In Bangladesh Bank we trust

ZAHID HUSSAIN

THIS ought to be, if it already is not, the motto of stock market players in Bangladesh. Bangladesh Bank (BB) has left no stone unturned to show that it stands ready to put lipstick on everything to drive stock markets higher.

In the process, it has seen how hard it is to make lipstick stick. So far there has been no free lunch. As they say, failure is the pillar of success, so keep trying.

The BB has now opened another window to encourage banks to invest in the stock market.

Each bank can create a special fund worth Tk 200 crore for five years to expand their exposure to the stock market subject to several regulations.

The banks can use their own funds or borrow from the BB at 5 per cent, instead of the existing 6 per cent, for 5 years through repo or refinancing mechanism against treasury bills and bonds.

Banks had Tk 1.4 lakh crore in bills and bonds as on June 29, 2020, thanks to the surge in government borrowing from the banking system during the last year and a half.

The banks can invest the fund directly to build their own new portfolio (40 per cent), new portfolio of their subsidiaries (20 per cent), other bank or their subsidiaries (30 per cent) and other merchant bank or brokerage houses (10 per cent).

They also have the option to lend to share market intermediaries at 7 per cent rate of interest without needing to include it in their loan-deposit ratio.

Remember, the ratio is not allowed to exceed 85 per cent for conventional scheduled banks. The BB will closely monitor the use of this fund on a quarterly basis.

The total liquidity in the banking system will be about Tk 11,400 crore higher if all the 57 banks use the repo facility to create the fund. This could potentially increase reserve money (BB's holding of net foreign assets, claims on government and claims on deposit money banks) growth by 4.5 per cent (relative to the stock at end-December 2019) by increasing BB's claims on the banks.

It will therefore be fair to characterise this as a step towards monetary expansion. However, the link between reserve and broad money (net foreign plus domestic assets of the banking system) growth has been rather variable in recent years.

Banks have been very reluctant to invest in the stock market since 2016 as slumping stock prices eroded profit from portfolio investments.

While initiatives like this are designed to help keep liquidity flowing to the bourses, the latest measures could push up banking sector risk if they lead banks to buy higher risk shares than they previously had appetite for.

The banks' overexposure to stock market contributed to creating stock price bubbles in 2010, leading BB to tighten regulations on banks portfolio investments.

Times have changed. BB offered liquidity support to banks in September last year at 6 per cent repo rate to nudge banks to invest in shares. Hardly any bank responded to the Tk 3,000 crore opportunity because the profit prospects were extremely poor.

Even before the advent of the coronavirus, the state of the economy was weak. Many big corporates listed in the two stock exchanges have suffered declines in sales and profit in the first half of the current fiscal year.

Confidence on the governance of the stock exchanges and regulatory institutions does not appear to have improved.

The spread of coronavirus has dampened expectations about a recovery in export, import and credit growth in the second half of the current fiscal year.

Vastly increased government borrowing from the banking system and the consequent rise in the risk-free rates has reduced the incentive for banks to look for alternative income earning opportunities.

Whether the 1 per cent reduction in the repo rate to borrow for investing directly or indirectly in shares will be sufficient to overcome the pre-exiting deterrents is literally a 11,400-crore-taka question.

It will not at all be surprising to see the market rise in the next few days on the expectation of fresh liquidity injection from the banks.

However, such increases could quickly revert back to bearish trends since the bullish outlook is not driven by any change in the market fundamentals. Banks therefore run the risk of losing their investment as expectations of price rise induced by the latest announcement fizzle out. Historically, unlike in developed country markets, returns to stocks have failed even to stay ahead of inflation. In fact, if you invested in the whole basket on which DSE Index is based, you would have suffered a capital loss at a compound annual rate of 5.2 percent since 2010. Thus, holding on to investments in shares does not offer much promise.

There is considerable debate on the appropriate role of stock prices in the determination of monetary policy.

Conventional wisdom says changes in stock prices should affect monetary policy only to the extent that they affect the central banks' assessment of capital accumulation.

Bangladesh's overarching approach across the financial system is aimed at achieving a more inclusive financial system in which banks can support lending to parts of the economy that are beyond their risk appetite; the micro, cottage and small enterprises for instance.

The stock market does not fall in this category because such enterprises are not listed in the bourses.

