Credit card interest hiked to 25% max

STAR BUSINESS REPORT

The maximum amount of interest that banks can charge on credit cards has been hiked to 25 percent from 20 percent in tune with changes in the policy interest rate and increase in lenders' cost for fund mobilisation.

Set by the central bank, the policy interest rate is aimed at influencing the evolution of the economy's main monetary variables (consumer prices, exchange rates or credit expansion, among others).

The new credit card interest rate came into effect yesterday, as per a Bangladesh Bank notice.

Now banks will be able to fix the interest rate of loans against their credit card within a maximum 25 percent considering the demand of loans and supply of creditable funds, as per the central bank notice.

The BB notice said the maximum rate has been increased to ensure sound

The BB notice said the maximum rate has been increased to ensure sound credit risk management and to keep in line with the policy interest rate

credit risk management and to keep in line with the policy interest rate and the increasing cost of funds of banks. Earlier in 2020, a maximum 20 percent interest rate was fixed for credit card loans. The maximum interest rate of credit cards was 25 percent before it was fixed at 20 percent.

Industry insiders said it was lower in 2020 when a single digit lending rate was introduced.

The interest rate on loans and deposits products continue to rise in tune with the policy interest rate in Bangladesh.

The policy interest rate or repo rate now stands at 10 percent. It has been hiked several times over the past two years.

Recently, a good number of managing directors of commercial banks met with Bangladesh Bank Governor Ahsan H Mansur and requested him to rationalise the highest limit of interest for loans against credit cards.

WHITEPAPERONBANGLADESHECONOMY

Debt payment burden to intensify further

Karnaphuli tunnel, built at a cost of around Tk 10,700 crore, has been earning less than its required maintenance expenses. Of the construction cost, the Exim Bank of China gave $705.80 million or Tk 5,913 crore with 2 percent interest and 0.20 percent service charge, while the Bangladesh government funded the rest.

PHOTO: STAR/FILE

STAR BUSINESS REPORT

A spike in the already-increasing debt servicing burden is imminent as the country's debt to gross domestic product (GDP) ratio remains far from growth-reducing thresholds, according to the white paper on the state of the economy.

The paper said debt distress can arise even at "low" levels when debt servicing competes for domestic and foreign currency amid a liquidity shortage.

"Inattention in policy and practice to value for money in decisions to borrow from domestic and external sources has been the Achilles heel of public debt management in Bangladesh in the last decade and a half," the paper said.

According to the paper, by the end of June this year, the total debt is estimated to have reached 41.3 percent of the GDP, up from 35.6 percent just two years ago.

The bulk of the $166.7 billion equivalent public and publicly guaranteed (PPG) debt at the end of FY23 was domestic debt denominated in local currency, which accounted for 55.6 percent of the PPG debt stock. In FY23, interest and amortisation on domestic debt totalled $19.4 billion, or 11.7 percent of the GDP.

According to the white paper, treasury bonds and bills, a majority of which are owned by banks, make up nearly half of the nation's debt. Less than one-fifth is owned by the Bangladesh Bank (BB), with non-bank financial institutions holding the remaining shares.

Around 23 percent of the total domestic debt is made up of National Saving Certificates (NSCs).

It said the trends in debt intensity appear much less comfortable, especially on metrics not contaminated by data fog.

According to the paper, external debt was 44.4 percent of the PPG debt stock and 17.7 percent of the GDP in FY23 compared to 15.1 percent in FY21.

External PPG debt is predominantly owed by the central government to multilateral and bilateral lenders, accounting for 52 percent and 34 percent respectively at the end of FY23.

The rest are short-term, sovereign bonds held by non-resident Bangladeshis and guaranteed state-owned enterprises' debt.

Private sector external debt stood at 5 percent of the GDP in FY23 and declined by another 7.5 percent by the end of June this year relative to the same point in time in 2023.

Total interest and amortisation related to external debt in FY23 amounted to $3.9 billion, or 0.9 percent of the GDP.

Regarding the reason for growing public debt, the white paper decried an overall sense of comfort among policymakers and multilateral institutions on the intensity of public debt.

This is rooted in two sets of facts.

First, including guarantees, PPG debt is lower in Bangladesh than in India, China, Thailand, and Vietnam, recent increases notwithstanding. Second, as before, a joint debt sustainability analysis (DSA) by the International Monetary Fund (IMF) and World Bank (WB) in June 2024 assessed that there was a "low risk of external and public debt distress".

