

Swedish banks - safe bet or risky business?

REUTERS, Stockholm

Sweden's four largest banks are using a calculation of the risk to their loan portfolios that critics say is flawed and leaves them vulnerable to any correction in the booming housing market.

Nordea, Swedbank, SEB and Handelsbanken are among the world's most well capitalized banks and made it through the 2008 financial crisis unscathed, relative to other European banks.

Swedish house prices took a small dip during the crisis but have more than tripled in the last 20 years, driven by low interest rates, tax breaks on debt and low building. Swedish households are now among the most indebted in Europe.

Encouraged by the surging prices, banks have stocked up on property loans. They now account for close to 65 percent of the loan portfolios of the big four, according to the Swedish Financial Supervisory Authority (FSA).

While they have built up their home lending, the lenders' capital positions also appear to have improved.

But critics including Sweden's central bank and the International Monetary Fund say this is because since 2007 the banks were allowed

to use a model where they self assess the risk of their portfolios based historic loan losses.

With the housing sector making up such a large chunk of Swedish loans, losses have been low for a long time. This means the amount of capital banks need to reserve against future shortfalls has also been set very low, so they have not built buffers big enough to compensate for bigger losses, they say.

"They haven't (increased their capital). They have reduced the risk-weights and it is quite different because the leverage ratio has been almost constant," Swedish central bank governor Stefan Ingves said in December.

Since 2010, Swedish banks have doubled their core tier 1 capital ratio, a measure of how much money a bank has in relation to risk-weighted assets, to around 24 percent, above the EU average of around 13 percent.

But the leverage ratio, the relationship between the banks capital and its total assets regardless of what risk you assign to them, have remained virtually unchanged at a average of around 4 percent.

Banks put a lower risk weighting on loans that are less likely to fail and set aside less money against losses of those loans. The idea is that

this serves as an incentive to reduce the risks in the loan portfolios.

Spokesmen for Swedbank, SEB and Handelsbanken declined to comment on the risk weightings.

Nordea's head of investor relations, Rodney Alven, said: "What makes us favor risk-adjusted models is that it has taught us a lot about how to manage, minimize and properly price risk. We think that these models have genuinely reduced the risks in the banking system."

"We feel we are very well capitalized in every way you measure it," he added.

Swedish banks often bemoan a heavier regulatory capital burden than counterparts in Europe. Sweden has tried to adopt a gold-standard approach to capital buffers to preserve the banks' reputations as solid institutions and because of the importance of the financial sector to the economy.

Only Switzerland and the Netherlands have a larger financial sector than Sweden in the European Union relative to the size of the economy.

Self-assessed risk-weightings are widely used in Europe but Sweden's are among the lowest, according to the IMF in a 2016 report.

Ingves, who was assigned to clean up the Swedish banking

system after the 1990s crisis, says it is time to rein the banks in. He has called for a leverage ratio requirement to balance out creative internal models.

"It has been proved since the system was launched that banks have had too large degrees of freedom to decide their risk weights and that needs to be revised," Ingves said.

His sentiment is echoed by the IMF which wrote in its report that "available models may suffer from overreliance on recent historical experience, and have difficulties capturing unexpected losses occurring in extreme but plausible scenarios."

The internal models are also under scrutiny in other parts of the banking world as the Basel committee is trying to agree on a floor for how low banks risks can be set. The final levels are expected at the end of the month and could see Swedish banks having to set aside more capital against their lending.

The Swedish Bankers' Association says such models are still the best way to capture risk.

"If you try to have a single standard for all banks, it's the ones that work best that are most punished," said Johan Hansing, CEO of the association.



Kazi Mustafa Sarwar, director general of the Directorate General of Nursing and Midwifery, attends a ceremony yesterday when teaching and learning materials were handed over to the public sector nursing institutes under the directorate.

Saudi to launch \$30-50b renewable energy programme soon: minister

REUTERS

Saudi Arabia will launch in coming weeks a renewable energy programme that is expected to involve investment of between \$30 billion and \$50 billion by 2023, Saudi Energy Minister Khalid al-Falih said on Monday.

Falih, speaking at an energy industry event in Abu Dhabi, said Riyadh would in the next few weeks start the first round of bidding for projects under the programme, which would produce 10 gigawatts of power.

In addition to that programme, Riyadh is in the early stages of feasibility and design studies for its first two commercial nuclear reactors, which will total 2.8 gigawatts, he said.

"There will be significant investment in nuclear energy," Falih said.

Under an economic reform programme launched last year, Saudi Arabia is seeking to use non-oil means to generate much of its additional future energy needs, to avoid running down oil resources which are required to generate foreign exchange through exports.



PepsiCo opened a stall of its branded product—Kurkure—at Dhaka International Trade Fair 2017.

Higher growth hinges on speedy projects: Citibank

FROM PAGE B1

The bank said the Dhaka Stock Exchange delivered a stellar performance in the first half of fiscal 2016-17, picking up from a jaded performance in the previous fiscal year.

Sluggish credit growth and poor dividend declarations were the major drags on the performance of the capital market in fiscal 2015-16.

From July, the stockmarket started to recover as upbeat macroeconomic indicators and a steady political situation boosted investor confidence.

