Britain tells banks to prepare for pandemic debt pile

REUTERS, London

British banks need to accelerate preparations for dealing with businesses unable to repay money borrowed to bridge the coronavirus pandemic, the national financial sector regulator said on Tuesday.

Over 800,000 businesses have taken out state-backed loans worth around 34 billion pounds ($43 billion) under schemes introduced by the government as lockdowns forced companies to shutter temporarily.

Financial Conduct Authority (FCA) Chair Charles Randell said some of the debt incurred will turn out to be unaffordable and will need to be tackled fast to avoid dragging on recovery.

"Lenders will need to scale their arrears-handling functions quickly, and invest in training and controls," Randell told an online meeting with the chairs of Britain's banks.

"There needs to be an appropriate dispute resolution system, and we are working with the Financial Ombudsman Service and the Business Banking Resolution Service to ensure that there is capacity to deal with the volumes we may see."

Banks were criticised for being slow initially in building up capacity to dole out loans, sparking complaints from small companies struggling to stay afloat.

"We can't allow this to become a replay of the 2008 crisis where the treatment of some small business borrowers did such serious damage to people and to trust in financial services," Randell said.

The pandemic's impact on markets has added to questions about the value of some high cost and risky investment products, including those sold through "long and expensive distribution chains", he said.

"We will be saying more about the issue of high risk investments in the near future."

There is also a need to "redesign the system" so that "polluting firms" that break the rules pay for the consequences, rather than being mutualised across the industry, he said.

REUTERS/FILE

Chair of the Financial Conduct Authority Charles Randell speaks at a Reuters Newsmaker event, in London, Britain.

German investor confidence highest since March 2006

AFP, Frankfurt Am Main, Germany

Confidence among investors in Germany surged in June to its highest level since before the financial crisis, a closely-watched survey showed Tuesday, as Europe's top economy emerges from a virus lockdown.

The ZEW institute's monthly barometer added 12.4 points to 63.4 in June, the same level as in March 2006, as "confidence grows that the growth trough will pass in summer," ZEW chief Achim Wambach said.

But Wambach noted that "revenue expectations remain very different for different sectors," with pessimism for export-oriented car and machine-tool makers and financial firms while IT, telecoms and services enjoy a more positive outlook.

The arrival of the coronavirus in Europe and government-imposed lockdowns to control its spread sent the ZEW's index of investors' expectations for the coming months plunging into negative territory.

A rebound was already visible in April as Germany appeared to weather the storm more ably than EU neighbours like France and Italy.

Financial players' assessment of the present situation in Germany remained deep in negative territory at -83.1 points in June, an improvement of 10.4 over the reading for May.

EU opens antitrust cases against Apple

AFP, Brussels

The EU's powerful antitrust authority opened a series of cases against Apple on Tuesday, including one brought by Spotify alleging the iPhone maker makes unfair use of its app store.

The European Commission also launched an in depth investigation into Apple Pay, amid concerns that the fast-growing and easy-to-use payment system is shutting out rivals.

The cases put Apple back into the EU's crosshairs four years after Brussels ordered the California-based giant to repay 13 billion euros ($14.7 billion at current rates) in back taxes on antitrust concerns.

The latest onslaught came after Spotify filed a formal complaint in 2019 that took issue with restrictions by Apple on apps that don't use its payment system on its App Store.

Apple takes a 30 percent cut for businesses using its store, which Spotify says amounts to a violation of fair competition rules.

"It appears that Apple obtained a 'gatekeeper' role when it comes to the distribution of apps and content to users of Apple's popular devices," said EU Executive Vice President Margrethe Vestager in a statement.

"We need to ensure that Apple's rules do not distort competition in markets where Apple is competing with other app developers, for example with its music streaming service Apple Music or with Apple Books," she said.

Vestager also opened a full-scale probe into Apple Pay where authorities are worried that the company could take a commanding lead in a booming business.

Launched in 2014, Apple Pay allows iPhone users to make payments at retailers by touching their devices to the same terminals currently used for credit and debit cards.

But any company wanting to use the technology on an iPhone -- whether a bank or the London metro system -- must pass through Apple Pay for a fee.

Apple firmly rejected the cases and hit out at its rivals.

"It's disappointing the European Commission is advancing baseless complaints from a handful of companies who simply want a free ride, and don't want to play by the same rules as everyone else," Apple said in a statement.

"We don't think that's right — we want to maintain a level playing field where anyone with determination and a great idea can succeed," the company added.

Vehicle importers relieved after taxes remain unchanged

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He pointed to some drivers who have become dependent on ridesharing services, asking how they would manage a minimum of Tk 33,000 per year, including registration renewal and road permit fees.

