Star Business

Dhaka Monday November 22, 2010

IDLC Index

IDLC 50	▲ 1.70%	8,849.20

Subject to Conditions contained in www.idlc.com

Stocks

DGEN	▲ 1.83%	8,598.17
	▲ 1.66%	15,717.13

Currencies

	Buy Tk	Sell Tk
USD	69.80	70.80
EUR	93.39	99.11
GBP	109.47	115.43
JPY	0.82	0.88

SOURCE: BANGLADESH BANK

News in Brief

Telenor CEO due today

Star Business Desk

Telenor Group President and Chief Executive Officer Jon Fredrik Baksaas will arrive in Dhaka today on a three-day visit.

He will join the inauguration of Grameenphone's newly built head office GPHouse, said a statement.

During his stay here, he will also meet with Finance Minister AMA Muhith and other senior government officials.

Grameenphone Ltd is a joint venture between Telenor Group (55.8 percent) and Grameen Telecom Corporation (34.2 percent), a non-profit sister concern of Grameen Bank.

Telenor is a provider of mobile, fixed, broadband and broadcast communication services worldwide with more than 195 million subscribers in 12 markets across Europe and Asia.

Asia advertising spending to surge

Reuters, *Tokyo*

Advertising spending in Asian economic powerhouses such as China will see double-digit growth in the next few years, buoyed by firm consumer confidence and a growing middle class, a top advertising executive said on Friday.

"We see optimism and real increases, particularly in the big markets," said Jim Heekins, chairman and CEO of the Grey Group, a global advertising firm.

"Certainly in India and China, 10 percent increases at least in advertising. We'll see that kind of healthy growth in most of the faster-growing economies out here," he told Reuters in a telephone interview.

One of the keys to this is the region's big population, with the growth of a middle class in strong economies such as India and China coupled with substantial population numbers.

By contrast, Australia's economy may be doing well, but its smaller population means less potential advertising, while Japan suffers from an ageing society and stagnant economy, he added.

"We see rising middle-class (numbers) in Indonesia, India, China. You have self-serving markets with millions and millions of people," he said.

More buyers shift to Bangladesh

Refayet Ullah Mirdha

Opportunities are widening as globally renowned apparel brands look to source more garments from Bangladesh amid the widening recovery from financial crisis.

Some buyers have already shifted to Bangladesh from competing countries, while others are increasing order quantities.

Prices of garments in China, Turkey, Sri Lanka, Cambodia and Vietnam have gone up due to higher production costs. Bangladesh has also diversified its product range and marketing over the last few years.

Apparel exports grew by more than 30 percent in the first quarter (July-September) of the current fiscal year, riding on high demand for competitively priced items.

Export Promotion Bureau data shows knit products worth \$2.18 billion and woven worth \$1.79 billion were exported during the time -- 32 percent and 30 percent more than a year earlier.

Top German brands Hugo Boss and Adidas are in talks with local apparel-maker Viyellatex Group to buy direct for the first time, in 2011.

Michael Otto, chairman of Otto Gmbh and Co KG, said in an interview that the German retail chain is investing 20 million euros (Tk 197 crore) in Dhaka to run a social business that produces garments.

German lifestyle brand s.Oliver moved to a new, bigger Dhaka office last month to strengthen sourcing.

Retail giants including Wal-Mart, JC Penny, Zara, Tesco, IKEA, Marks and Spencer, H and M, G-Star Raw, Uniqlo and Li & Fung have also increased quantities purchased from Bangladesh.

Spanish retail chain Inditex Group, which manages eight brands (Zara, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe), also plans to expand sourcing.

Apparel exports to Japan, a newer market, started picking up after 2008, when Tokyo announced the China+1 strategyto shift sourcing focussed on China to other nations, such as Bangladesh.

Fast Retailing Company Ltd, which owns Japan's casual-clothing chain Uniqlo, signed a \$100,000 deal with Grameen Bank Group on July 13 to produce garments at the group's factories. Uniqlo opened a liaison office in Dhaka in 2008.

Other Japanese companies, including Maruhisa, Yokohama Tape, TM Textiles, NI Teijin, CHORI, FVG and Onward Holdings Co, also began doing business in Bangladesh.

Apparel exports have grown to South Africa, New Zealand, Canada, Brazil, Mexico and Australia.

