BB warns banks on extra interest

RAJAUL KARIM BYRON

The central bank has warned all commercial banks against charging any extra interest from borrowers to make more profit.

A circular issued by Bangladesh Bank said: "Some banks have been calculating interest deviating from rules, which is not desirable."

It also made directives to the banks that no penal interest can be charged on any type of loans.

Bankers, however, have different views on such penal interest. They say this penal interest is applicable to bad borrowers.

A central bank official said no bank could charge penal interest on loans -- be it bad or good.

But such 'wholesale benefit' will encourage defaulters, a senior banker said.

He said they would talk the issue with the central bank and seek more clarification.

Bangladesh Bank's policy is to calculate interest every three months, its circular said, focusing on different types of loans and how their interest rates have to be calculated.

Muklesur Rahman, acting managing director of Eastern Bank, sees the new direction as a 'good move'. "But we seek more clarification from the central bank on how a bank calculate interest in the case of consumer credit," he told The Daily Star.

On penal interest, Rahman said, "Why a bank should not charge penal interest on defaulters… Then, will the criminals go unpunished?

He also said if any specific sector, such as jute, becomes non-viable due to unavoidable circumstances, penal interest can be waived as per government or the central bank's decision.

But providing such wholesale benefit to all defaulters will not be wise, Rahman categorically said.

PFIL

SM Intekhab Alam, managing director of Phoenix Finance and Investment Ltd, and Md Mosharraf Hussain, general manager of Pubali Bank Ltd, exchange documents after signing a term loan agreement of Tk 20 crore in Dhaka yesterday.

BANGLALION

Md Shafiul Haque, chief commercial officer of Banglalion Communications Ltd, speaks at a press conference to announce the launch of the company's operations in Barisal yesterday.

Mutual funds rise on SEC's credit move

STAR BUSINESS REPORT

Mutual funds, except one, jumped by up to 20 percent yesterday following the regulator's move to increase the credit limit for investment securities.

Of the 26 listed mutual funds, the unit prices of 25 scrips rose between 4 percent and 20 percent, while one declined by only 0.02 percent.

"The sector went up by 11.7 percent following the SEC's directive to relax the margin criteria for funds," BRAC-EPL, an investment bank, said in its regular market analysis.

The Securities and Exchange Commission (SEC) on Monday reset the margin loan criteria for mutual funds by increasing the limit by 35 percentage points.

In line with the new criteria, the mutual funds that will trade 50 percent higher than their latest NAV (net asset value) will not qualify for credit. The earlier limit that the regulator fixed five months ago was 15 percent.

The new ceiling, which will come into effect tomorrow, means that if a mutual fund has Tk 100 in NAV per unit and trades only up to Tk 150 (50 percent higher than NAV), margin loans can be approved for the fund.

The SEC's directive, a welcome move for the undervalued investment securities, geared many investors to chase mutual funds, said a stockbroker.

A mutual fund is a professionally managed collective investment scheme that pools money from many investors and invests in stocks, bonds and short-term money market instruments.

With the mutual funds rally, the single-day trade volume hit an all-time high of 13.25 crore shares and mutual funds units that changed hands on the Dhaka Stock Exchange with a value of 1,488 crore.

The rally also led the Dhaka stocks to close higher with the benchmark DSE General Index increasing by more than 37 points, or 0.56 percent, to stand at 6,657.97.

Although the banks and non-bank financial institutions were gainers among the other major sectors, the mutual funds were the biggest gainers of the day, the BRAC-EPL analysis said.

Advancers beat losers 160 to 89, with one security remaining unchanged on the prime bourse. The Dhaka market will remain closed today on the occasion of Janmastami, a Hindu festival.

Chittagong stocks also posted a rise with the CSE Selective Categories Index increasing by 47 points, or 0.37 percent, to 12,742.36.

More than 1.59 crore shares and mutual fund units traded on the Chittagong Stock Exchange, with a value of Tk 134.56 crore.

At the end of the day, 109 securities gained, 74 declined and six were unchanged on the port city bourse.

New CFO for Fareast Islami Life

STAR BUSINESS DESK

Fareast Islami Life Insurance Company Ltd has appointed Abul Khaleque as chief financial officer, the insurer said in a statement.

Khaleque started his career with American Life Insurance Company Ltd, served the insurer for seven years and finished as its chief accountant.

He served Dhaka Ahsania Mission as finance director and Delta Life Insurance Company as executive vice president.

He received extensive trainings on life insurance accounting from both home and abroad.

Anglo Irish Bank posts record first-half loss

AFP, *London*

Ireland's state-run Anglo Irish Bank reported a record first-half loss on Tuesday, hit by soaring bad debts, and revealed that the government had injected another 8.58 billion euros to prop it up.

Anglo, nationalised early last year to save it from collapse, said in a results statement that it made a pre-tax loss of 8.2 billion euros (10.4 billion dollars) in January-June, compared with the same part of 2009.

The record shortfall included a massive impairment charge of 4.8 billion euros, while the group also faced a 3.5-billion-euro loss on loans which it sold at a discount to the National Asset Management Agency (NAMA).

An impairment charge acknowledges unexpected costs or losses, such as bad debts.

"The severe contraction in the Irish property market, rising unemployment and weak consumer demand ... continued to influence asset prices and impairment charges into the first half of 2010, culminating in the reporting of a pre-tax loss of 8.2 billion euros," said bank chairman Alan Dukes.

"In addition, international funding markets were stressed during the period, which impacted the bank's funding and liquidity position."

