Star BUSINESS

DHAKA THURSDAY JANUARY 2, 2020, *POUSH 18, 1426 BS* starbusiness@thedailystar.net

SINGLE-DIGIT INTEREST RATES

Banking stocks battered

Star Business Report

Banking stocks took a punch yesterday as investors reacted violently with the government move to fix the interest rates for lending and savings at 9 percent and 6 percent respectively, effectively clipping the lenders' ability to log in profits.

Of the 30 listed lenders, 19 declined and 4 remained unchanged after trading resumed yesterday after a recess the previous day for bank holiday.

Banks will have to implement the new interest rates from April 1 next year as per Prime Minister Sheikh Hasina's instruction -- a move taken to spur private investment, industrialisation and job creation.

The step though can go on to theoretically break down the market mechanism for funds. Banks' profits may contract by Tk 4,000-4,500 crore, so its impact was seen in the banking stocks, said Khairul Bashar Abu Taher Mohammed, chief executive officer of MTB Capital.

"If banks' profit decline their stock price will come down," he said, adding that this expectation has impacted their current stock prices.

A 3 percent spread, which is the difference between interest rates of deposits and loans, cannot make banks profitable.

"However, it is still not confirmed that banks profits will surely shrivel."

Because, if the government keeps its deposits with private banks too then their turnover may rise and it may compensate for this blow, said Bashar, who is a former secretary general of the Bangladesh Merchant Bankers' Association.

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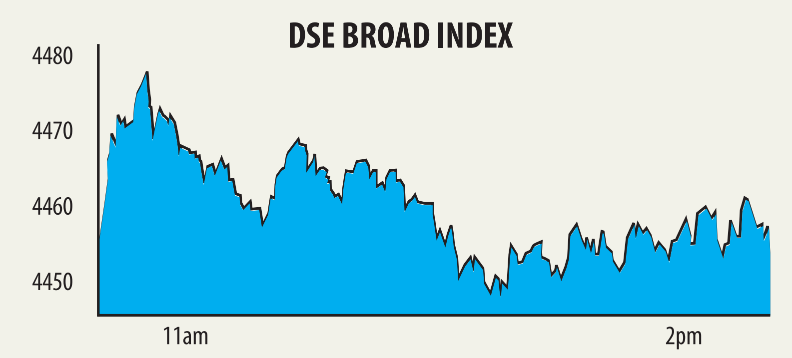
DSE BROAD INDEX



IMPACT ON BANKS

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NBR gets new chairman

Star Business Report

The government yesterday appointed Senior Secretary Abu Hena Md Rahmatul Muneem as chairman of the National Board of Revenue (NBR) on a two-year contract.

He will also head the finance ministry's Internal Resources Division (IRD), which is responsible for raising domestic revenue for the government.

Muneem will continue to serve as senior secretary to the Energy and Mineral Resources Division till January 5. He was scheduled to go on post retirement leave from the next day.

He succeeds Md Mosharraf Hossain Bhuiyan, who was appointed in January 2018.

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Remittance soars to record $18b

Star Business Report

Remittance hit an all-time high of $18.32 billion in 2019, much to the relief of the government that has been on edge for the lower foreign exchange earnings from declining export shipments.

Export earnings contracted 7.59 percent year-on-year to $15.77 billion in the first five months of fiscal 2019-20.

But, remittance brought ample cheer: inflows were up 18 percent from 2019, according to data from the central bank.

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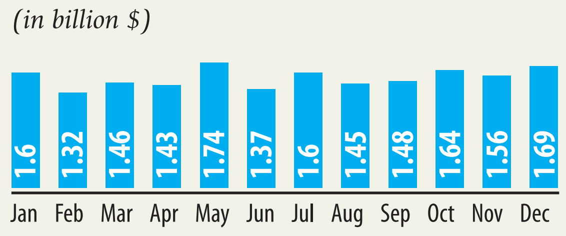
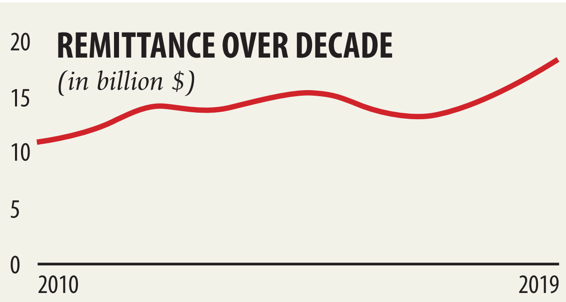
REMITTANCE IN 2019

(in billion $)



REMITTANCE OVER DECADE

(in billion $)



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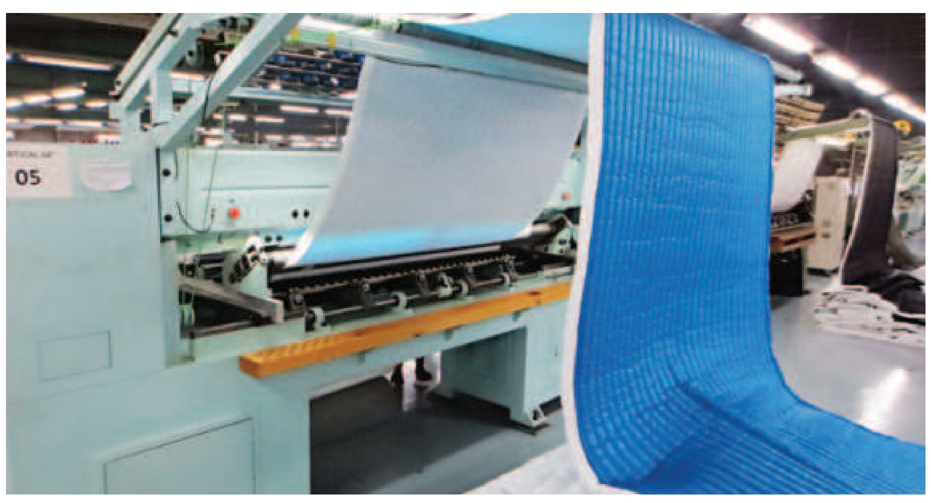


DEBONAIR

Synthetic padding being manufactured at a factory of Debonair Group in Bhaluka.

Debonair Group to turn plastics into jackets

To set up Tk 240cr synthetic fibre plant

Refayet Ullah Mirdha

Debonair Group is set to establish a recycling facility to turn discarded plastic into yarn and fibres for manufacturing jackets, paddings and quilts, keeping in tune with rising global demand for manmade fibres and growing environmental awareness.

Synthetic fibres made up about 45 percent of apparel traded globally in 2017, amounting to some $150 billion. It has witnessed a compound annual growth rate (CAGR) of 5 percent between 2007 and 2017.

Bangladesh had just 5 percent share of the pie whereas Vietnam, its closest competitor in apparel trade, managed 10 percent.

