

# Bank of England to stress test banks for global slump scenario

REUTERS, London

Britain's seven biggest lenders will have to show they can cope with a global economic slump triggered by a sharp slowdown in China and a crash in the euro zone in this year's round of stress tests conducted by the Bank of England.

Britain decided to introduce annual stress tests for its banks after the 2007-09 financial crisis which required taxpayers to pump 66 billion pounds (\$98 billion) into Royal Bank of Scotland and Lloyds Banking Group.

"By assessing the resilience of the UK banking system against a major external shock we will improve further our ability to identify vulnerabilities and we will ensure that banks have plans in place to address a wider range of possible stresses," BoE Governor Mark Carney said on Monday.

The Bank also said the Co-operative Bank, which failed last year's tests and is deep in a restructuring programme, would not be assessed as it is now too small.

That leaves six banks and one mutual lender to face this year's tests -- Barclays, HSBC, Standard Chartered, RBS, Nationwide Building Society, Santander UK and Lloyds.

The global downturn scenario which the lenders will have to prove they could survive includes various financial shocks such as a contraction of more than 2 percent in the euro zone economy but not a Greek exit.

It also sets out the prospect of a slowdown in economic growth in China to 1.7 percent of GDP by the end of this year, tipping Hong Kong into a deep recession. That would cause a 40 percent slump in Hong Kong property prices, hitting some British lenders such as HSBC.

Commodities would also take a hit with the oil price troughing at \$38 a barrel.



BBC NEWS

The Bank of England is designing tougher stress tests for UK banks.

Last year's tests, in which the Co-op was the only one to fail, largely focused on a 35 percent crash in UK housing prices amid concerns at the time that the British property market was in danger of overheating to the point of creating a bubble.

In the 2015 tests, the British house price fall has been set at 20 percent over the five-year scenario period, the BoE said.

The UK-specific focus last year caused some critics to say HSBC and Standard Chartered got off lightly. Both banks already face pressure from some investors to relocate many UK operations to Asia after a jump in UK bank taxes.

HSBC, 40 percent of whose assets are in Asia on a risk-weighted basis, had no comment on Monday. StanChart, with 59 percent of its risk-weighted loans in Asia, said it would examine the details.

The results are due to be published in December. Shares in all those being tested were flat to higher after the news, in line with the London market's FTSE 100 index.

Under the tests banks will have to show they can maintain a Tier 1 core capital adequacy ratio of 4.5 percent of risk-weighted assets after being exposed to the theoretical shocks, the same pass mark as 2014.

Concerns among global policymakers about shrinking liquidity in markets have also shaped aspects of this year's tests, which were developed with the International Monetary Fund.

The BoE has pointed to a surge in US Treasury bond prices last October after economic data sparked a mass sell-off, raising questions about the ability of investors to sell even very liquid assets when they want to. Banks will also have to show they can withstand several customers defaulting in Asia and elsewhere.

In this year's test banks will also have to show they can maintain a Tier 1 capital leverage ratio of 3 percent, a measure of core capital as a percentage of total assets, not risk-weighted, a new addition to the examinations.

The British Bankers' Association had no comment.

The seven lenders, which account for 70 percent of UK corporate loans and 75 percent of UK mortgages, will also have to show they can expand lending to the UK economy by 10 percent during the test.

Where banks scrape a pass, they may still have to boost their capital levels or take other, unspecified action.

RBS and Lloyds were required to bolster their capital defences despite passing last year's tests.

The BoE is likely to consider including the UK arms of foreign banks in future stress tests.

# China yuan falls in global payment rankings

AFP, Shanghai

China's yuan has dropped to seventh place among the world's payments currencies, global transactions organisation SWIFT said Monday, even as Beijing tries to push greater international use of the unit.

The yuan -- also known as the renminbi -- held a 1.81 percent share in world payments based on value in February, SWIFT said in a statement on Monday, down from 2.06 percent in January, when it stood in fifth place.

The Swiss franc and the Canadian dollar overtook the Chinese currency last month, SWIFT data showed.

It attributed the weaker showing to the "seasonal effect" of the Chinese New Year, when business slows because of a week-long holiday. But the demotion also comes amid mounting worries over China's slowing economy, though officials have denied strong capital outflows.