Exposure to stock market, on the other hand, increases the potential of risks spilling over to banks, exacerbated by the limited capacity of Bangladesh's capital market regulator to provide comfort on improved governance.

The recent stock market bust has created a serious dilemma for BB. Shares are trading at prices that seem well below normal as is the volume of trading. However, it is hard to figure the "normal levels".

We can almost never be sure whether these reflect a demand supply mismatch or simply a re-evaluation of fundamental values by market participants. These two different interpretations have very different implications for the appropriateness of BB actions. aking the problem worse is the fact that the markets are influenced by several other factors.

There are good reasons to worry about attempts by BB to influence stock prices, including the fact that the effects of such attempts on capital market psychology are predictably unpredictable.

Effective market discipline requires credibility. Aggressive banks responding to the new policy initiative must believe that they are at risk of loss and that there is no insurance backing them up.

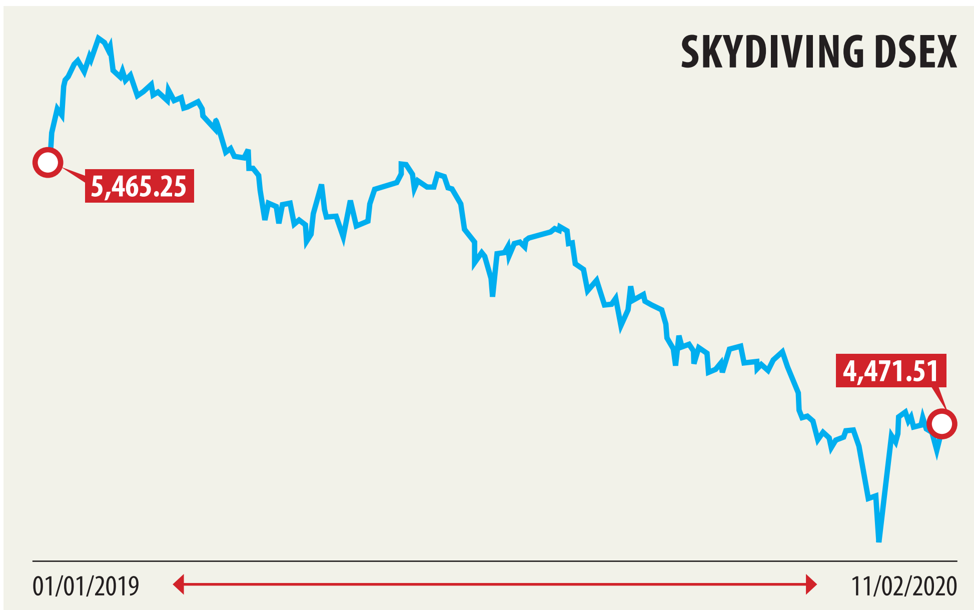
It is neither possible nor necessarily wise to eliminate entirely the potential for support of uninsured banks.

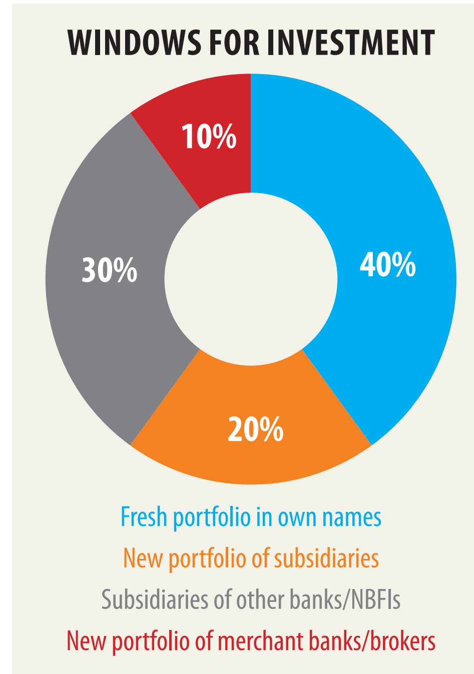
However, it is possible to reduce both the probability of a bailout and the extent of protection banks receive when a bailout occurs. This can partially mitigate the moral hazard associated with the public safety net supporting banking.

Putting responsive banks at risk of loss in a credible manner is no easy task. Experience tells us that such credibility needs to be explicitly established.

