

# China unveils rate reform to steer funding costs lower for firms



A man sits in front of the headquarters of the People's Bank of China, the central bank, in Beijing.

REUTERS, Beijing

China's central bank unveiled a key interest rate reform on Saturday to help steer borrowing costs lower for companies and support a slowing economy that has been hurt by a trade war with the United States.

The People's Bank of China (PBOC) said it will improve the mechanism used to establish the loan prime rate (LPR) from this month, in a move to further lower real interest rates for companies as part of broader market reforms.

Analysts say the move, which came after data that showed weaker than expected growth in July and followed a cabinet announcement on Friday, underscores the government's attempts to use reforms to support a slowing economy.

"By reforming and improving the formation mechanism of LPR, we will be able to use market-based reform methods to help lower real lending rates," the PBOC said in a statement published on its website.

The central bank will "deepen market-based interest rate reform, improve the efficiency of interest rate transmission, and lower financing costs of the real economy," it said.

Chinese banks' new LPR quotations will be

based on rates of open market operations, and the national interbank funding center will be authorized to publish the rate from Aug. 20, the PBOC said. It added the rate will be published every month on the 20th, effective this month.

Banks must set rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating lending rates, the PBOC said, adding that banks will be barred from setting any implicit floor on lending rates in a coordinated way.

The central bank said five-year and longer tenors will be added to the existing one-year LPR, which will help banks set rates on long-term loans such as mortgages.

China will add eight small banks, including two foreign-funded banks, to the existing 10 nation-wide banks that will be allowed to submit LPR quotations, the central bank said.

The move followed pledges from China's State Council on Friday that the country will rely on market-based reform measures to help lower real interest rates for companies.

The central bank said that it will strengthen its supervision on banks' rate quotations and punish banks for irregularities that disrupt the market order.

The central bank will incorporate LPR application into its macro-prudential assessment (MPA) to urge banks to use LPR pricing.

This week's data broadly showed China's economy stumbled more sharply than expected at the start of the third quarter, as the intensifying trade war with the United States took a heavier toll on businesses and consumers. Second-quarter economic growth slowed to a near 30-year low.

Tang Jianwei, an economist at Bank of Communications in Shanghai, said the reform could be seen as a guided rate cut as PBOC can guide rates of its open market operations, which will be closely followed by the LPR.

"The tool (LPR quotation reform) equals to a guided rate cut, and is only pushed out by the PBOC at crucial moments," said Dai Zhifeng, analyst with Zhongtai Securities Co.

The central bank has pledged to gradually unify two interest rate "tracks" - its market-based rates developed in recent years and its benchmark bank deposit and lending rates.

Analysts say the new LPR rate will be lower than the current level, but they are divided over the scope of reductions on borrowing costs for firms.

To free up funds for lending and to accommodate local government project financing, most analysts still expect the central bank will cut banks' reserve requirement ratios (RRR) further in coming months, on top of six reductions since early 2018.

Sources have told Reuters that more aggressive action such as interest rate cuts are a last resort, as it could fuel a sharper build-up in debt.

In July, central bank head Yi Gang said China would keep its benchmark deposit rate for a relatively long time, but would phase out its benchmark lending rate in the push to unify the benchmark lending rate and market-based rates.

China's banks currently price their loans based on the benchmark lending rate that has been kept unchanged since October 2015, hampering the central bank's efforts to lower borrowing costs.

The PBOC launched the LPR in 2013 to reflect rates that banks charge their best clients. But the LPR has been reacting little to market demand and supply, with the one-year rate currently at 4.31 percent, versus benchmark one-year lending rate of 4.35 percent.

China's short-term money market rates have been falling more quickly in recent months due to the central bank's cash injections.

# Is the clock ticking again for Argentine debt? Ask the IMF

REUTERS, Buenos Aires

A collapse in Argentina's peso currency this week and soaring borrowing costs have fueled investors' concern that Latin America's third-largest economy is heading for another debt restructuring.

The International Monetary Fund's next review of the country's \$57 billion lending program on Sept. 15 should provide a sign of whether Argentina's lender of last resort now thinks the same.

Business-friendly incumbent President Mauricio Macri's severe loss in Sunday's primary election to his left-leaning Peronist rival Alberto Fernandez, two months before the presidential vote, prompted market jitters about a possible lurch back toward the interventionist policies that Macri had vowed to end.

"The IMF probably will request a restructuring. The question is when," said Edward Glossop, Latin America economist for Capital Economics. "Given what the market has done this week, it's hard to argue that Argentina's debt is still sustainable." Restructurings are a traumatic subject for voters who remember the country's 2001/2002 default, which punctuated an economic meltdown that tossed millions of middle-class Argentines into poverty. Subsequent mini-defaults kept the country locked out of global capital markets for years.

