

March 2010

## Local Business News

### Govt targets to invest Rs 805b in next three years

The government is planning to invest Rs 805.6 billion in the next three years to achieve 5-6 percent growth rate, lower absolute poverty to less than 21 percent and generate additional 6,000,000 jobs. According to the preliminary concept paper of the new three-year plan (2010/11 - 2012/13) floated recently by National Planning Commission for intellectual discussions, the total size of economy is expected to reach Rs 1381.6 billion at producers' price by the end of fiscal year 2012/13. The government is planning to implement the new three-year plan from the next fiscal year.

Of the total investment requirement needed for the plan period, private sector is expected to invest Rs 554.6 billion (almost 69 percent) while the government is expected to inject remaining Rs 251 billion. Service sector that contributes almost half of the Gross Domestic Product (GDP) is expected to attract the biggest investment worth Rs 607 billion, while agriculture has been proposed to get Rs 89.05 billion followed by industrial sector, which is likely to attract Rs 109.6 billion during the plan period.

Among the sub-sectors falling under service sector, biggest share has been proposed for transport, storage and communications sector, which contributed almost 10 percent to the GDP. Size of economy to reach Rs 1,381 billion. Private sector to invest 69 percent of planned investment. Generation of additional 200,000 jobs each year. Transport sector to get highest allocations. According to the preliminary budget allocations, the sector has been proposed budget worth Rs 223 billion, of which private sector is expected to invest almost 70 percent.

### Nepal to take China's zero-tariff offer

Nepal has decided to accept duty-free market access facility for 438 tariff lines, including about 4,700 different

commodities that China has offered to all least developed countries and push for the facility for more items at bilateral level. Previously, the government had decided to seek zero-tariff facility for items of Nepal's export interest at the bilateral level, instead of in the package of LDCs. Officials, who preferred to secure the facility at the bilateral level, had argued that the Chinese offer was inadequate because 235 of the total items it included for the facility are items that Nepal never exports. "But our latest position is to take the offer nonetheless, because it will at least open zero-tariff export trade for some 400 tariff lines (of six-digit harmonized code)," said Surya Silwal, joint secretary at Ministry of Commerce and Supplies (MoCS).

The government is mulling over exchanging a letter to this connection soon. Silwal attributed the latest change in government's position to the information shared by the Chinese side that if Nepal is to get the facility at the bilateral level, it might have to wait for another three years.

### No currency devaluation: FM

Finance Minister Surendra Pandey rejected speculation about the devaluation of Nepali currency despite thinning foreign exchange reserves. "It is a rumor," he scoffed at a press meet organized at the ministry. "Our foreign exchange reserves can accommodate import for seven months and there is no problematic situation," he said adding that the government is preparing export promotion programs to increase foreign exchange reserves. "The Economic Activities Monitoring and Advisory Committee will draw up concrete programs to boost export," he added.

FM Pandey assured that the government was ready to control excessive import. "The government decision to increase customs duty on gold is an instance," he said. Import of goods and services significantly increased this year compared to the previous year. There was an average monthly import of goods and services equal to Rs 17.43 billion in the fiscal year 2007-08 and which reached Rs 30.81 billion this year. Last year, the average monthly import was Rs 21.97 billion. The great growth in import was fuelled by excessive import of gold this year. The country saw gold worth Rs 5.6 billion

imported per month while the rate was Rs 1.46 billion a year ago. "If we can manage it, we can save Rs 4.14 billion monthly," he explained.

# International Update

## UK manufacturing grows at 15-year high, says survey

UK manufacturing activity grew at its fastest for 15 years in March, according to a closely-watched survey.



*UK manufacturing saw a rate of growth in March not seen for years*

The purchasing managers' index (PMI) rose to 57.2 in March, from 56.5 in February, and was ahead of analysts' forecasts. It was the best monthly growth figure since October 1994. The UK data was matched by the release of similar surveys showing faster manufacturing growth in the 16-country eurozone and China. The survey, from Markit and the Chartered Institute of Purchasing and Supply, also found that new order growth in the UK was near a six-year peak.

