

DHAKA TUESDAY MARCH 3, 2009

Economy may slow in recession: ADB

Inflation to ease

STAR BUSINESS REPORT

Bangladesh may face slowing economic growth in fiscal 2008-09, hurt by a slowdown in the export-based industry and a decline in remittance as the financial crisis is panning out across the world, Asian Development Bank said yesterday.

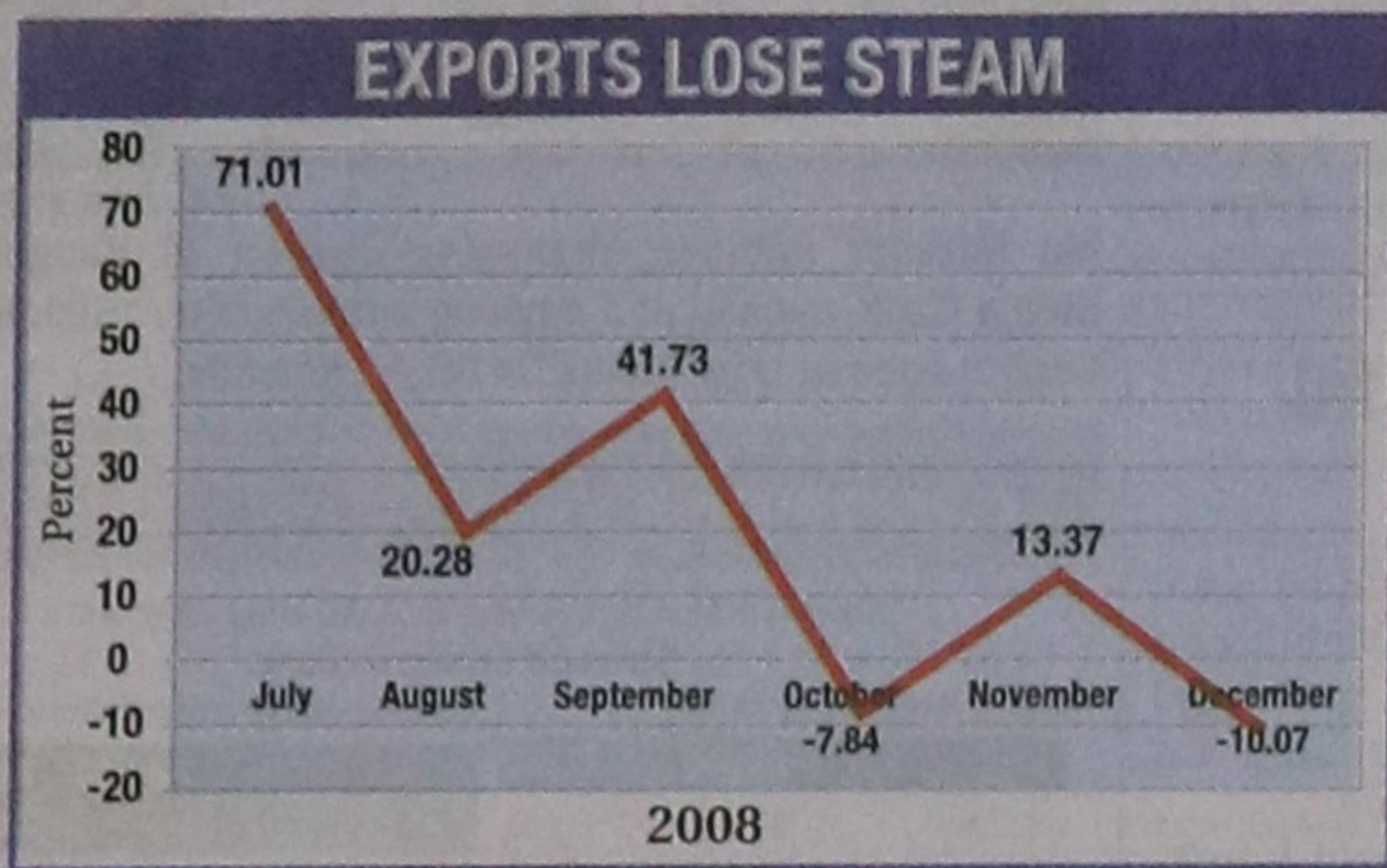
"The global financial crisis is yet to significantly affect Bangladesh. However, pressures from the global slowdown are building up with signs of moderation in growth," said the Manila-based lending agency in its quarterly economic update on Bangladesh.