READ MORE ON B3

DITF OPENS, YET MANY STALLS NOT READY

JAGARAN CHAKMA

Around a quarter of the stalls and pavilions have missed the inauguration of Dhaka International Trade Fair in the capital's Agargaon yesterday and are apparently a long way off from opening to the public.

WILL 2020 BE A VINTAGE YEAR FOR BUSINESSES?

The Daily Star spoke with a host of eminent business personalities to gauge their expectations from 2020. The International Monetary Fund in its last update projected Bangladesh's GDP growth slow down to 7.4 percent this year from 7.8 percent in 2019. But, how does 2020 look from businesses' vantage point?

SHEIKH FAZLE FAHIM

PRESIDENT OF FBCCI

Better management of fiscal and monetary policies in line with Prime Minister Sheikh Hasina's Vision 2021, Digital Bangladesh and 2041; consistent policies with updated revenue framework; a simple revenue system that betters tax-GDP ratio by widening the net without arbitrary assessments; scanners at ports; simple single-digit interest rates without hidden bank charges; and minimise existing costs of doing business.

RUBANA HUQ

PRESIDENT OF BGMEA

New Year Resolution: We will try our best to turn the sector around, to initiate and sustain research on the sector and beyond, to provide a few pointers on long-term strategy, and to align workers' rights and issues with industry realities. Above all, we will try to create a safe work space of understanding, empathy and inclusion in the industry. One tag line will dominate the rest of my tenure: Go Human, Go Green

SYED MAHBUBUR RAHMAN

IMMEDIATE PAST CHAIRMAN OF ASSOCIATION OF BANKERS, BANGLADESH

The banking sector will feel discomfort at the beginning as lenders will have to fix the interest rate at 9 percent for lending and 6 percent for deposit. Credit growth will turn around because of new interest rate. The upward trend of credit growth will give a boost to imports. The balance of payments is now in a good shape, but the external sector will face pressure when imports rise.

SYED ALMAS KABIR

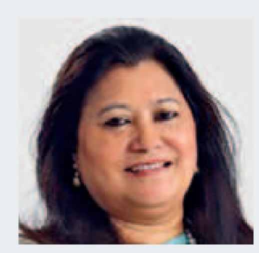
PRESIDENT OF BASIS

We can see an explosion of blockchain in the financial technology and service industries. Virtual reality will play an exponential role. As the government has targeted to roll out 5G service, we can start the Internet of Things from this year. The industry has a target to earn $5 billion by 2021 from software exports. To achieve that, at least three to four hi-tech parks need to be launched within the next few months.

SM FARHAD

SECRETARY GENERAL OF AMTOB

Last year was a topsy-turvy a year for the telecom sector as a number of regulatory issues made the environment volatile and uncertain. Now that the regulator is working on 5G guidelines, we envisage the government will revisit tax policy and spectrum price positively to encourage mobile operators to invest for the upcoming service roll-out. To be in line with Vision 2021, smartphone penetration is another aspect that needs to be considered.



RUPALI CHOWDHURY

MANAGING DIRECTOR OF BERGER PAINTS BANGLADESH

Economic growth will continue this year as some infrastructure projects will be completed in time, which will fuel the economy. The projects will bring positive impact for businesses and the economy. Stable policies on value-added tax, customs duty on import and consistency in other laws and regulations are needed. Frequent changes to policies and laws affect businesses and bring hassles. Fair treatment for all sectors is needed.

ASIF IQBAL

DMD OF MEGHNA GROUP OF INDUSTRIES

Commodity prices depend on global market, which was steady the last several years. But from the end of 2019 we saw instability. This may be temporary. But if this prolongs, it will affect the domestic market. Already, consumers started feeling the pinch of higher prices of edible oil after importers and processors hiked prices from the end of 2019. There will be impact on prices if the taka depreciates against the dollar.

ABDUL MATLUB AHMAD

PRESIDENT OF INDIA-BANGLADESH CHAMBER OF COMMERCE

Though 2019 started impressively the ending left business frustrated. But 2020 will be better as foreign direct investment will come to special economic zones. The banking sector and capital market will hopefully bounce back. The garment sector will make an earnest push towards high-value products, so shipments will pick up.

SABBIR HASAN NASIR

EXECUTIVE DIRECTOR OF SHWAPNO

The impact of the interest rate cuts on business should be positive. But if the banks suffer in terms of profitability that might create a balancing loop. There are concerns regarding the possibility of global economic recession as it might impact businesses here.

HAMID FABRICS

AHM Mozammel Hoque, chairman of Hamid Fabrics, presides over the company's 25th annual general meeting at Trust Milonayaton in Dhaka on December 28. The company approved 10 percent cash dividend for general shareholders. Abdullah Al Mahmud, managing director, was present.

Drugmakers to hike US prices of more than 200 medicines

REUTERS, *New York*

Drugmakers including Pfizer Inc, GlaxoSmithKline PLC and Sanofi SA are planning to hike US list prices on more than 200 drugs in the United States on Wednesday, according to drugmakers and data analyzed by healthcare research firm 3 Axis Advisors.

Nearly all of the price increases will be below 10 percent, and around half of them are in the range of 4 to 6 percent, said 3 Axis co-founder Eric Pachman. The median price increase is around 5 percent, he said.

More price increases are expected to be announced later this week, which could affect the median and range.

Soaring US prescription drug prices are expected to again be a central issue in the presidential election. President Donald Trump, who made bringing them down a core pledge of his 2016 campaign, is running for re-election in 2020.

Many branded drugmakers have pledged to keep their US list price increases below 10 percent a year, under pressure from politicians and patients.

Drugmakers often negotiate rebates on their list prices in exchange for favorable treatment from healthcare payers. As a result, health insurers and patients rarely pay the full list price of a drug.

Pfizer will hike prices on more than 50 drugs, including its cancer treatment Ibrance, which is on track to bring in nearly $5 billion in revenue this year, and rheumatoid arthritis drug Xeljanz.

Pfizer spokeswoman Amy Rose confirmed the company's planned price increases. She said the company plans to increase the list prices on around 27 percent of its portfolio in the United States by an average of 5.6 percent.

Of the medicines with increases, she said 43 percent of them are sterile injectibles, and many of those increases are less than $1 per product.

GlaxoSmithKline said it will raise prices on more than 30 drugs. The company will raise prices on the blockbuster respiratory treatments it delivers through its Ellipta inhaler, its recently acquired cancer drug Zejula and on several products in its HIV-focused ViiV joint venture, according to 3 Axis Advisors. Price increases ranged between 1 percent and 5 percent.

Sanofi said it will raise prices on around 10 of its drugs, with hikes ranging between 1 percent and 5 percent. The drugmaker noted the increases are in line with its commitment to not raise prices above medical inflation.

