Sovereign bonds: handle with care

UN economist warns Bangladesh may lose concessionary loans from international agencies

REJAUL KARIM BYRON

BANGLADESH will have to be very cautious in issuing dollar-denominated sovereign bonds lest it loses access to concessional loans and falls into a debt trap, a United Nations economist said.

"Issuing dollar bonds for a low-income country like Bangladesh should be the last resort. The costs are too high," Hamid Rashid, UN's senior adviser for macroeconomic policy, told The Daily Star in an interview recently.

He cited the case of 10 sub-Saharan countries which raised a total of $8.2 billion through sovereign bonds in the last six years at an average interest rate of 6.2 percent.

But the average interest on Bangladesh's foreign debt is about 1.4 percent, he said.

After the World Bank-led financing consortium withdrew its lending commitment for the Padma bridge project, the government resolved to complete it with own financing.

For making payments in foreign currency, the government recently decided to raise $1 billion through sovereign bonds, the preparations for which have already started.

Meanwhile, Finance Minister AMA Muhith has unofficially been discussing the merits and demerits of a sovereign bond issue, with experts at home and abroad.

One of the specialists consulted is Rashid, who visited Bangladesh earlier this month upon invitation from the government.

Hamid Rashid

The UN adviser says the country would weaken its claim for concessionary loans from the International Development Association, the World Bank's lending arm for the poorest countries.

One of the two eligibility criteria for IDA's soft credit -- which carries little or no interest rates, with the repayment period spread across 25 to 40 years, including 5- to 10-year grace period -- is that the country does not have access to international capital markets.

"The moment you borrow commercially at 5-6 percent interest rate, IDA will turn round and say that you don't need concessionary loans any more. May I also remind here that IDA is still the single largest source of foreign credit for Bangladesh -- and critical for its socio-economic development."

For high-return income-generating projects like the Padma bridge, funds would always be available for borrowing.

"But for social sector projects like healthcare and education, commercial borrowing would not be viable -- and that's where concessionary lending comes in. Until Bangladesh has enough taxpayer funds to support social infrastructure projects, it needs IDA."

Rashid urged the government to carry out exhaustive due diligence before issuing sovereign bonds, while citing the case of Sri Lanka, which entered the bond market only to get caught in a debt trap.

Sri Lanka entered the international bond market for the first time in 2007, and issued five more rounds of sovereign bonds -- to service the initial amount. To date it has raised $4.5 billion.

Ivory Coast, Senegal, Gabon, too, resorted to new bond issues to pay interest on their existing sovereign bonds, he added.

"Bangladesh must exert utmost care to ensure it does not happen in its case. It will push the yield curve further and make future borrowing far too costly."

The UN economist suggested that the government should issue the bond exactly when the project is ready, so that the funds raised can be utilised right away.

There are several types of investors in the global bond market -- hedge funds, pension funds, central banks, commercial banks and so on -- of which hedge funds are the riskiest, he said.

"They typically go for speculative investments and frequently change their portfolio which can make the bond price highly volatile. Bangladesh can do well by steering well clear of them."

Instead, he suggested that the government targets the pension funds and other central banks, which, in his opinion, are the safest investors.

"They are long-term investors, and hence would add stability to the project."

Although concessional loans are tagged with conditions, they are better than market whims, Rashid said.

Elaborating, he said without any fault on the part of the bond issuer, the market can all of a sudden choose to chase new sources of profit by switching to other bonds -- and pushing down the price of a particular bond.

"Conditionalities not only prevent volatility, they demand greater accountability, and thereby ensure transparency and quality of a development project."

Nokia wins court injunction against HTC One

REUTERS

NOKIA Oyj said it won a court injunction that would prevent rival HTC Corp from using microphone components made by STMicroelectronics NV in HTC One phones.

The Finnish phone maker said in a statement announcing the decision by the Amsterdam District Court that the microphone components were invented by Nokia and manufactured exclusively for Nokia phones.

"HTC has no licence or authorisation from Nokia to use these microphones or the Nokia technologies from which they have been developed," Nokia said.

