Fed faces tricky act balancing impact of vaccines against economic pain

REUTERS, *Washington*

The Federal Reserve on Wednesday will offer its first glimpse of how a coronavirus vaccine has changed the US economic outlook, and whether businesses, workers and families need more help from the central bank until inoculations and immunity are widespread.

The conclusion of the Fed's last policy meeting of 2020 will cap a tumultuous year in which it slashed interest rates, ramped up bond purchases and took other extraordinary measures to stem the economic carnage of the pandemic.

The landscape, however, has changed dramatically since Fed policymakers held their last two-day meeting in early November, with the rollout of one COVID-19 vaccine and another one on the way almost certain to boost the outlook for 2021.

In quarterly economic projections last issued in September, Fed officials at the median saw the economy growing 4 per cent next year and the unemployment rate falling to 5.5 per cent. Analysts expect both figures to be upgraded.

Less clear is what, if anything, the Fed decides to do in the meantime, including whether to focus its $120 billion in monthly asset purchases in a way that brings down longer-term interest rates even further, which could help industries like housing that are keyed to long-term mortgage loans.

It's a move many in financial markets have called for and expect at some point, though Fed officials have for the most part said they are not yet ready to do it.

"The arguments for acting now are solid," said Cornerstone Macro analyst Roberto Perli, adding that the choice remains "a close, meeting-time decision."

US Federal Reserve Chairman Jerome Powell

The coronavirus is spreading rapidly at a pace of more than 200,000 new infections daily across the country, businesses face the twin challenges of renewed restrictions and more fearful consumers, and job growth is slowing - compelling reasons for the Fed to take action.

On the other hand, "the promise of vaccines and the possibility of more fiscal support ... might incline the Fed to wait and see," Perli wrote in a recent analysis.

Lawmakers in Congress are locked in negotiations over another federal stimulus package to help ailing firms and families, but a deal has proven elusive so far.

The Fed is due to release its latest policy statement and economic projections at 2 p.m. EST (1900 GMT). Fed Chair Jerome Powell will hold a news conference half an hour later.

Analysts expect Powell and his colleagues to provide guidance on one important aspect of monetary policy: how much longer the Fed might continue and under what conditions it might reduce its monthly government bond purchases, a flow of support into financial markets meant to help hold down borrowing costs for consumers and businesses.

The central bank's federal funds rate - its benchmark overnight lending rate - has been near zero since March, so the bond purchases are now its nearest tool at hand to influence the economy.

Just as rates are not expected to rise for perhaps several years, analysts expect the Fed to tie any reductions in its bond-buying to substantial improvement in the economy - likely pushing off any "taper" of its asset purchases until late next year or beyond.

Japan posts record run of export declines on soft US, China demand

REUTERS, *Tokyo*

Japan's exports fell in November, dashing expectations for an end to the two-year run of declines, largely due to weaker US- and China-bound shipments and suggesting a slower pace of recovery for the world's third-largest economy.

The trade data is likely to be of some concern for policymakers counting on solid external demand to boost factory output and broader corporate activity to revive the economy.

"The risk that Japan's economy will stall in the first quarter is gradually becoming stronger," said Takeshi Minami, chief economist at Norinchukin Research Institute.

"It feels like Japan's economic recovery is somewhat behind that in China and the United States and European countries given the exports trend and state of domestic demand."

Ministry of Finance (MOF) data out on Wednesday showed exports fell 4.2 per cent in November from a year earlier, defying the economists' median estimate of a 0.5 per cent increase in a Reuters poll.

That marked the 24th straight month of decline, the longest stretch on record based on comparable data going back to 1979, and follows a 0.2 per cent drop in the previous month.

Japan's exports have failed to match the strong recoveries seen in major Asian manufacturing rivals China and South Korea, which have benefited from brisk global demand for technology that enables remote working during the pandemic.

In contrast, analysts said Japanese manufacturers face challenges selling high-value capital goods, such as factory machinery, to overseas markets at a time when growing demand for consumer goods is driving the recovery in many of those economies.

"Goods used in companies' capital spending are seeing the biggest delay, even as cars are being sold well and the rebound in semiconductors has been quite strong," said Atsushi Takeda, chief economist at Itochu Economic Research Institute.

Takeda added that a long stretch of import declines, which fell for their 19th straight month in November, pointed to persistent weakness in domestic demand, highlighting Japan's relatively slow economic recovery.

By destination, shipments to the United States contracted for the first time in three months, falling 2.5 per cent in November versus the same month a year earlier, as weak demand for aircraft equipment helped offset higher car exports.

