

China's economic growth set to slow to 30-year low

REUTERS, Beijing

China is expected to post its slowest economic growth in 30 years in 2020 as domestic and global demand remain sluggish, a Reuters poll showed on Tuesday, reinforcing views that Beijing will roll out more support measures.

This year is crucial for the ruling Communist Party to fulfill its goal of doubling gross domestic product (GDP) and incomes in the decade to 2020, but risks to growth still loom large despite a trade deal with the United States that will relieve some pressure on Chinese exporters.

China's economic growth is expected to slow to 5.9 percent this year, according to median forecast of 83 economists polled by Reuters, which would mark the weakest clip since 1990 and a further easing from an expected 6.1 percent in 2019.

The United States and China are expected to sign the Phase 1 trade deal on Wednesday, de-escalating a prolonged confrontation that has disrupted global supply chains and rattled financial markets. But Washington will not roll back all of its punitive measures, and the risk of another flareup remains.

"The negative impact (on the economy) from US tariffs will start to fade in the second quarter, but given the global economy is slowing, exports could still face some downward pressure," said Bank of Communications economists in a report.

Analysts noted the limited Phase 1 deal does not appear to address long running US complaints about China's state-led economic model.

"The fact is, with or without a deal, China-US relations cannot go back in time," said Zhang Monan, analyst at China Center for International Economic Exchanges.

"The structural issues between China and United States, the US crackdown on Chinese technology and partial decoupling between the two countries will make frictions the new normal." China's economy was already slowing before the trade war erupted 18 months ago, as a regulatory crackdown on debt and riskier types of lending and led to a sharp slowdown

in investment. Since the trade dispute escalated, business and consumer confidence have softened. But November data and December factory activity surveys have pointed to signs of improvement in the manufacturing sector as trade tensions eased and Beijing rolled out more stimulus measures.

Policy sources have told Reuters that Beijing plans to set a lower economic growth target of around 6 percent this year from last year's 6-6.5 percent, relying on increased infrastructure spending to ward off a sharper slowdown.

"We think the policy support would not falter this year but its effect could be more pronounced amid lower trade-related risks," said Robin Xing, chief China economist at Morgan Stanley, in a news conference in Beijing last week.

Beijing is likely to increase its budget deficit ratio again this year, while hiking the quota for the issuance of local government special bonds, Xing said.

Analysts also expect the People's Bank of

China (PBOC) to announce more cuts in banks' reserve requirement ratios (RRR), and predict further reductions in the country's one-year loan prime rate (LPR), its new benchmark lending rate.

The PBOC is expected to lower RRR by another 100 basis points (bps) by the end of 2020, on top of a 50 bps move announced on Jan. 1, according to the poll. The New Year's Day cut was the eighth since early 2018 as the central bank frees up more funds for banks to lend.

Analysts expect the LPR will be cut by 25 bps this year. But officials have repeatedly pledged not to resort to "flood-like" stimulus like that in past economic downturns, which left a mountain of debt and stoked fears of property market bubbles.

Inflation is likely to hit 4.4 percent in the first quarter as outbreaks of African swine fever decimated the world's biggest pig herd, but its impact is unlikely to last and should not derail the PBOC's easing stance, analysts say.



A worker is seen next to Maersk shipping containers at a logistics centre near Tianjin port in China.



Md Abdul Karim elected IPDC chairman

STAR BUSINESS DESK

IPDC Finance has elected Md Abdul Karim as its new chairman.

He has twice served as chairman of Green Delta Insurance and a senior adviser of Brac. The former principal secretary also served as managing director of Palli Karma-Sahayak Foundation.

Karim obtained a Master of Science degree in chemistry from the University of Chittagong, Bangladesh and a Master of Social Science degree in Development Administration from the University of Birmingham, UK.

Govt moves to use surplus funds

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The cabinet decision, however, evoked reaction from bankers, who fear the law would hit the cash-starved banking sector hard.

The ongoing liquidity crisis would worsen if the government transfers the money from banks to the national exchequer, they said, adding that the move to bring down the interest rate to single digit is likely to face hurdle due to the initiative.

BB makes easier digital marketing payment

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On Monday, the central bank also raised the annual ceiling to \$40,000 from \$30,000 to meet the actual expenses of IT and IT-enabled services.

