

Law minister leaves for Geneva labour conference

STar Business Report

Law Minister Anisul Huq left for Geneva yesterday with a 38-member delegation to attend the ongoing 106th International Labour Conference, where Bangladesh will make clear its stance on implementing ILO conventions and protecting labour rights.

The conference of the International Labour Organisation (ILO) member states began on June 4 and issues concerning Bangladesh will be discussed on June 14, says a law ministry press release.

The delegation includes Md Mujibul Haque, state minister for labour and employment, Md Shahidul Haque, senior secretary to the legislative and parliamentary affairs division of the law ministry, and Mikail Shipar, labour and employment secretary. The minister is expected to return on June 17.

Dollar shortages hit Qatar exchange houses as foreign banks scale back ties

Reuters, Doha/Dubai/Abu Dhabi

Shortages of US dollars hit money exchange houses in Qatar on Sunday, making it harder for worried foreign workers to send money home, as foreign banks scaled back business with Qatari institutions because of the region's diplomatic crisis.

"We have no dollars because there is no shipment or transportation from the United Arab Emirates. There is no stock," said a dealer at the Qatar-UAE Exchange House in Doha's City Center mall. "The shipment is blocked from the UAE."

Several other exchange houses in Doha also told Reuters they had no supplies of dollars. At Qatar-UAE Exchange, dozens of people - some of the foreigners who comprise nearly 90 percent of the population of 2.6 million - waited quietly in line to change money or make remittances to their home countries.

"I spoke with my wife this morning. She said, 'Send your savings to me now.' I am not panicked but my family are scared," said John Vincent, an air-conditioning repairman from the Philippines.

"I sent 2,000 riyals (\$550) home but I have some more savings left here in Qatar. I will see what the situation is in coming days before I decide what to do."

The dollar shortages do not mean Qatar, which is one of the richest states in the world per capita and has huge foreign reserves, is running out of money. But



People stand in line at a money exchange office in Doha, Qatar.

they show how the diplomatic crisis is disrupting parts of the financial system.

Saudi Arabia, the UAE, Bahraini and Egyptian banks began scaling back business with Qatar last week after their governments cut diplomatic and transport ties, accusing Doha of supporting terrorism.

Then at the weekend, the UAE told its banks to exercise "enhanced due diligence" towards six Qatari banks which, it alleged, might have done

business with people or entities on a terrorism blacklist.

That stopped short of a complete ban on business with Qatar but the effect may turn out to be much the same. UAE banks were absent from Qatar's foreign exchange and money markets on Sunday, causing both those markets to slow down, because they feared any deals could expose them to legal risk, bankers said.

Some Western banks with a presence

in Qatar continued business as normal, partly because they did not want to lose out on billions of dollars of building projects which Qatar plans before it hosts the soccer World Cup in 2022.

But other Western banks have halted new Qatar business including interbank and syndicated lending, while continuing to service existing business, banking sources said, declining to be named because of political sensitivities.

"Everybody is shocked - they're not

worried about Qatar's credit, they're worried about compliance and the risk that the local sanctions could be escalated to an international level," said one foreign banker in the region.

Exchange house dealers in Qatar said the dollar shortage was partly a seasonal phenomenon, because the Gulf's hot summer and the holy month of Ramadan had begun, periods when there was traditionally high demand for travel abroad.

Sudhir Kumar Shetty, president of UAE Exchange, which has eight branches in Qatar, said his firm was continuing to handle remittances and currency buying as usual in that country. He said the firm hadn't seen any major change in remittance volumes due to the diplomatic tension.

But he added that dollar supply was not meeting demand in Qatar and attributed this partly to flows of the US currency from other Gulf countries being disrupted.

"Everywhere, all the banks and exchange houses, there are no dollars. All the exchange houses are trying to get currencies from other countries," the dealer at Qatar-UAE Exchange said, adding that his firm was hoping for a shipment from Hong Kong.

