

April 2010

Local Business News

Economic gloom to continue in 2010: ADB

Though global economic crisis had almost no impact on Nepal, Asian Development Bank (ADB) has cautioned that the country could continue to feel the lagged effect of the crisis in 2010, something which could challenge country's macro-economic management. Releasing the Asian Development Outlook 2010, ADB expressed such wariness, referring to the lower growth rate of remittances, fading exports and decline in foreign currency reserve recorded in the last six months.

As political instability, frequent strikes, transport blockades and power shortages along with unfavorable weather continue to hit productions, ADB has projected Nepal's economy to grow at mere 3.5 percent in 2010. It has estimated agriculture to grow by only 1 percent this year as delayed and reduced monsoon have hit productions of paddy and maize - two major summer crops.

"Industry's performance too will be checked by fuel and power shortage and sporadic labor tensions, all of which will restrict recovery in manufacturing," ADB said in the report. It forecasts construction activities to slow down this year due to reduced credit from commercial banks. Consequently, the industry is projected to grow by mere 1.5 percent in 2010.

Central Bank to provide refinancing

Nepal Rastra Bank (NRB) will provide refinancing facility to banks and financial institutions (FIs) up to 40 percent of their primary capital for six months at 7.5 percent interest. They will have to lend the resources made available by the central bank at maximum 3 percent higher interest rate than the rate NRB fixed for the refinancing.

The banks and FIs can only use these resources in eight areas including exports, pharmaceutical industry, tourism, manufacturing industries, small and medium level industries, agriculture, cement, iron industry as well as hydropower development, electricity transmission line and cable car. The

refinancing of the NRB however can not be used for the purpose of personal loans, real estate, housing and commercial complex, hire purchase financing, margin type lending (loans against share) and for tobacco and alcohol industry.

The central bank has also fixed other criteria for banks and FIs to get this facility. If they are to take refinancing from NRB with good loan as collateral, such loans should be categorized as good loans for a year and the refinancing will go for the period less than the repayment period of that credit. The NRB will provide refinancing up to 80 percent of good loans. But, the central bank will have first right to the collateral put for such loans. The banks and FIs having more than 5 percent non-performing loans will not be eligible to get such refinancing as per the new directive of the NRB on refinancing.

US investors interested in hydro, financial sector

The US investors from whom Nepal hopes to attract much-needed investment have shown keen interest in key sectors like hydropower, financial and health sectors, among others. Such expression of interest came when the visiting Nepali trade delegation interacted with the officials of US Chambers of Commerce (USCC) in April. This has kick started a preliminary process for US investors to identify areas and possibilities of investment in Nepal, said the participants. One of the investors even noted that it has initiated activities for bringing investment for a mega hydropower project.

The USCC officials, however, also made clear that Nepal would need to straighten its policies, particularly those related to labor and power, end political instability and improve the security situation for bringing in US investment. Earlier, the White House officials during their talks with the delegation had cited political instability and structural constraints as major hindrances to bilateral economic ties.

They had also raised questions over whether Nepal would be able to conclude the peace process and promulgate new constitution on time, ease labor regime and improve overall business environment. During the interaction, Commerce Secretary Purushottam Ojha had briefed the US private sector on the new policies and laws Nepal has put in place to protect overseas investment and boost investors' confidence.

International Update

Spending cuts to be deepest since 1970s, IFS says

The UK faces the deepest spending cuts since the late 1970s if the three main parties are to meet their budget commitments, new analysis suggests. The years between 2011 and 2015 must see the largest cuts since 1976-80, according to a report from the Institute for Fiscal Studies (IFS). Its estimates suggest the Conservatives would need to make the biggest cuts. Meanwhile a Labour government would see the biggest tax rises, the think tank predicts.



The next government will face tough budget decisions, the IFS warns

Based on commitments made so far, the Liberal Democrats would need to cut an accumulated £51bn from spending on public services by 2017. Labour's plans would require a slightly smaller cut during that time of £47bn, the IFS said, while the Conservatives would cut by the largest amount - £57bn.

