Credit growth slowdown imminent

Mercantile Bank CEO tells The Daily Star in an interview

JEBUN NESA ALO

THE rising interest rate will put the brakes on the runaway private sector credit growth this year as entrepreneurs will be reluctant to take on high-cost funds, said a top banker.

Moreover, maintaining the lower loan-deposit ratio will compel private banks to go slow with lending, said Kazi Masihur Rahman, managing director of Mercantile Bank.

In January, the Bangladesh Bank instructed banks to bring down their loan-deposit ratio to 83.5 percent by June this year to curb aggressive lending. Later the deadline was extended to March next year.

However, the slow credit growth will not affect private sector investment as banks will focus on quality loans, he told The Daily Star in an interview on the occasion of the bank's 20 years in operation.

Last year, private sector credit growth was more than 18 percent. But thanks to the central bank's efforts to curb aggressive lending by banks, it started decelerating from March.

The credit growth was 17.93 percent, down 0.56 percentage points from the previous month, according to data from the central bank.

The lending rate will come down to single digit in the near future as there is enough liquidity in the banking system, said Rahman, who has been in the banking sector for 41 years now.

Liquidity crisis in some banks created panic in the market. But banks like Mercantile, which prudently handled their lending activities, still can lend at single digit, he said.

The bank's loan-deposit ratio remained within the 85 percent ceiling all throughout.

At the end of last year, Mercantile's total deposits stood at Tk 21,697 crore and its loan portfolio Tk 20,301 crore.

"The ongoing liquidity crisis did not affect Mercantile Bank," said Rahman, who joined the bank in January 2016.

As a result, the bank did not see much fluctuation in its deposit and lending rates in recent times, when many banks raised their rates by as much as 4 percentage points, he said.

At the end of the first quarter of 2018, its average deposit rate stood at 6.05 percent, up from 5.85 percent in the previous quarter.


Kazi Masihur Rahman

Its average lending rate in March stood at 9.37 percent, which is below the industry average of 9.64 percent, according to data from the central bank.

However, most of the banks are lending at more than 11 percent interest since January.

"The high interest rate will increase default risks," he said, while advising entrepreneurs to turn to the stock market for their funding needs.

Bangladesh's capital market is now a mature platform and the addition of the two bourses from China as the strategic partner of Dhaka Stock Exchange will bring more transparency to the stock market, he said.

Anticipating there might be a deposit crisis amongst banks, Mercantile took on a campaign in middle of the last year to attract savers. "We worked with a clear plan over deposit collection and credit management."

Mismanagement of lending activities is responsible for the banking sector's current problems and all banks CEOs are not responsible for that, he said.

"There is no way you can do well in a competitive market working in an unplanned manner."

In the last two years, the bank improved its financial performance and did better than the first generation banks, Rahman said.

"Now the challenge is to keep up that performance."

The bank has planned to lend cautiously this year to sustain its performance growth.

"We will put focus on nursing the existing clients instead of reaching out to new clients to keep the loan-deposit ratio within the new authorised limit of 83.5 percent."

In its 20 years journey, Mercantile Bank has leapfrogged many first and second generation banks in all the performance indicators, he said.

For instance, it is now in the seventh position in terms of operating profits: its total operating profits last year was Tk 657 crore.

Mercantile Bank also maintained its upward trend in dividend declaration last year, when most of the banks announced comparatively lesser dividends as they could not do well, Rahman said.

The bank declared 22 percent dividend for its shareholders last year, up from 20 percent a year earlier.

"Cautious lending helped us make good profit in the competitive market."

In 2017, its net profit was Tk 301 crore, a 35 percent increase from a year earlier.

The bank's non-performing loan ratio at the end of 2017 was 3.79 percent, down from 5.13 percent in the previous year.

Robi ordered to sever ties with Bangla Phone

STAR BUSINESS REPORT

The telecom regulator yesterday warned Robi of tougher actions if the mobile operator does not stop using the unauthorised fibre optic connection of Bangla Phone Ltd in the next 30 days.

Bangla Phone, a telecommunications company, never had a licence for establishing such connectivity, said top officials of the legal and licensing wing at Bangladesh Telecommunication Regulatory Commission.

