

Bangladeshi garment smartens British schoolchildren



REFAYET ULLAH MIRDHA

How smart do the British schoolchildren look in their school uniforms of shirt, tie, blazer and trousers or skirt? Very, indeed. And part of the schoolwear -- would you believe? -- is made in Bangladesh.

Gooryong Fashion, a Gazipur-based garment maker, is one such vendor. The company has been supplying shirts -- in the region of 1.8 million pieces -- since 1996 to John Lewis and True Tex, the two main uniform service providers in the UK.

"The western buyers of school uniforms are coming to Bangladesh with more orders as China has become dearer for them," said Delwar Hossain, chairman of Gooryong Fashion, adding that superior quality and timely shipment being the other two factors drawing in the buyers.

This year, the company supplied \$12 million worth of schoolwear items to the UK and US, while the figure last year was around \$8 million.

The fabrics for the uniforms are imported, mainly from China. The designs are provided by the buyers, which factory workers replicate to a T, said a proud Hossain.

The company that employs 2,000 works hopes to export upwards of \$50 million worth of garments next year.

It took off in the schoolwear business when an US buyer placed an order for 10,000 pieces in 1996. It delivered -- in a major way. And there has been no looking back since.

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Exports go down for third straight month

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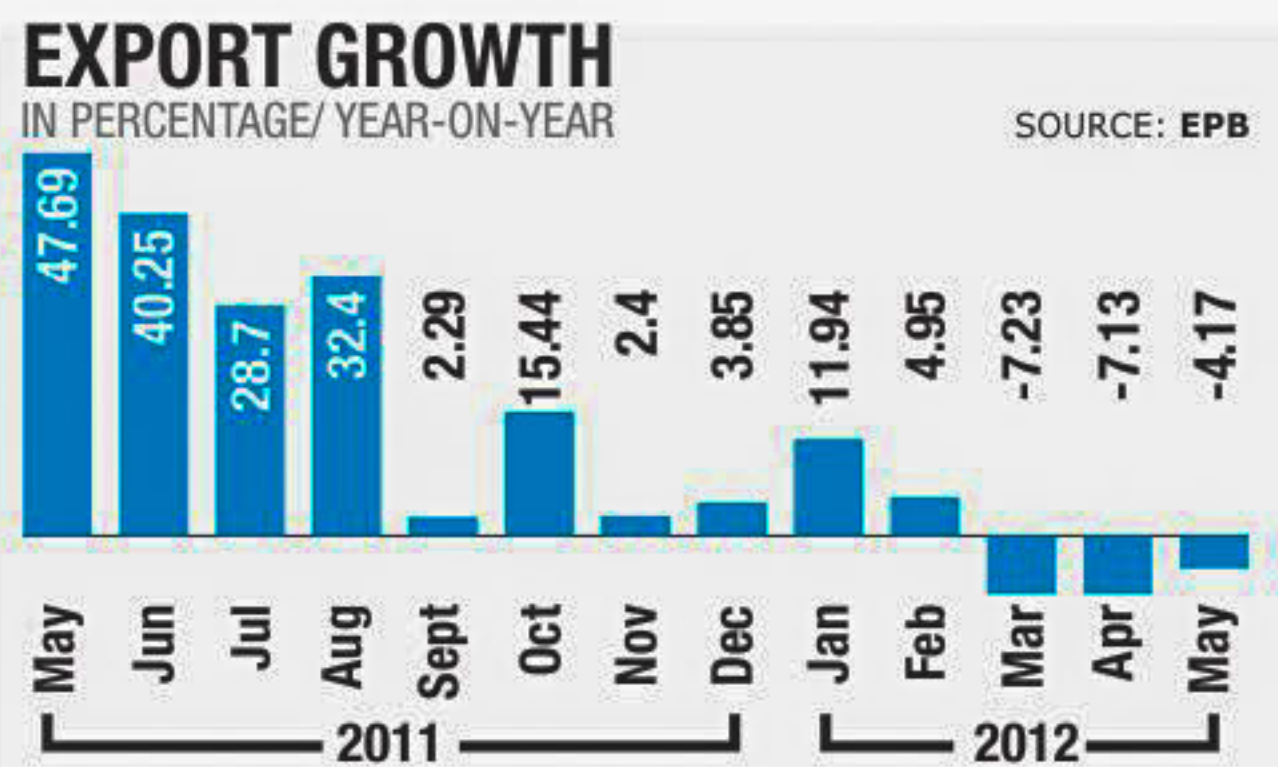
EXPORTS fell for the third straight month in May, according to data released by state-owned Export Promotion Bureau (EPB) yesterday. Businesses blamed the slowdown in exports on a dip in demand for apparel items in the Eurozone, which is now grappling with a debt crisis.

Readymade garment is the prime foreign currency earning sector of Bangladesh and the EU is the biggest market for its apparels.

Exports in May declined 4.13 percent to stand at \$2.2 billion from the same month last year. However, exports rebounded by 16.31 percent in May compared to the previous month.

