

Banks should be setting interest rates, not others

Mercantile Bank chairman says as the bank celebrates 20 years of operation today

SAJJADUR RAHMAN and AKM ZAMIR UDDIN

BANKS should be the only ones setting the interest rates as they offer loans at rates that are based on factors like cost of funds, credit worthiness of a customer and the prevailing market condition, said AKM Shaheed Reza, chairman of Mercantile Bank.

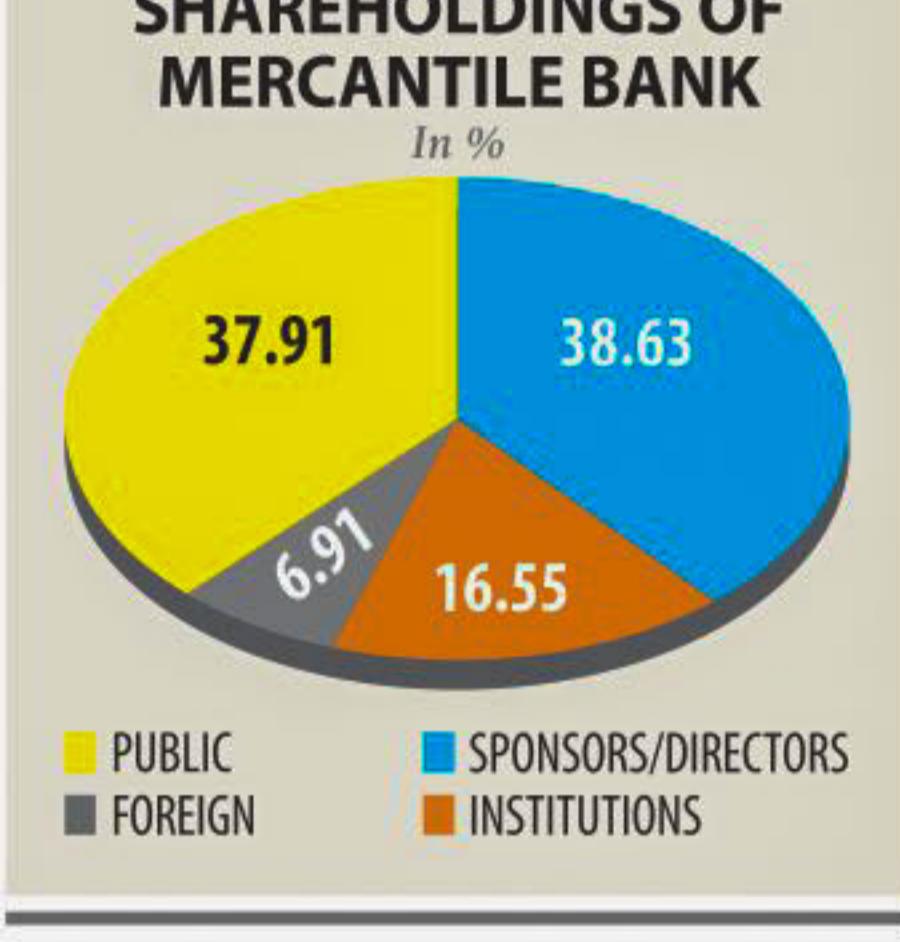
For example, he said someone with a lower credit score may be at a higher risk of default, so a bank will charge the borrower more than a regular client.

"Banks should determine the interest rates, both on lending and deposit, considering the market trend," Reza told The Daily Star in an interview on the eve of the bank's 20th anniversary.

The government and the central bank have been trying their best to bring down the rising interest rates on lending, but that did not work.

In April last year, the Bangladesh Association of Banks (BAB), an organisation of private banks' sponsors, had agreed to decrease the interest rates provided that the lenders got low-cost deposits from government agencies and the central bank brought down the cash reserve ratio.

Later in August, the government and the BAB at a meeting had agreed to fix the interest rate for deposit at 6 percent and for lending at 9 percent. But the effort went in vain.



AKM Shaheed Reza

"Putting up a ceiling for interest rates will not necessarily work as it is driven by many factors."

Reza also pointed out some other issues that are driving up the interest rates on lending.

One of the reasons is the corporate depositors' avarice for bigger interest income.

Once non-governmental organisations (NGOs) did the same, but their influence has come down significantly because of its declining fund flow, Reza said.

Reza, however, said there was a good indication that the interest rate on lending has started to come down.

At a time when most banks' interest rates on lending have gone well above double digit, Mercantile is offering loans at average 9.5 percent with a spread of three percentage points.

On the escalating default loan scenario, he said there are many wilful defaulters who need to be brought to account.

