International Business News

Fannie Mae seeks $15.3b in govt aid

AP, *Washington*

Fannie Mae needs another $15 billion in federal assistance, bringing its total to more than $75 billion. And worse, the mortgage finance company warned its losses will continue this year.

The rescue of Fannie Mae and sister company Freddie Mac is turning out to be one of the most expensive aftereffects of the financial meltdown. The new request means the total bill for the duo will top $126 billion.

And the pain isn't over. Fannie warned Friday that it will need even more money from the Treasury, as unemployment remains high and millions of Americans lose their homes through foreclosure.

Fannie Mae reported Friday that it lost $74.4 billion, or $13.11 a share, last year, including $2.5 billion in dividends paid to the government. That compares with a loss of $59.8 billion, or $24 a share, a year earlier.

Fannie Mae, which was seized by federal regulators in September 2008, has racked up losses totaling $136.8 billion over the past three year.

Late last year, the Obama administration pledged to cover unlimited losses through 2012 for Freddie and Fannie, lifting an earlier cap of $400 billion.

ECB to wrestle Thursday with Greek debt, crisis policies

AFP, *Frankfurt*

The European Central Bank faces one of its most important meetings in months Thursday when policymakers tackle the latest twists in Greece's debt crisis and refine a roadmap to unwind emergency policy measures.

Questions about raising the ECB's main interest rate from the current record low of 1.0 percent, or whether German Axel Weber will become the bank's next president will remain far in the background, though signs of a weakening recovery could give the governing council pause, analysts say.

"The ECB faces an important test next week, when it should announce the next steps in its exit strategy" from policies adopted to prevent the international financial system from collapsing in 2008, UniCredit chief economist Marco Annunziata said in a research note.

The central bank could announce that its last six-month loans to commercial banks and subsequent three-month operations will be subject to variable interest rates rather than the benchmark rate of 1.0 percent.

Variable rates were standard before the financial crisis, and would mark another step towards normalisation, but the ECB will almost certainly maintain an unlimited supply of funds for some time, economists say.

AFP

People hold flags and banners during a demonstration called by trade unions against plans announced last month by the government of Prime Minister Jose Luis Rodriguez Zapatero to raise the legal retirement age from 65 to 67, in Bilbao on Saturday. Spain's debt-laden Socialist government faced the first mass protests by unions in its six years in power as anger over a plan to raise the retirement age was set to spill into the streets.

Berkshire net profit rises but lags behind S&P 500

AFP, *Washington*

Renowned US investor Warren Buffett's holding company Berkshire Hathaway said Saturday its annual profit surged although its operating profit lagged behind dividends in the S&P 500.

For all of 2009, the group's profit rose 61.2 percent from a year earlier to 8.06 billion dollars, according to its annual report published online.

Buffet has long preferred to measure Berkshire's performance based on its net worth per share, which allows it to measure gains that shareholders can expect.

That key metric jumped to 19.8 percent, after dropping 9.8 percent in 2008.

Yet the company's net worth per share was 6.7 points below gains by the Standard & Poor's 500 in 2009 -- the first time Berkshire was below the index since 2004, and its worst performance since 2003, when it was 7.7 points behind the S&P 500.

Toyota's president visits China today

AP, *Tokyo*

Fresh from a grilling by US lawmakers, Toyota President Akio Toyoda will speak today in China about his company's quality problems, seeking to boost confidence and ease consumer worries in the world's biggest auto market.

Toyoda, who testified at a US Congressional hearing last week about the spate of global recalls plaguing Toyota Motor Corp, will speak to reporters at a Beijing hotel, company spokeswoman Ririko Takeuchi said.

The number of vehicles being recalled in China is small compared with the 8.5 million vehicles recalled worldwide since October for sticky gas pedals, faulty floor mats and glitches in braking software.

But Toyota has ambitious plans for growth in China, where it and its global rivals are finding growth that was stagnating even before the recall crisis in traditional American and European markets.

