How millions from the Bangladesh Bank heist disappeared

REUTERS, *Dhaka/New York*

When the Federal Reserve Bank of New York cleared five transactions made by the Bangladesh Bank hackers, the money went in two directions. On Thursday, February 4, the Fed's system sent $20 million to Sri Lanka and $81 million to the Philippines.

The Sri Lankan transaction contained a small but crucial error: The money was being sent to a bank account in the name of a nonprofit foundation, but the electronic message spelled it "fundation." That prompted Deutsche Bank, an intermediary in the transaction, and a Sri Lankan bank to contact Bangladesh Bank, which led to the payment being cancelled and the money returned.

That Thursday, over the space of a few minutes, the New York Fed also cleared four transactions to accounts with Rizal Commercial Banking Corp (RCBC) in the Philippines - for $6 million, $30 million, $20 million and $25 million. Each account was in the name of an individual, according to RCBC lawyer Maria Cecilla Estavillo, who testified at a Philippine Senate committee examining the heist. All the names were false.

The accounts were at a branch of RCBC in Jupiter Street, on the edge of Manila's business district. According to testimony by Estavillo and bank officials, $22.7 million was withdrawn from one of the RCBC accounts during the afternoon of Friday, Feb 5. But the rest of the money stayed in RCBC.

Over that weekend Bangladesh Bank was struggling to understand what had happened and to cancel the hackers' fraudulent payment requests; meanwhile, the Fed had raised concerns over some of the requests but did little more.

Late on Monday, according to Bangladesh Bank sources and the Philippine senate testimony, Bangladesh Bank sent messages via the SWIFT bank messaging system to RCBC asking it to freeze the money that had arrived in the four individuals' accounts. It was a holiday in the Philippines for Chinese New Year celebrations.

The following morning nearly $58 million was moved out of those accounts. That evening, RCBC told Bangladesh Bank that it had frozen the four suspect accounts – but that only $68,305 was left in them.

RCBC officials told the Senate committee that the SWIFT messages from Bangladesh Bank had been wrongly formatted and were not marked as urgent, so they had gone into a large pile of unread messages for almost the whole day. Staff had only got to them in the evening, RCBC said.

Under Philippine banking laws, the stolen funds could not be frozen until a criminal case was lodged, even though they were still in the banking system. And over the next few days, most of the $81 million disappeared into the country's casino industry, which is exempted from anti-money laundering laws. Though $18 million was recovered, otherwise the trail went cold.

At the Senate hearing, bank officials pinned the blame for the disappearance of the money on the manager of the Jupiter Street branch, accusing her of allowing accounts to be opened under false names. The manager, who was sacked in March, said she had acted on instructions from senior officials and was being made a scapegoat. RCBC and the branch manager declined to comment.

Last month, in an annual report given to shareholders, RCBC said it had begun instituting reforms to prevent such events from happening again.

REUTERS/FILE

Commuters pass by the front of the Bangladesh central bank building in Dhaka.

Top HSBC manager charged in forex probe

BBC NEWS

A top HSBC executive has been charged with fraud in the US. Mark Johnson, HSBC's global head of foreign exchange trading was arrested on Tuesday night. A former colleague, Stuart Scott, has also been charged.

The two traders are accused by the US Department of Justice (DoJ) of using inside information to profit from a $3.5bn (£2.6bn) currency deal.

HSBC said it did not comment on individual employees or active litigation.

However, a spokesman said the bank was cooperating in the DoJ's ongoing investigation into global currency markets.

Johnson was released on $1m bail following a court hearing on Wednesday.

The US Department of Justice (DoJ) accuses the traders of "front-running".

That is misusing confidential information provided by a client who planned to convert $3.5bn into British pounds.

It is claimed that the two executives bought sterling themselves before handling the order, because they knew that such a large transaction would push up the value of the currency, and allow them to make money.

The DoJ also claimed the traders timed the purchase in order to maximise its effect on the value of the British currency. As a result it's alleged they were able to generate significant profits for the bank. They are also accused of concealing their actions from the client.

"The charges and arrest announced today reflect our steadfast commitment to hold accountable corporate executives and licensed professionals who use their positions to fraudulently enrich themselves," said the US Attorney Robert Capers.

US prosecutors cited emails and conversations from Bloomberg chats that indicated the two men plotted to see how high they could raise the the dollar to pound exchange rate before the clients would 'squeal'.

The DoJ said that HSBC brought in roughly $8m profit from the currency trades they conducted for the client.

Front running is an unethical way for a broker to benefit from a client's trade.

When companies or individuals want to buy a substantial amount of currency- for example dollars in exchange for pounds - they typically go through a broker. A large purchase can push up the value of that currency.