Against this backdrop, the peso lost 21 percent of its value against the greenback in the first days of the week before finding support in the neighborhood of 57 per dollar - making it significantly harder for Argentina, with its economy mired in recession, to pay its dollar debts.

In its previous review of Argentina in July, the IMF warned there were "elevated" risks to the program, with peso weakness and political uncertainty likely to feed on each other.

A spokesman for the IMF declined to comment for this story.

Macri took office in 2015 promising to bring an end to the cyclical crises that over the last 100 years turned one of the world's strongest economies into a serial defaulter.

But he overestimated his ability to attract the foreign direct investment needed for sustainable economic growth

and underestimated the effect his plan for cutting public utility subsidies would have on inflation, now roaring at 55 percent.

Anger at the painful austerity measures was a driving factor in Macri's drubbing in Sunday's primary by Fernandez, who has teamed up with former free-spending populist President Cristina Fernandez de Kirchner as his running mate.

Argentina's primary election is unusual. With major parties already having selected their candidates before the ballot, it functioned as a massive opinion poll on the Oct. 27 presidential election. Investors swiftly reassessed that a restructuring was far more likely and the markets started tumbling Monday morning.

Macri loosened his fiscal stance this week, promising to lower workers' income taxes and levies on the sale of basic foods, increase welfare subsidies and other spending likely to pressure his deficit cutting effort under the IMF deal.

"A crunch point could be Sept. 15, when the next IMF loan tranche - about \$5.4 billion - is due to be disbursed. The Fund could request a restructuring as a condition of this," Glossop said.

In 2001, the IMF's refusal to disburse funds to Argentina helped trigger the country's default.

Despite the fact that Macri has blown out Argentina's IMF-agreed fiscal targets, the IMF could surprise the market by granting additional relief funds.

"In general the Fund acts to avoid defaults. So if the IMF could put in an extra \$5 billion or \$10 billion it would not be much money, but it would help avoid a painful default," said Gabriel Rubinstein, a Buenos Aires-based economics consultant.

Shamaila Khan, who manages portfolios exposed to Argentina as director of emerging market debt at AllianceBernstein in New York, said Argentine bonds were trading at 40 to 50 cents on the dollar.

"The market is telling us that there is an extremely high probability of restructuring but not a very high recovery rate," she said.

However, Khan added, "the risk reward looks attractive" because the market has factored in such a grim scenario.

Fernandez said this week that his plans, should he become Argentina's leader, would not include restructuring debt.

## 27pc youths yet to benefit from training

FROM PAGE B1

After leaving schools, they worked at labour-intensive sectors, toiling in farm land, pulling rickshaws and making and breaking bricks. Most of such youths live below the poverty line owing to lower income.

"Day labour is mostly seasonal, so we have to wait for a long time to get a work. But we don't get them all the time," said Abdul Karim, another youth from the same district.

He has come to realise that if he participates in a training programme and increases efficiency, he will get a job and earn more. However, he doesn't know how to get trained and what training will suit him.

According to the BBS report, of the total untrained and uneducated youth, about 82 percent are female and the rest are male. Most of the females live in rural areas who were either married at a young age or primary school drop-outs, experts said. Taslima Begum, an uneducated and untrained housewife, said she received schooling up to grade IV before eve-teasing bound her to leave school.

After a few years, she was married that ended her dream of receiving education and training.

About the untrained and uneducated youth female, economists said if one segment of the population remains untrained, they will hurt the economic potential of the country. Young women can participate in the labour force even staying at home, but to allow them to do so, the government and the private sector would need to take up an initiative to train them and prepare them for the job market.

The Asian Development Bank (ADB) is helping the country to develop the skills of the growing young population. "Skills development of the youth is an important way to bring them to the mainstream job market," said Manmohan Parkash, country director of the Manila-based development lender, during an interview recently.

Farouq Ahmed, director general for youth development at the youth and sports ministry, said the government is providing training to youths who want to work. "In order to reach the goal, we are providing training to them in all districts. The training programme is being enhanced gradually," he added.



Officials of Rahimafrooz Batteries Ltd and TVS Auto Bangladesh attend a deal signing ceremony in Dhaka recently. TVS plans to launch an exclusive range of VRLA motorcycle batteries under a "Globatt-TVS" brand.

# Indonesia's leader pledges capital move, economic boost

AFP, Jakarta

Indonesian leader Joko Widodo said Friday he would press on with plans to move the nation's capital and roll out measures to kickstart Southeast Asia's biggest economy as it feels the sting of slowing global growth.

In a sweeping state-of-the-nation address, Widodo asked parliament to sign off on a plan to move the capital to Borneo, shifting Indonesia's political heart from traffic-clogged megacity Jakarta -- one of the fastest-sinking cities on the planet.