COLUMN

Yields of a rated Bangladesh

MAMUN RASHID

TABLE-1 : RATING SCALE OF DIFFERENT AGENCIES (TOP-DOWN)

S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3

TABLE-2 : A BRIEF COMPARISON WITH PEER COUNTRIES

Country	S&P Rating	Moody's Rating	Real GDP Growth (%)	Gross External Debt/GDP (%)	Government Debt/GDP (%)	Government Balance/ GDP (%)	Current Account Balance/GDP (%)	Consumer Price Index (%)	Unemployment Rate (%)
Bangladesh	NR	NR	5.9	23.3	40.6	(4.1)	2.8	6.7	4.3
Pakistan	B-	B3	2.0	31.5	58.8	(4.7)	(5.6)	13.1	6.0
India	BBB-	Baa3	6.6	19.0	81.2	(10.4)	(1.6)	9.7	8.4
Philippines	BB-	Ba3	1.0	40.4	57.5	(3.7)	3.3	2.0	7.4
Indonesia	BB-	Ba2	4.2	30.3	30.7	(2.6)	2.6	4.0	9.0
Guatemala	BB	Ba2	0	26.6	22.1	(3.4)	(2.0)	3.0	0

Bangladesh is in the process of obtaining a sovereign credit rating. Noted rating agencies like Standard and Poor's and Moody's have been invited to drive this exercise, while three international banks operating in Bangladesh have been requested to provide them with necessary assistance (Standard Chartered and HSBC are advising for S&P and Citibank NA for Moody's). A team has been formed with participation from relevant government agencies to support this process. Nobody less than the Bangladesh Bank governor, finance minister and secretary, along with the investors are taking keen interest in this process.

A sovereign rating is a forward-looking estimate of a borrower's default probability based on a combination of historical performance and forward projections. Initial rating is always the toughest one, and a lot of work and senior level engagement are needed from the government. A rating not only assesses the likelihood of a country's defaulting on its debt obligations, but also gives a strong signal about the overall health of the economy. A rating assumes even more significance for a developing country in terms of creating confidence and providing access to capital for development. In today's global environment, a non-rated sovereign draws more negative attention than does a less-than good rated one.

Perceived investment risk of an unrated country often surpasses the facts on the ground, thereby increasing the risk premium that they ask for. This often leads to an unattractive value proposition. Bangladesh is already paying the price for not having a quantifiable sovereign rating.

A sovereign rating helps the investors in bringing their own internal risk appraisal in congruence with that of the market, thus reducing risk premium.

By obtaining a rating, Bangladesh will be able to enjoy benefits including: (i) a universally accepted measure of strong creditworthiness (ii) establishing a platform to facilitate immediate access to international capital markets (iii) precursor to establishing routine of investor education exercises and (iv) establishing itself as a sophisticated issuer in the international capital markets.

Bangladesh has embarked on a successful economic reform process, and made a great progress on most of the socio-economic issues including addressing institutional weaknesses. Bangladesh has passed through various events in the recent past, such as flood, Word Trade Organisation cutover, oil price hike, and has shown its strong resilience. Also, Bangladesh has never defaulted on any international financial obligations.

Given Bangladesh's economic progress, the generally improved sentiment toward Asian sovereigns and the positive momentum of the political situation, experts believe the time is right to approach the agencies.

Naturally, the question would come to readers' mind that what Bangladesh's rating will be. While the answer to this question can be given by the respective agencies, I would like to present some data to have a broader understanding about where we can expect to see Bangladesh. Table 1 shows the rating scales of different agencies. Table 2 gives a comparative analysis of some other rated countries with Bangladesh.

While, the above table shows some attractive macroeconomic statistics for Bangladesh relative to its peer countries, it does not fully capture various qualitative strengths of the economy as well as of the country. I would like to highlight on some of them:

- Largely positive macro-economic environment based on public sector reforms, double digit export growth, relatively stable exchange rate, improving social indicators, etc.
- Investment climate in Bangladesh compares rather favourably with most South Asian countries. Bangladesh is blessed with huge reserves of natural gas and coal. Bangladesh has a large domestic market, with steadily rising disposable income among the middle class. Thirty-five percent of population is under 14 years of age while 61 percent between 15-64 years of age (Median age 23), coupled with growing purchasing power of an ever growing middle class; Bangladesh is in a unique position to attract entrepreneurs from home and abroad. Bangladesh is one of the least urbanised countries in the lists of Goldman Sachs and JP Morgan creating significant opportunity space. Competitive labour costs and flexible labour laws are key factors encouraging investment.
- Revenue Reforms Commission and Public Expenditure Reform Commission are set up to rationalise government finances. Reforms of state-owned enterprises, including privatisation, public-private partnership and energy sector rationalisation, have been initiated. Bangladesh Development Forum has provided an opportunity to the donors to focus on Bangladesh's development needs.
- Financial sector achieved tremendous progress in terms of having repo, reverse repo and inter-bank repo. Primary Dealers guideline has been introduced for better convenience of underwriter and traders. Dhaka inter-bank offer rate (DIBOR) has been introduced to help develop an overnight swap market and a commercially acceptable yield curve for the taka. The Bangladesh Bank has approved a couple of derivative transactions. The Securities and Exchange Commission has outlined clear guidelines for companies to get listed and established stronger surveillance to monitor capital market participants. Total government debt is manageable at 49 percent of GDP (gross domestic product), which is lower than most of the peers. External debt along with current account balance performs better than India, Philippines, Pakistan and Indonesia.
- Stable inflow of remittances helped Bangladesh avoid any balance of payment pressure. The resilience of the economy is not only deriving from the fact that it is mostly insulated from the global markets by regulations, but also from an internally vibrant economy.

