International Business News

US economy to turn around in 2009: Fed chief

AFP, *Washington*

Federal Reserve chief Ben Bernanke said Tuesday the recession-hit US economy could rebound this year but warned of further "sizable" job losses and vulnerability of the financial system.

"We continue to expect economic activity to bottom out, then to turn up later this year," he told a key congressional panel.

He said key elements of his forecast were assessments that the housing market, at the epicenter of global financial turmoil, and consumer spending was beginning to stabilize.

Recent data, he said, suggested that the pace of economic contraction might be slowing, including "some tentative signs that final demand, especially demand by households, may be stabilizing."

Bernanke said that an "important caveat" was that his forecast assumed continuing gradual repair of the financial system still reeling from turmoil.

Financial markets and financial institutions remain "under considerable stress, and cumulative declines in asset prices, tight credit conditions, and high levels of risk aversion continue to weigh on the economy," he said.

Thailand to borrow $22.9b for stimulus

AFP, *Bangkok*

Thailand's cabinet Wednesday endorsed plans to borrow 800 billion baht (22 billion dollars) to fund second a stimulus package of 1.4 trillion baht over the next three years, the finance minister said.

The borrowing -- part of a so-called "Strong Thailand 2012" scheme -- would be used to invest in new infrastructure to boost the chances of economic recovery, Korn Chatikavanij said.

"There is no better time to invest than now, because of low interest rates, falling oil prices and a surplus of liquidity," Korn told reporters.

"This scheme will alleviate economic problems and will create up to two million jobs by the end of 2012," he said.

He said the cabinet had approved plans to authorise the finance ministry to borrow 800 billion baht from local money markets to fund the projects, adding that the loan would not affect domestic interest rates.

Korn said 40 percent of the second phase of the stimulus package will go on logistical systems, 17 percent will be spent on water resources, 10 percent on improvements in education and the rest on public health and tourism.

AFP

Pakistani artisans work in a small embroidery factory in Karachi yesterday. The traditional art is facing tremendous pressure because of the introduction of automation and a reduction in demand due to the economic slowdown. Pakistan's current account deficit during the last nine months has decreased from 7.5 percent of annual GDP to 4.5 percent because of reduced inflationary pressures, according to the central bank governor.

Nissan seeking more government loans

AFP, *Tokyo*

Nissan Motor Co. is seeking a further 100 billion yen (1.01 billion dollars) in emergency government loans designed to help Japanese firms cope with the global economic crisis, a report said Wednesday.

Nissan, which has so far borrowed 50 billion yen under the lending programme, has already informed the government-run Development Bank of Japan of its additional request, the Nikkei business daily said.

The Japanese automaker, suffering from a slump in the global auto industry, is thought to be aiming to roll over part of its debt procured through commercial paper and other instruments, it reported.

Japan's largest leasing company, Orix Corp., is also seeking some 100 billion yen in the programme, while Japan Airlines Corp. is tapping the programme again for an additional 200 billion yen, the daily said.

The government launched the low-interest rate loan programme for crisis-hit Japanese firms in December. It has recently raised the funding capacity from two trillion yen to 10 trillion yen due to a growing number of applicants.

Singapore's UOB says Q1 net profit down 22.7pc

AFP, *Singapore*

Singapore's United Overseas Bank (UOB) said Wednesday that first quarter net profit fell 22.7 percent year on year as the global downturn continued to hurt the banking sector.

Profit for the three months ended March totalled 409 million Singapore dollars (277 million US), down from 529 million dollars in the same quarter in 2008.

Revenue came in at 1.38 billion dollars, up 9.3 percent from last year, the bank said in a statement.

Net interest income was up 11.4 percent to 949 million dollars and non-interest income edged 4.9 percent higher to 434 million dollars.

Despite the gains in revenue, the bank was hit by higher impairment charges.

For the quarter, UOB set aside 174 million dollars as provision for loans and investments "in view of the prolonged global economic uncertainties," a statement said.

INTERVIEW

Islamic banking less risky

Says top StanChart official

SAJJADUR RAHMAN

Islamic banking is now an issue of great interest for many, including Western non-Muslims, because the system still remains almost unhurt by the ongoing global financial crisis.

Banks from the US to UK and China to India also prefer such banking.

"Islamic banking operates in real economy. This banking has no room for gambling, speculation, excess leverage, or the greed for windfall profit," said Afaq Khan, chief executive officer, Islamic Banking of global finance giant Standard Chartered Bank.

Khan who was on a short visit to Dhaka had a conversation Tuesday with The Daily Star at StanChart's Bangladesh headquarters, on prospects of Islamic banking in Bangladesh.

