Fed to cut rates for first time since 2020

AFP, *Washington*

The Federal Reserve is gearing up to announce its first interest rate cut for more than four years on Wednesday, with policymakers expected to debate how big a move to make less than two months before the US presidential election.

Senior officials at the US central bank including Fed chair Jerome Powell have in recent weeks indicated that a rate cut is coming this month, as inflation eases toward the bank's long-term target of two percent, and the labor market continues to cool.

The Fed, which has a dual mandate from Congress to act independently to ensure both stable prices and maximum sustainable employment, has repeatedly stressed it will make its decision on rate cuts based solely on the economic data.

But a cut on Wednesday could still cause headaches for Powell, as it would land shortly before the election, in which former Republican president Donald Trump is running against the current Democratic vice president, Kamala Harris.

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"As much as I think the Fed tries to say that they're not a political animal, we are in a really wild cycle right now," Alicia Modestino, an associate professor of economics at Northeastern University, told AFP.

The debate among policymakers on Tuesday and Wednesday this week will likely center on whether to move by 25 or 50 basis points.

However, a rate cut of any size would be the Fed's first since March 2020, when it slashed rates to near-zero in order to support the US economy through the Covid-19 pandemic.

The Fed started hiking rates in 2022 in response to a surge in inflation, fueled largely by a post-pandemic supply crunch and the war in Ukraine.

It has held its key lending rate at a two-decade high of between 5.25 and 5.50 percent for the past 14 months, waiting for economic conditions to improve.

A locomotive engine pulls 31 wagons, each of which can accommodate a 40-foot equivalent unit of container. This means that more than 31 containers can be transported when dealing with 20-foot equivalent units, excluding those carrying heavy loads such as machineries and steel coils. Nowadays, around three to four freight trains are departing the Chattogram port for Kamalapur in Dhaka each day. PHOTO: STAR/FILE

Dhaka's importers still facing long waits to get goods from Ctg port

DWAIPAYAN BARUA, *Ctg*

It has been nearly a month that an automobile dealer has been waiting for a container loaded with reconditioned parts to reach the inland container depot (ICD) at Kamalapur, Dhaka from the Chattogram port over railway.

The parts, imported by M/s Partsco Automobiles of Munshiganj's Sirajdikhan from the United Arab Emirates, arrived at the port on August 17, only to add to a massive container backlog.

The yard designated for the ICD-bound containers has been clogged due to a 27-day suspension of railway services since July 18 amidst the countrywide student movement and another five-day suspension in late August for floods.

Around 70 percent of the goods arriving at the port are of importers based in Dhaka and surrounding areas.

Of those, around 3 percent are taken away over railways while the rest over roads and river routes.

The yard meant for the Kamalapur ICD-bound containers can run unobstructed at its standard capacity of 1,774 TEUs (twenty-foot equivalent units).

However, till the first week of August, 2,700 TEUs had been crammed inside.

Recently, railway traffic has somewhat normalised and the situation has improved, according to a senior official of the traffic department of Chittagong Port Authority.

As of yesterday, the yard had 1,278 TEUs, he informed.

However, many of them had been there for anywhere for 17 to 18 days, he admitted on

requesting anonymity.

At least 3 to 4 trains are departing for the Dhaka ICD daily, said Abdul Malek, railway station master of Chittagong Goods Port Yard (CGPY).

Each locomotive engine pulls 31 wagons. Each wagon can accommodate a forty-foot equivalent unit, for which a locomotive can take away more than 31 containers if those are the 20 TEUs, he said.

But in the case of 20 TEUs containing goods with a lot of weight, such as steel coils, machineries or motor parts, more than one container cannot be loaded onto a single wagon, he said.

Hoping that the situation would further improve in the coming days, the port officials stressed the need for operating more trains daily for speeding up the transport.

Such delays are causing immense losses for the importers as it translates to extra port and shipping charges.

Sojib Mridha, proprietor of Partsco Automobiles, said they imported the automobile parts based on a price range but the market fluctuates as time passes and they were very near to missing out on trending deals.

"If we fail to supply products to customers on time as promised we lose trust which is a huge business loss," he said.

"Moreover, we now have to pay a huge amount of demurrage to the port authority and shipping agent for the overstay of the container at the port," said Mridha.

"Small importers like us try to open a letter of credit (L/C) for an import with earnings being made on the sale of previous imports. Such long delays are hampering business," said the frustrated businessperson.

Like him, many importers based in Dhaka are now having to wait anywhere from 15 days to well over a month to get their consignments from the Chattogram port.

Staff of the clearing and forwarding agent overseeing the release of Mridha's consignment divulged that two other clients were similarly waiting for imports in containers which arrived at the port on August 26 and August 27.

The situation is improving, but then again it is a long delay for businesses heavily reliant on imports, said Sheikh Md Aslam, vice-president of the Dhaka Customs C&F Agents Association.

The way out for weak banks

SALEKEEN IBRAHIM

The banking sector of Bangladesh has expanded over the years in terms of the number of formal financial institutes and types of financing instruments and products available in the country.

But the health of this vital sector has deteriorated over the past decade due to malpractices, scams, corruption, poor governance, weak compliance, heists and rising non-performing loans (NPLs).

Although restoring law-and-order is the first priority of the interim government, this fragile banking sector is also a big threat to the country's socio-economic stability.

The downfall of 8 to 9 specific banks could lead to widespread financial chaos, affecting businesses, investors, respective bank employees and ordinary citizens who rely on these banks for their savings, earnings and businesses. The damaged confidence may trigger massive withdrawals, resulting in a liquidity crisis and unrest in the society.