Teva Pharmaceutical Industries Ltd raised prices on more than 15 drugs, in some cases by more than 6 percent, according to 3 Axis Advisors. A Teva spokesperson said the company regularly reviews prices in the context of market conditions, availability and cost of production.

3 Axis advises pharmacy industry groups on identifying inefficiencies in the US drug supply chain and has provided consulting work to hedge fund billionaire John Arnold, a prominent critic of high drug prices.

Ian Spatz, a senior adviser at consulting firm Manatt Health, said that drugmakers could be holding to relatively low price hikes in an attempt to stay out of politicians' crosshairs. Trump, for instance, targeted Pfizer after a proposed round of price increases in 2018, saying in a tweet that the drugmaker "should be ashamed."

"I'm sure many manufacturers are interested in making sure they are not called out on a large list price increase," Spatz said.

The United States, which leaves drug pricing to market competition, has higher prices than in other countries where governments directly or indirectly control the costs, making it the world's most lucrative market for manufacturers.

REUTERS/FILE

The GlaxoSmithKline (GSK) logo is seen on top of GSK Asia House in Singapore.

Airbus ousts Boeing from top spot

REUTERS, *Paris*

Airbus has become the world's largest planemaker for the first time since 2011 after delivering a forecast-beating 863 aircraft in 2019, seizing the crown from embattled US rival Boeing, airport and tracking sources said on Wednesday.

A reversal in the pecking order between the two giants had been expected as a crisis over Boeing's grounded 737 MAX drags into 2020. But the record European data further underscores the distance Boeing must travel to recoup its market position.

Airbus, which had been forced by its own industrial problems to cut its 2019 delivery goal by 2-3 percent in October, deployed extra resources until hours before midnight to reach 863 aircraft for the year, compared with its revised target of 860 jets.

Deliveries rose 7.9 percent from 800 aircraft in 2018.

Airbus declined to comment on the figures, which must be audited before they can be finalised and published.

Planemakers receive most of their revenues when aircraft are delivered - minus accumulated progress payments - so the end-year delivery performance is closely monitored by investors.

Airbus's tally, which included around 640 single-aisle aircraft, broke industry records after it diverted thousands of workers and cancelled holidays to complete a buffer stock of semi-finished aircraft waiting to have their cabins adjusted.

Airbus has been hit by delays in fitting the complex new layouts on A321neo jets assembled in Hamburg, Germany, resulting in dozens of these and other models being stored in hangars to await last-minute configurations and the arrival of more labour.

Such out-of-sequence work drives up costs and could have a modest impact on Airbus profit margins, but the impact will be largely blunted by the high volume of planes and already solid profitability for such single-aisle aircraft, analysts say.

REUTERS/FILE

General view in a new A320 production line at the Airbus plant in Hamburg, Germany.

China's largest potash producer fails in fifth bid to raise funds

REUTERS, *Shanghai*

China state-owned Qinghai Salt Lake Potash Co, the country's largest potash producer, failed to sell its assets in a fifth round of auctions on Wednesday aimed at raising funds and avoid being delisted from the Shenzhen Stock Exchange.

The debt-laden company filed for bankruptcy with the Qinghai province court in September and halted trading in its shares in November.

After posting net losses in 2017 and 2018, it has said it would be delisted if it reported a net loss for third successive year.

A 24-hour auction on China's Taobao e-commerce site listed equity, shares and debt receivables in two of its subsidiaries, plus fixed assets and inventories, for sale.

The assets were valued at 25.425 billion yuan ($3.64 billion), but drew an opening price of only around 4.27 billion yuan ($612.05 million), according to the auction listings on Taobao.

At the end of the latest auction on Wednesday, Qinghai Salt Lake had garnered no bidders, according to the site. Four previous auctions held in the past month also failed to attract any bids, the company said in a regulatory filing in December.

Investors in the state-owned company include oil-and-chemical conglomerate Sinochem Group.

"Should the company be forced to file for bankruptcy protection, we don't believe this would materially impact its potash business," said Humphrey Knight, senior analyst for potash at CRU International.

Indonesia plans fixed fees for e-wallet transactions

REUTERS, *Jakarta*

Indonesia plans to impose fixed fees on some e-wallet transactions, five people familiar with the matter said, in a move that could choke a key revenue stream and raise costs for payment startups backed by the likes of Alibaba's Ant Financial.

Providers of e-wallet services in Southeast Asia's largest economy currently customize fees for vendors, charging a premium from big retailers and absorbing costs for smaller merchants in an effort to get them to use their platforms.

But Bank Indonesia has already held talks with the biggest digital-payment startups to make fees on QR code transactions uniform, the people said, building on its move in August to standardize electronic payments that use the matrix barcode. Bank Indonesia did not respond to repeated messages and calls requesting comment.

Leading the pack of e-wallet firms in the country is home-grown ride-hailing startup Gojek, backed by firms including Alphabet's Google, and startup OVO, in which Gojek rival Grab has a stake. Ant Financial's e-wallet DANA trails them, along with state-owned payments platform LinkAja.

The central bank wants to fix some e-wallet transaction fees at 0.7 percent, the people added, a move that could deter smaller merchants that now pay next to nothing from staying on the e-wallet network or force the latter to increase incentives.

Fixed fees on payments at bigger vendors, like Starbucks, that are currently charged as much as 2 percent, would also dent revenue for the e-wallet firms, the people said.

The startups have already burned through millions of dollars in incentives to lure vendors in Indonesia, where a multi-billion dollar digital payments industry has flourished as over half its nearly 270 million population have no bank accounts.

The country's internet economy was $40 billion this year and is expected to grow more than three fold by 2025, according to a report here by Google, Temasek and Bain & Co. Bank Indonesia is yet to decide on fees on transactions made at bigger vendors, the people said, with one person close to the talks adding it could also be fixed at 0.7 percent.

A big retailer is typically charged between 0.5 percent to 2 percent, one of the people said. As a benchmark, Visa and Mastercard charge around 2 percent to 3 percent.

"This will hurt all of us," said an executive at an Indonesian e-wallet firm, who was not authorized to speak to media and did not want to be named.

The fee earned on e-wallet transactions would have to be split three ways under the new system, sources said: between the e-wallet companies, middle-men payment processors, and the National Electronic Transaction Settlement - a consortium of major Indonesian lenders.

Until now e-wallet firms either kept the whole fee or split with some payment processors, and no lenders were involved.

India cuts tax on palm oil imports, could lift shipments

REUTERS, *Mumbai*

India has cut import taxes on crude and refined palm oil from Southeast Asian (Asean) countries after a request from suppliers, a government notification said on Tuesday.