The government usually earns around Tk 3,000 crore from relevant fees of around 10 lakh vehicles running across the country and the rise in fees may bring in another Tk 1,000 crore, he said.

According to the proposed budget, the renewal fee for a 1,500cc car will be Tk 25,000.

For those of 1,501cc to 2,000cc, it will be Tk 50,000; for 2,001cc to 2500cc Tk 75,000; 2501cc to 3000cc Tk 1.25 lakh, and 3001cc to 3500cc Tk 2 lakh.

For microbuses it will be Tk 30,000.

If the government waives the rent of April and May of the Chattogram and Mongla ports, the importers will move quickly to pay fees and take away some 8,000 vehicles they have kept there, generating some Tk 1,000 crore in revenue, he said.

According to data of Barvida, their 870 or so members pay more than Tk 3,000 crore in fees to the government every year. Besides, they also pay their income tax and have already invested around Tk 20,000 crore in the past 30 years.

Abdul Haque, president of Barvida, believes the pandemic largely affected the middle class and since they constituted the majority of this sector's customers, this would significantly reduce car sales.

"Automobiles are not daily essentials and we fear that the current scenario will continue for several months before sales regain their momentum," said Haque.

About 6,000 vehicles have been sold this fiscal year, whereas last fiscal year the figure had reached some 14,000.

Showrooms have been shut since March 26 and some Barvida members opened theirs on a limited scale from May 10, all to no avail as there is little to no customers, Haque said.

Barvida is a big source of revenue for the government and they pay thousands of crores of taka a year to the government exchequer in the form of taxes, he observed.

Perishable goods exporters urge Biman to introduce cargo flights

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"But we have three more months. We should utilise this season by starting a special cargo flight by Biman," Mansur said.

He called for reduction of source tax on export receipt to 0.25 per cent from the proposed 0.50 per cent in the budget.

The quantity of exportable goods is also increasing at the HSIA.

Even a few days ago, only 50 tonnes were shipped a day and it rose to 150 tonnes to 220 tonnes in the last one week. This is still lower than 1,200 tonnes shipped through the HSIA before the onset of the pandemic.

Shipment of vegetables, fruits, flowers, dry foods, tea, spices and others dropped 8.7 per cent year-on-year to $780.16 million in the July-May period of the current fiscal year.

Biman officials declined to comment on the issue of launching cargo flights.

Huge EU transport projects too slow, costs skyrocketing, auditors say

REUTERS, Brussels

Some of the huge EU road and rail projects worth more than 1 billion euros ($1.13 billion) each are not moving fast enough to ensure they are running at full capacity by 2030 as planned and may not be economically viable, auditors said on Tuesday.

The European Court of Auditors looked into eight cross-border projects, part of a planned trans-European network, including the Lyon-Turin railway between France and Italy, the A1 motorway in Romania and the Seine-Scheldt waterway between France and Belgium.

It found that some projects "may not be economically viable" and traffic forecasts may be over-optimistic.

The average construction time of large-scale transport infrastructure is 15 years, but the average delay for entering into operation has been 11 years, the court said. The Seine-Scheldt link has been delayed the most by 18 years and the Lyon-Turin by 15 years so far.

The cost of the eight megaprojects had increased by more than 17 billion euros, a 47 per cent raise on initial estimates, due to changes in project scope, design or inefficient implementation, auditors found.

The largest cost increase was the Canal Seine Nord on the Seine-Scheldt link where costs are estimated to have risen 199 per cent, or 3.3 billion euros. The Lyon-Turin rail connection is now estimated to cost 9.6 billion euros, an 85 per cent increase from an initial estimate of 5.2 billion euros.

The European Commission is responsible for making sure that EU member states complete the core transport network by 2030. Its supervision had been "distant and needs to be strengthened", auditors said.

Motorcycle industry again demands registration fee cuts

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"For the ongoing economic crisis caused by COVID-19, we think that the motorcycle industry will face a sharp fall in demand by 30-40 per cent due to a significant drop in the purchasing power of people," Rahman apprehended.

The government imposed 10 per cent supplementary duty on total fees in the FY2019-20 budget which increased the cost of motorcycle registration process, as per Value Added Tax and Supplementary Duty Act 2012.

Motorcycle sales had leapt to about 5 lakh units in 2019 from 1.5 lakh in 2017 with the aid of duty reductions facilitated by the government at the import stage.

The industry forecasted growth of at least 20 per cent in FY2020, which has now become a far cry due to the pandemic.

Annual motorcycle sales were set to be around 6 lakh units by the end of 2019 thanks to price cuts, increasing purchasing capacity and thrust for faster mobility.

