International Business News

Maruti sales slide 24pc

AFP, *New Delhi*

Top Indian carmaker Maruti Suzuki reported Monday a 24.4-percent slide in car sales during November as high borrowing costs hit vehicle sales in Asia's fourth-largest car market.

The figure was a far cry from double-digit growth in previous years and highlighted the slowdown gripping India's economy that has reduced vehicle demand.

Maruti, 54.2 percent owned by Japan's Suzuki Motor Corp., said in a statement domestic car sales slumped by 26.9 percent to 44,704 units from a year earlier, while car exports tumbled by 11 percent to 5,007 units for an overall decline of 24.4 percent.

The New Delhi-based carmaker holds over 54 percent of India's car market and represents the largest global market for Suzuki, Japan's second-biggest maker of minicars.

Maruti shares plunged 9.7 percent or 52 rupees on the news to trade at 483.85 rupees.

The dramatic fall in Maruti sales was another sign of the downturn in India's car market, which has been hit by costlier loans for cars after the central bank jacked up interest rates to fight inflation.

Car loan rates still are close to 14 percent, up from around nine percent three years ago.

German bank BayernLB unveils 5,600 job cuts, mostly in Asia

AFP, *Frankfurt*

The troubled German regional bank BayernLB said on Monday that it would shed more than a quarter of its workforce by 2013, with Asian operations slated to bear the brunt of a rigourous downsizing.

A statement said BayernLB would eliminate 5,600 posts of a total 19,200 in a bid to save 670 million euros (850 million dollars) over the next five years.

BayernLB "will be smaller and engaged in fewer activities, but it will emerge stronger closer to its customers and less susceptible to incalculable risk," chairman Michael Kemmer was quoted as saying.

The state-owned bank will refocus its activities in "Bavaria, Germany and selected regions of Europe," while closing branches in Hong Kong, Shanghai, Beijing, Tokyo and Mumbai.

"The New York and London branches, which are key to the German customer business, will be streamlined considerably," the statement said.

In Europe, an office in Milan will be closed and restructuring programmes will affect the online bank Direktbank DKB and Austrian subsidiary Hypo Group Alpe Adria, which is active in the Balkans and eastern Europe.

AFP

Shoppers are reflected on a shop window announcing sale rate at a shopping mall in Los Angeles, California, on Sunday. According to a poll published on November 28 in USA Today, 33 percent of consumers plan to cut spending this year, about 34 percent will spend the same as last year and only 6.9 percent plan increases, as the Christmas season shopping started.

Bank of Japan to announce new credit steps

AFP, *Tokyo*

The Bank of Japan will introduce new emergency measures to help struggling firms borrow money amid a recession in Asia's largest economy, media reports said Monday.

The Bank of Japan (BoJ) will hold an extraordinary meeting as early as this week to adopt the steps, public broadcaster NHK and other local media said without naming their sources.

The BoJ announced similar measures to help companies in November 1998 when Japan was hit by a credit squeeze after a number of banks collapsed under mountains of bad debts.

Companies are again facing difficulty in raising funds, with the world's second largest economy officially in recession and banks becoming reluctant to lend. Demand for corporate bonds is also low amid the financial turmoil.

Survey of Chinese firms signals gloomy economic outlook

AFP, *Beijing*

China's manufacturing activities hit a three-year low in November, state media reported Monday, as the global credit crisis begins to take hold in Asia's second biggest economy.

The purchasing managers' index (PMI) dropped to 38.8 percent in November, down from 44.6 percent in October and the lowest since the government introduced the survey in 2005, said the Xinhua news agency.

"The data for November showed the overall production activities are contracting sharply," Ma Qing, a Beijing-based analyst with consultancy CEB Monitor Group, told AFP.

He said the survey gives an idea of the general trend of key November data, scheduled to be released over the next couple of weeks.

FINANCIAL CRISIS

Silver lining for Bangladesh

SAJJADUR RAHMAN

Bangladesh has the possibility of profiting from the global downturn if consumers switch to low-priced goods, says the treasury head of a foreign bank in Bangladesh.

"Consumers may shift towards low-priced goods and Bangladesh has a very good track-record in this area," says Tarique I Khan, head of the treasury division of Hong Kong and Shanghai Banking Corporation (HSBC).

But he warns that the impact could be reversed if the crisis lingers.

Businessmen, economists, bankers and the government believe that Bangladesh is likely to feel the impact of the global financial crisis next year in case of lingering effects on exports and remittances.