The reduction will lead to higher imports of palm oil by the world's biggest edible oil buyer in coming months as it would narrow the difference between the tropical vegetable oil and competitors such as soyoil and sunflower oil.

Higher imports could support Malaysian palm oil prices, which have risen 44 percent in 2019.

The duty on crude palm oil was lowered to 37.5 percent from 40 percent, while a tax on the refined variety was cut to 45 percent from 50 percent, the notification said.

The revised lower tax would apply to almost all palm oil imports as India primarily imports palm oil from Indonesia and Malaysia, which are members of the ASEAN group, refiners said.

Imports of refined palm oil are set to jump in the coming months as the duty gap between crude and refined palm oil has narrowed to 7.5 percent from 10 percent earlier, said B.V. Mehta, executive director of the Solvent Extractors' Association (SEA), a Mumbai-based trade body.

"The new duty structure has opened the floodgate for refined palm oil. It is detrimental to local refiners," Mehta said.

The SEA has requested Indian government to maintain a duty difference between crude and refined palm oil to 10 percent, he said.

India relies on imports for 70 percent of its edible oil consumption, up from 44 percent in 2001/02. Palm oil accounts for nearly two-thirds of India's edible oil imports of around 15 million tonnes, according to data compiled by SEA.

India's palm oil imports fell 3 percent in November from a year ago to the lowest level in 17 months.

Indonesia and Malaysia, the top two palm oil producers, were seeking a reduction in the Indian import tax to cut inventories.

Palm oil competes with soyoil and sunflower oil in Indian markets.

India on Tuesday kept import tax on soyoil and sunflower oil unchanged, which could make imports of palm oil more attractive, said Sandeep Bajoria, chief executive of the Sunvin Group, a Mumbai-based vegetable oil importer.

India imports soyoil mainly from Argentina and Brazil and sunflower oil from Ukraine and Russia.

REUTERS/FILE

Workers unload palm fruits in a state-owned crude palm oil processing unit in North Sumatra, Indonesia.

US consumer confidence dips slightly in Dec

REUTERS/FILE

People shop at a department store during the Black Friday sales in New York.

AFP, *Washington*

US consumers were a little less confident in December, as hopes for jobs and wages dimmed slightly, survey data showed Tuesday.

Overall, consumer confidence remained at solid levels, but the unexpected dip hit during the crucial holiday shopping period. Consumer spending is a mainstay of the world's largest economy.

Lynn Franco, head of economic indicators at the Conference Board, which produces the monthly report, said the numbers reflected a belief that the economy's expansion could lose steam at the start of next year.

"While the economy hasn't shown signs of further weakening, there is little to suggest that growth, and in particular consumer spending, will gain momentum in early 2020," she said in a statement.

The closely-watched Consumer Confidence Index fell marginally to a reading of 126.5, retreating from an upwardly revised 126.8 November level and falling short of economists' expectations.

Survey respondents said their current situations improved: those saying business conditions were "good" were unchanged at 38.7 percent while those who said conditions were "bad" fell 2.5 points to 11.1 percent.

The short-term outlook was less rosy, however. Those expecting more jobs in the months ahead were less numerous, falling 1.2 points to 15.3 percent, but those expecting fewer jobs rose 1.5 points to 14.9 percent.

The share expecting lower incomes also rose 1.5 points to 7.7 percent.

World stocks close out 2019 with robust gains

AFP, *New York*

World stocks on Tuesday closed out a notably profitable year, with Wall Street recording its best annual performances since 2013, boosted by hopes for a US-China trade deal.

New York rallied into the close, turning positive for the day and leaving the broad-based S&P 500 and tech-heavy Nasdaq up 29 percent and 35 percent respectively for 2019, the best showings in six years.

Key European markets showed increases of 25 percent or more for the year, partly thanks to late surges on receding recession fears and easing China-US trade war tensions.

Brexit-hit London, however, trailed its peers with a 12 percent annual rise, less than half the percentage increase managed by Paris, Frankfurt and Milan.

Earlier on Tuesday as US markets were about to open, President Donald Trump tweeted that a partial trade deal with China would be signed in Washington on January 15, ending some of the uncertainty about efforts to cement the deal announced earlier this month.

Quincy Krosby of Prudential Financial told AFP the US-China detente could help decide the direction of the global economy next year.

"Much of the enthusiasm in the market is based on the idea that global growth is going to begin to accelerate, albeit slowly," she said. "The question will be, do we actually see positive growth, especially in China?" Demand in China is crucial to chances for renewed growth in global trade, while the China trade agreement could see US corporations begin investing again after a year when corporate capital spending stagnated worryingly, according to Krosby.

Asian stock markets closed mainly lower on Tuesday, with Hong Kong ending a half-day of trading almost 0.5 percent down, although the bourse rallied more than seven percent in December. Tokyo was shut for a public holiday.

"While market volumes are predictably light, investors continue to strike a year-end cautionary tone as December optimism is gradually giving way to 2020's uncertainty," Stephen Innes, chief Asia market strategist at AxiTrader, said in a client note.

Asian investors were also watching for significant policy announcements early in the New Year.

In a New Year's speech on Wednesday, North Korean leader Kim Jong Un struck a decisively militaristic tone, warning of a new strategic weapon and "shocking" action.

Analysts said all eyes were on nuclear-armed Pyongyang's threat of a "new way" after its end-of-year deadline for sanctions relief from the United States.

An address by China's President Xi Jinping will be followed closely by the markets as well.

Elsewhere Tuesday, oil prices slid despite reports Iran had seized a vessel suspected of smuggling fuel near the Strait of Hormuz -- a chokepoint for a third of the world's seaborne oil.

Over the year, the price of Brent North Sea crude jumped by almost one quarter and the New York benchmark crude contract WTI soared more than one third in value, helped by tighter supply.

The pound finished a volatile year with gains Tuesday against the dollar and euro.

REUTERS/FILE

A trader wears 2020 glasses to celebrate the New Year at the New York Stock Exchange on December 31.

Online portal for plumbing solutions opens

STAR BUSINESS DESK

An online platform was launched yesterday aiming to provide total plumbing solutions with skilled technicians and modern technological support.

The portal, plumber.com.bd, also markets kitchen furniture, sanitary items and tiles of different brands, according to a statement. KM Rahman, managing director of the platform; Raju Das, CEO; Stiphen Gomes, director for finance, and SM Hossen, director for operations, attended the launch at the Radisson hotel in Dhaka.

Pakistan inflation 12.63pc in Dec

REUTERS, *Karachi*

Pakistan's annual inflation rate dropped marginally in December to 12.63 percent compared with 12.67 percent in November, as some commodity prices eased, the Bureau of Statistics said on Wednesday.

Prices of food including tomatoes, wheat, chicken, cooking oil, sugar, motor fuel and liquefied hydrocarbons, which make up a third of the overall basket used to calculate inflation - were the main items that eased in price, the bureau said.