Conservative plans would "imply cuts to spending on public services that have not been delivered over any five-year period since the Second World War". Tax increases would be highest under Labour, the analysis suggests, totaling £24bn over the course of the next parliament. £17bn of these have already been announced, leaving £7bn unaccounted for. But

the IFS said Conservative plans to raise taxes by £14bn looked optimistic, given the party's commitment to scrap a rise in national insurance, and added that a further rise of £3.5bn would be necessary.

The Liberal Democrats' plans to raise taxes by £20bn matched the party's current budget plans, the IFS said, but it meant they would have to make the harshest cuts later on in the parliament.

Greece's budget deficit worse than first thought

Greece had a far larger budget deficit than expected last year and the figures may yet get worse, according to the European Union's statistics office. New data from Greece shows a gap of 13.6% of gross domestic product (GDP), not the 12.7% first reported.

Eurostat, which was given new data by Greece, said doubts over the figures meant they could be revised again. The credit rating agency Moody's also cut its rating on Greek debt and warned that there could be more downgrades. Moody's cut its rating on Greek sovereign debt to A3 from A2, saying that there was "a significant risk that debt may only stabilize at a higher and more costly level than previously estimated".



The news of larger-than-expected deficit had already hit the euro and stock markets, as worries increased that Greece might default on its debts. "It looks like a terrible situation just got worse," said Nick Kounis, an economist at insurance giant Fortis. Greece is currently negotiating the details of an emergency rescue package from the eurozone and International Monetary Fund (IMF). Eurostat warned that the Greek figures may be revised further. The organization said in a statement: "Eurostat is expressing a reservation on the quality of the data reported by Greece... this could lead to a revision for the year 2009 of the order of 0.3 to 0.5 percentage points of GDP for the deficit and 5 to 7 percentage points of GDP for the debt."

Russia raises \$5.5bn via first Eurobond sale for decade

Russia has raised \$5.5bn in its first international debt sale since it defaulted in 1998. Initial reports said that demand for the Eurobond was five times over-subscribed despite investors' growing caution about government fund-raising. The Eurobond was split between a \$2bn issue repayable in five years, and \$3.5bn in ten years. "The placement is rather a success," said Nikolay Podguzov, analyst at Renaissance Capital in Moscow.



The fund-raising should help rebuild confidence in Russia's finances

Reports said that the 5-year tranche was priced at 125 percentage points above US Treasury bonds, and the 10-year tranche priced at 135 points above. Final pricing is expected later, and it is possible that Russia could raise more than \$5.5bn. Demand for the Eurobond was high as some investors believe economic growth in Russia could now be stronger than elsewhere in Europe and the US.

Russian Finance Minister Alexei Kudrin has said that the growth of the country's total economic output, as measured by gross domestic product (GDP), might reach 4% this year, more than the initial official forecast of 3.1%. The success of the fund-raising is seen as another step towards re-building investors' confidence in Russia since it defaulted on \$40bn of debts 12 years ago.

Moody's, the ratings agency, rates Russia's debt Baa1, three levels above non-investment-grade. Standard & Poor's ranks the country one level lower than Moody's, at triple-B, though still potentially attractive to some professional investors.

Business News

BP profits double on oil price rises

Profits at oil giant BP have more than doubled from a year ago on the back of rising oil prices. Replacement cost profit

for January to March was \$5.6bn, compared with \$2.4bn for the first quarter of 2009 - a 135% rise. The profit figure is also up from the \$3.45bn profit made in the last three months of 2009.

BP has benefited from rising global oil prices, which averaged \$76 a barrel in the first three months of 2010. That compares with an average of \$41 a barrel a year ago.



BP has benefited from the rising cost of oil

Although demand for oil has remained relatively weak, the price of oil has been boosted by optimism over the recovery in the global economy, and speculation by traders. BP said oil production in the past year had remained broadly flat, and production in 2010 as a whole was expected to be slightly lower than in 2009.

The company also gave an update on the oil spill currently being tackled in BP's Gulf of Mexico oil fields. It said that improvements in the weather had allowed it to accelerate its clean-up program. "This, combined with the light, thin oil we are dealing with has further increased our confidence that we can tackle this spill offshore," said BP chief executive Tony Hayward.