Khan echoes them.

Bangladesh has so far largely been insulated from the global financial crisis because of its regulatory policies and comparatively low foreign investment inflows as well as non-convertibility of the capital account.

In an interview with The Daily Star, Khan has focused on the global crisis, foreign exchange market and its possible impact on Bangladesh economy.

The financial crisis has forced the US and European economies to slash their GDP forecasts, but a faster recovery will help countries like Bangladesh.

But Khan says the inflow of inward remittances will go down because of a sharp fall in oil prices in the Middle Eastern countries, the main source of Bangladesh's inward remittances.

"This seems almost inevitable."

As the head of treasury for HSBC in Bangladesh, Khan has also focused on monetary policy and the role of the central bank in controlling any fallout from the global crisis.

In tough times, Banks' risk management has become critical and more challenging. A bank's risk portfolio includes three types of risk -- credit, foreign exchange and interest rates.

The global financial rout has widened the risks of the financial institutions across the globe and Bangladesh is not immune to it, Khan says.

"The function of any treasury department of a bank is to manage market risks of the banks' balance sheets. The position of a bank's balance sheet, generated from its retail and commercial activities has implications on the bank's risk portfolio," he says.

Although credit risk is the most common among a bank's risk portfolio, the foreign exchange risk can cause a huge loss even in the event of slight unawareness, he says.

On the foreign exchange market, the HSBC official says a bank might incur huge losses if market rates of currencies move against the position and the bank does not act appropriately and in time.

Citing an example, Khan says: "Let's assume a bank has to make a euro payment for an LC obligation by debiting from a taka account. There is an exchange rate that is applied to determine how much taka to debit to make the euro payment."

"And immediately if the bank does not buy the euros at that rate or better rate and the market rate for the euro goes up, the bank will incur losses."

Khan says the ongoing global economic trends -- falling commodity and oil prices, shadows over exports and remittances -- could make Bangladesh's forex market volatile early next year. "It is not impossible to see some volatility in the FX market in 2009."

Volatility in major currencies of the world, such as GBP, EUR, AUD, JPY and INR has spiked over the last few months as the sub-prime and credit crisis worsened.

But Khan says the impact on the taka is likely to be much less, as the majority of Bangladesh's FX is denominated in the US dollar which is managed quite effectively by Bangladesh Bank.

"We are now more vigilant than before because of the current global situation."

Khan says banks here had reduced their exposures to the forex market as a precautionary measure.

"We have reduced our exposures to the FX market and become cautious. Also, I believe we need to disseminate information among our customers quickly so that they can take the right decisions about their own FX risks," Khan says.

According to Khan, Bangladesh has an advantage over others because the country's derivatives market is in early stages. "Sure, there were a few sporadic derivative hedges but these were very simple products. The hedges (covering risk exposures) have always been backed by underlying commercial transactions. This non-existence of complex derivative products was another reason Bangladesh was insulated from the global financial crisis."

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STAR

The financial crisis has forced the US and European economies to slash their GDP forecasts, but a faster recovery will help countries like Bangladesh, says Tarique I Khan, head of treasury for HSBC, left.

COLUMN

MAMUN RASHID

Export, remittance and GDP growth

I was privileged enough to attend two television talk shows, four discussions and read about 100 articles from home and abroad on the recent financial crisis and its possible impact on the global economy and Bangladesh. If one asks me about my takeaways from these sessions, my reply would be:

1) The world has not seen this type of a far reaching crisis in the last 80 years, 2) popular views of credit creation and thereby increases in money supply for accelerating economic activity to get rid of economic dullness, warrants 'deep dive' reviews, 3) the regulators or policy planners must try to draw a line between market and the state, 4) improvement of governance must be driven beyond personal, corporate or even national interest. How may it impact Bangladesh? I won't agree with the popular version of Bangladesh being isolated or insulated from the global markets or that it can remain immune to the global shocks emanating from the financial or economic meltdown in North America and Europe.

More or less, Bangladesh got to suffer an impact for this, its export, remittance and aid disbursement ought to see a slowdown and this is likely to be reflected through less than expected GDP growth. Yes, there is also an upside, its bourses being less visited by international institutional investors or its being an import based country with import price of fuel, food grain, steel and shipment costs seeing a continuous downward trend.

Now the question remains, when do we get to see this impact on our country, market and growth? With exports showing 42 percent year-on-year growth in the first quarter of FY09, inward remittance still buoyant with 30 percent growth, despite likely slowdown in the Middle Eastern economies and 'Bangladesh aid club' still committed to its future. It is of course going to be little later then, tomorrow or next month.