GDP growth, monetary policy and inflation: reality check

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It must be remembered that the annual money supply growth must ensure monetary matching of the intended GDP growth, covering the inflationary trend and have a precautionary cushion. The monetary policy for the current year should thus provide money supply growth of at least 16.5 percent (7.5 percent of GDP growth + 6.5 percent inflation rate and safety cushion 2.5 percent). Given the healthy growth of almost 16 percent in private sector bank credit, all concerned, the Bangladesh Bank in particular, should more carefully proceed not to discourage private sector investment from the increasing private sector credit.

It is thus disappointing to hear Bangladesh Bank inviting the government to borrow more from the banking sector. Since the credit growth is limited by the money supply reality, higher level of government borrowing from the banking sector will certainly elbow out private sector. The government would thus do well to reduce budget deficit (Tk 97,853 crore) by enhancing NBR revenue collection including the taxation of the e-commerce, effective alternative dispute resolution reforms and regulating the mobile phone fund transfer to proper mobile banking. There is no reason on earth why the government should not collect at least half of the operating surplus of Bangladesh Petroleum Corporation.

An effective implementation of higher taxation on the low-cost tobacco (the tax level is the lowest in the world) would either reduce smoking if the demand is elastic or lead to higher revenue collection or to both bringing a win-win situation. If the budget deficit can be reduced to Tk 70,000 crore and $4.51 billion of the $23 billion pipe line of the foreign loan can be utilised in 2016-17 ($3.3 billion utilised in 2016-16 and a momentum can be created), then the government will be left with a net deficit of not more than Tk 35,000 -- Tk 15,000 crore from bank borrowing and Tk 20,000 crore by selling savings certificates. It may thus be possible to fully implement the budget ensuring a 100 percent implementation of the annual development programme marking a bold departure from the past.

The interest rate in a free enterprise or even a mixed economy is to be determined by the market forces which do not seem to operate yet in the Bangladesh economy. Bangladesh Bank findings in March, April and May 2016 have consistently shown that 25 to 27 scheduled banks maintain a spread between 5.5 percent and 9.5 percent, which is morally unfair and financially harmful for investment for growth. Private sector banks with low default rates have cost of fund at 3.5 percent to 4 percent and these banks must not charge above 7.5 percent to 8 percent lending rate. Banks with high defaulted loans including the NCBs have cost of fund escalating up to 7.5 percent or so. It is possible and desirable to evolve and implement innovative policies to significantly reduce bank loan defaults (a) without denting the investor (defaulters included) incentive, (b) minimising the loss of the banks and (c) maximising the national interest of higher GDP growth. Formulas do exist to ensure such a win-win situation which the government and Bangladesh Bank should look for.

Of all the elements of the monetary policy, the exchange rate regime of the Bangladesh Bank is the most perplexing. Floating market based rate exists on paper, but the practice is less than an optimal REER (real effective exchange rate) based fixed exchange rate regime. The trade i.e. exports competitors, India, Vietnam and Indonesia have depreciated their currency by 10 percent to 15 percent in the last 15 months and the taka has been allowed to maintain its value thereby appreciating it relative to the three competitor currencies. Consequently the Bangladesh exports growth in 2015-16, impressive as it is, could not be as much as it could have been. Economists are afraid that a free float will reduce the exchange rate to Tk 72 or so per US dollar although they do not visualise the demand pressure if all the underground dealings come to the fore as these would in a free exchange rate regime. But a political government may not have the stomach to risk this 'instability' in the third of its five-year tenure. Hence this option has to wait.

Bangladesh Bank knows that a properly calculated REER could mean Tk 100 or so to a US dollar exchange rate. Thus the authorities may think to appropriately administer an exchange rate around Tk 83-Tk 85 boosting the exports via reduction in the foreign exchange price of Bangladesh exports. This will also not only halt the slide in the remittances but will also provide a fillip to higher remittances. The cost in terms of higher amount of local currency matching the exports and the remittances net of the imports expenditure should not add any extraordinary pressure on price levels.

It may be noted that the inflationary trend is determined by the relative movement of the aggregate demand or total purchasing power (MV) and the real GDP, Q as the equation cited earlier. Investment will push up MV and Q will increase in response to the investment but with a time lag. Thus inflation may set in. But the past investment may start yielding results now to increase Q as well somewhat moderating the inflationary trend. Imports also augment Q. Investing producers and the traders always welcome moderate inflation 6-8 percent in order to have the profit incentive. The major price reduction in petroleum products and all the other commodities that Bangladesh imports will continue to pull down the prices in Bangladesh. The country's inflation rate at 5.8 percent, although very low, is still higher than India (5.2 percent), China (less than 2 percent), all the other Asian countries and Europe and North America. Now is the time to come out of the fear of inflation and craft a monetary policy that will build up on the momentum and the tremendous pace at which the infrastructure in being built and nurture the private sector credit increase for growth and poverty reduction through employment generation.