US holiday returns surge with booming e-commerce

REUTERS, *Los Angeles*

United Parcel Service Inc on Thursday expects to ship 1.9 million gifts and other items back to US retailers as e-commerce fuels an anticipated 26 percent year-over-year volume surge on "National Returns Day."

Jan. 2 is the busiest day for holiday returns in the United States. US shoppers return more packages than their peers around the globe, spurred by free shipping on orders and returns - costly perks that squeeze retailer profits.

About 10 percent of goods sold in the United States go back to retailers every year, resulting in roughly $369 billion in lost sales, according to a 2018 report from Appriss Retail and National Retail Federation.

Apparel is an outsized contributor. Returns in some categories approach 50 percent due to inconsistent sizing across brands, said Greg Buzek, founder and president of IHL Group, a research and advisory firm.

"That causes great expense for retailers," said Buzek, who estimated that annual global losses from retail returns are nearly $1 trillion – up from $600 billion in 2015.

A new crop of startups aims to take the bite out of returns.

Los Angeles-based Happy Returns promises to slash returns-related expenses up to 30 percent by reducing shipping costs and customer support calls.

It has 700 "return bars" in US retail stores and shopping malls, where customers drop off items and arrange refunds or exchanges. The company charges retailers a flat fee for every item it processes.

"You have to have some free (return) option. Nobody said it had to be the mail," said Happy Returns Chief Executive David Sobie.

Amazon.com Inc also encourages shoppers to return products to its own physical stores or Kohl's locations, where eligible items are packed and shipped for free.

While 30 percent of shoppers return items to stores, more than twice that many opt for shipping, according to UPS' 2019 Pulse of the Online Shopper report. UPS said it handled more than 1 million returns each day in December, but declined to give an annual total.

UPS and home furnishing retailer IKEA are among the investors in Optoro Inc, which helps retailers sort, resell and dispose of returned merchandise more efficiently.

NBR gets new chairman

FROM PAGE B1

Muneem is the third person to get contractual appointment to head the NBR.

He joined Bangladesh Civil Service (Administration) on January 21, 1986. He attained a postgraduation degree in geology from the University of Dhaka.

Born in Sirajganj, Muneem has served as chairman of state-run Bangladesh Petroleum Corporation. Prior to that, he worked in various ministries in different capacities.

Banking stocks battered

FROM PAGE B1

Banks will have to count losses to some degree as they will have to continue their existing fixed deposit receipts and deposit pension schemes while giving out loans at 9 percent, said a managing director of a private bank requesting anonymity due to the sensitivity of the matter.

"If the government actually keeps its fund in private banks it will tide us over."

The government has deposited Tk 200,002 crore in the banking sector, but the majority of the sum is with state-run banks, he added.

Yesterday, Brac Bank, National Bank, Dutch-Bangla Bank, City Bank, and South East Bank was among the top ten negative contributor to the index that rose 0.35 points to close at 4,453.29.

However, it was Grameenphone that caused the biggest dent to the index: it alone snatched 9.41 points from DSEX, the benchmark index of the Dhaka Stock Exchange, according to amarstock.com, a stock market data analyst.

Subsequently, market capitalisation of the telecommunication sector dropped 1.53 percent, banking 1.45 percent and life insurance 0.92 percent. The other sectors headed upwards, according to data from LankaBangla Securities.

As many as 63 percent stocks rose yesterday. Turnover, another important indicator of the DSE, dropped 7.11 percent to Tk 296.30 crore. Of the traded issues, 221 advanced, 86 declined and 46 closed unchanged on the premier bourse.

Khulna Power Company dominated the turnover chart with its transactions worth Tk 17.47 crore, followed by LafargeHolcim Bangladesh, Standard Ceramic, Beacon Pharmaceuticals and Standard Insurance.

Delta Spinners was the day's best performer with a 10 percent gain, whereas Appollo Ispat was the worst loser that shed 7.69 percent.

CSCX, the benchmark index of the Chittagong Stock Exchange, also advanced: it went up 7.23 points, or 0.08 percent, to finish the day at 8,195.14. Gainers beat losers as 139 advanced, 65 declined and 24 finished unchanged on the port city bourse.

The port city bourse traded shares and mutual fund units worth Tk 9.54 crore.

Chinese iron ore has stellar 2019

REUTERS, *Singapore*

China's iron ore futures were the best performing commodity in 2019, more than doubling in value while natural gas ranked as the biggest loser, dropping by more than a quarter.

Crude oil, Malaysian palm oil, precious metals, nickel and arabica coffee were among other gainers.

Supply disruptions played a role in fuelling gains, ranging from a dam collapse at Vale's iron ore mine in Brazil to crude oil export cuts by the Organization of the Petroleum Exporting Countries and lower palm oil production in Southeast Asia.

Analysts said slowing global economic growth and expectations of a prolonged Washington-Beijing trade war are likely to drive prices next year.

"The economy isn't that great. It has been slowing down, especially China and India," said Tony Nunan, senior advisor for the risk management team at Mitsubishi Corp in Tokyo. "A lot of people feel that this trade war is going to be protracted, last longer than we think. That means the economy may be in a slow period next year."

The White House's trade adviser said on Monday the US-China Phase 1 trade deal would likely be signed in the next week, but said confirmation would come from President Donald Trump or the US Trade Representative.

Back to square one

FROM PAGE B4

As argued earlier, the main reason for high interest rates is large default risk premia. This can be reduced by more efficient loan foreclosure procedures, including the small claim procedures, summary procedures for uncontested debt, alternative dispute resolution mechanisms that allow banks to limit the losses stemming from default of the borrower and plugging legal loopholes in the enforcement of insolvency procedures.

Risk premia can also be lowered by enabling choice of the appropriate lending technology. The latter is a combination of primary information source, screening and underwriting policies, loan contract structure, and monitoring mechanisms.

Another pressure on commercial and industrial lending rates currently is large government borrowing at high rates. Together with taka liquidity drained by foreign exchange market interventions, shallow domestic debt markets and limited access to global debt finance, this limits the availability of loanable funds for the private sector. Remediation requires a prudent fiscal and debt management framework, greater exchange rate flexibility, reforming administered interest rates and capital market development.

The author is an economist.

Kamal puzzled by stock investors' behaviour

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The government had to discard its earlier plan to implement the single-digit rates in phases to ensure that all sectors get benefits at the same time.

About the 6 percent interest rate on deposits, he said: "People can earn something against their deposits in Bangladesh whereas one has to pay banks if he/she wants to deposit money in any foreign country."

Meanwhile, the cabinet committee yesterday approved a plan to import 24.6 lakh tonnes of petroleum products for Tk 11,578 crore.