Does this mean that we do not do anything to make sure our competitors like India, Pakistan, Vietnam or Sri Lanka do not take away our export pie, or wait for months till our workers start coming back from the GCC countries or Malaysia or aid disbursement drastically bottoms up? Whether World Bank is right with its 4.8-5.4 percent GDP growth forecast for Bangladesh or not, UK government releases its committed Climate Change Fund for Bangladesh or US government disburses from its millennium challenge fund for our apparent success in anticorruption drives or not, we have to move on.

Keep 145 million people fed, achieve the millennium development goals and march towards becoming a middle-income country within the next decade or so. And all these have to happen through massive poverty reduction, creation of wealth and optimum distribution of that wealth or diversion to the hungry streams of the economy. And take it or leave it, if not all, most of this growth will be private sector led, led by our micro-finance institutions (MFI), business enterprises, industrialists, export and remittance earners, with of course no surprises from our farming community (in fact agriculture could be the only differentiating factor). For that we need to keep our private sector happy, contended and engaged at what they are good at doing and create a congenial business environment and improved bench strength.

We need power and more power. Industries and manufacturing plants are limping for a lack of power. For captive power generation in the private sector, we need gas connections. We need competitive gas pricing to attract gas companies to join exploration. Small power plants can be set up mostly for captive use or including usage by the neighbors. For that we need to give all out executable policy support. In the interim, we need to withdraw all taxes/duties on generators. With fuel price reduction, we can even go for barge mounted power plants, but for that we need the government's quick nod to proceed and agreement to buy excess power at competitive rates. With regard to purchase of power, we have seen some ambiguity regarding the exchange rates (which one to be applied or who should make this available etc), which should not be there.

We need competitive exchange rates to keep our exports and inward remittance going and growing. We don't want Bangladesh Bank or the government to forcibly adjust the taka value against the dollar, downward or upward. It is not possible or desirable in a floating exchange rate regime. However, market forces, based on demand-supply should be allowed to operate. The exporters, irrespective of their 'project or financing bank', should be allowed to sell their proceeds to any bank that offers the attractive exchange rate. Even though few foreign banks are practicing it, but due to some confusion amongst the state owned/private banks, it is better that the central bank issues a specific guideline in this regard.

Export to the EU is increasing. New markets are being explored in Canada, Australia and Japan. Therefore its time that the Bangladesh Foreign Exchange Dealers Association (BAFEDA) and Bangladesh Bank also start monitoring the buying and selling spreads in euro, yen, Canadian dollar and Australian dollar and ensure that our exporters to those destinations are being taken care of. To make our exports competitive, we should also look at a turn-around time with regard to L/C advising, add confirmation, negotiation or discounting, delay or mishandling at the ports. Issues like the 'Open account' trading or `export against contract' should also be reviewed appropriately.

While most of the regulators are globally reducing interest rate to create more economic activities, our interest rate is increasing or left at a high level. Reasons behind high lending rates were attributed to high deposit and inflation rates. Now that inflation is likely to come down with a drastic reduction in commodity and fuel prices, we should seriously review the high interest rates that are being held up to take care of pensioners and others. Tools like 'special savings bonds' can be introduced to take care of pensioners or senior citizens to avoid engagement in volatile market driven instruments. Like other safety net programs, the government can take care of the retired officials/ senior citizens, of course, not at the cost of business community through their costly borrowings.

It is true that most of the nations, even the 'growth markets' are reducing their GDP forecasts. Economists are projecting 6.8 percent GDP growth this fiscal year and 5.5 percent in the next fiscal for India, shifting from its regular 8 to 9 percent growth track. China is already witnessing 8 percent GDP growth, not 11 or 12 percent any more. Therefore Bangladesh seeing a moderate 5.5 plus minus growth this fiscal and again plus minus 5 pct growth next fiscal might not be a remote possibility. But of course with coordinated efforts, driving leadership, we can change the course. And for that we need to address the power, gas, law and order, port fixing, congenial labour situations and timely agriculture input supply and procurement issues with absolute precision. However much would depend on how the next government attacks the economic challenges in one of the most interesting times in the world's history.

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AFP

College students check the list of companies during a job-matching meeting in Tokyo. More than 30,000 temporary workers in Japan are likely to lose their jobs by next March in the wake of the global financial crisis, a survey shows.