Rob Dobson, senior economist at Markit, said: "The rebound is coming from a broad base by sector and company size, raising hopes that this will prove sustainable." The PMI is calculated from data on new orders, production, employment, and purchasing. An index reading above 50 indicates that activity is rising. Anything under 50 shows contraction.

Export order growth fell from February's high, but the survey found that sterling's weakness was still benefiting UK exporters. Recently, the Office for National Statistics revised up its forecast of economic growth for the final quarter of 2009, saying that the economy grew by 0.4%.

## Japan: Toyota sales rise as business confidence climbs

A key survey of Japanese manufacturers has indicated that confidence is continuing to return to businesses.



*Toyota's sales rise suggests Japanese economic confidence is improving*

The Bank of Japan's Tankan index found that business confidence had improved for the fourth straight quarter. The news came as troubled Toyota saw a 50.7% jump in domestic car sales last month, industry figures showed. And in further positive news, shares in Dai-ichi Life rose 14% as trading began in the world's largest stock market listing for two years.

The Tankan, which surveys 10,000 firms, measures the percentage of companies that think business conditions are good, minus those that believe they are bad. The survey found that sentiment among major manufacturers was now at its highest level since September 2008. In March the reading was -14, against minus -25 in December. Sentiment among big non-manufacturers also improved to -14, from -21 in December. Although the survey shows that there is still a lot of pessimism among business and industry, analysts point out that confidence is at least moving in the right direction. And the results are significantly better than the -58 recorded among major manufacturers in March last year.

Large manufacturers plan to cut capital investment by 0.9% over the next 12 months, compared to a revised 30% in the previous year. There was also a sharp rise in the number of major manufacturers forecasting a jump in earnings. Just over 49.3% expect profits to rise this year, against 21.5% in the survey last year.

## Eurozone unemployment rate rises to 10%

The unemployment rate across the 16-nation eurozone hit 10% in February, the first time it has reached double figures since the euro was introduced.



*Spain has the highest jobless rate in the eurozone*

The jobless figures, from the Eurostat agency, showed large variations between nations in the eurozone. The unemployment rate was 19% in Spain, whereas in the Netherlands, the rate was just 4%. Separate figures showed eurozone inflation hit a 15-month high in March, rising to 1.5% from 0.9% in February. The inflation figure was higher than expected, with analysts blaming recent rises in energy prices for the increase. However, inflation still remains below the European Central Bank's inflation target of just below 2%, and analysts do not expect the bank to change its key interest rate from 1% for several months.

The rise in the unemployment rate is being seen as a further sign that the eurozone's recovery from recession remains slow. The Eurostat figures showed that 15.75 million people were unemployed in the eurozone during February, up 61,000 from the month before. Across the 27-nation European Union, the unemployment rate rose to 9.6% in February, from 9.5% in January. Separate figures from Germany on Wednesday indicated that unemployment there was falling.

# Business News

## [Daimler agrees to pay \\$185m after admitting bribery](#)

German carmaker Daimler has pleaded guilty to corruption in the US and will pay \$185m to settle the case.



*Daimler is best known for its Mercedes-Benz brand*

The charges relate to US Justice Department and Securities and Exchange Commission investigations into the company's global sales practices. Daimler, the owner of Mercedes-Benz, admitted to paying tens of millions of dollars of bribes to foreign government officials in at least 22 countries. The company said it had now reformed the way it did business. The offences were committed between 1998 and 2008 by Daimler's German-based exports subsidiary Export and Trade Finance, and its Russian business Mercedes-Benz Russia.

They were said to have given money and lavish gifts to help win contracts in countries including China, Russia, Thailand, Greece, and Iraq. The Justice Department said that by "using offshore bank accounts, third-party agents and deceptive pricing practices, these companies saw foreign bribery as a way of doing business".

Daimler has since fired 45 employees implicated in the bribery. The company's chairman Dieter Zetsche said the firm had "learned a lot from past experience". "Today, we are a better and stronger company, and we will continue to do everything we can to maintain the highest compliance standards," he added.

