

Fed rate hike wrong move for emerging economies

AFP, Paris

An expected first interest rate in almost a decade by the Federal Reserve on Wednesday could squeeze emerging economies' room for manoeuvre as they try to stave off recession, analysts warn.

The rise would mark "the end of a very big illusion," says Christine Riffart, economist with French think tank OFCE.

Emerging economies have done well out of the Fed's latter day generous monetary policy but with the cycle seemingly about to turn many of them, already battling pallid growth, face further headwinds.

Many emerging states are large scale producers of raw materials and have ridden the boom of Chinese demand. With that having fallen off, growth has taken a hit.

Worse still, rising rates will penalise their debt financing conditions and push down their currencies, hitting export earnings.

So much for the economics – but political crises also comes to bear, not least in Brazil where President Dilma Rousseff is battling to stave off impeachment while the

fact South African President Jacob Zuma is on his third finance minister inside a week has caused confidence and the rand to plummet.

Developing nations' central banks are pinning their hopes on a moderate rise to ensure the Fed does not make their task of keeping their own situation on an even keel insurmountable.

A US rate rise risks increased capital outflow in emerging states who could respond by raising their own, in many cases already high, rates.

"If they want to retain a certain currency stability the emerging countries will have to raise their rates. Yet, as they are caught in an economic slowdown or even recession in some cases, they really ought to do the opposite," says Olivier Garnier, chief economist with Societe Generale.

Brazil is a notable example with inflation in double figures and rates already sky high at 14.25 percent, leaving little margin for more upward movement.

"US monetary policy poses each time a problem in Brazil. Its economy is in recession and it should loosen monetary policy

but that only reinforces capital outflows, a drop in currency value and hence (a stoking of) inflation," Garnier said.

But Capital Economics research credits emerging nations with more resilience, saying Monday they are "well placed to withstand Fed tightening" as previous evidence suggested "the onset of higher interest rates in the US does not necessarily trigger a rush to the exits."

The consultancy added that the impending rise comes against a largely favourable economic backdrop and has been priced in by traders.

Oil producing nations, hit by the price of crude tumbling to seven-year lows, likewise have to deal with the fallout of a US rate rise and accompanying dollar rise.

"The Gulf states, whose money is linked to the greenback, could find themselves saddled with an over-valued currency. To maintain their stability vis-a-vis the dollar they will in turn have to raise their own rates," thereby losing a growth-boosting monetary tool, explains Garnier.

In the case of oil producer Nigeria "as the Fed tightens and the dollar gets stronger,

you will see more pressure on the Nigerian naira," predicts Fitch ratings agency director Jermaine Leonard.

"If we start to see more pressure on the naira, we will have to ask the question, 'how long can Central Bank of Nigeria defend the naira at the present level of just below 200 to the dollar?'"

China may, in contrast, prove to be a special "emerging" case and fare better after any Fed decision to end the long months of rate rise rumble.

China's own central bank Friday indicated it believes the yuan's value ought in future to be less dependent on the dollar and more measured against a basket of trading partner currencies.

That could help the Asian giant as it battles its own growth downturn.

"Loosening its exchange objective would give it greater scope to manage internal demand better, to cut interest rates and to try to spread credit demand on the banking market," commented Riffart.

"That would give (Beijing) the means to regulate its domestic demand," she concluded.

New DMDs for Bank Asia



Muhammed Zahirul Alam



Mamun-ur Rashid

STAR BUSINESS DESK

Muhammed Zahirul Alam and Mamun-ur Rashid have recently joined Bank Asia as deputy managing directors, the bank said in a statement yesterday.

Prior to joining Bank Asia, Alam was the senior executive vice president at United Commercial Bank.

He started his career with Agrani Bank in 1993 as a senior officer. He joined Prime Bank in 1998 and United Commercial Bank in 2008. He has more than 22 years of experience at various levels of banking with speciality in credit operation.

Rashid was the senior executive vice president at NCC Bank prior to joining Bank Asia, according to the statement. In 1986, he started his career as a management trainee with Bank of Credit and Commerce International (Overseas) Ltd, which was taken over by Eastern Bank Ltd.

Rashid joined the Credit Africa Bank, Zambia as an expatriate banker in 1995. On completion of the contract, he returned to Bangladesh and joined NCC Bank in 1998.