The IMF-WB analysis found a baseline with 7 percent long-term average economic growth, primary budget deficits averaging 2.6 percent of the GDP, 5-6 percent inflation and stable exchange rates, it explained. The paper said such a happy conjunction of macroeconomic conditions is increasingly looking farfetched going into 2025.

Growth projections for the current year have already been drastically revised down to between 4 and 5 percent and the timing of projected recovery is highly uncertain, the white paper pointed out.

All other variables have moved in directions incongruent with the baseline. These include contingent liability, financial market, natural disaster and export shock.

However, the paper said the IMF-WB debt sustainability analysis is beginning to gather a reputation of often underestimating economic downturns, leading to delayed debt relief and hurriedly designed increases in austerity measures.

It also said it is not very assuring that a decline of long-term growth to 6.5 percent does not change external and overall debt risk ratings.

Fogs in the integrity of GDP data suggest maybe even 6.5 percent is no more than an upside risk and certainly not a downside risk as tagged in the Digital Security Act.

Bangladesh may never have exceeded 5 to 5.5 percent annual growth except in the volatile decade of the 70s, the white paper committee believes.

The reported rise in the extent of indebtedness could be understated and the favourability of debt dynamics overstated because of significantly rising upward bias in GDP growth and perhaps even the level of nominal GDP estimates.

Moreover, there is a limit to the extent to which favourable debt dynamics can reduce indebtedness in the face of large primary deficits or below the line adjustments, the latter often making a big difference.

Key factors weighing on Bangladesh's debt vulnerability are its growing exposure to foreign currency-denominated non-concessional debt for mega-projects, elevated refinancing risks, and low fiscal and external buffers.

Business communication in the AI era

ARIJIT CHAKRABORTI

Modern society is navigating through unprecedent, rapid technological advancements. While the fourth industrial revolution is spearheading the changes in the industry using newer technologies, artificial intelligence (AI) has emerged as a transformative force across industries. AI has managed to come out of the traditional mould of "just another technology" and is reshaping the landscape of engagement with business stakeholders, i.e. customers, employees, investors and regulators. At the same time, AI is also improving efficiency, fostering innovation and augmenting the competitive advantage of businesses.

In PwC's 27th Annual Global CEO Survey, 34 percent of the CEOs from Bangladesh stated that generative AI (GenAI) has been adopted in their companies to a certain extent. In the same survey, about 3 out of every 4 CEOs stated that GenAI will significantly change their way of doing business, particularly the way their businesses create, deliver and capture value.

GenAI has reached a stage of advancement where it can now respond quickly to individual queries made by humans. Faster responses improve engagement with stakeholders and enhance their satisfaction. For example, many companies have started piloting GenAI-powered chatbots to respond to customer queries. Earlier chatbots, which could look through the user manuals to provide relevant information, have now been transformed to become more intelligent and intuitive. Such tools can now search multiple documents simultaneously, establish correlations among the searched contents with respect to the queries posted and compose a meaningful response.

GenAI is also transforming many internal activities within each business. Traditionally manual jobs, such as note taking and transcribing, are increasingly becoming the job of GenAI tools that listen to the conversations and transcribe the same.

While GenAI offers remarkable opportunities, the path towards its adoption in business communication poses certain challenges. One key concern is the lack of human touch while interacting with stakeholders. The responses with accurate and pertinent information are likely to be devoid of empathy and nuance that typically characterise human interactions. The risks arising from such gaps need to be proactively managed. For example, grievances expressed by a customer, if not well understood and not effectively responded to, may take social media by storm, thereby impacting the business.

Algorithmic bias is likely to be another business risk, and it is also vulnerable to cyberattack. A GenAI tool compromised by a cyberattack may end up fuelling employee grievances. Business leaders must thus pay attention to these risks and have a robust risk management plan in place. In other words, a balanced approach between speed of adoption and robustness of risk management will be the main criterion to success.

AI-driven communication is not limited to technology adoption -- it is also about demonstrating leadership in its adoption. Both CEOs and heads of communication are going to play a critical role on how an organisation uses AI for managing its communications. In addition to reviewing how an organisation communicates with its stakeholders, the AI-integrated software needs to be nuanced enough to respond to queries effectively on various media platforms.