ADB predicts that growth may dip as much as 1.0 percentage point to fall between 5.5-6.0 percent, down from a government projection of 6.5 percent for fiscal 2008-09.

"Before the onset of the global financial crisis, a 6.5 percent growth target for fiscal 2009 had appeared attainable," it said.

"With the financial crisis in the advanced economies unfolding and recession appearing to last longer than earlier anticipated, a growth rate in the range of 5.5-6.0 percent seems more likely."

The prediction by ADB came about three months after the World Bank had forecast growth



falling below 5 percent this fiscal year.

In its latest quarterly report, Bangladesh Bank however said economic growth is likely to hover around 6.0 percent.

ADB said agriculture might attain the targeted growth but industry and services sectors might see a fall in growth due to a drop in industrial activities and consumer spending.

There is a silver lining. A fall in commodity prices on the international market and increased domestic agricultural production may help ease inflation, it said.

Average inflation dropped to 8.9 percent in December from 9.37 in the same month a year ago.

ADB predicted a downturn in exports of the country's prime

exportable garments after consumer spending slumped in the advanced economies such as the USA and European countries, the main destinations of garment and knitwear items.

Exports of upmarket frozen foods and leather products are also likely to suffer amid slowing demand on the global market.

Exports however maintained growth. In the July-December period, it grew 19.38 percent, backed by growth in readymade garment exports.

But ADB, referring to a 1.4 percent fall in exports in the October-December period, expected industrial growth to come in the range of 6.6-7.2 percent in fiscal 2009, compared with 6.9 percent in fiscal 2008.

To promote industrial activities, the lender said the prevailing shortages in power and gas need to be urgently addressed.

ADB points to a slowdown in remittance growth in the wake of layoffs and contraction of new recruitment in the developed and emerging economies. Recruiting agencies had earlier feared that the outflow of migrant workers might slump nearly 50 percent in the January-December of 2009 from 8.75 lakh a year ago.

Inflows of remittance, the second biggest foreign exchange earning source, however, remain unaffected.

But ADB warns: "Deceleration in remittance growth will dampen domestic demand for household goods."

The financial crisis is also expected to have an adverse impact on the services sector because of effects on industries, tied to exports and a decline in domestic demand amid lower income and moderation of remittance growth.

ADB warned that the global financial meltdown might slow private-sector activities and affect government revenue collections due to a fall in import-based revenue such as custom duty.

"A major challenge to the government is to raise utilisation rate of annual development programme," it said.

Sheraton fate still hangs in balance

SAYEDA AKTER

The government has cancelled the tender process arranged for appointing a company to manage Dhaka Sheraton hotel under a franchise arrangement, saying the proposals received were not eligible.

The decision has left the fate of the five-star hotel in uncertainty as Sheraton, the existing company that operates and manages the state-owned hotel, will leave by March 31 and the government is yet to have any replacement.

Now the government is thinking of going back to its previous stance and appoint an international hotel chain to operate and manage Dhaka Sheraton, said a senior official of Bangladesh Services Ltd (BSL), seeking anonymity.

In the tender process six companies expressed interest to manage the hotel under a franchise agreement. The last date for submitting the proposals to the BSL was February 18. The new franchise would manage and operate the hotel for the next five years, starting from April 1, 2009.

The BSL official said the government is now planning to take a soft stance on the issues over renovation of the hotel and will again invite bid soon to hire a world-class hotel chain.

Industry insiders said several international hotel chains expressed interest to operate and manage the hotel, but all said the

hotel requires immediate renovation. The government reluctance to renovate the hotel caused the failure to appoint a world-class brand to operate and manage the hotel and go for a franchise arrangement.

Franchise, an authorisation to sell a company's goods or services in a particular place, is a new idea in the country's hospitality industry.

The government will appoint a franchisee, which will have a deal with an international chain, and it will use its brand name to manage the hotel.

Earlier, the government was about to appoint Ramada Plaza to operate the hotel, and American Property Management International for the franchise contract, according to BSL officials.

However the government backtracked on the move.

The quest for hiring an international hotel chain started in May 2008 after Starwood, the parent company of Sheraton, informed BSL that it will renew the contract if the government immediately goes for renovation.