Now, we must acknowledge that a weak banking system limits credit availability, restricts business expansion and slows down economic growth. This is a risky symptom for a transforming economy like Bangladesh, where both political steadiness and financial health are crucial for recovery and development.

If these fragile banks are not stabilised, the country risks entering a sliding economic spiral and further worsening the situation.

The interim government has to navigate through a series of challenges to save these fragile banks from collapse. Firstly, restoring governance is crucial. Several of these banks have suffered from poor management practices, lack of compliance with regulatory standards, and political interference.

The restructuring of their boards with experienced bankers and business leaders is a good step, but this needs to be accompanied by a stronger regulatory framework and more sovereign oversight. The central bank must also ensure that these new boards are held accountable. Governance failures were a major cause of the current fragility, and without a substantial overhaul in compliance and regulation, the same mistakes could be repeated.

Secondly, the interim government must address the capital shortage. Many of these banks are operating below the required capital adequacy ratio, making them vulnerable to external shocks. The injection of capital either through government funds or private investors could be a way out. However, this must be done sensibly, ensuring that the new funds are used for reformation and strengthening, rather than merely bailing out past losses.

It is true that a potential solution is to encourage mergers between weaker banks and stronger ones for more stable institutions. By consolidating resources and management expertise, these banks can become stable.

Certainly, the root cause of these problem banks arises from NPLs, which are mainly politically backed having zero fall back procedures and mostly absconded in nature. As such, the central bank could consider creating a separate specialised "bad book" to take care of these toxic assets and manage these separately with specialists' individuals and firms. This might gear up the standard balance sheets of these fragile banks, allowing them to focus on recovery rather than being bogged down by bad loans.

The central bank must initiate certain activities that would help restore confidence among depositors. Clear communication about the steps being taken to strengthen the banks, improve governance, and safeguard deposits would go a long way in calming public fears. Ensuring transparency is vital in this regard as depositors need to trust that their money is safe.

Currently, this fragile banking sector is a major challenge for Bangladesh's interim government, but it also presents an opportunity to introduce deep and meaningful reforms. With strong governance, recapitalisation and the right regulatory framework, these banks can be saved from collapse. This would not only restore public trust in the financial system, but also ensure that the economy remains on a path of recovery and growth. Now more than ever, the government must act conclusively to secure a stable and affluent financial future for Bangladesh.

The author is a banker

Sri Lanka economy slows ahead of presidential elections

AFP, *Colombo*

Sri Lanka's economic growth slowed, government data showed Sunday, days ahead of the first presidential elections since an unprecedented financial meltdown in 2022.

The economy grew at 4.7 percent year-on-year in the second quarter of this year, compared to an expansion of 5.3 percent in the previous quarter.

However, the April-to-June period performed better than the 3-percent contraction during the same period last year.

Heavy rain in the second quarter of the year adversely affected agriculture, the government's statistics office said.

The latest data came before presidential polls on September 21, the first vote since the country's shortage of foreign exchange led to a record 7.3-percent contraction in 2022.

The peak of the economic crisis saw months of shortages that led to street protests, eventually toppling then-president Gotabaya Rajapaksa.

His successor Ranil Wickremesinghe has doubled taxes, withdrawn generous energy subsidies and raised prices of essentials to shore up state revenue.

Sri Lanka is currently drawing down a four-year $2.9 billion bailout loan from the International Monetary Fund, and is in talks with foreign creditors over a debt restructure.

UK's finance-business chasm is as wide as ever

REUTERS, *London*

The committee studying the financial state of British business did not pull its punches. After a lengthy investigation, the government-appointed panel of economists and experts concluded UK financial institutions were less supportive of domestic companies than their rivals in Europe and the United States. To revive the sluggish economy and moribund stock market, the group recommended sweeping reforms to funnel long-term capital to industry.

This description could sum up the work of the multiple task forces and committees that have recommended changes to Britain's financial sector in recent years. Yet this particular group reached its conclusion almost a century earlier. The Committee on Finance and Industry was set up in 1929, the year of the stock market crash, under the leadership of Hugh Macmillan, a Scottish lawyer. Its members included luminaries such as the economist John Maynard Keynes and Ernest Bevin, the trade union leader. Its diagnosis of the chasm between British finance and industry was so damning that financiers and policymakers were still debating the "Macmillan Gap" many decades later.

Now British politicians, investors, and regulators are once again fretting about a dearth of financial support for home-grown enterprises. The number of companies listing on the London Stock Exchange has plummeted. UK-listed stocks trade at a hefty discount to American equities. British entrepreneurs complain about a lack of financing for fledgling ventures. The country's investment track record is one of the worst in the developed world. The government, faced with high debt and a spending squeeze, is poorly placed to help.

Ministers and watchdogs have

People stand at a lookout point in Greenwich Park, with the Canary Wharf financial district in the distance, on August 25. PHOTO: AFP

responded with a frenzy of regulatory reform. They have tweaked pension rules, lowered requirements for stock market-listed companies, and reversed restrictions on paying for investment research. Before leaving office, the last Conservative government gave Britain's financial regulators explicit responsibility for boosting international competitiveness, reinstating a requirement that had been removed by a previous Conservative government in 2012.

At a packed summit in the City of London last week Julia Hoggett, chief executive of the London Stock Exchange, hailed the latest shakeup as "the most ambitious capital markets reform agenda anywhere in the world at the moment".

These periodic overhauls rest on a seductive idea: changing financial rules and tweaking taxes can help to unlock a torrent of fresh investment that will stimulate British companies and revive economic growth. Yet this analysis ignores the deep fault line that separates the country's financial industry from the rest of the economy.

The United Kingdom is unusually dependent on finance. Financial services account for about 12 percent of economic output, compared with around 7 percent in the United States.