Of them, 7 lakh tonnes of crude oil each will come from Saudi Arabia and Abu Dhabi for Tk 6,578 crore under a state-to-state arrangement in 2020.

Some 8.8 lakh tonnes of diesel, 1.1 lakh tonnes of jet A-1 oil, 40,000 tonnes of furnace oil and 30,000 tonnes of octane will be procured through international tenders at a cost of Tk 5,000 crore to meet the demand of the first six months of the year.

Lloyds Banking Group reports disruption to online services

REUTERS, *London*

Britain's Lloyds Banking Group suffered an outage on Wednesday that left customers of its Lloyds, Halifax and Bank of Scotland operations unable to access their accounts online. Disruption to online services is a periodic problem for Britain's banks, and last month regulators told lenders that they needed to boost their ability to resolve problems swiftly.

Customers of Lloyds Banking Group said on social media that they were unable to use the bank's mobile apps or websites to access their accounts on the first day of 2020, a public holiday in Britain when bank branches are shut.

"We know our customers are having issues with internet and/or mobile banking. We're sorry about this and we're working to have it back to normal soon," the group said in a statement.

Remittance soars to record $18b

FROM PAGE B1

"If the trend continues, remittance will hit a benchmark of $20 billion come the end of the fiscal year," said Kazi Sayedur Rahman, an executive director of the Bangladesh Bank.

The government's move to provide a 2 percent cash subsidy for remitters from fiscal 2019-20 was the main reason for the spike, he said.

Besides, the favourable exchange rate of taka against the dollar and a strong stance taken by the central bank to fight illegal money transfers also had a positive impact on the record amount sent home by expatriate Bangladeshis last year, according to Rahman.

On January 1, the inter-bank exchange rate stood at Tk 84.90, up 2.66 percent from a year earlier, according to data from the central bank.

He went on to express a hope that the deficit in current account of the balance of payment (BoP) will narrow more this fiscal year because of the upward trend of remittance.

Between July and October, the deficit in current account stood at $1.30 billion, down 36.88 year-on-year.

Md Arfan Ali, managing director of Bank Asia, echoed the same.

The massive expansion of mobile financial services and agent banking have also helped encourage the remitters to send their hard-earned money through the formal channel, he said.

Through the channel, the near and dear ones of remitters can receive the funds within the shortest amount of time, Ali added.

Mustafizur Rahman, distinguished fellow of the Centre for Policy Dialogue, is less sanguine about the uptick in remittance this year.

"Admittedly, remittance is our best-performing economic indicator. It has absorbed a tremendous amount of the pressure on BoP and foreign exchange. But, it is also costing us money."

Some Tk 3,500 crore has been kept aside to provide cash incentive to remitters in this fiscal year's budget.

"So the more remittance inflows there are, the more cash we have to spend, which, in turn, will put pressure on the exchequer."

Subsequently, Rahman advised the government to come up with ways to boost remittance without relying so much on cash incentives.

"The inflows are good and it is also helping in reducing pressure on BoP, but it is not successfully able to offset the losses from the slump in exports," said Ahsan H Mansur, executive director of Policy Research Institute.

He is doubtful that the trend of inflows will continue for long as the country's manpower exports have declined in the last two years.

"Some were even sent back forcefully."

So, the only way to ensure that the current trend of remittance sustains is by sending more workers abroad, he added.

Remittance, which has been one of the main drivers of the country's tremendous economic growth over the past decade, sank to a six-year low of $13.53 billion in 2017.

But it bounced back emphatically in 2018: it logged in $15.53 billion, which was the previous record.

COMMERCIAL BANK OF CEYLON

Kapila Liyanage, chief operating officer of the Commercial Bank of Ceylon PLC, and Maj (retd) AKM Mahbubul Hoque, CEO of BRB Hospitals, exchange documents after signing a deal at the bank's corporate office in Dhaka recently. The bank's cardholders will get discounts and equal instalment facility at zero interest at the hospital.

Debonair Group to turn plastics into jackets

FROM PAGE B1

In contrast, cotton accounted for around 35 percent of the trade. Its CAGR was a negative 0.5 percent.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the sector's apex trade body, emphasised the need for raising the use of manmade fibres in garment production to boost its exports.

The new facility will be established on 45 bighas of land in Bhaluka at a cost of Tk 240 crore and production will start from October this year, said Mohammed Ayub Khan, managing director of Debonair Group.

The company will no longer need to depend on imports, mainly from China, worth some $55 million annually, he told The Daily Star over the phone.

"We will collect discarded plastic bottles of edible oil and water from different corners of the country to make flakes and then to make yarn and fabrics and finally the paddings and quilts."

The company currently exports jackets and padding worth $140 million a year. Its major buyers are H&M, Colombia, VF Corporation, Benetton Group and C&A.

Product traceability has made consumers around the world more conscious of what they purchase: they have come to prioritise environmental concerns and ways to address them according to industry insiders.

The preference for polyester, synthetic and viscose fibres arise from their durability and the ease in taking care of clothes made from them.

Local manufacturers have apparently been unable to take note of the advantages, since manmade fibres have accounted for just 20 percent of apparel exports for a long time.

They have continued increasing production of yarn and garment products from cotton every year.

Some 74.14 percent of apparel exported in fiscal 2018-19 was made from cotton fibres, up from 68.67 percent in fiscal 2008-09, said a BGMEA study unveiled last week.

Since the demand for cotton garment items is going down, exporters are getting lower prices from buyers.

Moreover, cotton accounted for 93.57 percent of the 2.05 million tonnes of fibre imported by Bangladesh in 2018, according to the study.

Another impediment is the high investment required for setting up synthetic fibre production facilities.

Of the 430 spinning mills in Bangladesh, only 27 churn out synthetic and acrylic yarn.

Kamal puzzled by stock investors' behaviour

Star Business Report

Much hue and cry is made every time the stock market falls, a sight not seen anywhere else in the world, said Finance Minister AHM Mustafa Kamal yesterday.

"Even if the index comes down to zero from 1,000 no one abuses or attacks the securities market regulator anywhere in the globe. They don't break cars or come to the streets," he told reporters after a meeting of the cabinet committee on purchase.

Kamal's comments come as the stock market crashed to a three-and-a-half-year low under his watch as the finance minister.

The finance minister's job is to strengthen the economy and to monitor whether the companies and banks are manipulating the capital market or not, he said.

He is also responsible for checking whether the companies are announcing dividends properly.

"The kind of misdeeds I have seen when I took charge as finance minister is not taking place anymore."

Awareness should be raised among retail investors about the risks related to trading and the misconceptions, he said.

STAR

Finance Minister AHM Mustafa Kamal talks to journalists after a meeting of the cabinet committee on purchase in Dhaka yesterday.

The government previously tried but could not implement single-digit interest rates for deposits and lending.