It is time to let the world know about our progress. What better way of telling this success story than having some respected international credit rating agencies mentioned above speak for Bangladesh?

The writer is a banker and economic analyst. Views expressed here are his own.

REGIONAL ECONOMY

Pakistan eyes $5b in foreign investment

AFP, *Islamabad*

AFP

Pakistan Board of Investment chairman Saleem H Mandviwalla speaks during an interview with an AFP journalist at his office in Islamabad.

Pakistan aims to attract foreign investment worth five billion dollars this year, but needs to tackle reform, maximise anaemic growth and stem rampant violence to clinch its ambitious target.

Last fiscal year, Pakistan recorded its worst economic growth in more than a decade, at two percent, and attracted only 3.7 billion dollars in investment.

Yet Board of Investment chairman Saleem Mandviwalla is optimistic despite Pakistan's immense challenges.

"Traditionally the investment pace that we had kept -- which was an average of five billion dollars a year -- I think we should be able to go back to it very soon depending on if the global situation improves," he told AFP.

"Pakistan faces the global crisis which is going on, the financial crisis, the energy crisis and then on top of these we have the security situation," Mandviwalla, who is also a state minister, conceded.

Security has plummeted in Pakistan over the last three years with Islamist militants on the rampage, killing more than 3,000 people in bomb attacks to avenge the government's alliance with the United States in the war on Al-Qaeda.

Then there is the crippling energy crisis. Power cuts have become routine all year round, choking industry and causing misery for millions.

"With these conditions prevailing on us, which is terrorism and energy shortages, this stops us from really moving the investment the way it should come in," Mandviwalla acknowledged.

While Pakistan languishes behind regional giants India and China, Mandviwalla takes comfort from the fact that his country, with its relatively advanced infrastructure, does better than other developing countries.

Close ally the United States has tripled non-military aid to Pakistan to 7.5 billion dollars over the next five years, spurring hopes that the cash can boost economic growth and improve security.

"We have to market Pakistan, we have to overcome the local issues," Mandviwalla said, highlighting opportunities in energy generation, agriculture and infrastructure.

The top three countries providing foreign direct investment (FDI) so far this fiscal year are the United States, with 347.5 million dollars, Britain, 119 million dollars and the United Arab Emirates, 121.8 million dollars, according to the Board of Investment.

The biggest investments flowed into oil and gas, communications and information technology, and power generation, its documents said.

The investment board touts success stories such as investment from mobile phone operators Orascom (Egypt) and Telenor (Norway), Japan's Toyota, Citibank, Standard Chartered Bank and consumer product giant Procter & Gamble.

The board recently signed a memorandum of understanding with General Electric to identify energy, power, transport and water projects.

Azmat Ranjha, the minister for trade in the Pakistani embassy in Washington, acknowledged that investment from the United States -- the country's largest trading partner -- had slipped because of the security concerns.

But he said it was largely a matter of perception and pointed to fresh investment by large US companies with long experience in Pakistan such as Coca-Cola and Procter & Gamble.

"If you're a start-up, the perception you get once you read all these newspapers is that it looks fairly scary," he said.

"But those familiar with the region know that most of the problems are in the north near Afghanistan while most industry is in the central and southern part of the country."

Economic analyst Salman Shah said the five-billion-dollar target would be achievable if the government focused more on boosting the economy's disappointing growth rate and lowered interest rates to single digits.

"To achieve the five billion dollars investment, the BOI has to work hard, conduct roadshows and accelerate the privatisation process," he said.

"Another important thing is the economic growth. With just two percent growth rate, it is difficult to attract the investors."

Despite the 7.5 billion-dollar US aid package, Ranjha said it was crucial for the United States to lift tariff barriers. Proposals to help Pakistan by liberalising trade have been stuck in Congress.