"It only received the permission to do business in the sector on a temporary basis which expired three years ago. But Robi kept taking service from Bangla Phone even after several warnings from the regulator."

"We have earlier served show cause notice on both…but they ignored it," Md Jahurul Haque, acting chairman of BTRC, told The Daily Star, after chairing a monthly meeting in its Dhaka office.

"They have not even contacted us."

"If they dishonour this order, we will act according to the law, which has empowered us to impose fines of up to Tk 100 crore," said Haque, who is also the telecom regulator's legal commissioner.

BTRC issued the show cause notices on April 24 and gave seven days' time to reply.

Earlier, state-owned Teletalk cancelled a deal with Bangla Phone over using its fibre-optic network after receiving such a warning from the telecom watchdog.

"We have already responded to the letter sent by the commission regarding Bangla Phone Ltd," said Ekram Kabir, vice president for corporate communications and corporate responsibility at Robi.

"We would like to reiterate that a lawsuit is in the process in the court of law and it is only the honourable court who can provide any kind of direction on the subject."

Berlin wants answers from Daimler over 'pollution cheating'

AFP, *Berlin*

The German government on Monday gave Mercedes manufacturer Daimler two weeks to come up with a full explanation after authorities said some of its diesel vehicles were equipped with illegal pollution cheating devices.

The Federal Motor Transport Authority KBA last week ordered Daimler to recall 5,000 Mercedes Vito vehicles after finding that so-called defeat devices were installed -- something that Daimler has contested.

"We will begin a deeper exchange on these complex technical issues with the aim of identifying the number of affected vehicles," said Transport Minister Andreas Scheuer after meeting with Daimler boss Dieter Zetsche.

Scheuer said he has given Zetsche two weeks to clarify the issue. "At another meeting in 14 days, we will have the concrete results on the table," said Scheuer.

If the KBA's suspicions are confirmed, Daimler would be the next giant German automaker dragged into the diesel emissions cheating scandal.

Germany's auto industry has been struggling to emerge from a cloud of suspicion since Volkswagen in September 2015 admitted to fitting 11 million vehicles with illegal software to make them appear less polluting under test conditions compared with real on-road driving.

Daimler has firmly disputed the KBA's finding.

"If necessary, the company will contest the disputed interpretation of the law before the court," the group in a statement on Thursday.

Sell-offs hit stocks

STAR BUSINESS REPORT

Stocks fell yesterday breaking a two-day gaining streak thanks to a selling spree influenced by foreign investors.

In the first half of this month, foreign investors sold shares worth Tk 294 crore and purchased shares of Tk 174 crore, according to DSE data.

The sell-offs caused the DSEX—the benchmark index of the premier bourse—to lose 281 points or 4.93 percent in May alone.

Yesterday, the DSEX fell 39.39 points or 0.72 percent before finishing the day at 5,417.42.

The Dhaka bourse observed a notable price correction as market volatility prompted the spooked investors to go for sell-offs to eschew further losses, EBL Securities said in a review.

Turnover, another important indicator of the market, experienced a 3 percent fall to hit Tk 431.65 crore, with 11.36 crore shares and mutual fund units changing hands on the DSE.

Of the traded issues, 70 advanced, 224 declined with 43 securities closing unchanged on the premier bourse.

Intraco Refueling Stations dominated the turnover chart with 46.39 lakh shares worth Tk 25.68 crore changing hands, followed by Al-Arafah Islami Bank, Brac Bank, United Power Generation and Miracle Industries.

The financial institutions sector declined 2.26 percent, followed by the fuel and power 1.86 percent, engineering 1.85 percent and pharmaceuticals 0.88 percent.

No sector gained yesterday.

Queen South Textile was the day's best performer with a 7.64 percent gain followed by Legacy Footwear, Trust Bank and Dhaka Insurance.

Shyampur Sugar was the worst loser, shedding 9.52 percent, followed by Imam Button, Zeal Bangla Sugar Mills and Takaful Islami Insurance.

Chittagong stocks also fell yesterday with the bourse's benchmark index—CSCX—declining 54.05 points or 0.53 percent to finish the day at 10,132.41.