"This time we will be stricter in ensuring that banks maintain the rates."

The lending rates hover between 2-3 percent worldwide, whereas it is as high as 14-15 percent in Bangladesh, which is a major barrier to boosting industrialisation in the country.

"Investment will get a boost if these rates are implemented," he said, adding that private sector credit growth has been sliding as entrepreneurs are holding off their investment plans for the single-digit interest rates to take effect.

READ MORE ON B3

ICT Division seeks Tk 50cr for Startup Bangladesh Co

Muhammad Zahidul Islam

The ICT Division has decided to write to the finance ministry and seek Tk 50 crore for Startup Bangladesh Company Ltd (SBCL) after the government gave its nod to the new company to give a boost to budding businesses.

SBCL will get the fund from the Tk 100 crore the finance minister has allocated for startups in the budget for the current fiscal year.

The cabinet gave the final nod on the memorandum of the articles of SBCL on Monday.

"The government has secured Tk 100 crore for startups but we haven't had much of time to spend all of the money. So, we are going to take Tk 50 crore from the allocation," Zunaid Ahmed Palak, state minister for ICT, told The Daily Star.

The government has targeted to bankroll 1,000 startups. As part of the plan, the ICT Division has already provided Tk 7 crore to 126 start-ups as a grant and has received another Tk 4 crore for them for the second round of funding.

"We have also selected another 115 startups for funding," Palak added.

From the expected fund, SBCL is planning to provide Tk 10 lakh initially as seed money to each of about 200 local startups.

A start-up is a young company founded by one or more entrepreneurs in order to develop a unique product or service and bring it to market. By nature, a typical startup tends to be a shoestring operation, with initial funding from the founders or their families.

Typically, banks are not comfortable with investing in digital service companies as they have no fixed assets and carry higher chances of not turning out to be economically viable ventures, officials of the proposed company said.

The government started to work with startups in 2016 and now the initiative has taken a shape.

"Our ultimate target is to develop an entrepreneurial startup culture in the country. That's why we are funding good number of companies," Palak said.

"If only a single company can hit the global market from this basket, it will be huge for the country."

So far, the Startup Bangladesh project has disbursed funds as grants to the startups but in the next phase of the funding, it will own share in the companies, ranging from 5 percent to 49 percent depending on the valuation, according to Syed Mujibul Haq, project director of the Innovation Design and Entrepreneurship Academy (iDEA) under the ICT Division.

Back to square one

Zahid Hussain

IT'S deja vu all over again. On June 21, 2018, Bangladesh Association of Bankers (BAB), a platform of private banks' owners, agreed to cap the interest rate on deposits at 6 percent and the lending rate at 9 percent from July 1, 2018. This did not work despite significant monetary and fiscal policy support. Other than continued weakening of the financial health of the sector, not much has changed a year and a half later except that the BAB has once again announced bringing lending rates down to 9 percent with deposit rates capped at 6 from April 1, 2020. Back to square 1 after a Bangladesh Bank (BB) committee spent days to recommend capping lending rates at 9 percent for "industrial/manufacturing" sectors only while leaving other lending rates and all deposit rates free for the market to set on a commercial basis.

The headwinds that curtail the possibilities for investment and growth in Bangladesh are well known. In the banking sector, most of the headwinds are our own making. What is different this time that could make us believe that the same old wine in the same old bottle would taste better? Hard to figure except, according to BAB, there is fuller government support! This is a new known unknown because "no additional support will be required for banks for implementation of the decision", according to BAB again. What does "fuller support" mean then? You get a hint from the Finance Minister: "government will provide support to banks for a while" to tide over losses caused by the lower lending rate. Exactly half of state-owned entities deposits have to be held in private banks at 6 percent.

Whether shopping for business or housing loans, borrowers are naturally concerned about rates and terms to make sure they do not pay too much for the use of someone else's money. It is therefore no surprise to see business leaders wasting no time to welcome the move and even seek preponement of its implementation.

What is the economic case for ceilings on interest rates? Do ceilings always result in lower rates without reducing the amount of available credit? Do some borrowers tend to benefit from ceilings more than others?

The argument justifying the 9 percent cap is that high interest rates are driven by substantial risk premia on loans. Lenders calculate the risk premium based on the probability that a borrower repays the loan and the loss in case of default. It is difficult to accurately assess these parameters due to lack of information on firms or households with no or little credit history and recoverable collateral. Unable to identify a borrower's potential for repayment, banks charge an interest rate which is more attractive to the higher risk client. This feeds back into higher risk premia and lending rates. The problem is particularly acute when banks lack proper tools to price and manage risks efficiently. Moral hazard occurs when clients borrowing at this high rate make riskier investments to cover their borrowing costs. This also increases default probabilities and risk premia.

Caps on interest rates might alleviate this vicious cycle by altering the interest rates that would otherwise be charged, making them also attractive for more credit worthy borrowers and reducing the pressure to engage in high risk projects to cover the borrowing costs.

On the surface, this seems logical. However, there is more to it than meets the eye, particularly the unintended consequences which can undo in practice what appears impeccable in theory.

When a ceiling is introduced, it may have no impact on the credit market, or it may alter the way in which the cost and quantity of credit are determined. Exactly what happens depends on where the ceiling is relative to the initial market rate. When the ceiling is above the market rate of interest, it has no effect at all. When the ceiling is below the market rate of interest, as is the case in Bangladesh now, it can affect the market outcome in many different ways.

A ceiling below the market rate is binding if enforcement is perfect. When binding, the ceiling rate becomes the rate of interest charged. But it may also decrease the quantity of credit supplied. Like any other business, if a lender does not recoup its costs and earn an adequate return on its resources, it will put those resources to work elsewhere. Since the amount of credit offered at the ceiling rate will not satisfy all those who are willing to borrow at the 9 percent rate, excess demand is created, giving rise to a situation in which the reduced amount of credit must be rationed among borrowers by some means other than the ceiling rate.

Bankers may set rigid loan terms, screen borrowers more rigorously, increase non-interest fees and charges, or concentrate the impact of ceilings on certain borrowers. Imposing more stringent loan terms such as shorter maturities and higher minimum loan size reallocates credit toward those who are able to afford larger down payments or larger monthly payments. While a ceiling may reduce the explicit interest rate, it may not result in lower overall costs of borrowing even for those able to obtain loans. Several studies internationally on the effects of restrictive interest rate ceilings have established that loan terms do become less favourable to borrowers. No matter how elaborate the monitoring mechanism may be, banks have little difficulty demonstrating ceiling compliance to the regulator using creative accounting.