The six Qatari banks named by the UAE - Qatar National Bank (QNB), Qatar Islamic Bank, Qatar International Islamic Bank, Masraf Al Rayan, Doha Bank and unlisted Barwa Bank - did not respond to Reuters requests for comment.

Venture capital firms demand corporate tax exemption

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"Venture capital financing is a risky sector and companies are still generating funds for the purpose of investment," said Shameem Ahsan, president of the VCPEAB. As the sector is at a nascent stage of development, the government should provide them with tax exemption, he said.

Venture capital firms have to pay 35 percent as corporate tax.

The association was formed with 10 companies, and half of them are in the process of obtaining licences from Bangladesh Securities and Exchange Commission (BSEC).

Some of the companies have made a combined investment of \$300 million in the last two years in differ-

ent companies, mostly in the ICT sector, according to Ahsan.

The entrepreneur thanked the government for keeping the alternative investment fund tax-free in the proposed budget for 2017-18.

He said venture capital companies provide funds to entrepreneurs who do not have access to banks or non-bank financial institutions due to a lack of collateral.

"The new investment concept promotes innovative business ideas and creates an alternative financing platform for banks."

Venture capital firms make equity investment in a company for a maximum of 15 years and exit from the company after the company gets listed

with the stockmarket.

In June 2015, the BSEC introduced regulations for venture capital financing in Bangladesh.

The rules cover private equity and venture capital funds which will be operated by a fund manager through a registered trust. The fund manager and the trustee must be registered with the BSEC.

The fund managers will raise capital from eligible investors such as institutions, high-net-worth individuals and foreign fund managers.

Funds cannot be raised through initial public offering and can be collected only through private placement. Funds cannot be listed or traded on stock exchanges like mutual funds.

Forex reserves not enough: IMF

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But since then several macroeconomic developments have taken place that have changed the baseline scenario, including the current account on which the reserve adequacy assessment is based.

The current account has swung from a previously projected deficit of 1.3 percent of GDP in fiscal 2015-16 to a surplus 1.7 percent, mainly on subdued imports.

Exports are holding up, but remittances have slowed down, the IMF said. In fiscal 2015-16, remittances dropped to \$15 billion (6.8 percent of GDP) from \$15.25 billion (7.9 percent of GDP) in fiscal 2014-15. Inflows are predicted to drop further by almost 17 percent in fiscal 2016-17.

"Reserves are expected to rise -- albeit at a more moderate pace than previously estimated -- underpinned by export earnings, FDI and external borrowing."

It was assumed previously that reserves would register 8 percent average growth over the medium to long term. Reserves are now expected to grow at 5 percent on average.

Based on IMF methodology for low-income countries, reserves ranging from 3.1 (floating

exchange rate) to 9.6 (fixed exchange rate) months of imports are assessed as adequate.

By law the exchange rate arrangement is classified as floating, but the central bank intervenes in the foreign exchange market to keep the exchange rate relatively stable against the US dollar.

"Therefore, with the de facto fixed exchange rate, a reserve coverage close to top end of the range would seem appropriate."

Cross-country comparisons also suggest that the import coverage for Bangladesh is close to the average for low-income countries in the region but below emerging market economies.

The possible shocks to the current account include a further, more-than-projected slowdown in remittances and lower external demand for Bangladeshi exports.

"Prospects for remittances are subject to considerable uncertainty, as the recent decline has been particularly pronounced," the IMF said.

Remittances continue to decline even though the number of Bangladeshi workers abroad has increased steadily in recent years.

In the first 11 months of fiscal 2016-17, a total of \$11.5 billion of remittance was received, down 14.18 percent year-on-year, on the back of low oil prices and deepening conflicts in Gulf countries -- the largest source of overseas income.

About export prospects, the IMF said global growth is more subdued now than in the past. The US, Germany and the UK represent Bangladesh's three main export destinations. Thus, a risk of slowdown in the European Union may hurt exports.