Starwood's 25-year-deal with BSL, the government organisation that owns more than 98 percent of the hotel, expired on December 31, 2008 and the company later extended its contract up to March 31.

However both the civil aviation and tourism ministry and the BSL declined to comment on the issue before finalising anything.

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Stocks

DGEN	▼	1.27%
		2,592.84
CSCX	▲	0.32%
		5,119.00

Asian Markets

MUMBAI	▼	3.20%
		8,607.08
TOKYO	▼	3.81%
		7,280.15
SINGAPORE	▼	3.85%
		1,533.40
SHANGHAI	▲	0.51%
		2,093.45

Currencies

	Buy Tk	Sell Tk
USD	68.35	69.35
EUR	84.31	88.89
GBP	95.45	100.36
JPY	0.70	0.73

SOURCE: BANGLADESH BANK

Commodities

Gold	▲	\$953.00
		(per ounce)

Oil	▼	\$43.45
		(per barrel)

SOURCE: AFP

(Midday Trade)

More News

Govt to install second undersea cable

The government has decided to link the country with a second undersea cable to overcome the disturbance resulted from frequent submarine cable cuts and reduce dependence on a lone cable. Telecom Minister Rajiuddin Ahmed Raju disclosed the government's plan yesterday in the parliament.

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International

Textile handicrafts need boost



Today, handicrafts represent less than 1 percent of exports from Bangladesh. In contrast, the global market for handicrafts is estimated to be close to \$100 billion. Surely this represents a huge opportunity for this country in terms of rural employment creation. The rural areas of Bangladesh are filled with women eager to show their fine handicraft skills, being naturally proficient with stitches passed down from mother to daughter and all having a genuine interest in crafts.

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Contact Us

If you have views on Star Business or news about business in Bangladesh, please email us at business@thedailystar.net

HSBC seeks \$18b after profit crash



The photo shows HSBC 100 Hong Kong dollar banknotes in Hong Kong. HSBC became the latest global banking giant to stumble yesterday, appealing for a massive capital injection.

AFP, London

Asian and European banking titan HSBC revealed on Monday that it needs nearly 18 billion dollars of new capital to withstand the financial crisis and announced 6,100 US job cuts after a profits collapse.

The bank reported a 70-percent plunge in annual net profits last year and said it hoped to raise 12.5 billion pounds (17.8 billion dollars, 14.2 billion euros) in a record British rights issue.

HSBC, based in London, had been regarded as one of the more robust global banks as crisis devastated many top lenders around the world, and has refused British government financial assistance in contrast to some of its rivals.

"The world today faces exceptionally challenging economic circumstances," HSBC chief executive Michael Geoghegan said in the earnings statement.

"2008 was a very difficult year for the financial sector, and 2009 will be no less so, as the global downturn intensifies."

The bank also said that its bad debts surged to almost 25 billion dollars (20 billion euros) last year, mainly as a result of the collapse of the US subprime housing market. HSBC added that it would shut most of its HFC and Beneficial branches in the United States.

Global markets have been in the doldrums for more than a year on worries about access to credit, stemming from the dire state of the US housing market and unwise lending.

HSBC was one of the first banks to warn of the problems among products linked to the subprime or high-risk US mortgage sector. Last September, it scrapped a six billion dollar deal to buy a major South Korean bank after the financial crisis cut asset values worldwide.

On Monday, HSBC said net profits tum-

bled to 5.728 billion dollars in 2008 compared to 431.25 billion dollars in 2007 as the global financial crisis took its toll.

HSBC added that it was slashing its annual dividend by 29 percent to 64 US cents per share.

The group's share price plunged 12.2 percent to 431.25 pence in London morning trade, mainly on news that the bank had to go cap-in-hand to raise fresh capital from shareholders.

"After talk of the need for raising cash was dismissed as recently as December last year this is a rather large slice of humble pie, and investors will wonder why such a supposedly well-capitalised bank is slashing the dividend and choosing to raise more cash of record-breaking proportions," said Martin Slaney, head of derivatives at GFT in London.

"If nothing else this serves to underline just how severe the global economic contraction is."

HSBC said it would offer investors five new shares at a heavily-discounted 254 pence each for every 12 they already owned.

"In this difficult environment, we missed our profitability targets," HSBC chairman Stephen Green said on Monday.