Exports to China, Japan's largest trading partner, rose at the slowest pace in five months, growing 3.8 per cent, driven by communication devices.

Covid restrictions in Europe add to woes of garment suppliers

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Although the entrepreneur could manage work orders to a great extent, the prices offered by the retailers and brands are too low.

"We are just running our business and keeping the jobs of thousands of workers," said Jabbar, who mainly exports apparel items to Europe, especially to Germany.

"We will feel the impact, but I am hopeful that by April, the situation will improve a lot as the vaccinations in Europe will hopefully be completed by this time," he said. Currently, he is catering to spring and summer orders.

After the first wave, he recovered well, although there was uncertainty. "I am very optimistic that we can overcome the second wave too," Jabbar said.

The factories with composite production facilities, which can carry out all tasks from making yarn in spinning mills to making shipment of finished garments under one platform, were comparatively less affected, according to the entrepreneur.

"This is why the backward linkage should be concentrated in the country to reduce long lead time with varieties of fabrics. We have done investment in the backward linkage."

Huq said the impact of the first wave was undoubtedly incomparable.

The sector accepted high discounts and delayed payments to clear the cancelled goods, which had its impact on the financial stability of the industry.

Garment price went down by 4.85 per cent year-on-year since September.

The factories had to pay wages and all the regular payments, and forced loans have been created against factories mostly working for bankrupted buyers.

According to a BGMEA study, the garment industry lost $6 billion in export in FY20, meaning that the capacity was seriously underutilised.

The BGMEA did not have an inclusive picture of the real-time cancellation scenario and non-payments. However, a survey of 50 factories shows that instead of cancellation, buyers are following a go-slow approach in placing new orders and factories reported 30 per cent fewer orders.

"This is the picture of the industry, and the situation is worsening day by day," Huq said.

The uncertainty puts the industry in an unpredictable situation and impacts in the area of uncertainty over confirmed business, shipment, allocation of capacity, and they all have an effect on business viability, she said.

The BGMEA chief is staring at tough days ahead.

The repayment of wage-support loans is scheduled to start from January 2021, and the suspension of loan classification will expire by the end of 2020, if not further extended. Other temporary policy supports will also come to an end.

"We need policy support to go over this temporary bump," she said.

She is also hopeful about making a turnaround by the middle of 2021.

Nagad teams up with GP to beef up client base

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Since Robi Axiata and Teletalk subscribers are able to avail the same service, over 12 crore of the country's 16.8 crore mobile phone subscribers can now easily open an account with Nagad.

However, a number of subscribers remain sceptical about how their sensitive information is used while some also question legality of the move.

"It is definitely good news for customers as they can now be included in the formal financial sector in a quick and easy way," Habib Ullah, a resident of West Razabazar, told The Daily Star.

"But still, some customers who go through this fast process may not realise what kind of information they are allowing the operators to pass on to other entities," he said, adding that a clear explanation is required so that people can understand exactly what information they are making available.

Tanvir A Mishuk, managing director of the postal department's digital financial service arm Nagad, said the operators have permission from the Bangladesh Telecommunication Regulatory Commission (BTRC) to share identity information and that by dialling *167#, the customer will allow Nagad to access that information.

This means that the whole process is done legally and customer information is fully secured in Nagad's database, he added.

According to the managing director, Nagad only gets to access four types of customer information during the process. This includes the customer's national identity card number, name, date of birth and current address.

"Nagad also verifies other information from the NID database and the whole process is completed in just one second," Mishuk said.

Post and Telecom Minister Mustafa Jabbar thanked Nagad and Grameenphone for rolling out such a service, which makes it easier to access the digital service.

"Through this innovation, the common people of Bangladesh will not face any obstacle or endure the lengthy procedure required to be financially included," Jabbar said, adding that this initiative will play a significant role in the country's overall economic development.

YasirAzman, CEO of Grameenphone, said they must work together with their partners to bring the benefits of technology and make digital inclusion possible for the people of Bangladesh.

"This agreement shows our firm commitment towards Digital Bangladesh and digital financial inclusion through partnership," he added.

Nagad is a joint venture between the Bangladesh Post Office and Third Wave Technologies. The postal department owns a 51 per cent stake.

Nagad's push for greater market share comes at a time when the segment is witnessing a phenomenal growth as an increasing number of people, businesses and government agencies are turning to the channel to avail digital services amid the ongoing coronavirus pandemic.