Finance Minister AMA Muhith unveils the new logo of Infrastructure Development Company at Radisson Blu hotel in Dhaka yesterday. Story on B1



Abdul Alim Khan Selim, vice chairman of Meghna Bank, and Mohammed Nurul Amin, managing director, attend the launch of the bank's 23rd branch at Laldighirpar, Sylhet on Sunday.

Wholesale prices in India fall again in Nov

REUTERS, New Delhi

India's wholesale prices fell for a 13th straight month in November, but a sharp pickup in food prices and a pending wage hike for millions of government employees are likely to keep policymakers worried about potential inflationary risks.

The wholesale price index (WPI) declined an annual 1.99 percent last month, driven down by tumbling oil prices, government data showed on Monday. A Reuters poll expected a fall of 2.80 percent.

Wholesale food prices in November gained 5.20 percent year-on-year, compared with a provisional 2.44 percent rise in October. At 5:30 p.m., November figures for the consumer price index (CPI), which the central bank closely tracks for setting monetary policy, will be released.

Consumer prices are tipped to have gained for the fourth consecutive month in November, rising an annual 5.4 percent on the back of a jump in food costs.

Higher food prices and anticipated higher government salaries are widely expected to stoke price pressures, making it tougher for the central bank to keep retail inflation around 5 percent by March 2017.

"The Reserve Bank of India (RBI) faces a tough challenge in meeting its medium-term CPI inflation target, suggesting that the rate-cutting cycle has now come to an end," said Shilhan Shah, an economist with Capital Economics.

After easing monetary policy aggressively this year, the RBI kept the key repo rate on hold at 6.75 percent earlier this month. While a crash in global commodity prices has tamped down prices in India, the central bank remains worried about elevated household inflationary expectations.

It is also expected to contend with a potentially weakening rupee should outflows from emerging markets gather pace if, as widely anticipated, the Federal Reserve hikes US interest rates this week.

As a result, very few expect aggressive rate cuts in 2016.

Garment containers seized over forgery

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The company was carrying 8,034 dozens of garment products worth \$52,874 for DMD Boutique in Manila, according to the submitted documents.

However, officials are yet to complete a physical evaluation and suspect the real volume of goods is much higher.

When contacted, Md Shahidul Islam, managing director of SN Design, said his company stopped exporting at least two years ago. "I do have a small garment factory, but I don't export anymore. I sell to some local customers."

"Someone has used my licence number without my knowledge. This happened a few years ago as well," he said, adding that he will file complaints with the customs officials so they take punitive action against the wrongdoers.

Islam also said his company was initially registered with the Parbata address but has since relocated to Uttara.

The containers were seized from the private inland container depot Esac Brothers in Bandar area after finding forged signatures of an official of Sonali Bank on the documents, said Zakir Hossain, deputy director of the Customs Intelligence and Investigation Directorate's Chittagong office.

The exporter intended to launder money by using fake documents, according to Hossain.

The directorate will now investigate 91 similar consignments exported by the same firm over the last three years, he added.

Taxpayers' satisfaction to be gauged

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The implementation of the new VAT regime will lower administrative and compliance costs, the NBR said on its website.

"In order to monitor and assess the impact of the programme in taxpayer satisfaction, it is necessary to establish a baseline under the current VAT system, against which progress between current and new VAT systems could be measured," the NBR said.

The new VAT system, if properly implemented and effectively administered, has the potential to increase the VAT tax yield, broaden the tax base and contribute towards establishment of a modern and service-oriented VAT administration.

WB, Bangladesh on track to solid partnership

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The country will also have to raise its tax to gross domestic product ratio, which, in turn, will allow it to spend on its infrastructure development.

The WB chief economist said it is not impossible for Bangladesh to accelerate its GDP growth rate to 8 percent in the next three years if it fails to boost the investment rate.

Muhith said he has also told the WB official that raising investment is a major challenge for the country at present. There has been a good amount of investment in the public sector but not enough in the private sector, he said.

Muhith also said the chief executive of the Public Private Partnership Office informed him on Sunday that 40 foreign investors held meetings with him over the last one and a half months.

Subsequently, a good amount of foreign investment can be expected to flow into the mega projects from next fiscal year.