The Irish government has meanwhile pumped another 8.58 billion euros into the troubled group, taking its total state support to 22.88 billion euros.

Anglo Irish Bank added on Tuesday that it would seek to wind down at least 80 percent of its business over the next 10 years.

"We have considered in detail a number of alternative strategic options for the future of the Bank, including an immediate liquidation," added Dukes.

"After detailed consideration, we have decided to pursue a plan to split the bank, winding down at least 80 percent of the old bank and creating a new viable bank from the remaining good quality loan assets.

"It is the board's strong view that this restructuring plan represents the best possible outcome for the taxpayer of all the alternatives available."

The Irish government had set up the NAMA -- a so-called 'bad bank' -- to buy mainly soured property loans from the banks with a book value of some 81 billion euros.

Leading Irish banks became grossly overexposed to lending to property markets, notably commercial property.

National Bank gets new DMD

STAR BUSINESS DESK

National Bank Ltd has appointed SM Jaffar as its deputy managing director, the bank said in a statement yesterday.

Prior to the appointment, he was the senior executive vice-president of Southeast Bank Ltd.

Jaffar started his banking career with AB Bank as trainee officer in 1985. He served Al-Baraka Bank Bangladesh Ltd and Southeast Bank in various capacities.

He received various trainings from both home and abroad.

Japan announces fresh stimulus measures

AFP, *Tokyo*

Japan on Monday unveiled an 11 billion dollar stimulus and announced monetary steps to safeguard a fragile economy and curb the impact of a strong yen, but markets were left unimpressed.

Prime Minister Naoto Kan announced the 920 billion yen stimulus package and the central bank extended a multi-billion-dollar loan scheme in a bid to boost an economy beset by deflation and curb the strength of the yen.

Kan said the plan will include steps to boost employment for graduates, investment in green industries and support for smaller businesses and measures to boost consumption, adding it would get final approval on September 10.

The stimulus package would be financed by reserve funds, but Kan added that the government would consider compiling an additional budget if necessary.

The announcement followed an emergency meeting by the Bank of Japan in response to recent government pressure to counter the strong yen. But the unit moved higher after the bank unveiled its plans, with markets underwhelmed.

In its second loan expansion since March, the bank said it would offer 10 trillion yen (118 billion dollars) in six-month low interest loans in addition to 20 trillion yen from December's three-month loan scheme.

Domestic banks will be able to borrow a total of 30 trillion yen from the central bank for maximum of six months against pooled collateral, at the rate of 0.1 percent.

The move would help lower interest rates in the market place with a view to easing the yen's strength, said the bank, which left its key rate unchanged at 0.1 percent.

"The bank believes that the monetary easing measure, together with the government's efforts, will be effective in further ensuring Japan's economic recovery," it said.

However, markets took a dim view of the widely expected BoJ steps, with the yen strengthening to below 85 against the dollar and the Nikkei index paring back earlier three percent gains to close up 1.76 percent.

With investors having anticipated the announced steps, which took place on a day major forex centre London was closed for a public holiday, the impact of the decision will be "close to zero," said Macquarie Bank's Richard Jerram.

"It's largely a charade," he said.

Double-dip fears rattle fund managers

REUTERS, *New York*

US fund managers cut their high exposure to equities in August and raised their bond allocations amid mounting fears of a double-dip recession, a Reuters poll showed on Tuesday.

On average, funds held 61.5 percent of their assets in equities, compared with 65.0 percent a month earlier, the poll of 14 US-based fund management firms surveyed from Aug 17 to 30 showed.

Exposure to fixed-income securities, including government and corporate and high-yield "junk" bonds, rose to 31.8 percent in August from 29.8 percent in July. There were changes in the sample in August, but on a like-for-like basis the direction was the same.

"We are reducing risk because the recent economic figures suggest things are really slowing down," said Keith Wirtz, chief investment officer at Fifth Third Asset Management, a Cincinnati, Ohio-based firm that oversaw $17.8 billion as of March.

Lingering uncertainty about the global economic recovery has kept stocks under severe selling pressure.

The benchmark Standard & Poor's 500 Index has fallen roughly 4.8 percent in August, and the Dow Jones industrial average dropped about 4.4 percent in the same period.

In mid-August, the Federal Reserve jolted markets with a shift in policy. Acknowledging that "the pace of recovery in output and employment has slowed in recent months," the US central bank said it would use the proceeds from its huge mortgage-bond portfolio to buy long-term Treasury securities.

The move fuelled even more buying in the 30-year Treasury bond, arguably this summer's hottest investment. For the month, long-dated Treasuries have beaten every other US fixed-income market.

Treasuries maturing in more than 20 years -- a sector comprised mainly of 30-year bonds -- posted returns of 5.07 percent in August, according to data from Barclays Capital.

The rally could continue. On Friday, the US government said gross domestic product grew at an annual pace of 1.6 percent in the second quarter, down from the 2.4 percent it had initially estimated a month ago.

"In this environment, holdings of long Treasury paper will serve not only as a safe haven, but an asset whose value will appreciate significantly," said Van Hoisington, who oversees the $171 million Wasatch-Hoisington US Treasury Fund. The fund is up roughly 20 percent so far this year through mid-August, according to Lipper.

The group polled by Reuters also raised exposure to cash in August. Their cash allocations moved to 3.1 percent in August, from 2.0 percent in July.

REUTERS

A trader watches his screens on the floor of the New York Stock Exchange on August 11.