It said the injunction was effective until March 2014 and would prevent ST Micro from selling the components to Taiwan's HTC globally.

Such a decision could create further headaches for HTC, which has already struggled with component shortages for its flagship HTC One smartphone.

HTC said it was disappointed with the decision.

"We are considering whether it will have any impact on our business and we will explore alternative solutions immediately" HTC said in an emailed statement.

Nokia, which makes the Lumia line of smartphones based on Microsoft Corp software, and HTC, which uses Google Inc software, have both been scrambling to regain ground lost to bigger rivals Samsung Electronics Co Ltd and Apple Inc in the global smartphone market.

Nokia said the technology in question is "high amplitude audio capture" and enables high-quality recording of music from mobile phones. Nokia said it took apart the HTC One to confirm the microphone, which HTC called "dual membrane HDR", was the same as its own.

In addition to the latest case, Nokia has filed about 40 patent infringement cases against HTC.

Nokia's US shares were up 10 cents or almost 3 percent at $3.17 on the New York Stock Exchange in late afternoon trading.

British Airways announces Airbus order worth $12b

AFP, *London*

BRITISH Airways on Monday announced a deal to buy up to 36 long-haul Airbus A350 passenger planes worth almost $12.0 billion at list prices.

BA said parent group IAG, which owns also Spanish carrier Iberia, had signed a Memorandum of Understanding to buy 18 Airbus A350-1000 aircraft with an option to purchase 18 more.

Each plane has a catalogue price of $332.1 million, according to European planemaker Airbus' website, though airlines tend to receive significant discounts on bulk orders.

"After a thorough selection process, International Airlines Group (IAG), and British Airways have signed a Memorandum of Understanding (MoU) to buy 18 Airbus A350-1000 aircraft plus 18 options, as part of the airline's on-going long-haul aircraft fleet renewal and modernisation strategy," a statement said.

"IAG, owner of both British Airways and Iberia, has also secured commercial terms and delivery slots that could lead to firm orders for Iberia. Firm orders will only be made when Iberia is in a position to grow profitably, having restructured and reduced its cost base," it added.

Asia-Pacific countries poised to start free trade talks

AFP

Preparations are made to the meeting area inside the prime minister's complex in Bandar Seri Begawan in Brunei yesterday, a day before a meeting by leaders of the Association of Southeast Asian Nations.

AFP, *Bandar Seri Begawan*

SIXTEEN Asia-Pacific countries are set to start talks next month on a free trade zone that would cover over half the world's population, according to a document obtained by AFP Tuesday.

The start of negotiations for the Regional Comprehensive Economic Partnership (RCEP) are poised to go ahead despite bitter territorial rifts among planned members, including China, Japan and some Southeast Asian nations.

Leaders of the Association of Southeast Asian Nations (ASEAN), who will meet in Brunei on Wednesday and Thursday, are expected to focus on kickstarting the talks after launching the process last year at a regional summit in Phnom Penh.

The leaders will agree that "the negotiations will commence in May 2013 in Brunei... with a view to completing them by 2015," according to the latest draft of the chairman's end-of-meeting statement that was obtained by AFP.

"We looked forward to the broadening and deepening of existing (free trade agreements) and envisioned the RCEP to be a platform for future trade and investment integration in Asia and the rest of the world," the draft stated, which is prepared by senior officials and could be changed.

A senior Southeast Asian trade official told AFP the first round of RCEP negotiations are expected to start on May 9.

RCEP covers ASEAN's 10 member countries -- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam -- as well as Australia, China, India, Japan, New Zealand and South Korea.

It aims to tie together ASEAN's bilateral free trade agreements with each trading partner, but excludes the United States which is leading talks for a rival trade pact called the Trans-Pacific Partnership (TPP).

The TPP currently involves 12 countries: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

"The RCEP provides an important platform for building trade liberalisation within the Asia-Pacific, which is the world's fastest growing region," Rajiv Biswas, chief regional economist at IHS Global Insight, told AFP.

"The initiative is very important as it includes the three major drivers of emerging markets growth -- China, India and ASEAN."

Potential members have said previously they are keen to make progress towards an RCEP, despite being engaged in diplomatic rows over various rival territorial claims in the region.