We cannot count on banks to spontaneously decide to price risk appropriately. A mechanism to limit spill overs from one bank to another is critical because these spill overs -- the contagion effect -- are a principal rationale for bailing out the aggressive banks when all their stock market bets fail and they each end up owing Tk 200 crore to the BB.

The author is an economist





BB BAILOUT AT A GLANCE

- Each bank can form a fund of Tk 200cr
- Banks will take the fund from BB via repo
- Interest 5%, tenure until Feb 2025
- Investment won't be counted as stock exposure

BB bailout unlikely to perk up bourse: experts

AHSAN HABIB

Boosting stocks by providing an incentive of making loans available is not a sustainable way for reviving investors' confidence, rather, it might lead to the creation of further risks for the banking sector, said experts on the matter.

On Monday, Bangladesh Bank announced a special package, saying each bank will be allowed to form a Tk 200 crore fund by taking financial support from it in order to invest in the stock market.

The lenders will avail the central bank funds for a five-year period at 5 per cent interest through repurchase agreements (repo) against treasury bills and bonds they own.

However, specialists believe that investing into stocks on taking loans was a risky move. Moreover, the way the loan would be recorded in the banks' books was concerning.

Salehuddin Ahmed, a former Bangladesh Bank governor, said the banks were already in a lot of problems and adding the stock market issue on top of it would worsen the situation.

Bangladesh Bank should have kept in mind that banks deal money of ordinary citizens, not their own, and ordinary citizens want safeguarding of their money, he said, adding that investing in the stock market was not a safe move.

Giving incentives on an ad-hoc basis will not help prop up stocks for the long run as the stock market's problems lie elsewhere, he added.

Solutions must be provided for the problems, such as the presence of a low number of stocks having good performance records and the rampant insider trading and gambling, said Ahmed.

The stock market, in terms of sustainability, will not be in a good position until fundamental changes are brought to it, said Zahid Hussain, former lead economist at the World Bank's Dhaka office.

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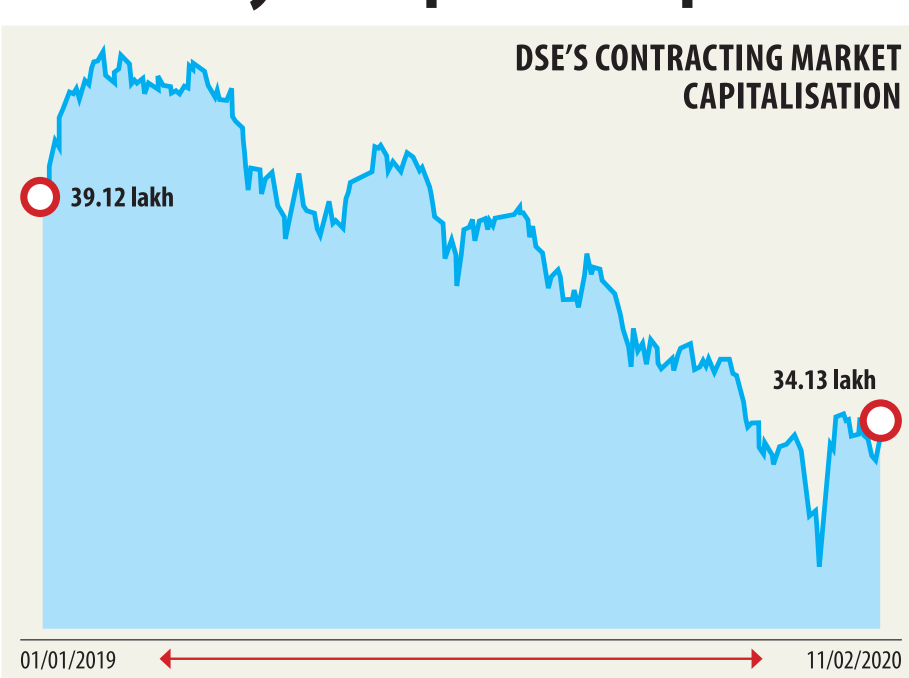
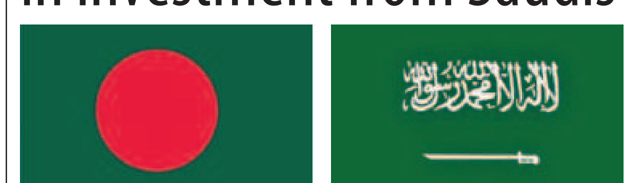


Bangladesh eyeing $50b in investment from Saudis



STAR BUSINESS REPORT

Investment is set to top the priority list as two days of talks between Bangladesh and Saudi Arabia begin at Economic Relations Division (ERD) from today.