The MFS sector's average daily transactions stood at Tk 1,718.03 crore as of October, Bangladesh Bank data shows. According to Nagad, which has 2.59 crore customers, its average daily transactions stood at Tk 200 crore as of September.

US firms keen to participate in Ctg port expansion

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When such a project is implemented, the time it takes to shift goods from one place to another drops significantly and this befits the buyers.

It is also cleaner for the environment for a reduction in carbon emission from vehicles transporting goods.

"We hope to learn more about it while we are here in Chattogram so that we can convey what we have learnt to our companies and see what they can bring to the table as the US does have a lot of experience in the expansion of ports," Wagner said.

"The more we can find out about those opportunities, the better, since I am quite certain that US companies will be very much interested in the expansion of the port itself, whether it is performing actual infrastructural works or supplying the equipment or energy," she added.

The deputy chief of mission went on to say that given the dynamism that exists between the two counties, it is always advantageous to bring the two together.

DSE ordered to halt direct listing of Best Holdings

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Best Holdings' sponsors hold 52.01 per cent shares and private placement-holders own 47.99 per cent shares. Among the private placement shareholders, four state-run owned banks own 29.58 per cent of the paid-up capital.

The banks bought 25.75 crore shares for Tk 1,675 crore, or Tk 65 each, with a face value of Tk 10.

Sonali Bank owns 8.83 per cent share, Janata Bank 8.83 per cent, Agrani Bank 6.62 per cent, and Rupali Bank 5.30 per cent, according to a letter of the BSEC to the DSE on Tuesday.

In the letter, the commission raised a question about the direct listing move because of the regulations and flagged some non-compliance issues.

Best Holdings raised capital through private placements amounting to Tk 472.88 crore in cash and Tk 189.32 crore in other than cash from August 2019 to June 2020, which is contrary to the listing provisions, the commission said.

According to the BSEC letter, the company's net current assets from August 2016 to 2019 were reported as negative, which is contrary to the provision of the listing regulations.

The company intended to offload 4.35 crore shares, which is 5 per cent of the total shares of 87.10 crore.

This is non-compliance with the offloading requirement of 25 per cent of the paid-up capital of the company and price discovery process as per regulations, the commission letter said.

The BSEC also wanted to know whether the investment made by the four state-run banks would be considered as owned by the government.

It also asked how the DSE would address the non-compliance of the listing regulation.

An independent director of the DSE said a director was trying to push the company's direct listing by circulating a finance ministry letter.

"But the letter was not sent to the DSE, but the BSEC," he said.

In the letter, the BSEC was ordered to ease the direct listing rules and regulations for infrastructure-related companies.

State-run banks invested in some infrastructure-related companies and tourism-related company like Best Holdings, so the top officials of the lenders called for allowing allow them to go for the direct listing, the finance ministry letter said. The Daily Star has obtained a copy of the letter of the ministry which contained no date and reference number.

Amin Ahmed, managing director of Best Holdings, could not be reached for comments over his mobile phone.

Akij to go big at Bangabandhu Shilpa Nagar

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The 18 new units would be divided into five industrial sectors: chemical, agribusiness, electrical, light engineering, food and beverage.

The group expects the investment to contribute Tk 1,725 crore per annum to the gross domestic product.

Akij Group is one of the largest industrial conglomerates in Bangladesh and consists of 24 subsidiaries. Its history dates back to 1950 and employs more than 35,000 people at present.

The project is expected to begin next year and be complete in 2031. However, the port and land development will begin as soon as possible after securing the land.

Beza Executive Chairman Paban Chowdhury said that the agency would accommodate the proposal as the group wants to facilitate quality investments.

Akij Group is a large conglomerate that would ensure quality products, which would contribute to the country's export basket, he added.

The investment would also help make foreign investors more confident about investing in the country, Chowdhury said.

"The Beza is continuously improving its services and creating a business-friendly environment for investors, both local and foreign," he said.

The agency is developing the BSMSN on 30,000 acres of land as part of its plan to construct 100 economic zones across the country by 2030.

Investment proposals worth $20 billion have already been approved at the BSMSN that might create jobs for 10 lakh people.

Prawn farmers facing bleak future

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"We are suffering from continuing losses and we have to wait until mid-January to see whether demand picks up," added Belayet.

Fakir Mahitul Islam Sumon, president of the Bagerhat District Shrimp Farmers Association, said shrimp farmers were facing losses repeatedly as a result of natural disasters.

He urged the government to provide support to growers including providing loans on easy terms and training.