The Foreign Exchange Policy Department of the central bank issued the circular to this effect, allowing authorised dealers to remit the amount through international cards on behalf of IT or software firms who are members of the BASIS. According to the circular, business houses can top-up \$8,000 instead of \$6,000 on their international payment cards at one go. The decision came into effect immediately, the circular said.

Members of the BASIS can get the two cards from Brac Bank and EBL. The central bank first issued the cards in 2012 with a limit of \$10,000 a year. Later, the limit has increased four times.

"\$40,000 is not a small amount, but for big companies like us this amount is not huge," Masroor said.

Every year, according to market sources, social media giants like Facebook, Google, Imo, Viber, WhatsApp and Skype earn about Tk 2,000 crore from Bangladesh and most of the funds are channelled through illegal ways.

"In my view, the new circular will make the process easier and bring most of the payments to the banking channel," Masroor added.

The BASIS had proposed the central bank increase the limit to \$55,000, but the BB has raised it to \$40,000, said Syed Mohammad Kamal, chairman of the standing committee on digital commerce at the BASIS.

"Still, this is not a very small amount."

"Now companies will be able to go easily for their campaigns on digital platforms and the government's revenue generation will be ensured from digital campaigns," said Kamal, also the country manager of MasterCard.

Currently, the BASIS has about 1,327 members and only a few of them used the facility because of its limited features. The number of cards will definitely go up after the inclusion of digital marketing spending, insiders said.

Entrepreneurs who are engaged in e-commerce or other digital activities but not affiliated with the BASIS say they also need the facilities.

"We have yet to formulate any process, we are also thinking about it to find out a way to bring the non-members under the facility," Almas Kabir said.

A procedure can be introduced to verify the authenticity of a company and the companies can get the special payment card with some limitations, he said.

The e-Commerce Association of Bangladesh (e-CAB) has recommended the Prime Minister's Office launch similar facilities for its members.

"As a bigger organisation, the BASIS can make a process to verify non-members. However, we also want special cards for our members," said Abdul Wahed Tomal, general secretary of the e-CAB.

The e-CAB has about 1,000 members. There are about 20,000 e-commerce and Facebook-based entities that are running digital businesses and need to run digital marketing.

BB to relax rules for unintentional defaulters

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The situation is aggravated by the slowdown in the private sector credit growth, which was 9.87 percent in November 2019.

The high cost of bank loans is one of the reasons for the fall in private investment, he said. The lending rate should be brought down to single digit and a mechanism should be developed to identify wilful and unintentional defaulters, Mahmud said.

To improve in the ease of doing business index, he suggested for amending the Section 42 (c) of the Bangladesh Bank Order 1972 for collecting and distributing credit information data from sources other than banks. He also wanted the Section 46 (3) of Bangladesh Bank Order 1972 to be amended to allow private firms and individuals to access their own credit information.

Access to finance and more export markets should be ensured along with

building necessary infrastructure for the SMEs, which are the lifeline of the industry, he said.

In order to reduce the dependence on finances from the public and banks, the government should develop alternative sources of long-term financing for infrastructure and industrial projects.

Devaluation of the taka against the US dollar may have a negative impact on the economy, he said. "Additional cash incentives may be extended to major export sectors as Bangladesh's export dependent businesses rely on import of raw and intermediary goods."

Bangladesh Bank will amend its rules and regulations if necessary to upgrade the overall banking eco-system, build a healthy money market and achieve targeted economic growth, said SK Sur Chowdhury, banking reform adviser of the banking regulator.

US-Bangla takes lease of two more ATR 72 600 aircraft

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"These two turboprops increase our number to fourteen ATRs out of an aggregate fleet of 49 regional aircraft operating worldwide."

The aircraft leasing company's website says the economic and logistical benefits of turboprop aircraft provide the best solution where local geography is inhospitable and shorter runways are commonplace.

TrueNoord's portfolio of turboprops is operating across India, Bangladesh and Southeast Asia improving connectivity and commerce.

The company is seeing significant growth across all parts of Asia, and as air

travel becomes more affordable and the regional airport infrastructure expands, this increase is set to continue.

The new additions have been financed by Citibank, Société Générale and Royal Bank of Canada under TrueNoord's new warehouse finance facility, said a press release.