Luxury carmakers chase the young, female and frugal

REUTERS, *Mumbai*

LUXURY carmakers in India are moving downmarket and shifting production of smaller and cheaper cars to local plants to cut costs, broadening their target market to include young, female and middle-class drivers to boost lacklustre performance.

In an effort to raise stuttering sales that far lag emerging Asian rival China, the German big three of Mercedes-Benz, Audi AG and BMW AG want to win buyers outside the ultra-rich with locally-made hatchbacks and smaller cars.

"This is a real year of offensive," said Eberhard Kern, managing director of Daimler AG's Mercedes-Benz brand, for which sales dropped nearly one-third in the financial year just ended. He expects the rollout of its hatchback A-Class and a diesel version of its B-class model to help spur double-digit sales growth this year.

After two decades of economic boom, the sight of a sleek Lamborghini or polished Bentley outside Mumbai or Delhi's flashiest hotels or most exclusive nightclubs is not uncommon.

Yet annual sales of luxury cars stand at just over 20,000 vehicles, or about 1 percent of the total car market, compared with around 7 percent in China.

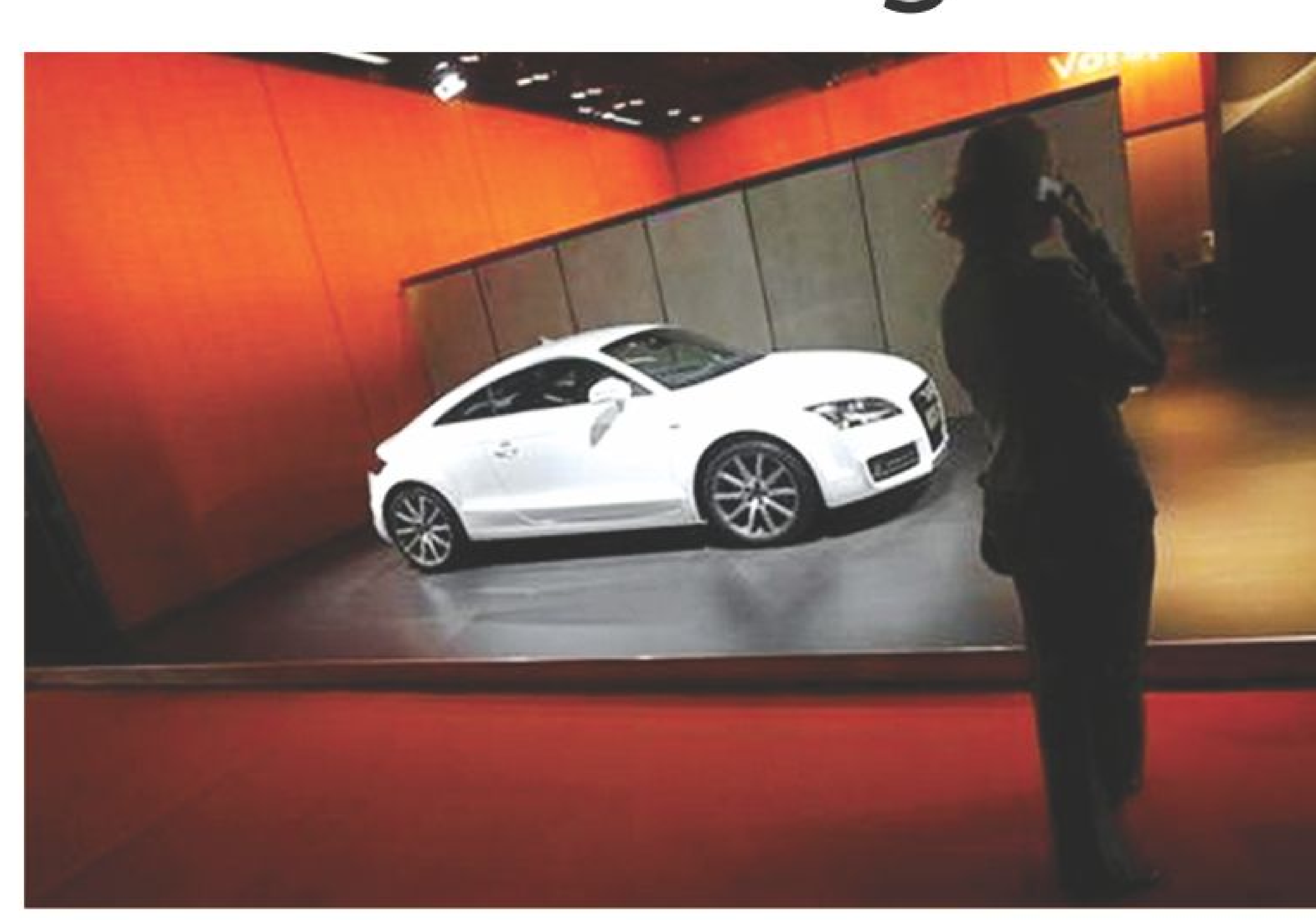
Tapping into India's love for compact vehicles - which account for around 75 percent of all car sales - is no guaranteed fix for the German firms, whose luxury hatchbacks will face competition from far cheaper mid-market offerings made by competitors including Toyota Motor Corp and Volkswagen AG in a highly cost-sensitive market.

