assets. Beyond that amount, the government would absorb 90 percent of the remaining losses, and Citigroup 10 percent. Money from the \$700 billion

Citigroup Chief Executive Officer Vikram S Pandit says: "We reached an agreement based on an innovative market solution to further strengthen our capital ratios, reduce risk, and increase liquidity."

bailout and funds from the FDIC would cover the government's portion of potential losses. The Federal Reserve would finance the remaining assets with a loan to Citigroup.

In exchange for the guarantees, the government will get \$7 billion in preferred shares of Citigroup. In addition, Citi said it will issue warrants to the US Treasury and the FDIC for approximately 254 million shares of the company's common stock at a strike price of \$10.61.

As a condition of the rescue, Citigroup is barred from paying quarterly dividends to shareholders of more than 1 cent a share for three years unless the company obtains consent from the three federal agencies. The bank is currently paying a dividend of 16 cents, halved from a 32-cent payout in the previous quarter. The agreement also places restrictions on executive compensation, including bonuses.

Stocks

DGEN ▼ 1.40%
2,678.67

CSCX ▼ 1.34%
5,406.46

Asian Markets

MUMBAI ▼ 0.14%
8,903.12

TOKYO Closed

SINGAPORE ▼ 2.52%
1,620.29

SHANGHAI ▼ 3.67%
1,897.06

Currencies

	Buy Tk	Sell Tk
USD	68.35	69.35
EUR	84.56	89.17
GBP	99.94	104.93
JPY	0.71	0.75

SOURCE: STANDARD CHARTERED BANK

Commodities

Gold ▲ \$815.41 (per ounce)

Oil ▲ \$50.44 (per barrel)

SOURCE: AFP

(Midday London Trade)

More News

Bankers asked not to fear to invest in RMG sector

BGMEA President Anwar-Ul-Alam Chowdhury Parvez has suggested that bankers should not fear to invest in the garment sector as the flow of foreign buying orders to Bangladesh is increasing.

RPGL posts 52pc rise in net profit

Rupantarita Prakritik Gas Company Limited (RPGL) has earned Tk 167.11 crore in revenue for fiscal 2007-08, which is an 82.20 percent rise from the previous fiscal year.

B-3

International

Govts roll out crisis battle plans



Governments on Monday rolled out new manoeuvres in their battle against a world economic crisis, with the United States propping up yet another pillar of its financial sector, Citigroup.

StanChart to raise \$2.66b in rights issue

British-based Standard Chartered bank said Monday it plans to raise 1.78 billion pounds (2.66 billion US dollars) in a rights issue to better position itself during the global financial turmoil.

B-4

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Garment purchase orders pour in



Workers do a final check of sweaters at a textile factory in Ashulia, on the outskirts of Dhaka.

REFAYET ULLAH MIRDHA

More international buyers are coming to Bangladesh despite the global financial recession as they think China, one of the major competitors of Bangladesh, is no more viable for them due to higher prices of apparel items.

"Chinese are no more interested in labour intensive industries like textile and ready-made garment (RMG) sector because of the currency appreciation against the dollar and higher wages of workers," said Rasheduzzaman, a local buyer in Dhaka.

Recently, almost all renowned international retailers stores, including Wal-Mart, JC Penny, Marks and Spencer, H and M, Tesco, GAP, Li and Fung, Puma

and G-Star, have enhanced their volume of purchase from Bangladesh, said a supplier of the RMG products.

The recent change in the purchase pattern is because Bangladesh is a vital destination for international buyers of readymade garments (RMG) items in the wake of less cost-effectiveness of Chinese apparels.

A strong presence of foreign retail buyers of apparel items from Bangladesh has outshone the growth of local buying houses, as they now focus more on direct purchase from manufacturers, according to sector people.

"Bangladesh is receiving a huge number of orders from international buyers as they have been shifting their orders from China in the age of financial

recession," said KI Hossain, owner of Total Apparel, a local buying house.