"It'll not be difficult to double export earnings from apparels as international buyers are coming at such a higher rate," said Abdus Salam Murshedy, president of Bangladesh Garment Manufacturers and Exporters Association.

But success hinges on a smooth supply of gas and power to the factories and relieving congestion at the Chittagong Port, he said.

Mohammad Hatem, vice-president of Bangladesh Knitwear Manufacturers and Exporters Association, said apparel-makers have the capacity to cater to additional orders, but the power crisis, and high cotton prices hold them back.

Economist Wahiduddin Mahmud said the sector has shown resilience in the face of global recession.

AMRAN HOSSAIN

Garment items made for leading global brands are put on display at a showroom of an apparel factory in Gazipur. International buyers are flocking to Bangladesh as it offers competitive prices for its textile products.

"While some effect of the recession was felt belatedly in early 2010, the industry seems to have emerged from it even stronger and more competitive in the global market," he said.

"In fact, the main reason why Bangladesh's garment export has been able to withstand the recession is its ability to capture higher shares of the US and European Union markets at a time when the total volume of garment trade has contracted."

"The future looks even more promising, as China may increasingly lose its competitive edge in garment export due to its rising wage costs and a possible revaluation of its currency," said Mahmud, a former caretaker government adviser.

"Among our garment entrepreneurs, those who are smart enough may now be able to exercise some bargaining power in price negotiations as well," he added. "True, Bangladesh is known as a low-cost supplier of garments. But the low average unit price of exported garment is mainly due to the kind of basic apparel items that we export. For similar kinds of items, our exports fetch similar or sometimes even higher prices compared to those from, say, Vietnam or Pakistan.

"Yet our garment industry faces formidable challenges. Its competitiveness is mainly derived from low wages, which also remains a potential source of labour unrest, even with newly announced minimum wage rates. There are large variations across the garment factories in productivity and managerial efficiency. Improved productivity needs to be translated into better labour conditions. To stay competitive while maintaining sound labour relations will require a restructuring of the industry. That process will not be painless," the economist said.

If the country wants to move up the value chain in global trade, a skilled labour force and better management are required. "That will also make it possible to raise wage rates as labour productivity increases," he said.

The more immediate challenges are improving the efficiency of Chittagong Port and ensuring energy supplies, he added.

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Non-bank loan levels bounce back

Sohel Parvez

Strong demand for lease financing among investors banished last year's sluggish loan-disbursement levels at non-bank financial institutions (NBFIs), according to the central bank.

In 2009, lease financing by NBFIs rose 29 percent to Tk 13,665 crore from Tk 10,609 crore a year ago, Bangladesh Bank data shows.

The stronger financing by NBFIs came a year after sector lending grew by a modest 7 percent over the previous year.

Stakeholders said 2008's level sagged because businessmen were cautious in taking on new projects amid the caretaker government's anticorruption and anti-tax evasion drive.

Investment picked up after an elected government came in power in 2009, NBFI executives said.

"Investors were shy in taking new ventures because a phobia was at work among them during the period of caretaker government," said Md Akter Hossain Sannamat, managing director of Prime Finance and Investment Ltd.

"But investment took off after a political government came in power. Businessmen who either suspended their activities or shut factories during the period of caretaker government have come back to business."

However, according to Sannamat, the pace of growth in loan demand is lower than expected because of infrastructure constraints and the power crisis.

Lending by NBFIs doubled to Tk 13,665 crore in the four years after 2005. The country's 29 NBFIs operate 105 branches that offer loans with longer and more flexible terms than banks.

NBFI lending became popular because of flexibility on collateral, quicker loan approvals and more personal service, among other factors.

A marketing drive by NBFIs and expansion of branches also buoyed demand for loans that extended lending to SMEs and the housing and real estate sectors.

"We are flexible on collateral issue repayment schedules," said Sannamat. "That's why businessmen prefer NBFIs even though our interest rates are usually higher than those of the banks."

Arif Khan, deputy-managing director of IDLC Finance Ltd, said the contribution of NBFIs in the economy is growing due to dynamism of the sector.

"The confidence of business sector has increased," he said. "Massive investment are taking place in the last couple of years, and NBFIs are taking part in it."

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Ireland to ask for bailout

Reuters, *Dublin*

Ireland will seek a bailout from international lenders, the Irish finance minister said yesterday, ending weeks of speculation that the country needs aid.