Basing lending decisions heavily on individual characteristics, such as borrowing history or income, without the flexibility of adding risk premiums, can ration credit away from new borrowers who might be willing to pay higher than 9 percent. Low priced credit is not useful to those who cannot meet the requirements for obtaining it. Usually, when lenders ration credit by some means other than interest rates, first-time borrowers, small borrowers, low-income and high-risk borrowers find it more difficult to obtain credit. The creditworthy borrowers, on the other hand, may obtain more credit than they would have at normal market interest rates.

The willingness to provide credit at the ceiling rate depends also on the cost of funds and the prevailing "risk-free rate" in the economy.

To reduce costs of funds we have 6 percent cap on deposit rates and to ensure fund availability to the private commercial banks (PCB) we have 50 percent government deposit requirement. Shifting government deposit from state-owned banks to the PCBs is a zero-sum game for the banking system as a whole. It does not increase the total funds available to the banking system. It is not clear how much the PCBs will benefit since the average deposit rate is below 6 percent currently as remittances have boomed and the net sales of the National Saving Certificates has declined significantly. The deposit rate ceiling does not make a difference to bankers when they are getting deposits at a lower rate any way. The 6 percent cap, if binding, may hurt depositors who have no other option but to keep their money in the bank.

Risk free lending options to bankers have become attractive recently. Between July 2018 to November 2019, risk free rates have increased by at least 3 percentage points, with rates on 5-year BGTB approaching 9 percent and 10-year BGTB above 9 percent. If the government is offering risk free lending opportunity to the bankers at close to or even above 9 percent, why would bankers be interested to lend heavily to risky borrowers at 9 percent?

Political economy consequences are important too. A combination of the presence of state-owned banks and interest rate controls can turn into a mechanism for ensuring that cheap credit flows only to specific borrowers. Unconnected and small firms may get very little benefit from the policy. As a result, the bottom tier of borrowers could lose access to credit. The sustainability of growth and inclusion may then be seriously jeopardized by lowering economic efficiency if credit worthy borrowers with no elite connection are excluded.

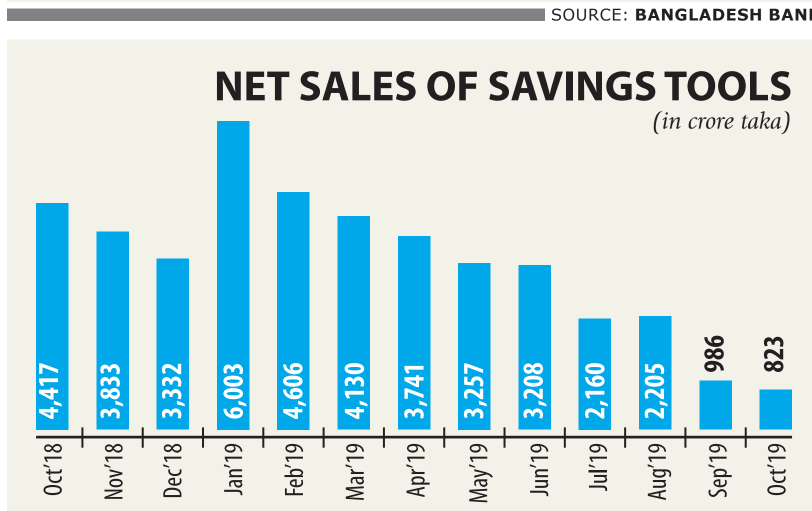
These practices may erode the benefits that the 9 percent cap aims to provide. Since the intended policy goal is to reduce the overall cost of credit in the economy, the solutions should be based on the causes of the "excessive" rates.

READ MORE ON B3

EXISTING INTEREST RATES OF BANKS (in%)

Farm loans	4.00-9.00
Term loan to large, medium industries	6.00-16.50
Term loan to small industries	8.00-20.50
Working capital to large, medium industries	6.75-17.00
Working capital to small industries	8.00-17.00
Export credit	6.75-7.00
Trade financing	6.75-16.00
Home loans	7.00-16.00
Consumer credit	7.99-20.00
Credit to non-banks	6.75-20.50

SOURCE: BANGLADESH BANK



Oil posts biggest yearly rise since 2016

Reuters, *New York*

OIL prices fell 1 percent on Tuesday, the last trading day of the decade, but notched the biggest annual gain in three years, supported by a thaw in the prolonged US-China trade war and ongoing supply cuts from major oil producers.

Brent gained about 23 percent in 2019 and WTI rose 34 percent, their biggest yearly gains in three years, backed by the recent breakthrough in the trade talks and output cuts pledged by the Organization of the Petroleum Exporting Countries (OPEC) and its allies.

Forecasters do not expect oil prices to move sharply in either direction next year. Brent crude is expected to hover around $63 a barrel, a Reuters poll showed on Tuesday, down modestly from current levels, as OPEC production cuts offset weaker demand.

Over the past year, increased US oil output offset the supply reductions undertaken by OPEC, led by Saudi Arabia and stemming from US sanctions on Venezuela and Iran. Lackluster demand, including in developed economies, remains a primary concern headed into 2020.

REUTERS/FILE

Crude oil tanker Maran Cassiopeia is pictured in the waters off Tuas in Singapore.

"Oil prices, though largely expected to trade positive, will face headwinds from subdued global growth momentum and robust US shale output levels in the first quarter (of 2020)," said Benjamin Lu, an analyst at Phillip Futures.

US crude oil production in October rose to a record of 12.66 million barrels per day (bpd) from a revised 12.48 million bpd in September, the US government said in a monthly report. The pace of growth is expected to slow in 2020.

Brent crude LCOc1 fell 67 cents, or 1 percent, to settle at $66.00 a barrel. US West Texas Intermediate (WTI) crude CLc1 fell 62 cents, or 1 percent, to settle at $61.06 a barrel.

On Tuesday, trade volumes were low with many market participants away for year-end holidays, amplifying the market's moves.

China to cut reserve requirement for banks

Afp, *Beijing*

CHINA'S central bank announced Wednesday it was cutting the reserve requirements for banks, freeing up about $114 billion to boost lending and spur the slowing economy.

The People's Bank of China will cut the reserve requirement ratio (RRR) on January 6 by 50 basis points, it said in a statement, reducing the amount of cash banks must hold.

Lowering the RRR for banks frees up more money for lending to small businesses.

The central bank cut the requirement three times in 2019 to bolster the Chinese economy, which grew at the slowest rate in three decades last year.

State news agency Xinhua said the latest cut will "offset the impacts of cash demand" ahead of the Spring Festival in late January.

Cooling domestic demand and a bruising trade war with the United States have contributed to the economic slowdown.

Washington and Beijing last month announced a "Phase One" trade deal, de-escalating their nearly two-year trade war as President Donald Trump reduced or cancelled some tariffs while Beijing promised to adopt trade reforms and buy more US farm exports.

The partial trade agreement will be signed in the middle of January, Trump said Tuesday, announcing that he will also travel to China for continued talks.