Goldman Sachs' Lloyd Blankfein under fire at hearing

Goldman Sachs' chief executive has denied his bank contributed to the US financial crisis by betting some of its own investment products would fail. Lloyd Blankfein and other executives at the Wall Street giant were accused by a US Senate panel of acting unethically, while Americans lost jobs and homes. Mr Blankfein said clients came looking for risk "and that's what they got". The hearing comes as the US Congress considers the most sweeping reform of the financial industry since the 1930s.



During hours of hostile questioning, Goldman executives were accused of marketing some investments that the bank's own staff dismissed as "junk".

The highly charged hearing saw fierce argument and occasional obscenities, while protesters, some in striped prison outfits, waved signs reading "shame" and "Goldman bankers". Senator Carl Levin, chairman of the Senate Permanent Subcommittee on Investigations, said Goldman had caused widespread harm to American society.

At the heart of the questioning was how Goldman packaged complex mortgage-backed securities, marketed them to investors - but then bet - or shorted - that these securities would fall in value. "They're buying something from you, and you are betting against it. And you want people to trust you? I wouldn't trust you," Mr Levin told Mr Blankfein. The firm's "misuse of exotic and complex financial structures helped spread toxic mortgages throughout the financial system," said Sen Levin. "And when the system finally collapsed under the weight of those toxic mortgages, Goldman profited from the collapse," he added.

Japan Airlines makes route cuts

Japan Airlines (JAL) is in the middle of a massive restructuring. JAL is to cut 15 international routes, and suspend operations on 30 domestic routes, as part of a reduction in its network.

This year JAL expects to reduce international and domestic passenger capacity by 40% and 30% respectively from 2008 levels. The airline is undergoing a major restructuring after filing for bankruptcy protection on 19 January. It is also set to close 11 overseas bases and eight domestic offices.



International routes to be closed flights from Tokyo to Amsterdam, Milan, Rome and Sao Paulo. "JAL has restructured its overall network with the clear objective of returning to profitability as swiftly as possible," the airline said in a statement.

Combined with previously announced route cuts, it means the airline will stop operating 28 international routes, and 50 domestic routes will be shed. JAL said it was now aiming to achieve in one year what it had originally planned to do in three.

Meanwhile, the Nikkei business daily newspaper said JAL planned to outsource a portion of its aircraft maintenance, to cope with a reduction in manpower as part of its restructuring. The airline received 1,000 more requests for early retirement than the 2,700 that it had been looking for.

Treasury Update

INR / USD

The Indian rupee rose while opening tracking a firm start to the domestic share market and strengthened to its highest in more than a week, riding on gains in shares that could draw in more foreign portfolio investments. In the mid week INR weakened backing further away from a more than one-week high touched as a subdued start to domestic shares which weighed down by a more than 1 percent fall after the sovereign rating downgrades of Greece and Portugal raised fears the euro zone's debt problems were spreading. Further, it was also impacted by the dollar's strength overseas following Greece's financial aid concerns, a lackluster domestic stock market and month-end dollar demand from importers. Towards the end of the week, INR strengthened after falling for two days in a row following the U.S. Federal Reserve's assurance it will continue with low interest rates

for an extended period. The Indian rupee extended gains to a third straight day and closed the last week and recorded its fourth consecutive monthly rise in April as buoyant local shares and broad weakness in the dollar helped market sentiment.

India's headline inflation in April could be lower than 9 percent and would start easing further in coming months, a government adviser said. Annual wholesale price inflation in March touched a 17-month high of 9.90 percent, prompting the central bank to raise rates in April, its second such move in as many months. India's annual food price inflation eased in mid-April, but fuel price inflation quickened maintaining an upside pressure on the wholesale price index that could prompt further monetary tightening by the central bank. India's consumer price index (CPI) rose 14.86 percent in March from a year earlier, unchanged from February's annual rise, government data showed on Friday (30th April).

USD Against Majors

The dollar held steady at lower levels versus the euro after a government report showed the U.S. economy grew at a slightly slower-than-expected pace in the first quarter. The dollar also erased gains against the yen as U.S. stock declines accelerated.