The era of AI in business communication is still in its infancy. However, it can have both positive and negative impacts on businesses and should not be taken lightly. As the GenAI tools evolve, the importance of business communication will evolve with tasks overlapping between humans and algorithms, presenting both opportunities and challenges. The role of a successful business leader will thus be defined by how effectively their organisation's communication strategy remains centred with humans while being efficient in an increasingly complex world.

The author is a partner with PwC

Trump threatens 100% tariff on BRICS countries over currency plans

AFP, *Washington*

President-elect Donald Trump on Monday threatened to impose a 100 percent tariff on the BRICS group nations if they undercut the US dollar.

"We require a commitment... that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty US Dollar or, they will face 100 percent Tariffs," Trump wrote on his Truth Social website, referring to the grouping that includes Brazil, Russia, India, China, South Africa and others.

The statement comes after a BRICS summit held last month in Kazan, Russia, where the countries discussed boosting non-dollar transactions and strengthening local currencies. The BRICS group has expanded significantly since its inception in 2009, and now includes countries such as Iran, Egypt and the United Arab Emirates. Altogether the BRICS coalition accounts for a significant minority of the world's economic output.

At the Kazan summit in October, Moscow secured a joint declaration encouraging the "strengthening of correspondent banking networks within BRICS and enabling settlements in local currencies in line with BRICS Cross-Border Payments Initiative."

But at the end of the summit Putin indicated that little progress had been made on launching a possible competitor to the Belgium-based SWIFT financial messaging system.

"As for SWIFT and any alternatives, we have not created and are not creating any alternatives," Putin told reporters at the end of the summit.

He added: "As for a unified BRICS currency, we are not considering that question at the moment."

Trump has vowed to pursue a protectionist agenda, threatening hefty tariffs on neighbors and rivals.

If BRICS countries continue with their plans, Trump warned, they "should expect to say goodbye to selling into the wonderful US Economy," he wrote.

China manufacturing expands for second straight month

AFP, *Beijing*

China in November saw an uptick in industrial output for the second straight month, government data showed Saturday, an encouraging sign for officials as they battle stagnant activity.

Beijing has in recent weeks announced a slew of the most aggressive measures in years aimed at boosting growth in the world's second-largest economy, which has struggled to fully recover since the pandemic.

A key measure of activity in the manufacturing sector, the Purchasing Managers' Index (PMI), was 50.3 in November, according to data published by the National Bureau of Statistics (NBS).

The latest PMI reading marks the second straight month of expansion -- indicated by a figure above 50 -- after a five-month run in negative territory that ended in October. And it came in higher than a Bloomberg forecast, which had predicted the figure to stand at 50.2.

Since late September, Beijing has unveiled a string of measures aimed at bolstering growth, including cutting interest rates, cancelling restrictions on homebuying and easing the debt burden on local governments.

But economists have warned that more direct fiscal stimulus aimed at shoring up domestic consumption is needed to restore full health in China's economy as fears of a renewed trade war with the United States mount.

Writing ahead of Saturday's data release by the NBS, Chang Shu and David Qu of Bloomberg Economics said that the expected increase in November's PMI "reflects a seasonal tendency to rise following a holiday-led lull in October, not an economy that's gearing up".

Beijing is targeting annual growth this year of around five percent -- a goal that officials have recently expressed confidence in achieving.

But many observers are more sceptical, with the IMF in October revising its forecast for China's economic growth this year to 4.8 percent.

The International Monetary Fund anticipates that figure slowing further to 4.5 percent next year.

An employee works at a company manufacturing lithium batteries in Huaibei, in eastern China's Anhui province, on November 26. Beijing has announced a slew of aggressive measures aimed at boosting growth in the world's second-largest economy.

PHOTO: AFP

Eurozone inflation rebounds but rate cut still on cards

AFP, *Brussels*

Inflation in the eurozone rebounded further in November, new data showed Friday, but the longer-term outlook remained in line with European Central Bank targets -- with a new rate cut still expected next month.

The ECB hiked rates after consumer prices soared following the 2022 invasion of Ukraine but has cut borrowing costs three times this year as inflation cooled -- with economists awaiting its next move as the European economy sputters.

Year-on-year consumer price increases in the eurozone reached 2.3 percent in November, the EU's official data agency said, continuing to bounce back from a three-year low of 1.7 percent in September at a rate consistent with analyst predictions.

In October inflation in the 20-country single currency area had crept back up to exactly 2.0 percent -- the longstanding goal set by the ECB.