As far as the $30-billion reserve is concerned, it is useful for confidence building and gives a good feeling. But a reserve that is equivalent to nine months' imports cost is a luxury that Bangladesh can ill afford. Just as we suggested in December 2011 using reserves for domestic financing of the Padma bridge, we again feel the government should seek low interest (1 percent or so as the reserves kept in other central banks earn) or no interest loan from the reserves to finance mega infrastructure projects. One such project can be modernisation of the railways- broad gauging, double tracking and electrification for enhancing the productivity of the economy tending to push down the ICOR (incremental capital output ratio).

The coordination council scrutinises for consistency and coordinates the monetary policy, the interest rate regime, the foreign exchange rate and the overall fiscal policy. It is highly recommended that the half-yearly monetary policy may be placed before the coordination council for final check.

The writer is a former governor of Bangladesh Bank.

DHAKA BANK

Syed Mahbubur Rahman, managing director of Dhaka Bank, presides over the bank's half-yearly business review meeting, at The Daily Star Centre in Dhaka yesterday.

Unilever spruces up profits but sees gloomy global outlook

AFP, *The Hague*

Dutch food and cosmetics giant Unilever on Thursday posted a rise in sales for the first half of 2016 boosted by mens' grooming products but warned of "no sign of an improving global economy."

Total sales clocked in 2.6 percent higher at 26.3 billion euros ($29 billion) and net profit stood at 2.7 billion euros, up by 2 percent from 2015.

Unilever said the first half of the year was marked by "a period of high volatility and accelerating change".

"Despite a challenging environment with slower global economic growth and intensifying geopolitical instability, we have again grown profitability in our markets," Unilever chief executive Paul Polman said in a statement.

Unilever fared particularly well in its personal care division with deodorants and dry sprays, it said.

The Rotterdam-based retail giant said it was "addressing the higher growth male grooming segment with the launch of a new Axe range, opening the brand to a broader audience."

An analyst told AFP this week Unilever is focusing on personal healthcare products, evident also in its announcement Wednesday that it has bought California-based start up the Dollar Shave Club in a deal believed to be worth around $1 billion.

Sales in North America were driven by "a strong delivery in our innovations in deodorants, dressings and ice cream," said Unilever, which makes Magnum, Ben & Jerry's and Cornetto.

Growth was driven by "solid volume gains in Asia", while Russia and Australia returned to positive growth and Turkey grew strongly led by ice cream and tea.

China however remained "broadly flat with rapid growth in e-commerce offset by declines in other channels," Unilever said.

Sales in Europe also continued to remain flat. Despite growth in personal care, home care and ice cream "the contraction in the margarine market impacted our foods performance, particularly in the United Kingdom and France," it said.

Unilever chief Polman said the group's priorities continued to be "volume-driven growth ahead of our markets, steady improvement in core operating margin and strong cash flow."

But Polman warned: "We have been preparing ourselves for tougher market conditions in 2016 and do not see any signs of an improving global economy."

Unilever was founded in 1930 and has grown into a massive conglomerate, employing some 173,000 people around the world. It sells consumer goods ranging from Knorr soups, Bertolli olive oil and Rexona deodorant to Domestos toilet blocks.

Tata Steel aims to double Indian workforce's productivity

REUTERS, *Mumbai*

India's Tata Steel Ltd plans to double the productivity of its workforce in its domestic operations in the next five years as it seeks to be more competitive, a senior company official said.

This will be achieved in various ways including a reduction in the size of the workforce through a voluntary retirement scheme which the steelmaker has put in place and a lower annual recruitment plan, said the official, who asked not to be named as details of the plan have not yet been made public.

Tata Steel did not respond to a request for comment on the plan. In its annual report published this week though, Tata did acknowledge that "employee productivity continues to be a focus area."

Tata will also focus on further automation and restructuring at its flagship 10 million tonnes a year plant at Jamshedpur, which will help bring down its costs, the official said.

At the same time the company is having to tackle the problems faced by its business in Europe, where it has halted the sale of its Port Talbot plant in Wales following the UK vote to leave the European Union.

Tata banked heavily on global growth in the second half of the last decade with acquisitions in Europe and South East Asia. The moves pushed it deep into debt however, and as steel demand overseas shrunk it has been Tata's Indian operations which have continued to cushion the steelmaker's financial performance.

Moreover, India is one of the few bright spots in the global steel market. Indian steel consumption increased by over 4 percent in 2015 and is expected to grow further this year while global steel demand dropped 3 percent last year and is expected to continue to shrink this year.

However, Indian steel producers are still faced with overcapacity due to rising imports, causing companies to find ways to stay competitive.

"We have to cut a lot of flab to come level with rivals in India," the official said.

In the financial year 2015-16, employee productivity rose to 701 tonnes of crude steel per full time employee (FTE), up from 623 tonnes of crude steel per FTE during the previous year, according to Tata's annual report.

The company official said Tata now aims to more than double employee productivity from these levels by 2020-21.