Milbank, Tweed, Hadley & McCloy LLP represented TrueNoord and Clifford Chance advised the banks on the financing side of the transaction.

US-Bangla Airlines currently flies to 16 destinations covering eight cities: Dhaka, Chattogram, Cox's Bazar, Jashore, Sylhet, Saidpur, Rajshahi and Barishal.

Two British firms turn up with \$1b investment plan

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Although Islam could not inform exactly how much they plan to invest, a high official of BIDA told The Daily Star that it would be nearly \$1 billion.

The complete investment proposals would be turned in this month, Islam said.

In the April to June quarter of 2019, the gross foreign direct investment of over 200 British companies, which currently have operations in Bangladesh, stood at \$97.56 million, of which \$7.72 million went to the

power sector. In fiscal 2018-19, foreign direct investment amounting to \$3.8 billion came in, which is rather low when compared with peer countries.

Bangladesh advanced 8 notches in this year's global ease of doing business ranking of the World Bank, its ranking at 168 is lower than all its Saarc neighbours save for Afghanistan and competitors vying for foreign direct investment and exports like Myanmar, Ethiopia, Vietnam and Cambodia.

US Treasury removes currency manipulator label on China

AFP, Washington

The United States on Monday removed the currency manipulator label it imposed on China last summer, in a sign of easing tensions between the economic powers after nearly two years of conflict.

Just two days before President Donald Trump is set to sign a "phase one" trade agreement with China, the US Treasury said in its semi-annual report to Congress that the yuan has strengthened and Beijing is no longer considered a currency manipulator.

Although Treasury refrained from slapping the label on China in its report last May, Trump in

August angrily accused Beijing of weakening its currency "to steal our business and factories," restating a long-standing grievance.

Chinese authorities in August allowed the yuan to fall below 7 to the dollar, sending shudders through stock markets at the time and stoking Trump's ire.

"Over the summer, China took concrete steps to devalue its currency," also known as the renminbi (RMB), and those moves "left the RMB at its weakest level against the dollar in over 11 years," Treasury said.

However, more recently it strengthened to 6.93 to the dollar. Treasury said the new trade pact

addresses currency issues.

"In this agreement, China has made enforceable commitments to refrain from competitive devaluation and not target its exchange rate for competitive purposes," Treasury Secretary Steven Mnuchin said in a statement.

However that commitment is identical to the one Beijing has long made as part of the Group of 20 major global economies.

China's foreign ministry on Tuesday said it had "never been a currency manipulator," and that the United States' decision was "in line with the facts." "We have not and never will use currency exchange rate as a tool to address trade conflict," foreign ministry spokesman Geng Shuang said at a regular press briefing, adding that the International Monetary Fund had found the yuan's exchange rate "in line with the economy's fundamentals." - Symbolic move - Though the semi-annual currency report always gains attention as a key sign of relations between the powers, the currency manipulator designation was largely symbolic.

The label calls for the US Treasury committed to work with the IMF to "eliminate the unfair competitive advantage" created by China's alleged actions and to consult with Beijing about the matter.

As part of the trade deal, "China has also agreed to publish relevant information related to exchange rates and external balances." However, many economists questioned the decision to label China a manipulator in the first place.

"China shouldn't have been

designated to start with. Small current account surplus/GDP; scant intervention," Mark Sobel, a former Treasury official, said on Twitter.

While he acknowledged the large trade surplus, he said "economists disregard those." "RMB fell in response to Trump's tariffs. Designation was blatant/errant political act," Sobel tweeted.

And China expert Martin Chorzempa said the announcement was getting "way more attention than it should, because it matters only on the most superficial symbolic level." Mnuchin said the phase one deal is significant and "will lead to greater economic growth and opportunity for American workers and businesses." However, Treasury said Beijing still needs to take steps "to stimulate domestic demand and reduce the Chinese economy's reliance on investment and exports." Top Chinese trade envoy Liu He arrived Monday in Washington on Monday ahead of Wednesday's expected signing of the agreement.

After multiple rounds of tariffs, the US trade deficit in goods through November 2019 was running at over \$320 billion, which is about \$62 billion below the same period of 2018.

Chinese customs data showed Tuesday that China's surplus had dropped 8.5 percent in 2019 to \$296 billion.

"Treasury remains disturbed by the persistent and excessive trade and current account imbalances that mark the global economy," the report said.