"Additionally, as per media reports, British garment importers have started putting price pressures on exporters of Bangladesh following the announcement of Brexit."

In the short-term the impact may not be a major concern but in the long term rising inflation expectations in the UK from the possible depreciation of the pound will affect exports.

General uncertainties over rising protectionist pressures will continue to shadow the outlook for Bangladesh exports, the IMF added.

Subsequently, reserve coverage is likely to decline from current levels.

One Belt, One Road a golden opportunity: analysts

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However, shipments to the two countries from Bangladesh are worth a little above \$1.5 billion in a year: about \$800 million to China and \$700 million to India.

But Bangladesh has the opportunity to export more to the two countries as China's annual import value is \$2,000 billion and India's \$500 billion, he said.

The country can also immensely benefit from the Bangladesh India China and Myanmar (BCIM) initiative, according to Rahman.

Bangladesh needs to improve the supply capacity of goods and the logistics and increase the people-to-people contacts for gaining more benefits from the giant economies, he said.

He also suggested seamless transport connectivity and turning the roads into economic corridors to reduce the lead time.

"Tariff is no more a concern, but the lead time in international business is."

The establishment of rail link between China and Europe will reduce the lead time substantially, and Bangladesh can also link the special economic zones and deep sea port with the OBOR initiative, Rahman added.

Planning Minister AHM Mustafa Kamal echoed with the opinions of Rahman.

"We do not see the OBOR politically," he said, adding that Bangladesh has been developing four ports -- Chittagong, Mongla, Payra and Sonadia deep-sea port -- so that the

country can be connected with the initiative.

India is also benefitting from Chinese investment, he said, while citing the examples of Chinese companies Lenovo, Xiaomi and Vivo that have made substantial investment in India.

Not only in India, China has also invested more than \$40 billion in port development in Pakistan, Kamal added.

Chinese private sector investors are also getting ready to invest abroad along with the state-owned companies, said Abrar A Anwar, chief executive officer of Standard Chartered Bangladesh.

China's domestic consumption is on the rise due to its huge population and the shifting of its manufacturing base to high-end products, he said.

Bangladesh has the opportunity to supply shoes, toys and bags to China as there is a big ready market for the items there, he added.

Standard Chartered has already set up a separate desk in China for dealing with investors eager to invest in Bangladesh, he said.

China has already invested \$1.1 trillion on the OBOR fund and Bangladesh has the opportunity to avail this fund to meet the demand for capital in infrastructure projects, Anwar added.

"The OBOR is a golden opportunity for Bangladesh," said Abul Kasem Khan, president of the Dhaka Chamber of Commerce and Industry.

But Bangladesh needs to strengthen its capacity for attracting Chinese

investment under the OBOR initiative.

If the country can invest between \$18 billion and \$20 billion in infrastructure development, it would be able to attract \$300 billion to \$320 billion of foreign direct investment in the next 17 to 18 years, he said.

Khan went on to thank the government for increasing the allocation for infrastructure development projects to 3.6 percent of GDP in fiscal 2017-18 from existing 2.8 percent.

"But this percentage should be more, like in other developing countries," he said, while citing Vietnam as a case in point.

Vietnam spent 10 percent of its GDP on infrastructure over the past 10 years. In the last five years, Vietnam was able to attract \$60 billion of FDI in contrast to Bangladesh's \$3-4 billion.

He urged the government to quickly implement the special economic zones for starting production in the specialised areas.

The government should formulate a policy for investing in Myanmar as it has immense potential, said Shafiqul Islam Mohiuddin, president of the Federation of Bangladesh Chambers of Commerce and Industry.

He suggested the government establish the deep-sea port at Sonadia as soon as possible as the capacity of the existing ports is not enough to handle the country's ever growing import and export.

Abdul Quayyum, associate editor of the Prothom Alo, moderated the discussion.

Square Pharma to subcontract production

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Another five units in Pabna target markets under the Association of Southeast Asian Nations and the South Asian Association for Regional Cooperation as well as the rest of the world.