He joined StanChart in 2003 with a mandate to launch the Islamic business division for the bank. Since then, he has been responsible for the strategic build-up of a global Islamic banking business covering retail, corporate and investment banking with a wider product capabilities and award winning solutions.

Khan thinks the less risk is a major factor that contributes in growing Islamic banking.

"Conventional banking is riskier than Islamic banking because it deals with debt trading and keeps itself in market speculation, which European and American banks experienced," he noted.

Another interesting feature is Islamic banking remains immune from the recession fallout, as the global financial institutions experienced, especially in the US and Europe.

Demand from the world's 1.66 billion Muslims for investments compliant with their beliefs is soaring. Assets that go by Islamic law are currently estimated at $900 billion-$1 trillion. The annual growth rate is 15-20 percent.

Afaq Khan

Khan, who has 20 years of banking experience, believes Bangladesh could be a big market for Islamic banks as over 85 percent of the country's nearly 150 million people are Muslims.

But he feels the business prospect would depend on diversification of products, services and the adequate training the officials concerned require.

"People here take much interest on the Islamic banking system. Some 99 percent customers prefer such banking," observed Afaq Khan, who looks after StanChart's Islamic banking services globally.

"Saadiq" is the brand of this bank's Islamic banking, which has rolled out around 100 products and solutions relating to consumer and wholesale banking.

An Islamic bank traditionally generates its profits from Sharia-compliant investment activity. This profit is shared back with the bank's customers at a pre-agreed ratio. An account holder is entitled to a share of these profits according to the funds he holds in his account.

This banking industry in Bangladesh also continues to show strong growth since its inception in 1983.

At present, out of 48 banks, 6 private commercial banks are operating as full-fledged Islamic banks. Besides 21 branches of 10 conventional banks are engaged in Islamic banking, Bangladesh Bank data shows.

Total deposits with Islamic banks and Islamic banking branches of the conventional banks in the country stood at Tk 34,730 crore by the end of June 2008. This deposit accounts for 24.4 percent of the deposits with all private commercial banks and 16.1 percent of the deposits with the total banking system.

Around Tk 34,910 crore is the total investment of the Islamic banks and Islamic banking branches have made, which is 26.8 percent of all private banks and 19.3 percent of the entire banking system.

Afaq Khan said Islamic banking differs from conventional banking, primarily because it does not look to charge or deliver interest.

"None can 'make money from money', instead, profit is generated through investment and trading," Khan told The Daily Star.

The official said this return rate has to match the level of return provided by interest levels of conventional banking.

The global banking giant targets Bangladesh as one of the potential markets for its Islamic financial products and services.

As part of the move, the bank on Tuesday launched a home loan scheme titled "Saadiq Home Finance" in Dhaka.

"We are willing to offer more Islamic banking solutions to Bangladesh customers to cater to their needs," Khan says.

Kamran Sunjoy Rahman, head of StanChart's Islamic banking for Bangladesh, said launching more financial solutions to help customers are now under the StanChart's financial management planning.

Rahman said the bank's next plan is to launch Shariah-based business account for small and medium enterprises.

"Also, we eye Islamic investment banking," he added.

Sandeep Bose, head of StanChart's consumer banking, Bangladesh, Nepal and Sri Lanka, said "Saadiq" is growing faster than the bank's conventional banking. But he declined to disclose the share of Saadiq in the bank's total business portfolio.

On Islamic banking training for officials, Afaq Khan said such training is internally arranged.

"Courses are developed on the basis of key Islamic products and wider areas from a structuring, developmental, accounting and pricing viewpoint," he added.

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CAPITAL MARKET

A catalyst for economy

ASM MAINUDDIN MONEM

Healthy economic growth is the goal of all developed and developing countries. For Bangladesh, which is still a least developed country, there is no alternative but to grow at a very higher rate in order to reduce poverty, educate a large population of 150 million, and provide better living condition for its people.

We expect to see Bangladesh as a middle-income country within the shortest possible time. But it will not happen if we continue to grow at the current rate of around 6 percent per year. We must grow at a much higher rate. For that to happen, we need massive investment in private and public sectors. A public-private partnership is required to build a strong infrastructure -- a prerequisite for faster growth. We must ramp up production for our own expected consumption growth and exports. This requires that our businesses grow faster, which in turn need massive capital investment by our businesses. This can only happen if businesses have easy access to funds and the cost is not exorbitant as it is now in Bangladesh. Here capital market can play an important role and provide such needed funds.