Losers beat gainers as 49 advanced, 154 declined and 20 finished unchanged on the Chittagong Stock Exchange.

The port city bourse traded 71.29 lakh shares and mutual fund units worth Tk 22.70 crore.

France, Germany push for EU funding for tech start-ups


REUTERS/FILE

German, British and European Union flags fly in front of a building in Berlin.

REUTERS, *Brussels*

FRANCE and Germany are pushing for an EU-wide initiative to fund innovation and research in tech start-up projects across the bloc so that Europe can compete more effectively against the likes of China and the United States.

Europe has long been seen as a laggard in developing new technologies compared with the United States, which has a strong venture capital industry funding Silicon Valley start-ups.

The more risk-averse culture in Europe has also been cited as an obstacle to creating a "European Google", partly because failure can carry more stigma than it does across the Atlantic.

Berlin and Paris called for the European Innovation Council to fund "ambitious" tech start-ups in a paper presented to European Union leaders at the Balkan summit last week.

"A joint effort is also needed to further improve the venture capital environment and regulations to allow successful market transfer of breakthrough innovations, as well as the foundation and growth of disruptive deep technology companies in Europe," the paper, seen by Reuters, said.

EU heavyweights France and Germany are pushing for reforms in various sectors before a summit of EU leaders in June and want Europe to be ahead in new digital technologies.

In the paper they say the aim is to create a network to bring breakthrough innovations in science to the marketplace and to open up the network to other interested EU countries.

France and Germany want national initiatives to be complemented by EU ones, which can have more added value for the establishment and the growth of tech start-ups, the paper said.

France has already promised to spend 1.5 billion euros ($1.75 billion) on artificial intelligence by 2022 to reverse a brain drain and catch up with dominant U.S. and Chinese tech giants.

Berlin and Paris want their project to focus on tech leaders in academia as well as entrepreneurs and to provide funding for high-risk tech projects.

China rejects US charge of 'forced technology transfer' at WTO

REUTERS, *Geneva*

CHINA told the World Trade Organisation's dispute settlement body on Monday that US accusations that Beijing forced companies to hand over technology as a cost of doing business in China were groundless.

US President Donald Trump has accused China of stealing American ideas and announced a plan for a $50 billion tariff penalty against Chinese goods.

Both sides launched legal complaints at the WTO over the issue earlier this year.

"There is no forced technology transfer in China," Chinese Ambassador Zhang Xiangchen told the meeting, according to a copy of his remarks provided to Reuters.

"According to the US's view, China forces the US companies to transfer technologies by imposing joint venture requirements, foreign equity limitations and administrative licensing procedures," Zhang said.

"But the fact is, nothing in these regulatory measures requires technology transfer from foreign companies."

Zhang said the US argument involved a "presumption of guilt". The US Trade Representative believed US firms in China faced an obligation to hand over technology, while failing to produce a single piece of evidence.

Some of its claims were "pure speculation", he said, adding that the USTR saw Chinese M&A activity as a Chinese government conspiracy.


REUTERS

Staff members set up Chinese and US flags for a meeting between the ministers of the two countries in Beijing.

Technology transfer was a normal commercial activity that benefited the United States most of all, he said, while Chinese innovation was driven by "the diligence and entrepreneurship of the Chinese people, investment in education and research, and efforts to improve the protection of intellectual property."

Legal experts say Washington needs WTO backing to implement its tariffs as far as they relate to WTO rules, while China has rejected the tariff plan wholesale and resorted to WTO action to stop it.

Under WTO rules, if disputes are not settled amicably after 60 days, the complainant can ask for a panel of experts to adjudicate, escalating the dispute and triggering a legal case that takes years to settle.

The United States, which launched its complaint on March 23, could have used the dispute meeting on Monday to take that step. China could do so at next month's meeting.

But since the dispute erupted, US-China trade policy has been the subject of high-level bilateral talks. Trump tweeted cryptically that "our trade deal with China is moving along nicely" but that it probably needed a "different structure".

The United States put China's technology transfer policies on the agenda of Monday's meeting, without elaborating. A copy of the US remarks was not immediately available.