China keeps a tight grip on the value of the yuan out of concerns that unpredictable currency inflows and outflows could harm the economy and weaken its financial control. At a meeting with senior Chinese officials in Beijing, US Treasury Secretary Jacob Lew urged them to ease the restrictions.

"It is critical that China continue to move to a more market-determined exchange rate and a more transparent exchange rate policy," Lew said.

"We look forward to working with China as it continues to deepen its financial reforms and becomes more integrated into, and assumes greater responsibility in, the global financial system."

Beijing is seeking to make the yuan used more internationally in line with its standing as the world's second-largest economy. Some analysts predict the unit will one day rival the US dollar.

Although the yuan is not freely convertible, China is in talks with the International Monetary Fund for the Washington-based institution to add the yuan to its basket of reserve currencies.

Hong Kong, a special administrative region of China which is considered the business gateway to the mainland, handles more than 70 percent of global payments in yuan, SWIFT said, but the share of other countries is growing.

"Broader support by more countries beyond Hong Kong, underlining its international use, suggests the potential for future clearing centres and further development of the currency," Michael Moon, head of payments for Asia-Pacific at SWIFT, said in the statement.



Anwarul Huq, chairman of IDLC Finance, and Selim RF Hussain, chief executive, attend the company's 30th annual general meeting at Radisson hotel in Dhaka on Monday. The company approved 25 percent stock and 10 percent cash dividends for 2014.



DBBL

A section of the participants of the 19th annual general meeting of Dutch-Bangla Bank are seen, at Sonargaon Hotel in Dhaka yesterday. The bank declared 40 percent cash dividend for the year ending on December 31, 2014.

# German inflation creeps higher in March

AFP, Frankfurt

Inflation in Germany, Europe's biggest economy, crept higher in March with consumer prices rising by 0.3 percent year-on-year, preliminary data showed on Monday.

The previous month, the consumer price index had risen by just 0.1 percent on a 12-month basis, the federal statistics office Destatis said in a statement.

Using the Harmonised Index of Consumer Prices (HICP) -- the yardstick used by the European Central Bank -- inflation in Germany was back in positive territory, rising by 0.1 percent year-on-year

in March, but still way under the ECB's annual inflation target of just below 2.0 percent.

In February, HICP fell by 0.1 percent.

The March data are still only preliminary, since they are based on consumer price statistics from only six out of Germany's 16 regional states.

Final data including all 16 states will be published on April 15, Destatis said.

The data should offer some hope that the eurozone can avoid a dangerous deflationary spiral of falling prices.

In January, the ECB unveiled a massive trillion-euro bond purchase programme to ward off deflation and end stagnation in the eurozone economy.

# US consumer spending tepid; savings at two-year high

REUTERS, Washington

US consumer spending barely rose in February as households boosted savings to their highest level in more than two years, the latest sign that the economy hit a soft patch in the first quarter.

Economic growth has been undercut by bad winter weather, a strong dollar, a now-settled labor dispute at busy West Coast ports and softer demand in Europe and Asia. The slowdown in activity, however, is expected to be temporary.

"Even if the first quarter is weak, the outlook for consumption over the remainder of this year looks good," said Paul Ashworth, chief US economist at Capital Economics in Toronto.

"Households are still flush with the money saved from the big drop-off in gasoline prices and, with the labor market still on fire, incomes should continue to increase at a solid pace."

The Commerce Department said on Monday that consumer spending edged up 0.1 percent after dropping 0.2 percent in January. Households cut back on purchases of big-ticket items like automobiles, but a cold snap lifted spending on utilities.

Economists polled by Reuters had expected consumer spending, which accounts for more than two-thirds of US economic activity, to increase 0.2 percent last month. When adjusted for inflation, consumer spending dipped 0.1 percent last month, the weakest reading since April of last year, after rising 0.2 percent in January.

The dollar rose against a basket of currencies after the data. Stock index futures also were trading higher, while prices for US Treasury debt fell.

Consumption has cooled since the fourth quarter, when it hit its fastest pace in more than eight years.