Capital market brings together the suppliers and users of long-term funds. The users (primarily the business houses) raise funds by issuing debt securities such as bonds and equity securities. The suppliers of these funds (primarily the household savers) buy these debt and equity securities to earn an acceptable return on their investments. Many financial institutions such as commercial banks and investment banks facilitate the process of this transfer of funds from savers to the users.

When a business house needs funds to support expansion of its existing business or to start a new line of business, it has two alternatives. It can raise the funds by issuing equity securities (if it is a public limited company) or by taking loans. It can take the loan from a financial institution or it can take the loan from the public directly by issuing bonds. The cost of borrowing from banks is higher than the cost of borrowing directly from the public. Unfortunately, our business houses heavily depend on bank borrowing as the equity and bond markets are not very developed in the country.

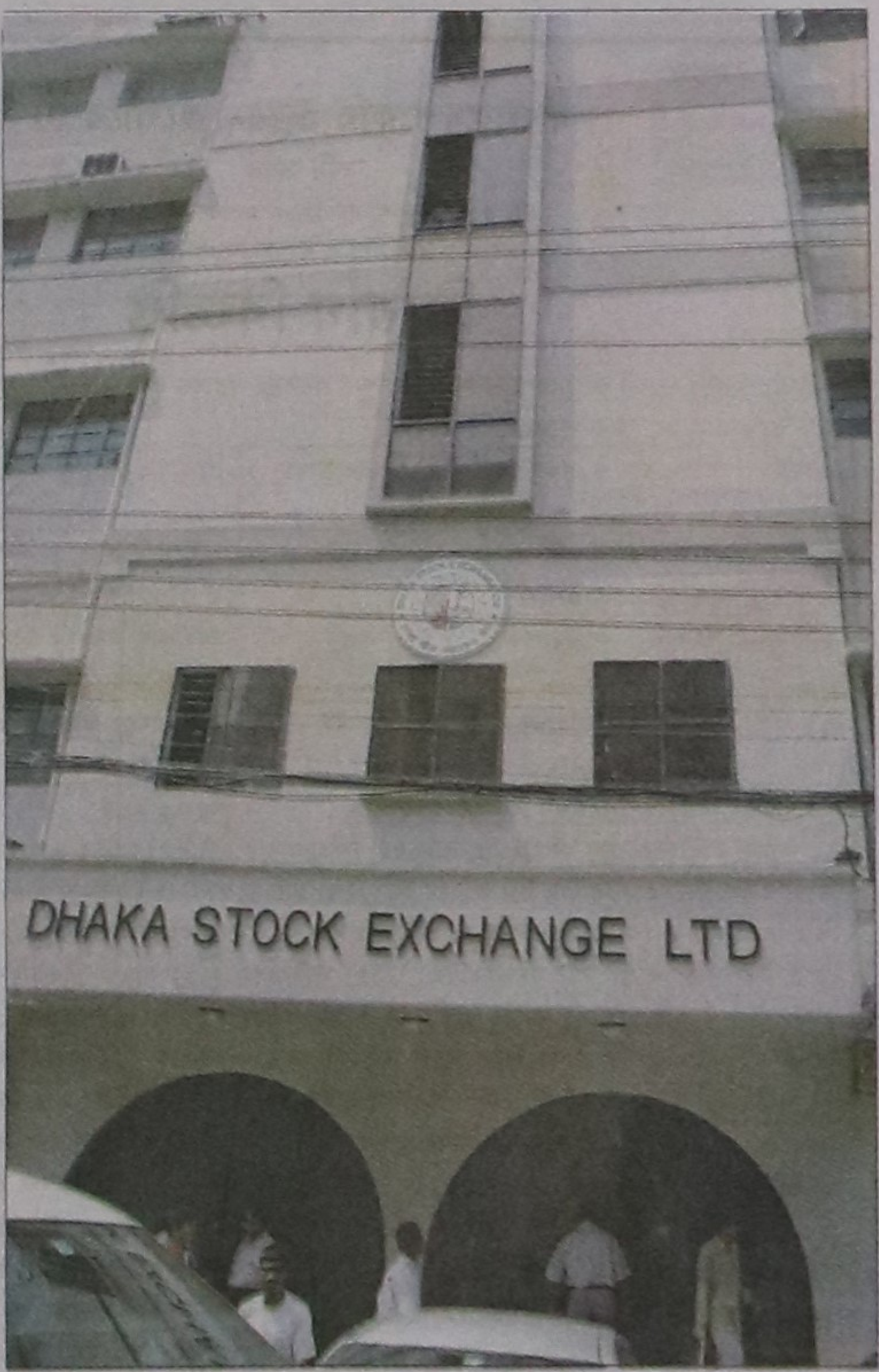
Commercial banks collect funds primarily by issuing deposits to their customers. They pay interest on these deposits (an exception is demand deposit). The weighted average interest rate on deposits is the cost of their funds. Banks invest these funds primarily by providing loans to businesses. The difference between the interest rate on bank loans and the interest rate on deposits is known as interest rate margin. Banks depend heavily on this margin to meet their expenses and get a handsome return for their shareholders. Therefore, bankers want to make this margin as high as they can. In Bangladesh this margin is very high. The average interest rate margin of our banks is much higher than the average interest rate margin of banks of our neighbouring countries. For example, the average interest rate margin in Bangladesh is around 5.5 percent, whereas it is around 3.5 percent in India.