## [Blackberry profits increase 37%](#)

Research In Motion (RIM), the maker of Blackberry mobile phones, has reported a 37% rise in quarterly profit thanks to higher sales.



*Blackberry faces a growing number of smart phone competitors*

The Canadian company made a net profit of \$710m in the three months from December to February, up from \$518m a

year earlier. Its revenues for the quarter, its fiscal fourth, added 18% to \$4bn. Despite both profits and revenues rising, they were at the lower end of market expectations. Analysts said that RIM was having to get used to living with the big growth in rival smart phones, such as Apple's iPhone. "They did inline or a little better than their own guidance but Wall Street expectations were for quite a bit more," said Ed Snyder of Charter Equity Research.

previous month. Signs of an improving U.S. economy should support the dollar further.

The euro rallied to end the last week after euro-zone leaders agreed on a financial safety net for Greece, but uncertainties remained over the country's ability to repay debt. Euro-zone policy-makers agreed on an aid package under which Greece would receive both bilateral loans from euro-zone partners and funding from the International Monetary Fund if it faced severe difficulties. A deal between the European Union and the International Monetary Fund to provide Greece a financial safety net has prevented a freefall in the euro, but analysts said sentiment on the single currency remains downbeat. The plan did not alleviate longer-term worries about Greece and other fiscally vulnerable economies in the region, such as Portugal and Spain. That curbed euro gains. Despite Friday's (26th March) gains, the euro fell against the dollar for the second straight week. Concerns about Greece's fiscal health have caused the single currency to lose around 12 percent of its value versus the dollar since early December.

# Treasury Update

## INR / USD

The Indian rupee eased while opening and dropped to a one-week low as the dollar gained against major currencies and domestic stocks fell, offsetting support from a surprise rate increase by the central bank. INR strengthened in the mid week for some time but fell to a fresh three-weeks low as the dollar edged up against some major currencies and banks bought dollars ahead of a local market holiday (Wednesday - 24<sup>th</sup> March being a local holiday). The Indian Rupee inched up to its highest level in more than 18 months, to close the week, helped by the dollar's weakness versus major currencies including the euro, which rose after euro zone leaders agreed on a safety net for Greece supported by gains in domestic shares.

India's central bank is likely to increase policy interest rates to a slightly higher level this year than earlier expected after surprising markets with a 25 basis-point rise, a new Reuters poll showed. Indian inflation is expected to come down in two months and the winter crop is likely to be good, after the central bank's surprise rate hike. India's wholesale price inflation leapt to 9.89 percent in February policymakers have said it could hit double digits in March. India's food price index rose 16.22 percent in the 12 months to March 13, while the fuel index was up 12.68 percent, government data showed on Thursday (25<sup>th</sup> March)

The 30-share BSE index ended up 0.49 percent at 17,644.76 points and the 50-share NSE index ended up 0.41 percent at 5,282.00 points, with financials and automakers topping the gainers list.

## USD Against Majors

The safe-haven U.S. dollar should remain attractive in the coming week as worries about Greece drag on despite an assistance package for the debt -strapped country. A U.S. non-farm payrolls report for March will be the week's key highlight and is expected to show 168,000 new jobs created and an unemployment rate that is unchanged from the

Sterling slipped against the euro to close last week after a European Union agreement to help Greece tackle its debt problems boosted the single European currency across the board. Losses against the euro kept sterling on the back foot against the dollar, while analysts said broad demand to sell sterling persisted in the aftermath of the UK government's budget announced earlier this week. Analysts expected sterling to stay under selling pressure after a UK budget unveiled this week did little to quell concerns about Britain's mounting deficit or the outcome of a looming election.

The dollar struck its highest level since early January against the yen at 92.96 yen boosted by a rising differential between U.S. and Japanese yields, but trickled back to trade down 0.2 percent at 92.54. Japan's core consumer prices fell 1.2 percent in February from a year earlier, marking a full year of grinding deflation and suggesting the Bank of Japan may need to ease monetary policy again in the next few months. The so-called core-core consumer price index, Japan's narrowest measure of consumer inflation that strips out both energy and volatile food costs, also logged a near-record annual fall as weak household demand forced companies to cut prices.