The market began to expand fast from fiscal 2016-17, when the government slashed the supplementary duty by 25 percentage points to 20 per cent on the import of the two-wheeler's components to encourage domestic manufacturing.

The high hopes are said to have prompted market players to invest about Tk 8,000 crore, creating direct and indirect employment for around two lakh people.

Rahman said the motorcycle industry contributed around Tk 2,000 crore as duty, tax, and VAT directly every year. Besides, the government has the opportunity for earning additional revenue of around Tk 1,000 crore from registration fees.

Parcel delivery arena heats up as Uber makes its grand entry

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The number of daily deliveries that eCourier makes per day in Dhaka is about 8,000, up from 5,000 before the pandemic.

Even before the pandemic, the e-commerce and f-commerce businesses were thriving, so did the logistics business, he said.

"What China was in 2009-10, we are now in that position in terms of home delivery services. The delivery services would continue to increase."

But the pandemic appears to have turbocharged online shopping.

"While the delivery of clothing dropped, the orders for daily essentials, masks, gloves and personal protective equipment have increased," Rahul said, adding that eCourier makes about 3,000 deliveries outside of Dhaka a day too.

Logistics companies with particular focus on making deliveries outside of Dhaka though received a serious blow from late March through to June because of the restriction on the movement of goods for long-haul destinations after the government put in place a countrywide shutdown to stop the spread of the deadly virus.

The number of deliveries of Paperfly, an e-commerce-based logistic company, fell to 10 per cent during the time.

"At that time, we even could not move our goods to most of the districts," said Rahath Ahmed, chief marketing officer of the company.

Before the pandemic, it used to make about 10,000 deliveries a day.

The business scenario started to change for the better after the government eased restrictions at the beginning of June. Now, Paperfly makes about 7,000 deliveries per day.

Paperfly has set foot in almost every union in Bangladesh and made 28 lakh deliveries since its inception in February 2016.

The company had faced mainly two types of problems during the lockdown: first, there was difficulty in delivering products to customers because of a lack of transport. Second, there was a shortage of workforce as many of its deliverymen left jobs fearing infection.

"In many cases, our delivery persons had to walk several kilometres to drop off the product," Ahmed said.

Customers often misbehave if the delivery is not made within 2-3 days, whereas e-commerce platforms from where they avail the products inform them that the delivery would take seven days.

"They need to be a little sympathetic of the crisis we are facing," he added.

Despite challenges, logistics platforms in Bangladesh have a bright future ahead, according to industry insiders.

And Daraz, a subsidiary Chinese e-commerce giant Alibaba, appears to be taking preparation for that.

The company recently announced plans to invest Tk 500 crore in Bangladesh by 2021 to set up logistics infrastructure and hubs that would help expand its footprint to all 64 districts.

Besides, many brick-and-mortar stores and fast-moving consumer goods brands are partnering with e-commerce platforms to make their products easily available to consumers.

For instance, global skincare brand Nivea has recently partnered with multiple e-commerce platforms to keep its supply chains moving to get closer to its consumers even if they are confined to their homes.

Pandemic nudging Bangladesh's debt-to-GDP ratio out of comfort zone

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Bangladesh's revenue-to-GDP ratio is 8.6 per cent and debt-to-GDP ratio 35 per cent. This means Bangladesh has a debt-to-revenue ratio of more than 400 per cent, he said.

As a result, Bangladesh is one of the highest indebted countries in the world in terms of capacity to pay, he told The Daily Star yesterday. "We have to be careful now. If the current trend continues, it will become unsustainable."

For Bangladesh, there is no scope for complacency and it has to accelerate revenue generation, the economist said.

The government has already cut its reliance on expensive national savings certificates. This would go a long way towards bringing down the country's debt servicing expenditure, the finance division paper said.

Foreign debt stood at $44.4 billion fiscal 2018-19, which was 13.4 per cent of GDP.

Bangladesh has had to pay $1.9 billion in principle and interest in the outgoing fiscal year, which is 5.1 per cent of the projected export incomes and 4.5 per cent of the revenue generation. The threshold for foreign debt obligation for Bangladesh is 21 per cent of export proceeds and 23 per cent of government revenue, according to the World Bank-IMF's joint debt stability analysis of 2019.

This means, the foreign debt outstanding is far lower than the country could borrow, the policy statement said.

Prime Bank propping up embattled ICT sector

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Historically, ICT companies struggle to secure bank loans due to existing credit assessment and mortgage issues. Now the partnership between BASIS and Prime Bank will create a friendly business ecosystem for the thousands of micro, small and medium enterprises (MSMEs) in the ICT sector, they added.