Square Pharmaceuticals has approval to export 700 products and sell 900 products in local markets. The company now exports products to 37 countries.

Naafco Pharma started production of human medicines in 2015. The

current production range encompasses tablets, capsules, powders, pellets, injectables, and liquids in the form of suspensions and solutions, according to the company's website. Sharif Pharmaceuticals set up a state-of-the-art manufacturing facility in 2011.

Review cap on credit card interest

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The ABB also pointed out four major new provisions, which require the central bank's urgent review.

In the guideline, the central bank said credit cards in taka can be issued by any scheduled commercial bank in Bangladesh, and the card in foreign currency is to be issued by authorised dealer banks only.

Here, the ABB proposed inclusion of non-bank financial institutions as the credit card issuing authority as well.

Interest on consumer credit now stands at 11 to 12 percent, which means the cap would bring down the interest on the payment tool to 16-17 percent from the existing highest rate of 36 percent, it said.

The reason for such high rate is most issuing banks offer 45-50 days interest-free period to cardholders, the association said.

Though, cardholders do not incur any interest for the period, the issuing bank has to absorb the cost of fund for these days, it said.

"The current range of interest rate is charged to cover the high operating and servicing costs of the business, as well as the numerous value-added features and benefits offered to encourage customers

to use the product."

If the annualised rate is revised to the proposed 5 percent cap, the probable new annualised rate will be around 20 percent.

"That means, with the present consumer behaviour—the customer will be paying around 10 percent of interest. If banks deduct the cost of fund, provisioning requirement, credit loss and management expenses—the product will be non-viable commercially."

Moreover, cardholders expect different lifestyle perks and benefits like complimentary dining, travel, rewards and lounge facilities as part of the card offer. Banks do not charge for these benefits; rather they cover the costs from the revenue, said the ABB.

"With the revised interest rate framework, such customer benefits will be difficult to provide. As a result, credit card as a product will lose customer attraction."

Till date, the major acquiring banks have deployed more than 30,000 points of sale (POS) machines at about 20,000 merchant outlets, according to the association.

Each machine costs banks Tk

22,000 on average, and additionally a significant monthly cost is incurred to maintain, repair and replace these POS machines, and for payment of SIM usage costs to the telecom companies, it said.

Moreover, the operating costs for credit cards are materially higher than any other banking product, as the banks need to invest significantly in plastic cards and their production, promotional and other corresponding materials.

"As a result, the average cost-income ratio for this product could hover around 75 percent."

On the restrictions on the promotion of credit cards, the ABB said most of the major banks around the world have been actively promoting and encouraging cashless transactions.

The growth of cards and their usage will come to a halt if such promotions are stopped, the association said.

The main issue objected by the bankers is the 5 percent cap, said a senior executive of the central bank.

The ABB may sit with BB Governor Fazle Kabir to discuss the issue this week, the official added.

Biman, Novoair offer extra flights, discounts for Eid

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The same will come into effect for the Dhaka-Cox's Bazar route from June 28 to July 2.

Cost of Novoair flights from Jessore/Saidpur to Dhaka from June 22 to 26 and vice versa from June 27 to 30 will come down from Tk 3,000 to Tk 2,017 per person.

Biman will operate one extra flight on Dhaka-Saidpur route on June 23 and one extra flight on Dhaka-Jessore route on June 24. "We don't need to give extra flight to Chittagong and Sylhet routes as we operate there with wide-bodied aircraft," Shakil Meraj, general manager (public relations) of Biman told The Daily Star.

Biman has offered minimum Tk 2,000 for one-way journey from Rajshahi, Saidpur, Jessore, Barisal and Sylhet to Dhaka and Tk 2,500 from Chittagong to Dhaka between June 19 and June 26.

After Eid, the fare will be Tk 2,500 from Dhaka to Chittagong between June 27 and July 3, added Shakil.