At the end of last year, default loans stood at Tk 93,370 crore, which is 10.30 percent of total outstanding loans, according to data from the central bank.

"Once you catch and punish the culprits involved in the banking sector

scams, the governance situation will automatically improve riding on customers' trust."

Frequent rescheduling of loans of wilful defaulters has been eroding confidence of the general public on the banking sector though.

"Customer trust and goodwill are at the core of a bank's business and without that all financial institutions will have a hard time."

On the latest Bangladesh Bank notice on rescheduling of loans for 2 percent down payment and 9 percent interest rate, Reza played it down.

"It is nothing new because all lenders do it for their clients that are in trouble for genuine reasons. Even we reschedule a loan without down payment or charging interest on the outstanding amount to support a client."

He, however, said the total default loan figure looks high because it also includes the interest rate accrued.

The almost Tk 94,000 crore-figure is not just the principal amount; a large chunk of it is interest.

"The banking industry remains at the

heart of the country's economic activities. So, we all should work together to ensure good governance in banks."

His comments come at a time when the banking industry is going through a liquidity crunch, rising default loans, sluggish credit growth and high interest rate among many other challenges.

Reza, who has a diversified business portfolio, said the banking sector holds great business promise as it has yielded better returns for sponsors than many other ventures.

For example, all sponsors together invested Tk 100 crore in Mercantile Bank and in two decades the amount has ballooned to Tk 900 crore. And if cash dividends are included, sponsors' returns will be much higher.

About Mercantile's performance in the last 20 years, Reza said: "We are on track to becoming a people's bank."

Today, it has 10 lakh clients, including 3 lakh borrowers, and 2,400 employees.

As of December last year, Mercantile Bank's deposits stood at Tk 23,197 crore against its loan portfolio of Tk 22,423 crore. In 2018, its profit before tax and provision was Tk 673 crore.

In its two-decade-long journey, the bank has come up with many new products, one of which is 'Udayan', a loan for start-up companies.

A start-up enterprise can get up to Tk 50 lakh collateral-free loan.

"Now our focus is to go for digital banking. Retail and SME banking will get focus in the days to come."

He went on to express hope that the bank's clients would shoot up to 25 lakh in five years' time.

The bank will also launch agent banking soon, he said.

About the entry of new banks, he said they cannot survive under the present business model.

"New banks, if there are any, have to come up with innovative ideas so that they can compete with nearly 60 banks."

He also touched upon banks' investment in the capital market. "It cannot be dictated as it depends on a bank's capacity."

China to probe FedEx after Huawei says parcels diverted

REUTERS, Beijing

CHINA will investigate whether FedEx Corp damaged the legal rights and interests of its clients, the official Xinhua news agency said on Saturday, after Chinese telecoms giant Huawei said parcels intended for it were diverted.

Amid worsening tensions between China and the United States, the Chinese commerce ministry said on Friday that it would draft a hit-list of "unreliable" foreign firms and individuals that harm the interests of Chinese companies. It gave no names.

It issued the threat after Washington last month put Huawei on a blacklist that effectively blocks US firms from doing business with the Shenzhen-based telecoms equipment maker.

FedEx told Reuters on Friday that it was reviewing its relationship with FedEx which it alleged had diverted two parcels destined for Huawei addressed in Asia to the United States and had attempted to reroute two others. FedEx said the packages were "misrouted in error".

Xinhua, without elaborating, said FedEx recently did not deliver to the right addressees and addresses in China.

FedEx China did not immediately respond to an emailed request for comment. On Tuesday, FedEx China apologised on its Chinese social media account for the "mishandling" of Huawei packages and confirmed there was no "external pressure" to divert packages.

Washington believes Huawei, the world's largest telecom network gear maker, is a potential espionage threat because of its close ties with the Chinese government.

Italy promises to obey EU fiscal rules as debt rises

REUTERS, Rome

ITALY has vowed to respect the European Union's fiscal rules in its next budget despite deteriorating public finances and a pledge by the anti-austerity government for sweeping tax cuts.

Responding to a letter from the EU Commission questioning why Italy's already huge debt grew last year, Economy Minister Giovanni Tria blamed an economic downturn and said additional belt-tightening measures would make things worse. "I wish to reiterate that the 2020 budget will be SGP (Stability and Growth Pact) compliant," Tria said in his letter to Brussels, published late on Friday.

The drop in global trade and manufacturing activity in the second half of 2018 was abrupt and deeper than expected, he said, and this had prevented Rome from fulfilling the EU requirement to shrink debt.

"I believe that the new government followed a responsible and prudent approach," he added.

"At any rate, given continuing high unemployment and near-deflationary conditions, the introduction of restrictive fiscal measures would have been counter-productive."