The U.S. dollar is set to gain in the coming week as worries about Greece's debt troubles spur safe-haven demand, while a U.S. jobs report is expected to confirm the labor market is picking up steam. In the United States, a report showing the economy grew at a slightly slower-than-expected pace in the first quarter had little impact on the greenback. Despite the below-forecast headline number, analysts said the GDP report shows signs of an improving economy.

The euro rallied against the U.S. dollar for a third straight day as expectations that Greece will soon receive emergency aid helped calm investors concerned how Athens will pay its huge debts. Investors were heartened that a multibillion-euro package aimed at averting a default could be announced in coming days. Last week, concerns about Greece's escalating debt crisis and worries about credit risks in other vulnerable euro zone states had pushed the euro to a one-year low against the dollar and knocked the euro down around 12 percent against the dollar since Nov. 30. Analysts said a final announcement of the aid package was likely to boost the euro, although the single currency would stay fragile as investors wait to see if Greece can make painful budget cuts to put its financial house in order. The euro also rose more than 1 percent versus the yen as investor fears over Greece continued to ease with an aid package expected soon.

The pound fell against the dollar as earlier optimism that next week's UK election could deliver a majority government faded, giving way to wider concerns about how any new government would tackle the UK's budget deficit, heading for 12 percent of national income. Sterling also slid against the euro as the single currency gained broadly on hopes a deal aimed at avoiding a Greek default will be announced soon.

Exchange Rate: (Major's)

For the Week Ending April 30, 2010		
	Closing (Bid)	Range (Monthly)
INR	44.35	44.75 – 44.14
EUR	1.3296	1.3112 – 1.3413
JPY	93.82	94.60 – 92.80
GBP	1.5269	1.5124 – 1.5498

World Market Indices:

For the Week Ending April 30, 2010	
Indexes	Value (April 23, 2010)
DOW JONES INDUS. AVG.	11,204.28
NYSE COMPOSITE INDEX	7,701.61
NASDAQ COMPOSITE INDEX	2,530.15
S&P 500 INDEX	1,217.28
DJ EURO STOXX 50 €Pr	2,918.11
FTSE 100 INDEX	5,723.65
BSE SENSEX 30 INDEX	17,694.20
NIKKEI 225	10,914.46
HANG SENG INDEX	21,244.49
Commodities	
Gold	\$ 1,153.70 per ounce
Oil	\$ 85.12 per barrel

LIBOR

Currency	Overnight	1 Month	3month	6month	12month
USD	0.2631	0.2800	0.3465	0.5306	1.0156
GBP	0.5468	0.5537	0.6771	0.9262	1.3706
EURO	0.2838	0.3808	0.6159	0.9258	1.2350

Laxmi Updates

2nd Annual Laxmi Cares Mountain Bike Rally & Race



The 2nd annual Laxmi Cares Mountain Bike Race and Rally was held on April 24th Saturday. Laxmi Cares, an NGO run by employees of Laxmi Bank organised the cycle rally that started from Pulchowk. The rally ended up at Chobar where a cross country mountain bike race was held among 52 professional and non-professional mountain bikers. More than 200 people gathered in Pulchowk Branch of Laxmi Bank early Saturday morning to do the approx 10 Km rally ride to Chobhar for the 'Go Green' cause.

The Rally went through Pulchowk, Kupondole, Tripureswor, Teku, Kuleshwor, Balkhu and ended in Chobar. The mountain bike race was held in Chobar in the cross country race circuit with a large crowd cheering the participants in a picnic environment.

Rajkumar Shrestha, covering the allocated distance in 1 hour 43 minutes and 37 seconds became the winner of the elite group. While Narayan Gopal Maharjan and Ajaya Pandit Chhetri bagged prizes of first and second runners up respectively. Meanwhile Tenzing Gurung who finished the race in 59 minutes six seconds was declared as the winner from the junior group. Iman Tamang and Lelis Maharjan came second and third in this category.

This year Laxmi Cares chose 'Go Green' campaign to raise awareness about saving the environment. The funds generated from the event shall be utilized for environment conservation causes identified by Laxmi Cares. Besides creating awareness about conserving our environment, this event also promoted mountain biking as a sports in Nepal

The event was managed by Chain Inc who organizes mountain biking events in Nepal. Nepal Cycling Association (NCA) supported the event.