"The coming 12 months will be difficult. We expect parts of Asia, the Middle East and Latin America to continue to outperform Western economies, but to be constrained by the global downturn."

HSBC's difficult past year was largely a result of losses totalling 15.5 billion dollars at the group's American personal finance unit.

"The significant deterioration in US employment and economic outlook in the fourth quarter of 2008 were the primary factors in causing us to write off all the remaining goodwill carried on our balance sheet in respect of our Personal Financial Services business in North America," it said.

Otobi goes global with its brand

SOHEL PARVEZ

Otobi Ltd, one of the leading local furniture makers, has made foray into global business with its own brand by opening its first franchise outlet in India as part of the company's plan to promote the brand globally and expand business.

The move, some marketing analysts said, might be a more effective way than exports to win business as franchise helps a company ensure continuous presence among consumers and create a brand image.

Besides India, the company now puts focus on the markets in the Middle East and Sub-Saharan Africa to open more franchise stores, its Chief Executive Sabbir Hasan Nasir said yesterday.

"We think we will enjoy a competitive edge in these markets compared with Chinese products," he said.

Otobi chalked out the plan to explore new markets after it had opened its first franchise store at Mani Square in Kolkata in November last year mainly to reach middle income segment of West Bengal.

"We have received much better response from customers after launching the retail outlet," said Sabbir.

Otobi, which makes diversified furniture ranging from home to hospital ones, moves to open retail outlets abroad under franchise deal as it observes that branded stores are more effective in winning consumer confidence than exporting products.

"Power of retail brand is stronger than that of manufacturing brand as it is closer to the customers," said the chief executive of Otobi, which took the decision to go global in 2006.

"As we will be able to maintain and grow the brand through our own model,



customer pull will be more. Automatically export will increase and sustain," he added.

Under the franchise arrangement, Otobi will help its franchisees develop human resources, prepare advertising materials, set business strategies and maintain control over the day-to-day operations.

"The franchisees will not sell any other products than Otobi and all the branding activities will be done as per Otobi guidelines," said Sabbir.

At present, Otobi has stores in Tripura, Assam, Chhatisgarh, Sikkim and Siliguri in India. All these stores are run by dealers, not franchisees, according to Sabbir.

The Otobi chief executive said stores run by dealers are not always helpful to create a brand image among consumers.

"We have plans to penetrate into few other Indian states with our brand," he said.

Sabbir said the company wants to open 12 franchise stores abroad in the next three years.

Starting its journey in 1975 under the entrepreneurship of Nitun Kundu, Otobi has so far 12 showrooms and 530 dealers in domestic market to cater to the need of local customers, including corporate clients, with its wood and laminated board furniture.

The Otobi official said the company has been registering a faster sales growth for the last three years.

"We have been growing much faster for the last three years compared to the previous years. Obviously it is a double digit growth," said Sabbir of Otobi that posted more than a 35 percent growth in sales to over Tk 200 crore last year.

Syed Ferhat Anwar, professor of marketing at the Institute of Business Administration at Dhaka University, observed that opening franchise outlets abroad might be more effective means compared to exports to grab business.

"It ensures continuous presence of a brand and reduces risks of a company that it faces in case of export," he said.

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France headed for recession

AFP, Marnai, France

France is headed for recession this year, when the economy is likely to contract 1.5 percent accompanied by the loss of 300,000 jobs, Finance Minister Christine Lagarde said Monday.

"We are in an international economic crisis," Lagarde said while visiting a factory in Marnai, south-eastern France, adding that the government now expected negative growth of 1.5 percent in 2009.

She described the likely loss of more than 300,000 jobs as "a logical consequence of the economic slowdown."

France has until now escaped recession, traditionally defined as two consecutive quarters of negative growth, but the economy suffered a 1.2 percent contraction in the fourth quarter.



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Corrigendum to the Notice of the Extra-Ordinary General Meeting of Shareholders to be held on Tuesday, 31 March 2009

With reference to the Notice dated 14 February 2009 of Extra-Ordinary General Meeting to be held on Tuesday, 31 March 2009, this is to inform that the face value of the Zero Coupon Bonds to be read as Taka 1.34 billion instead of Taka 1.36 billion as contained in the clause 1 of the Proposed Special Resolutions.

Dhaka
02 March 2009

By order of the Board
Sheema Abed Rahman
Company Secretary