"I'm asking for your permission to relocate our capital to the island of Kalimantan," Widodo told lawmakers, referring to Indonesia's portion of Borneo. "A capital is not only a symbol of a nation's identity, it also represents its progress," he added.

Widodo did not reveal a specific location for the country's new capital or new details about when the move could happen.

Speaking a day before the 74th anniversary of Indonesia's independence, the recently re-elected leader said his second term would focus on cutting red tape and luring more foreign investment.

He pledged to boost lagging productivity, turn Indonesia into an electric-vehicle hub and focus on improving worker skills in the sprawling country of some 260

million people. "We have to be faster and better than our neighbours," he said. "We're facing a tumultuous global economy and geopolitical change." Indonesia's president is expected to unveil next year's budget later Friday.

Widodo struggled to lift growth in his first term despite a huge roads-to-railways infrastructure building blitz.

The economy has been expanding

around five percent annually, but that is well short of the seven percent Widodo had pledged in his first term. This week, it posted its slowest rate of quarterly growth in two years.

Resource-rich Indonesia is grappling with weaker prices for commodities like coal and palm oil, as the global economy falters on the back of US President Donald Trump's intensifying trade war with China.



Indonesian President Joko Widodo, left, gives a flag to a student during a ceremony to celebrate Indonesia's 74th Independence Day at the presidential palace in Jakarta yesterday.

## WiFi Haat enlivens rural areas

FROM PAGE B1

"After installation of this Carnival WiFi Haat, I see good changes around my service shop. Youngsters are discussing productive things like who is doing what, what can be done, what is happening where and many more."

Sometimes, aged people come to get connected with the internet and chat with their expatriate relatives.

The correspondent saw one such elderly man visit Hossain's WiFi Haat to purchase a scratch card to speak to his son, who has been residing in Malaysia for the last eight years. He brought his grandson Osman with him as he knows how to navigate a smartphone.

Osman buys the scratch card, puts in the credentials on the smartphone and then the internet is unlimited, said the gray-bearded man.

"My son had sent this big screen phone and we could not find much use for it other than taking pictures and watching music videos that Osman used to download from the town. But we can do much more than before now," he added.

Carnival Internet first introduced the concept of WiFi Haat in Baniachong -- the largest village in Asia -- in Sylhet division. It has since installed more than 350 such haats across the country.

Over the next three years, Carnival plans to set up 50,000 such Wi-Fi Haats across the country -- touching 10,000 villages and more than one million unique users.

Khan said they believe the initiative will dilute the rural verses urban digital divide and play a large role in ensuring that the rural population does not have to step out of their villages or communities to achieve success in their respective fields.

With this service internet users' unique numbers will definitely increase, Carnival hopes.

As of June, there are about 9.62 crore internet connections in the country, 57.34 lakh of which are broadband connections, according to Bangladesh Telecommunication Regulatory Commission.

## Sojitz, Energypac want PPP to build seaport, industrial park

FROM PAGE B1

Sojitz's plan is to establish an infrastructure project to provide services for handling bulk materials through the port, where mother vessels will anchor.

The Chattogram port cannot provide the service for bulk materials handling because of a lack of technology and required space. Sojitz will provide the service, easing the cost of doing business, Aktar said.

The Japanese company is also keen to develop businesses in various industries such as machinery, chemical, medical, renewable energy, coal, food and textiles.

Aktar said the port and industrial park would create 100,000 jobs and business opportunities for different sectors such as logistics and shipping.

He said it is really tough for a Bangladeshi company to go for such a big project without the support from an efficient foreign company.

"Sojitz has the experience of handling this type of port and we have a plan to engage a top seaport authority in Japan with this project in order to make it a top port."

## BB plans uniform method to calculate cost of funds

FROM PAGE B1

For the determination of total fund, lenders will have to calculate daily outstanding amounts of deposits, borrowings, shareholders' equity, general provisions and mobilisation of funds through issuance of the sub-ordinated bonds.

The country's banking sector is now following the global best practices to determine their cost of fund, said Syed Mahbubur Rahman, chairman of the Association of Bankers, Bangladesh, a platform of the private banks' managing directors. Asked whether the upcoming formula will arrest the lending rate, he said there is no scope to make a comment to this end as the guidelines are yet to be circulated.

## eCourier gets foreign funding

FROM PAGE B1

The company extended its service portfolio, including online channel integration services, inventory management and analytics along with multi-city fulfilment, express transportation and reverse logistics.

With presence in over 60 districts and in excess of 1,000 unions already, the company now plans to expand its network to levels none has stretched before.

Serving more than 5,000 direct partners across Bangladesh with its ever-growing team of more than 350 employees, eCourier has been experiencing more than 100 percent growth in delivery transactions in recent years.