New India govt suffers double economy hit

AFP, New Delhi

PRIME Minister Narendra Modi's new government suffered a double economic blow of slowing growth and rising unemployment as it took office Friday.

Modi named Nirmala Sitharaman as his new finance minister in a drastically revamped Hindu nationalist administration after winning a second straight landslide in the April-May election.

But hours after India's first full-time woman finance minister took office, the government announced the third straight fall in quarterly growth to 5.8 percent in the first three months of the year.

The figure was down from 6.6 percent in the last quarter of 2018 and was much worse than the 6.3 percent that many analysts had predicted.

It means India has lost its place as the world's fastest growing major economy to China, which had 6.4 percent growth in the first quarter. And some economists said slower investment growth and weak consumer spending mean India's performance could be even worse in the next quarter.

In parallel, authorities also said the unemployment rate for 2017-2018 was 6.1 percent, which media said was the worst since 1973.

The jobless figures should have been released before the election. When a newspaper reported the gloomy



People attend a job fair organised by the employment department of the Delhi state government in India.

Mexico, US business groups urge Trump to back down on tariff threat

REUTERS, Mexico City

MEXICO's president and the top US business lobbying group called on President Donald Trump to back down from a threat to impose punitive tariffs on Mexican imports, in a dispute over migration that could shock Mexico's economy.

Trump said he will introduce the tariffs on June 10 if Mexico does not halt the flow of illegal immigration, largely from Central America, across the US-Mexican border, battering Mexican financial assets and denting global stocks.

The ultimatum from Trump is the biggest foreign policy test to date for Mexican President Andres Manuel Lopez Obrador and a tall order for Mexican security forces struggling not only to combat migrant flows but also to fight a record level of gang violence and homicide.

Mexico's economy, which is heavily reliant on exports to the United States, shrank in the first quarter and would reel under US tariffs that could reach as high as 25 percent this year under Trump's plan.

Veteran leftist Lopez Obrador, who took office in December, predicted that Trump, who is also engaged in a worsening trade war with China, would ease up on his demand.

"I tell all Mexicans to have faith, we will overcome this attitude of the US government, they will make rectifications because the Mexican people don't deserve to be treated in the way being attempted," Lopez Obrador told reporters.

In April, Trump took a step back from an earlier threat to completely close the US border with Mexico to fight illegal immigration, under pressure from companies worried it would cause chaos for businesses. The tide of migrants crossing from Mexico has swelled, with US officials saying that an average of 4,500 are arriving daily.

Global equities tumbled and safe-haven sovereign bonds surged Friday after Trump's unexpected threat added to fears that escalating trade wars will push the United States and other major economies into recession.

Mexican Foreign Minister Marcelo Ebrard said he would attend talks with US Secretary of State Mike Pompeo in Washington on Wednesday to discuss the tariff issue.

The influential US Chamber of Commerce is looking at ways to challenge Trump's tariff move against Mexico, including legal options. "We have no choice but to pursue every option available to push back," Neil Bradley, the business group's executive vice president and chief policy officer, told reporters.