The government sees the WB as a partnership despite the tussle over the Padma bridge issue, Muhith said. "It [the Padma bridge saga] is no longer an issue. It had no impact on our relations. The World Bank chief economist also met with the prime minister on Sunday. She reiterated the same."

The relationship with the WB is out of harm's way, he said quoting

the prime minister.

Earlier in the morning, Basu, also the senior vice-president of the WB, inaugurated a two-day international workshop on 'Macroeconomic Stability, Private Sector Development, and Economic Growth' at the Bangabandhu International Conference Centre.

The event was organised by Bangladesh Bank and the United Nations Department of Economic and Social Affairs (UNDESA).

Speaking at the event, he said the governments should harness the energy of the private sector and share the responsibility in order to help the poor and the marginalised.

Basu cited an example of the leakage that takes place when the state attempts pro-poor welfare interventions on its own, such as giving food at below the market price. The method ignores one very important element of human nature: that people want to do better for themselves, want to run a business and make a profit. He said this instinct of human beings must be leveraged.

The energy and endeavour to earn profits can be utilised by the governments to generate good where it is needed, said the WB economist. "And here, you can bring the private sector into play."

Basu is also in favour of extending a little financial support directly to the poor, by way of

information technology and mobile financial services, to give them some purchasing power.

"If you give the poor the money to buy and if they go and use it for food, it is in the interest of the private traders to bring food to the poor so they can buy like everyone else."

He said different parts of this huge exercise can be delegated to the private sector. There is also a need to bring in the best professional minds to deliver on that.

Likewise, he said the private banking sector has a very important role. "But you also need the state banks. The combination of the private sector banks and state banks gives stability to an economy."

He said the crisis in the Eurozone shows that macroeconomic experiments are difficult to pull off. Europe, with its best brains, still made a mistake.

"With all such experiments in economics comes risks and you will have put in the best minds to think and analyse."

"For an economy that is developing and still has a lot of poverty, it is heartening to see the amount of professional thought that is going into the construction of policies in Bangladesh."

Citing his meeting with Prime Minister Sheikh Hasina and the top officials of Bangladesh Bank on Sunday, Basu said seeing the combination of passion and pro-

Japan business confidence flat despite signs of recovery: BoJ

AFP, Tokyo

Japan's biggest manufacturers were in a cautious mood during the last quarter of the year, a central bank survey showed Monday, despite a modest pick-up in the world's number three economy.

The Bank of Japan's closely-watched Tankan report showed confidence among major manufacturers was flat at plus 12 in December from the previous quarter.

The survey of more than 10,000 companies nationwide is the most comprehensive indicator of how Japan Inc. is faring, and marks the difference between the percentage of firms that are upbeat and those that see conditions as unfavourable.

The latest result was slightly better than market expectations, and likely to temper hopes that Japanese policymakers will expand their stimulus programme.

The BoJ holds its last meeting of 2015 this week.

Alibaba to pay \$266m for Hong Kong's SCMP newspaper

AFP, Hong Kong

Chinese Internet giant Alibaba will pay \$266 million for Hong Kong's South China Morning Post, the newspaper said Monday, far higher than analysts' estimates in a deal that has sparked fears the paper will lose its independent voice.

The business had been valued at half that amount, and some observers said the hefty price tag reflects Alibaba's desire to control media in the semi-autonomous territory.

The deal comes as concern over press freedom grows after attacks on journalists' reports of pressure on editorial staff from authorities and increasing self-censorship.

Alibaba "has agreed to purchase the media business of the (SCMP) Group for a cash consideration of HK\$2,060,600,000", the newspaper said in a statement to the Hong Kong Stock Exchange.

The group also owns the Hong Kong editions of magazines Esquire, Elle, Cosmopolitan and Harper's Bazaar.

In a letter to the newspaper's readers following the announcement of the sale, Alibaba executive vice chairman Joe Tsai vowed the SCMP would be "objective, accurate and fair". However, in an interview published on the paper's website, Tsai accused Western media of bias against China, saying that Alibaba would "see things differently".



Muklesur Rahman, managing director of NRB Bank, and Mohammed Idrish, chairman of National Exchange Company SLR (NEC), pose during the signing of an electronic fund transfer arrangement on Thursday. NRB Bank is the local partner of NEC that has operation in over 90 countries in Europe, Asia and South America.