## Exchange Rate: (Major's)

For the Week Ending March 26, 2010		
	Closing (Bid)	Range (Monthly)
INR	45.235	46.1425 – 45.14
EUR	1.3410	1.3268 – 1.3817
JPY	92.47	92.95 – 88.15
GBP	1.4900	1.4784 – 1.5380

## World Market Indices:

For the Week Ending March 26, 2010	
Indexes	Value (March 26, 2010)
DOW JONES INDUS. AVG.	10,850.36
NYSE COMPOSITE INDEX	7,403.58
NASDAQ COMPOSITE INDEX	2,395.13
S&P 500 INDEX	1,166.59
DJ EURO STOXX 50 €Pr	2,940.94
FTSE 100 INDEX	5,703.02
BSE SENSEX 30 INDEX	17,644.76
NIKKEI 225	10,996.37
HANG SENG INDEX	21,053.11
Commodities	
Gold	\$ 1,105.40 per ounce
Oil	\$ 80.00 per barrel

## LIBOR

Currency	Overnight	1 Month	3month	6month	12month
USD	0.2181	0.2468	0.2887	0.4393	0.9096
GBP	0.5381	0.5468	0.6471	0.8728	1.3156
EURO	0.2832	0.3713	0.5886	0.9087	1.2065

Laxmi Bank's merger with HISEF Finance in 2004 is a significant milestone in the Nepal as the first ever corporate merger in the country.

Laxmi Bank has been running a Responsible Banking campaign for a number of years and has taken a number of bold steps in this area. The Bank took the initiative of launching STOP BAD CHEQUES in 2009 to encourage prudent financial behavior in the country and enhance credibility of cheques as a payment instrument. Laxmi Bank is environmentally conscious and promotes paper-less work environment. The Bank also offers Green friendly banking products that are designed to promote paper-less and commute-free banking habits. Furthermore the Bank also offers Green Loans to purchase solar home systems to promote use of alternative energy in our day to day lives.

The Bank has consistently produced the lowest levels of non-performing assets (NPAs).

Over the past 8 years, Laxmi Bank has championed the use of electronic banking channels in Nepal and introduced the first complete internet banking services in the country in 2002. The Bank introduced Mobile Money in 2009 marking an evolution for basic information oriented SMS service (non-financial transactions such as balance checking and transaction alerts) to actual financial transactions such as fund transfers and bill payments. The Bank recognizes the potential of mobile technology in terms of increasing access to finance for the unbanked and expects to introduce solutions for the rural and unbanked segments of the economy in the near future.



## 8 Years of Responsible Banking

Laxmi Bank has completed 8 years of operation on April 1, 2010. Laxmi Bank was established in April 2002 in Birgunj. The Bank's Corporate Office was established at Hattisar, Kathmandu in 2005. The Bank currently has a paid up capital of NPR 1.61 billion.

In a short span of 8 years Laxmi Bank has been able to establish itself as a fundamentally strong and forward looking financial institution. The Bank is known today for its high levels of corporate governance standards, technological superiority, thought leadership in product innovation and risk management systems that are benchmarked with international best practices.



Laxmi Bank expects to announce the 3<sup>rd</sup> quarter results (as of April 13, 2010) with yet another strong quarter on quarter growth. 9 months' operating profit is expected at NPR 410M – an increase of over 65% over the same period previous year. The Bank's balance sheet size has grown to NPR 20 billion. Total Deposits : NPR 16.75 billion. Loans : NPR 14.5 billion. Despite the growth we have maintained the quality of our assets with the lowest levels of NPA in the industry.

Capital adequacy ratio is above 14%, well above the regulatory requirement of 10%.

CD ratio currently stands at 86%. Liquidity challenges have been managed well by re-balancing asset and deposit portfolios.

Laxmi Bank will continue its Responsible Banking campaign aimed at promoting good banking practices. Other plans for the next 12 months include expansion of mobile financial services, setting up a microfinance subsidiary, new branches etc.