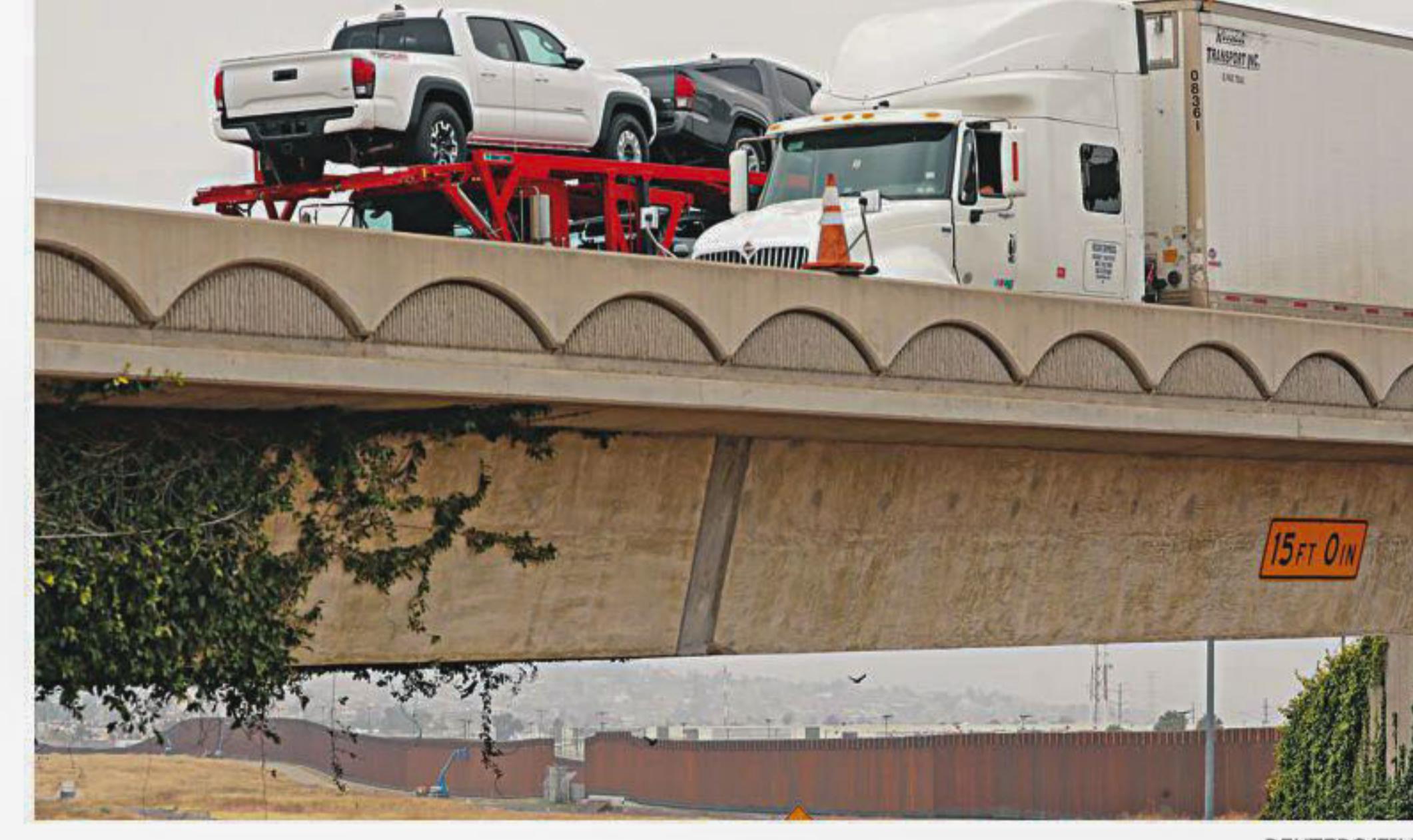
Other industry groups also criticized Trump's threat, saying it would hurt American businesses, farmers and consumers who have already borne the brunt of the US-China trade dispute.

The White House called on US companies to

persuade their Mexican partners to lobby their government to cooperate.

"Industry should be in communication with their counterparts in Mexico to encourage the Mexican government to work with the administration and stave off the dangerous crisis at our southern border as quickly as possible," spokesman Judd Deere said.

Underscoring the interconnected nature of



Transport trucks carrying Toyota vehicles from Mexico cross into the United States at the Otay Mesa border crossing in San Diego, California.

the US and Mexican economies, the US-based Beer Institute said most Mexican beer sold in the United States is made from US-grown barley and hops.

"Whether it be the truck driver, farmer, distributor, local retailer or favorite tavern, every community in America will be affected by this decision," Jim McGreevy, the institute's president and chief executive, said of the proposed tariffs.

Mexico sends 600,000 to 700,000 barrels of oil to the United States every day, mostly to refineries, and buys more than 1 million barrels per day of US crude and fuel, more than any other country. Analysts are concerned that retaliatory tariffs from Mexico could disrupt that trade.

Trump, who has embraced protectionism as part of an "America First" agenda aimed at reshaping global trade, said in a tweet on Thursday he would ratchet up tariffs on Mexico "until the illegal immigration problem is remedied."

The plan would impose a 5 percent tariff on Mexican imports starting on June 10 and increase monthly, up to 25 percent on Oct. 1.

Such levies would deliver a heavy blow to

tariffs, steps likely to target regions with high concentrations of Trump voters.

Mexican stocks slid 1.4 percent on Friday as equities fell across the region, while the peso softened 2.3 percent.

"Mexico makes a FORTUNE from the US, have for decades, they can easily fix this problem. Time for them to finally do what must be done!" Trump wrote on Twitter.

Trump vowed frequently during his 2016 election campaign to make Mexico pay for construction of a wall on the US-Mexican border to curb illegal immigration, but successive Mexican governments have firmly rejected that idea.

The US Congress also refused a request from Trump for \$5.7 billion to help build the wall, prompting him to declare a national emergency and try to divert funds from other areas of the US government. The issue is now in the courts.

Trump and fellow Republicans say something needs to be done to stem the biggest migrant surge on the border in a decade.

US officials say 80,000 people are being held in custody, and the 4,500 mostly Central American migrants that on average are arriving daily are overwhelming the abilities of Border Patrol officials.