The high interest rate margin means either the cost of borrowing from banks is high or the return on deposits is low, or both. If the cost of borrowing is high, businesses become less competitive worldwide. If businesses could borrow long-term funds directly from the public and not solely rely on banks, they would be able to borrow at a lower rate and lenders would receive a larger return on their investment at the same time. Let us make this point clear by giving an example. Suppose that a high quality business house borrows from a bank at 15 percent. Had there been a bond market in Bangladesh, the business could alternatively borrow from the public by issuing bonds. Let us again suppose that a business house could sell their bonds with a 13 percent yield as many depositors would find these bonds highly attractive investments because they are currently receiving only say 11 percent from bank deposits. In such a case, the cost of borrowing to the businesses would be lower by 2 percent and the return to the lenders would be higher by 2 percent at the same time.

To support rapid expansion, businesses also need equity capital. They should be able to raise the needed equity capital by issuing equity securities in the capital market. But the overwhelming choice of our businesses is to avoid public for equity finance. They thereby limit themselves to limited sources of funding. There are instances in which many of business houses cannot undertake large projects although these projects are highly rewarding in terms of NPV (net present value) just because they cannot raise the needed funds. The net result is that we have to leave these highly rewarding large projects for foreign companies to undertake. A case in point is the setting up of power plants in the country. Although richly rewarding, our business houses cannot set up such plants just because of a shortage of funds.

We need to build better infrastructure. We need to produce much more electricity. For that, we need to invest in power plants and exploration of gas. We need to build seaports and many bridges over the Jamuna and Padma rivers to establish a better land communication. We need to expand our highways to enable faster communication to seaports to boost our exports and make our imports cheaper. All of these are massive projects. Each will require billions of dollars. We cannot solely rely on foreign organisations to undertake such projects. In order to foster growth, our business houses must be ready to undertake such big projects and be capitalised enough to enter into partnerships with foreign firms. They can do that only if they can raise the needed capital from our capital market.

To raise funds directly from the public, businesses must change their structures from proprietorships or partnerships to corporate forms (in our case, to a public limited company). Corporate houses then can sell their bonds or equity shares in what are known as primary markets (i.e. markets for new issues). Since these securities may be held as long- or short-term investments, holders of these securities require facilities to easily convert them to cash. Secondary markets (i.e. markets for already issued securities) provide these needed facilities. Therefore, the existence of both the primary and secondary markets is necessary to raise funds from the public. These two markets together are known as the capital market.



STAR

An efficient capital market offers issuers access to low-cost long-term funding as opposed to bank finance and allow savers to invest their funds in high return generating securities as opposed to bank deposits.

For the efficient allocation of funds there is no alternative to the existence of an efficient capital market. This is because an efficient capital market offers issuers access to low-cost long-term funding as opposed to bank finance and allow savers to invest their funds in high return generating securities as opposed to bank deposits. Developed economies have strong and more efficient capital markets. In these economies, most long-term funding needs of businesses are met through funds from capital markets rather than bank finance. Only small businesses rely on costly bank finance.

The contribution of our capital market to business funding is insignificant. The size of both the primary and secondary market is very small. We do not see many IPOs (initial public offerings) coming to the market although there is a tremendous demand for them, which is reflected by the oversubscription of new issues. Investors have a very limited number of quality securities in the secondary market to invest their money. There are around 300 listed securities in the secondary market. Most of these are equity securities. The total market capitalisation of these securities is around $13 billion. To put this to perspective, the market capitalisation of Microsoft is more than $200 billion.

It is a fact that our successful business houses are reluctant to use capital market to raise funds. We must find the reasons. We must make our capital market vibrant so it can provide long-term funds to our businesses. Otherwise, our goal towards real economic development will remain an unrealised dream.

The writer is deputy managing director of Abdul Monem Limited.