Bagerhat District Fisheries Officer Khaled Kanak said the government would provide support between Tk 10,000 and Tk 18,000 to 28,414 marginal shrimp and crab farmers who have less than 3 acres of land as well as fish feed traders.

Banks to shell out another Tk 1,350cr on stocks

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The banks will have to pay 5 per cent interest for the fund and the credit tenure will be until February 2025.

Prof Abu Ahmed, a stock market analyst and former economics professor at the University of Dhaka, said the amount of funds made available is not small from the perspective of liquidity in the market.

"It will boost investor confidence," he added.

However, the banks should invest for the long-run and in fundamental stocks because many of them are still lucrative.

"Investment related officials should be efficient in their tasks so that banks don't swallow any loss from the market, then the lenders will be encouraged to invest further," Ahmed said.

"This is good news for the market, which will benefit from their investment," said Rasel Mahmud, a stock investor.

But if the banks do not make sudden exits after earning profits, then the general investors would surely get confidence to invest more, he added.

A senior Bangladesh Bank official, preferring anonymity, said that although they have allowed banks to invest to a greater extent, they should remain cautious about the fund.

"We don't want to see a repeat of 2010," the official said.

In 2010, banks had huge investments in the stock market, causing a boon in the bourses' index.

But on the other hand, when the bubble burst, a number of banks and non-banking financial institutions incurred considerable losses.

So, banks should invest for the long-run so that investors gain confidence and help the lenders earn back their money, he added.

The country's lenders are even being cautious right now so they invest in blue-chip stocks to avoid any erosion of their fund, said Khairul Bashar Abu Taher Mohammed, CEO of MTB Capital.

"Banks have begun investing their funds into the market, including treasury bonds, as their lending scopes are limited amid the Covid-19 fallout," he said.

Their investments are fuelling investor confidence, trade and index movement of the market, the merchant banker added.

Pandemic slows green finance initiatives

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Atiur Rahman, a former governor of the central bank and one of the pioneers of the global green banking programme, said both local and global lenders now irrespectively try to disburse loans given the ongoing economic hardship as they were struggling to survive at any cost.

Such trends may bring immediate profit for banks and industries but the practice will dreadfully damage the environment in the long run, he said.

"The country would have gone forward a lot in promoting green banking as Bangladesh Bank had raised the issue officially for the first time in 2009 among all central banks in the globe," Rahman added.

Rahman had taken a number of measures to popularise green banking in 2009, soon after he had been appointed as the central bank governor.

The Bank of England, the central bank of the United Kingdom, the European Central Bank and many other central banks later followed in the footsteps of Bangladesh Bank's initiative, he said.

"But we are lagging far behind many countries. The high-ups of the central bank and the government should give attention to this end," Rahman said.

It is time to roll out green bond to push the climate-friendly financing such that the government or banks can manage to get funds for the implementation of green projects.

For instance, city corporations can issue such bonds in order to run their waste management system effectively by way of protecting nature from pollution.

The issuance of global green bonds reached $257.7 billion in 2019, up 51 per cent year-on-year, shows data from the Climate Bond Initiative, which is working to promote investment in projects for a rapid transition to a low carbon and climate resilient economy.

The 2019 volume is a new global record in terms of value of the green bonds.

Local banks will have to be offered tax incentives and other facilities to encourage them to purchase green securities, Rahman said.

If the central bank permits them to show the green bond as statutory liquidity ratio (SLR), they will invest in the securities beyond a doubt, he added.

Besides, many other commercial banks have focused on giving out green loans in recent times.

Deutsche Bank, one of the largest banks in the world headquartered in Frankfurt, is pledging to roughly double its green financing activities over the coming five years to total €200 billion by 2025, according to a report by the Financial Times.

Syed Mahubur Rahman, managing director of Mutual Trust Bank, said lenders should lay emphasis on the disbursement of green loans as climate change has already had an adverse impact on the country.

"But, in many cases, we are facing different problems to disburse the green loans given our limited resources," he said.

MTBL, one of the leading banks in giving out green loans, will take more initiatives in the days ahead to give a tempo in the green financing programme.

Dutch-Bangla Bank is also giving immense efforts to disburse green loans, said its managing director, Abul Kashem Md Shirin.

He said classified loans in green finance were comparatively lower than the traditional loans as owners of green factories were highly compliant when operating their businesses.

Non-performing loans in green finance stood at Tk 577 crore as of September this year, which is below one per cent of the outstanding classified loans amounting to Tk 94,449 crore in the banking sector.