Exports grew 7 percent to \$21.98 billion in July-May compared to the same period last year. "In times of turmoil, a 7 percent growth is not bad," said Shubhashish Bose, vice-chairman of the EPB.

"We are performing well in new markets such as Japan, Russia, Malaysia, Mexico, Brazil, India, China, Australia and South Africa. We hope to offset the losses by performing



better in the new markets," he said.

"I am hopeful that exports will regain soon."

However, export earnings are 7.52 percent behind the periodic target at \$23.77 billion for the July-May period.

The annual export target was set at \$26.5 billion, which was 14.5 percent over the earnings at \$22.92 billion in fiscal 2010-11.

Of the apparel items, knitwear exports grew by 1.5 percent to \$8.58 billion and woven exports rose 15.73 percent to \$8.7 billion in July-May this year, compared to the same time last

Where will the rupee finally rest?

DH PAI PANANDIKER

FOR nearly a decade, the rupee has been stable -- moving in the narrow range of 44-45 to the dollar.

But since August last year, the rupee began to slide and in less than six months was down 23 percent.

The fall was not without sound reasons though currency values, when market driven, can be exposed to speculation. The latter is not the basic cause, nor is Greece the principal culprit. The rupee declined for reasons which were very much internal, arising from imbalances in the economy.

There were apparently two factors that collectively contributed to the weakening of the rupee. First, the merchandise trade deficit in 2011-12 was the highest so far,

amounting to \$185 billion. This could not be covered by trade in services and the year ended with a current account deficit (CAD) which exceeded 4 percent.

Second, foreign investment which usually funded CAD dropped significantly. In the whole of 2011, there was a net outflow of hot money. January and February this year saw the return of FIIs but subsequent months saw the money draining out again, mainly because of budget announcements about GAAR and retrospective tax changes. The finance minister did subsequently try to retrieve the situation but the damage was done. Investor confidence was shaken.

The high demand for dollars for imports and low supply of dollars from exports and foreign investment caused a market mismatch and forced the rupee to fall. Unfor-

tunately, these trends tend to have a snowballing effect. The fall in rupee discourages foreign investment which in turn forces the rupee to drop further.

Underlying these trends, however, is rampant inflation since March 2010. The purchasing power of the rupee declined 18 percent in 26 months. Since the external value of the rupee conditions its external value, the weakening of the rupee against the dollar could have been expected. It did not happen early enough though the FIIs sensed it much before the exporters did.

Inflation squeezes the margin between export price and cost of production. Eventually, the exporters are forced to price themselves out unless the rupee falls in the currency market. The drop in our export growth is not so much because the importing countries -- the United States and the EU -- have

been stagnating as the loss of competitive edge in international trade.

The value of the rupee in terms of dollars will depend over time on the erosion of its value in terms of purchasing power internally. If inflation has been at say, 7 percent, the rupee will have to fall to that extent unless the importing countries are themselves victims of inflation. That is not the case. Hence, the rupee has fallen the most compared to other currencies because we had nearly the highest inflation.

Eventually, the rupee will stabilise, barring short-term disturbances, after correcting the loss in its domestic purchasing power. The rupee will not go back to 45 to the dollar; at best it will stabilise at 51-52.

The writer is the president of RPG Foundation, a private think tank, in India.

Eurozone agrees to lend Spain up to 100b euros

REUTERS, Brussels/Madrid

EURO zone finance ministers agreed on Saturday to lend Spain up to 100 billion euros (\$125 billion) to shore up its teetering banks and Madrid said it would specify precisely how much it needs once independent audits report in just over a week.

After a 2 1/2-hour conference call of the 17 finance ministers, which several sources described as heated, the Eurogroup and Madrid said the amount of the bailout would be sufficiently large to banish any doubts.

"The loan amount must cover estimated capital requirements with an additional safety margin, estimated as summing up to 100 billion euros in total," a Eurogroup statement said.

Spain said it wanted aid for its banks but would not specify the precise amount until two independent consultancies - Oliver Wyman and Roland Berger - deliver their assessment of the banking sector's capital needs some time before June 21.

"The Spanish government declares its intention to request European financing for the recapitalisation of the Spanish banks that need it," Economy Minister Luis de Guindos said at a news conference in Madrid.

He said the amounts needed would be manageable and that the funds requested would amply cover any needs.

A bailout for Spain's banks, beset by bad debts since a property bubble burst, would make it the fourth country to seek assistance since Europe's debt crisis began.

With the rescue of Greece, Ireland, Portugal and now Spain, the EU and IMF have now committed around 500 billion euros to finance European bailouts.

Washington, which is worried

the euro zone crisis could drag the US economy down in an election year, welcomed the announcement.

"These are important for the health of Spain's economy and as concrete steps on the path to financial union, which is vital to the resilience of the euro area," US Treasury Secretary Timothy Geithner said.