"What the (manufacturers) are trying to do is lower the prices and create a much more marketable population. That trend is going to continue," said Abdul Majeed, automotive leader at PricewaterhouseCoopers India.

"In India you have to demonstrate a value-for-money proposition ... but 'How can I make sure that the BMW stands a class apart from the other products?' will be the challenge for the (manufacturers)," Majeed told Reuters.

Luxury car sales fell an annual 14 percent in the financial year that ended in March, as India's lowest economic growth in a decade brought years of rising demand to an end.

Overall car sales fell for the first time in 10 years in 2012, and now to attract customers



REUTERS/FILE

A woman talks on her mobile phone as she stands next to Audi's "TT Coupe 3.2 Quattro" car at the Auto Expo in New Delhi on January 9, 2008.

who are affluent but lack the vast resources of the super-rich, Mercedes and its rivals are introducing lower-priced models, more of which than ever before will be built in India.

Mercedes, which has built cars in India since 1995, is doubling assembly capacity at its plant in Pune in western India to 20,000 cars annually this year, and will bring its A-Class small cars to the country in the next three months. It is also introducing guaranteed resale prices across its range, and adding cars like its GL-Class to its local plant this year.

Kern said he does not think local assembly will put off buyers, "because the Mercedes-Benz quality everywhere in the world is the same". Mercedes will add more models to its local production line in 2014, Kern added.

The range offered by Mercedes in India starts with the B-Class from around $40,000. The A-Class starts in Germany at around $27,000. No details of the local price of the A-Class were available.

Audi, owned by Volkswagen, and BMW are following similar scripts. The UK-based luxury Jaguar Land Rover unit of Tata Motors Ltd, which saw sales in India double last year, is even mulling full production, using local parts, in the country.

In 2014, over 90 percent of the vehicles Audi sells in India will be made there, up from around 80 percent now, as it adds the Q3 compact SUV to its Indian assembly line where the A4, A6, Q5 and Q7 are already being built.

"We will look at which of our global models will allow us in India an even higher and faster scaling up of our production capabilities," Michael Perschke, managing director of Audi India, told Reuters.

Cars built from imported kits, known as complete knock-down (CKD) production, avoid high import taxes on ready-to-drive models such as the top-end Audi R8 Spyder, which costs around $320,000 in India and will continue to be shipped in from overseas plants and sold alongside "Made in India" vehicles.

No details of the cost of the upcoming Indian-made cars were available.

In his February budget, the finance minister raised the import duty on luxury cars to 100 percent from 75 percent, making local production even more attractive.

None of the German luxury trio sold more than 7,500 cars in the financial year just ended, when Mercedes fell to third place behind BMW and Audi in a market it used to dominate.

Stuttgart-based Mercedes-Benz, which entered India in 1994, expects the total luxury sales to rise to 280,000 annually by 2020, or 4 percent of the total forecast car market.