This initiative could also help the country's digital technology firms ride past the coronavirus fallouts.

"Already companies are facing tremendous challenges due to the COVID-19 outbreak. Now they will get an opportunity to resume operations," said ICT State Minister Palak.

Prime Bank has already received a few applications under the government's stimulus package while a couple of disbursements have also been made, said Rahel Ahmed, managing director and chief executive officer of Prime Bank.

The ICT industry holds immense potential to become a game changer for Bangladesh's economy. With overwhelming growth over the past two decades, ICT entrepreneurs believe that the sector will become the second highest foreign currency earner after garments in the next few years.

"Prime Bank is committed to be a part of the growth journey of this promising industry," Ahmed added.

During the session, BASIS President Syed Almas Kabir said the organisation worked relentlessly over the last two decades to promote and expand the country's ICT industry.

ICT companies suffered huge financial losses due to the COVID-19 outbreak and companies could not even take funds from the government's stimulus package to full extent because of certain complications.

"But I am convinced that our members will be greatly benefitted by this alliance. We hope Prime Bank continues this kind of financing support for ICT firms," Kabir said.

Mobile carriers feel hard done by

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"This imbalance cannot continue for much longer," Farhad added.

Besides, the country's existing tax policies are not business-friendly for potential investors of the sector.

This directly contradicts the government's vision for a 'digital Bangladesh' and the burden ultimately falls on consumers.

In fiscal 2014-15, taxes levied on the telecom industry amounted to only 15 per cent tax. Since then, however, that value has ballooned to 33.25 per cent.

Following the recent hike in supplementary duty, if any customer recharges Tk 100, they will hardly get a talk-time value of Tk 75.05 while the remaining sum will go to the exchequer directly.

Mobile network providers already have to pay the government about Tk 51 to Tk 57 per Tk 100 sale due to all the taxes and revenue sharing and this will only increase because of the new duty.

Echoing the sentiment, Hossain Sadat, director and head of public and regulatory affairs of Grameenphone, urged the government to withdraw the new supplementary duty.

As of March, there were 16.53 crore active mobile connections in the country. Of them, 9.52 crore are connected to the internet, according to the Bangladesh Telecommunication Regulatory Commission.

Annual revenue from the market currently stands at around Tk 25,000 crore.

Apart from this tax, it was also recommended in the proposed budget to increase VAT from 30 per cent to 50 per cent. This means that if any dispute arises, carriers will have to pay 50 per cent of the revenue regulator's claim to get a settlement.

"We are seeing it as a regulator ensuring its revenue, not justice," said Alam from Robi.

Meanwhile, Farhad said that corporate tax on telecom and tobacco products is the same at 45 per cent while the minimum tax rate on tobacco is less.

For minimum tax, tobacco producers pay 1 per cent of their total revenue, which will remain the same in the coming year while network providers will pay 2 per cent.

"Does this indicate that telecom services are a bigger health hazard than tobacco?" Farhad said.

Interlinkages, Creditsafe to provide global counterparty credit reports

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However, similar to other industries in the country, the banking sector is also prone to favoritism and bribery.

Potential borrowers could forge their credit history or have a personal relationship with the bank's official who would approve the loan.

Bangladesh's banking sector has long been burdened by a number of challenges, such as corruption, reviving customer confidence and maintaining good governance.

However, the biggest issue that continues to plague the industry is the massive amount of defaulted loans.

As of December last year, the total amount of outstanding loans was Tk 1,011,828 crore, of which Tk 94,331 crore was classified as non-performing loans, according to a Bangladesh Bank report.

"It has been our endeavour to bring the best of global participants to our ecosystem in international trade and banking," said Anindita Ghosh, CEO of Interlinkages.

Being well informed of the risks before taking on any venture is vital in modern times, where up-to-date data, cost effectiveness and timely access to credit reports play a critical role in the ever evolving trade landscape of South Asia.

"This collaboration will change the way both financial and non-financial institutions in Bangladesh access credit data as it will not only be updated in real-time but also be cost effective," Ghosh added.

Some sectors get relief from advance tax

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Jakaria Shahid, managing director of Edison Group that assembles Symphony mobile phones, praised the initiative. "This will play a positive role in industrialisation," he said.

"This is a good move for the industry. The funds will not remain blocked anymore. It will be beneficial for the industry," said Kamruzzaman Kamal, director for marketing at Pran-RFL Group, which manufactures refrigerators locally.

However, sectors where duty-free import benefits for raw materials and VAT exemptions have been offered to facilitate industrialisation will not have to pay AT during imports, according to an NBR notification issued last week.