Likewise, the Group of Seven developed nations -- the United States, Germany, France, Britain, Italy, Japan and Canada -- heralded the move as a milestone as the euro zone moves toward tighter financial and budgetary ties.

Officials said there had been a heated debate over the International Monetary Fund's role in Spain's bank rescue, which Madrid wanted kept to a minimum. The IMF will not provide any of the money.

In the end it was agreed that the IMF would help monitor reforms in Spain's banking sector, while EU institutions would ensure Spain stuck to its broader economic commitments.

IMF Managing Director Christine Lagarde said the euro zone's plan was consistent with the IMF's estimate of the capital needs of Spain's banks and should provide "assurance that the financing needs of Spain's banking system will be fully met."

Sources involved in the talks said there had been pressure on Madrid to make a precise request right away, but Spain had resisted.

Euro zone policymakers are eager to shore up Spain's position before June 17 elections in Greece which could push Athens closer to a euro zone exit and unleash a wave of contagion. Spain's auditors could report back after that date.

Nonetheless, analysts said financial markets may be calmed by the announcement when they reopen on Monday.

"The figure of up to 100 billion is more encouraging and pretty real-



REUTERS

Demonstrators hold up signs reading: "Everybody Out", "We don't owe, we don't pay" and "They rescue the banks and evict people" in reference to Spain's bailout in Madrid on Saturday.

istic; it's an attempt to cap the problem," said Edmund Shing, European head of equity strategy at Barclays.

"The issue, however, is there is still a lack of detail about where the money's coming from, which is crucial. The market will treat it with some caution until they see how it will be funded."

The Eurogroup said the funds could come from either from the euro zone's temporary rescue fund, the EFSF, or the permanent mechanism, the ESM, which is due to start next month. Finland said that if money came from the EFSF, it would want collateral.

EU sources said there was a preference to channel money to Spain through the ESM, rather than the EFSF. Under the ESM, an approval rate of 90 percent or less is needed to trigger aid, and the

fund also has more flexibility in how it operates.

"That's why it's so important that the ESM ... be ratified quickly," German Finance Minister Wolfgang Schaueble said.

The Spanish government has already spent 15 billion euros bailing out small regional savings banks that lent recklessly to property developers. Spain's biggest failed bank, Bankia, will cost 23.5 billion euros to rescue and its shareholders have been wiped out.

"Whatever the formula being used, we need to say two things: first the innocent should not suffer for the guilty, second public money should come back to public coffers," said Socialist opposition chief Alfredo Perez Rubalcaba after speaking with Prime Minister Mariano Rajoy on Saturday morning.

The race to resolve the banks'

troubles comes after Fitch Ratings cut Madrid's sovereign credit rating by three notches to BBB, highlighting the Spanish banking sector's exposure to bad property loans and to contagion from Greece's debt crisis.

It said the cost to the Spanish state of recapitalizing banks stricken by the bursting of a real estate bubble, recession and mass unemployment could be between 60-100 billion euros (\$75-\$125 billion).

Italy could yet get dragged in too. Its industry minister, Corrado Passera, said the economic situation in Italy had improved since the end of 2011, but remained critical.

"Europe was more disappointing than we had expected, it was less capable of tackling a relatively minor problem such as Greece," Passera told a conference on Saturday.

Could Italy be next? Concern in Rome after Spain bank rescue

AFP, Rome

Even as the global economic community hailed an agreement to rescue Spain's stricken banks, there was concern in Rome on Sunday that investors could now begin treating Italy as the next weak link in the eurozone.

Those fears have been fueled by a report from Moody's ratings agency warning that Spain's banking troubles could be "a major source of contagion" for Italy where lenders are also highly reliant on European Central Bank funding.

"Italy is now the only country in difficulty that has not had to ask for a bailout," said Federico Fubini, a columnist for the top-selling Corriere della Sera daily, after aid packages for Greece, Ireland, Portugal and now Spain.

Without a stabilisation in borrowing costs on the debt markets for Italy and Spain and a Europe-wide agreement on the banking system, Fubini said that "the uncertainty will be very high and scrutiny of Italy will grow ever higher."

Italy's borrowing costs are lower than Spain's -- indicating greater investor confidence -- but they have been moving in line with Spanish ones. The rate on benchmark 10-year Italian government bonds on Friday rose to 5.745 percent, while the rate on Spanish bonds went up to 6.192 percent.

Walter Riolfi, writing in business daily Il Sole 24 Ore, was also wary on the Spanish deal, saying: "For Italy this represents the removal of the filter that separates our country from the group of other countries in difficulty."

As has been the case in Spain, Italian banks have bought up large amounts of domestic government bonds in recent months, making up for reduced foreign demand but also increasing their exposure to the sovereign debt crisis.

The Corriere della Sera daily said concern about possible contagion drove Prime Minister Mario Monti, who is also the finance minister, to play a key role in negotiations leading up to the Spanish bank rescue announced Saturday.