"I will be recommending to the government that we should apply for a program and open formal negotiations," Brian Lenihan told public broadcaster RTE. He said a plan to restructure Ireland's banks was likely to be a key feature.

However, changes to Ireland's corporation tax were off the agenda and would inhibit the economy's ability to grow, he said.

The amount Ireland plans to apply for would not be a "three figure sum," Lenihan said, knocking down a report on Sunday that suggested Ireland would need as much as 120 billion euros.

Sources have told Reuters that Ireland may need 45-90 billion euros (\$63-\$126 billion), depending on whether it needs help only for its banks or for public debt too.

Officials from the International Monetary Fund (IMF) and European Commission have been in Dublin since Thursday to thrash out a deal to help with Ireland's banks. Concerns over the banks' huge liabilities have sent Irish borrowing costs soaring.

As well as the four-year plan, the government will put forward a program for saving the country's banks that will involve restructuring their balance sheets.

"The banks are well funded as part of the Eurosystem but they can't remain in that state forever," Lenihan said.

"There have to be structural changes in the banks that put them back on the road," he said.

Ireland's banking sector, brought to the brink of collapse by exposure to a property and construction sector that slumped after the global financial crisis, has grown dependent on ECB funds and seen an exodus of deposits over the past six months.

Calls are mounting for the government to stand down over its handling of the economic and financial crisis, but Lenihan said the Ireland should not be plunged into a general election.

Politicians from within ruling Fianna Fail's own ranks criticized the government on Sunday, while commentators highlighted public anger that unions have warned could spill into civil unrest.

"You have lied, you have let us down. For Ireland's sake, go now," demanded the Sunday Independent newspaper under a front page picture of the cabinet.

Regulator tightens share credit again

Star Business Report

The stockmarket regulator yesterday halved the ratio of share credit in an effort to tame a heated market.

With the latest initiative, investors who trade on credit can receive margin loans at a 1:0.5 ratio, meaning if an individual has shares worth Tk 1, he/she will get a Tk 0.50 loan.

The previous ratio for share credit was set at 1:1.

Credit providers will have to follow a net asset value (NAV)-based method while giving loans to their clients or investors.

According to the NAV-based method, loan providers will determine price of a stock by adding the market value to the NAV and dividing the sum by two.

For example, if an investor buys 1 share at market price of Tk 1,000 each and the company's NAV per share is Tk 500, the value for a margin-loan buy will be Tk 350 [{(Tk 1,000 + Tk500)/2}/2].

A market monitoring committee of the Securities and Exchange Commission took the decision at a meeting, with its Chairman Ziaul Hque Khondker in the chair, an SEC spokesman said.

"The market is floating on excess liquidity, and everyday fresh funds are entering into the market," Farhad Ahmed, executive director and a spokesman of the SEC, said after the meeting.

"As the market is witnessing a liquidity glut, demand for shares is on the rise, pushing the market overheated day by day," he said.

The current bull-run that also continued yesterday prompted the SEC to tighten the loan ratio.

At the end of trade, benchmark index of the Dhaka Stock Exchange -- DSE General Index (DGEN) -- gained 154 points, or 1.83 percent to 8,598. With the rise, the DGEN also reached its highest-ever level.

On the premier bourse, which resumed trade after a five-day Eid vacation, advancers beat losers 178 to 64, with five securities remaining unchanged. The DSE traded more than 13.22 crore shares and mutual fund units on a value of Tk 2,824 crore.

According to another decision from yesterday's meeting, newly opened beneficiary owner's account holders will not be allowed to enjoy margin loan facilities for the first 30 working days from the date of such account opening.

The SEC also directed the Dhaka and Chittagong stock exchanges to post in their trading servers as well as websites the awareness guideline the regulator publishes in newspapers.

TIMELINE

FEBRUARY 2
Loan ratio is squeezed to 1:1, down from 1:1.5

MARCH 15
The regulator increases the ratio to 1:1.5, up from 1:1

JULY 8
The ratio is slashed to 1:1, down from 1:1.5

NOVEMBER 21
The ratio is further decreased to 1:0.5, from 1:1

UK mulls plain cigarette packs

AFP, *London*

Tobacco companies could be forced to sell cigarettes in plain grey or brown packaging in Britain in an attempt to deter youngsters from taking up smoking, the health secretary suggested Sunday.