Up to May, at least 200 new local buying houses have opened in Bangladesh, while the number of such new buying houses was 150 in 2007, said Hossain, also the vice-president of Bangladesh Garment Buying Houses Association (BGBA).

A buying house, a hub for sellers comprising of leading manufacturers, exporters and suppliers, displays their latest and trendiest collection of apparels to a huge audience round the year.

Buyers from across the world can meet sellers at this permanent showroom and source their products as per their exact specifications.

Meanwhile, some interna-

tional buyers like Sweden based IKEA, a global giant in home textile business, has already opened its liaison office in Dhaka to make any business deal directly with manufacturers.

At the recent inaugural function, the IKEA's local representatives said it would raise its purchases from Bangladesh, mainly home textiles, to 300 million euros from 100 million euros in the next few years.

Talking to The Daily Star, Shahadat Hossain Kiron, chairman of Dekko Group, said although there is no exact statistics of the orders Bangladesh now receive, which are being shifted from China, the country has turned out to be a good destination for outsourcing apparel items.

Related story on B3 reefat@thedailystar.net

40pc imported food items to be unloaded at Mongla Port

Adviser tells CPD dialogue

STAR BUSINESS REPORT

Forty percent of the imported food items will be unloaded at Mongla Port as part of the government's plan to activate the seaport, in efforts to reduce regional disparity, an adviser said yesterday.

Resuming activities at the port will not only minimise the cost of food distribution in the western region, but also stimulate the economic activities in the region.

"We are taking up dredging projects for the port channel to activate," AB Mirza Azizul Islam, the finance adviser, said at a discussion on 'Regional Disparity in Bangladesh: An Emerging Concern' organised by the Centre for Policy Dialogue (CPD) in Dhaka.

Aziz said the government also asked the automobile importers to unload a portion of imported vehicles at Mongla Port.

To reduce the regional disparity in the education sector, the adviser said, a public university will be opened in Rangpur in the next academic session, while a public medical college and a science and technology university will be launched in Pabna next year.

In the agriculture sector, the gov-

ernment is extending BR33 cultivation to munga-hit areas. "We've also urged Bangladesh Garment Manufacturers and Exporters Association to train up workers from munga-hit areas to increase the flow of internal remittances," he said.

The government is also searching for financiers for Padma bridge construction, which will be a major way of connectivity between the east and west parts of the country, he said.

"Disparity is a problem for Bangladesh. We must take up programmes to address the regional disparity to protect the nation from an explosion in future," he said.

Speaking on the issue, Regulatory Reforms Commission (RRC) Chairman Dr Akbar Ali Khan said dividing the country into two parts -- east and west -- to compare the regional disparity "we are trying to establish an absurd thing and we are doing a wrong thing".

The former adviser said instead of east-west divide, it should be done on the central-periphery basis. "Wherever the poor people are, we should address them. Otherwise it will not be just to treat the poor people dividing them into Eastern and Western," he said.

Khan stressed decentralisation to

reduce the disparity, as most of the districts have not witnessed any major changes in the last few decades.

"We won't have desired growth as we want," he said, adding that new strategies and new ways are needed to address poverty.

Former finance minister M Syeduzzaman said the decision of utilisation of coal resources still remains unresolved. "Political leaders must resolve the problems for the best benefit for people from coal resources."

He also underscored the need for regional connectivity by rail, road and port.

Talking about education of the western region, he said the number of madrasahs is increasing than in the eastern region that is the weakness of the education system.

Dr Zafrullah Chowdhury, coordinator of Gonoshasthya Kendro, said microcredit in the agriculture sector is insignificant. Microcredit needs to be given to farmers, while the government should buy the crops from the farmers directly.

Hassan Zaman and Ambar Narayan jointly presented a keynote paper on the dialogue, moderated by CPD Chairman Professor Rehman Sobhan.

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