The soft consumer spending data could see economists further lower their first-quarter growth estimates, which currently range between a 0.9 percent and 1.4 percent annualized pace. The economy grew at a 2.2 percent rate in the fourth quarter.

"At first glance, it looks like we could be tracking a full percentage point lower on first-quarter real consumption growth. However, the surprise weakness in consumption suggests we could see a greater build in inventories in the first quarter," said Laura Rosner, an economist at BNP Paribas in New York.

While households appear to have pocketed the bulk of their savings from lower gasoline prices or used the money to pay down debt, economists expect improved household balance sheets and a tightening labor market to boost consumer spending this year. Last month, income rose 0.4 percent after a similar gain in January. Savings jumped to \$768.6 billion, the highest level since December 2012, from \$728.7 billion in January.

The saving rate rose to 5.8 percent, also the highest since December 2012, from 5.5 percent in January. There was a slight uptick in prices last month, suggesting a recent disinflationary trend had run its course, but inflation remains well below the Federal Reserve's 2 percent target.

Fed Chair Janet Yellen signaled on Friday that the US central bank would likely start raising interest rates later this year, even with inflation running low. The Fed has held its key short-term interest rate near zero since December 2008.

# India rejects BP's request to market jet fuel

REUTERS, New Delhi

India has rejected a request from BP Plc to be allowed to sell jet fuel to the booming aviation market in Asia's No. 3 economy, saying it did not meet the conditions necessary, a source with direct knowledge of the decision told Reuters.

Consumption of aviation fuel is set to rise in India as domestic air traffic is estimated to almost triple this decade, with more of the country's 1.25 billion people starting to fly and as airlines connect smaller cities.

Demand for aviation fuel in India could rise by 2.2 percent in the financial year beginning in April, according to the Petroleum Planning and Analysis Cell in the federal oil ministry.

BP is not the only overseas company interested in India's jet fuel retail business, which is dominated by state refiners. Royal Dutch Shell Plc already sells a small volume of jet fuel in a tie-up with state-run Mangalore Refinery and Petrochemicals Ltd.

The source declined to cite the precise reason for BP's request being turned down by the oil ministry.

According to Indian rules, marketing rights for jet fuel can be given only to companies investing or proposing to invest at least 20 billion rupees (\$319 million) in exploration and production, refining, pipelines or terminals in the country.

In 2011 BP agreed to buy a 30 percent stake in oil and gas blocks operated by India's Reliance Industries for \$7 billion and also invested funds for further exploration and development.

It applied for a jet fuel marketing licence for the second time last year.

However, according to the source, who did not wish to be identified, the oil ministry wrote to the company this month saying it did not meet the conditions specified for marketing aviation fuel in the country.

"BP has been continuously engaging with the Ministry of Petroleum and Natural Gas regarding the licensing application and we are confident we meet the requirements," a spokeswoman said in an email.

"We will continue to work closely with the Government authorities and urge them to review the decision."



PRIME BANK

Azam J Chowdhury, chairman of Prime Bank, and Ahmed Kamal Khan Chowdhury, managing director, pose at the bank's 20th annual general meeting at KIB Complex in Farmgate, Dhaka yesterday. The bank declared 15 percent cash dividend for 2014.



WALTON

Md Humayun Kabir, executive director of Walton, and Firoj Alam, senior deputy director, pose with the market leadership award at the Golden Globe Tigers Summit-2015 held at Luxurious Prince Hotel and Residence in Kuala Lumpur, Malaysia recently.

# Volvo Cars to build first US factory

AFP, Stockholm

Swedish carmaker Volvo Cars announced plans Monday to build its first factory in the United States, 60 years after it started selling cars in the country.

It will be Chinese-owned Volvo's fifth factory, and comes in the wake of a two-year turnaround of the Swedish brand's fortunes since it was sold by Ford in 2010.

"Volvo Cars cannot claim to be a true global car maker without an industrial presence in the US. Today, we became that," chief executive Haakan Samuelsson said in a statement.

The manufacturer said it has not decided on the location of the new plant, but said it would invest about \$500 million (461 million euros) on the project, "underscoring its long term commitment to the US market."