US Secretary of State Mike Pompeo and Treasury Secretary Steven Mnuchin attend a press conference at the White House in Washington, DC on January 10.

What the finance minister should watch out for

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The finance minister mentioned that 50 percent of government deposits will be allocated among the private banks in proportion to the size of their paid-up capital. Given that private banks have highly varying CAMEL ratings, it is not clear how the allocation scheme will reconcile unwillingness of public institutions to keep their deposits in private banks with poor CAMEL ratings. Clearly, working out a fair and acceptable allocation scheme for government deposits among highly differentiated private banks is going to be an administrative nightmare. Moreover, if private banks are allowed to offer higher deposit rates for government funds, why would there be a need for allocating this fund? Instead of such centrally managed allocation scheme, allowing private banks and NBFIs to offer higher deposit rates within a range for all deposits may be the short-term workable solution to the problem. But, if differentiated deposit rates are allowed, differentiated lending rates will become a logical corollary. In that case, what we shall end up with is interest rate ceiling with a band.

Impact on credit growth to the private sector

For the last two years, growth of credit to the private sector has been showing a monotonically downward trend. The announcement of lower deposit rate of interest tended to divert deposits from private to public banks creating a serious liquidity crunch for the private banks and further restricting their ability to lend, and most private banks stopped short of implementing the single digit interest rate although the public banks more or less complied. However, the liquidity situation has since improved due to lowering of CRR, streamlining of savings certificates purchase process, and relaxation of compliance requirement regarding AD ratio (again back to 85). But still the downward trend in credit growth persisted for the private banks.

The single digit interest rate implemented by the public banks allured away many borrowers from private to public banks. Second, in anticipation of future imposition of 9 percent lending rate ceiling, private banks shifted to a more cautious lending policy. This trend is continuing and after April 1 banks are likely to become much more selective in granting credit to the private sector, which may affect credit growth.

As basic economics teaches us, when price ceiling is set below the market clearing price, supply shrinks and excess demand shows up. In the face of this excess demand, supply needs to be rationed among potential takers using some criteria. In the context of Bangladesh's financial market, the most likely scenario is one where SME and retail lending involving relatively higher administrative and supervisory cost are unfavourably placed in this selection process. As such SMEs, particularly the new borrowers, will tend to receive relatively lower amount of credit.

Clearly, some rescue plans for this weaker segment of the borrowers in the credit market in this administered lending rate regime will have to be devised by the Bangladesh Bank.

Thus, it appears that the finance minister needs to be careful while implementing the capping of interest rate with the aim of boosting private sector credit and overall investment scenario of the country without hampering the macroeconomic stability.

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Banks demand govt funds at the earliest

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Banks will have to implement the single-digit interest rate on the SME sector as there are many small and medium entrepreneurs.

They will have to fix 6 percent interest rate for both the government funds and for deposits that would be taken from general clients, he added.

On December 30 last year, Finance Minister AHM Mustafa Kamal said the government had earlier taken a decision to implement the single-digit interest rate only for the industrial sector.

But now it would be for all sectors except credit cards.

The prime minister wanted the single-digit interest rate within the next two months but banks have sought an additional month, he told reporters after a meeting with private banks' sponsors and managing directors at the headquarters of the Bangladesh Association of Banks (BAB).

The single-digit interest rate will be applicable for all fresh and old loans, Kamal said. He said the government would provide support to banks for a while to tide them over.

For instance, 50 percent of the

government funds will be kept in private banks from now on. Previously, they were deposited with state banks.

The fund will be kept at 5.5 percent interest rate in state-run banks and at 6 percent in private banks, Kamal said, adding that the private banks would get funds in line with their paid-up capital.

"No bank will be allowed to take deposit beyond six percent."

At the bankers' meeting the BB also requested banks not to withdraw their funds from non-bank financial institutions all at the same time as the latter were now facing different types of problems, Islam said.

At the end of September, the total default loans in NBFIs amounted to Tk 6,838 crore, up 25.23 percent from six months earlier, according to data from the central bank.

On September 30 Rupali Bank alleged that 10 NBFIs have failed to pay back its funds amounting to Tk 933 crore, according to BB documents.

The bank has repeatedly asked them to repay the money, but they were unable to. Subsequently, the state-run bank sought the central bank's intervention.