The meetings are of a Joint Economic Commission formed by the two countries. It will comprise a 40-member Saudi delegation, led by a deputy minister for labour and social development and including 10 representatives from seven conglomerates.

The entities are Saudi Aramco, ACWA Power, Honey and Health, Engineering Dimension Com, Aljomaih Energy and Water Company, Albwani Water and Power, and Red Sea Gateway Terminal (RSGT).

The company representatives will take part in technical sessions of business-to-government meetings to discuss about investment opportunities and the modalities.

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Banglalink's audit has 8 takers

STAR BUSINESS REPORT

Eight accounting firms are vying to audit Banglalink, an exercise that has thus far turned out to be a challenging mission for the telecom watchdog.

This is the Bangladesh Telecommunication Regularity Commission (BTRC)'s third attempt to pour over the books of the operator, which was founded in 1996 under the name of Sheba.

The telecom regulator's first initiative to inspect Banglalink's accounts and network was in 2011. But a few months into the inspection the auditor quit.

The BTRC then asked another auditor to complete the study, but the firm eventually backed out.

Two year ago, the BTRC attempted to audit Banglalink once again but that too went in vain, leaving industry stakeholders surprised by the outcome.

The applications, which came in response of the telecom regulator's invitation for expression of interest on January 5, will now be sent to the evaluation committee for shortlisting, said a senior BTRC official requesting anonymity as he is not authorised to speak with the media.

"The process would be completed as soon as possible," he added.

The audit firm that will clinch the job must be a member of the Institute of Chartered Accountants of Bangladesh (ICAB) and have prior experience of auditing multinational telecom or IT companies, according to the EOI.

Joint venture audit firms with technical knowledge in the relevant field were particularly encouraged to apply.

Banglalink's audit will be conducted under categories such as regulatory, legal, technical and financial matters and other related issues.

In response to the EOI, Banglalink urged the government to also audit two other mobile network operators, Airtel and Teletalk, to level the playing field.

The decision to conduct a fresh audit on Banglalink was taken during a commission meeting last December, which also elected to audit Airtel that merged with Robi around two-and-a-half years ago.

The BTRC has remained embroiled in a longstanding legal battle with Grameenphone and Robi over the settlement of huge audit discrepancies amounting to Tk 13, 445 crore.

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Now there's a portal to monitor resource usage in garment sector

STAR BUSINESS DESK

IFC, a member of the World Bank Group, has developed a web tool, PaCT Portal, to help calculate resource consumption in the country's readymade garments industry.

The data-driven monitoring software will provide real-time analytics for readymade garment factories, helping them in their efforts to improve use of resources, such as water and energy, according to a statement.

The initiative comes as IFC-led Partnership for Cleaner Textile (PaCT II) enters its third year with eight partners working together to reduce the environmental impact of the export-oriented sector. Bangladesh is the second largest apparel exporter in the world, next only to China, according to the World Trade Organisation. Apparel accounts for more than 80 per cent of the country's exports.

The portal was launched at the PaCT annual meet held in Dhaka yesterday, where panel discussions focused on issues such as low-carbon opportunities in the textile industry.

Panellists also highlighted how emerging consumer behaviour and choice are now shaping the global apparel market.

This monitoring tool will work as an analytical information exchange platform to help with users' decision-making regarding water and energy consumption, said Nishat Chowdhury, programme manager for PaCT.

"It can play a big role in leading the industry towards sustainability and achieve results that are right for the industry, the planet, and our future generation," Chowdhury added.

In a video message, Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association, said: "The industry has saved a huge amount of water and energy through the collaborative partnership with PaCT. We would like to think and shape tomorrow for the better and we can only do that by being the best of partners in the days to come."

Supported by Denmark, Australia, and the Netherlands, PaCT's multi-stakeholder partnership has already helped the industry save 25 billion litres of water and 2.5 million megawatt hours of energy annually.

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IFC officials and its partners pose during the launch of a web tool, PaCT Portal, in Dhaka yesterday.