"Investor sentiment was largely aided by the policy support extended

by Bangladesh Bank to banks in adjusting their capital market exposure without selling shares."

In addition, as the deposit rates in banks dropped sharply, people were more eager to enter the capital market in search of higher returns, which has driven up the turnover in the stockmarket.

The premier bourse also witnessed major improvement in terms of foreign portfolio investment. In 2016, the capital market amassed \$1,341 crore of net overseas investment, an increase of more than sevenfold over 2015. "While portfolio investment accounts for a very small percentage of the bourse's market

capitalisation, such growth exudes confidence in the economy."

Market analysts believe that if the interest rate available on national savings certificates is brought down in alignment with bank deposit rates, more money would flow into the capital market making it more vibrant, Citibank said.

On the cautionary side, the bank said the recent rise in stockmarket warrants strong vigilance from the securities regulator to detect and prevent any anomaly in order to help the market function efficiently and uphold investor confidence.

Fitch warns of currency risks to exports

FROM PAGE B1

Bangladesh's external finances are supported by a comfortable, gradually rising foreign-exchange reserve, amounting to \$32.1 billion in December 2016.

Remittances have started to decline in mid-2016, especially inflows from the Middle East, leading to an 11 percent drop in 2016 to \$13.6 billion. Fitch has maintained its 'BB-' rating for Bangladesh, due to its foreign currency earnings and high and stable real economic growth.

"Bangladesh's ratings balance strong foreign-currency earnings and high and stable real GDP growth against weak structural indicators, significant political risk and weak banking-sector health," it said.

It said the country's real GDP growth is high at a five-year average of 6.5 percent compared with the 'BB' category median of 3.5 percent.

"Growth has been remarkably stable over the years despite both political turmoil and natural disasters."

In FY16, economic growth was 7.1 percent supported by increased purchasing power from public-sector wage hikes and monetary policy loosening.

Fitch however expects the GDP growth to decline to 6.6 percent this fiscal year and 6.4 percent in FY18, in part due to lower consumer spending resulting from falling remittances. Inflation is relatively high compared with peers, averaging 5.4 percent in the first half of this fiscal year, but below the authorities' target of 5.8 percent set for FY17.

It said the risk that Bangladesh will need to provide considerable additional support to the banking sector is substantial, although the small size of private credit, at just 36.5 percent of GDP, would moderate the impact.

The sector's health and governance standards are generally weak, particularly in public-sector banks. The official non-

performing loan ratio was high at 10.3 percent in the third quarter of 2016, while the capital adequacy ratio was low at 10.3 percent, down from 10.6 percent in the first quarter. The capital adequacy ratio for the six state-owned commercial banks was just 5.6 percent.

Bangladesh's general government debt was 32.4 percent of GDP last fiscal year, which compares well with the 'BB' median of 51.4 percent.

However, the government's revenue intake of 9.9 percent of GDP is the second-lowest of all sovereigns rated by Fitch after Nigeria, implying limited fiscal space to boost badly needed infrastructure development.

Implementation of the new VAT has been postponed to July 2017. The new VAT has the potential to significantly boost revenues, but the impact will depend on the details, such as the final tax rate and whether the rate will be uniform for all products.

Bangladesh scores poorly on a broad range of structural indicators, such as the World Bank's governance indicator (22nd percentile versus the 'BB' median of 50th percentile).

GDP per capita of \$1,443 is well below the 'BB' peer category median of \$5,325, although major improvements have taken place over the past decade on a number of social metrics.

"The difficult business environment is illustrated by the country's position of 176th out of 190 countries in the World Bank's Ease of Doing Business report, while a large infrastructure deficit also hampers investment," Fitch said.

However, it said, the government seems focused on making progress on some big ongoing infrastructure projects, including the Padma Multipurpose Bridge.

Optimism rises among consumers

FROM PAGE B1

Bangladesh experienced a small improvement in consumer confidence in the previous survey.

But now the country recorded the largest improvement among the 17 Asia Pacific markets with increases across all five components and a more than 10 points gain in outlook on stockmarket (+24.6), quality of life (+12.0) and economy (+11.7).

Overall, consumer confidence in Asia Pacific continues to hold steady, showing stability in nine out of 17 markets.

With an increase of 1.2 points in the overall score from the first half of 2016 to 60.9 points in the second half of the year, Asia Pacific sits just above the 60-point optimistic mark.

Between November and December last year, 8,723 respondents, aged 18 to 64 in 17 Asia Pacific markets, were asked to give a six-month outlook on five economic factors: the economy, employment prospects, regular income prospects, the stockmarket and their quality of life.

The index is calculated on a scale of 0 to 100, with zero as the most pessimistic, 100 as the most optimistic and between 40 and 60 as neutral.

Consumers in Bangladesh are confident than those in Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan, Thailand, and Sri Lanka.

Eight of the 17 markets saw deterioration in confidence levels compared to the first half of 2016. The biggest decline in optimism levels was observed in Taiwan, followed by Malaysia, and Myanmar.

The survey began in the first half of 1993 and has been conducted twice yearly since. Seventeen Asia Pacific markets now participate in the survey. Bangladesh was added to the survey in 2012.

Mastercard operates the world's fastest payments processing network.

Financial sector reforms WB's prime focus

FROM PAGE B1

Muhith said the tenure of three-year International Development Association-17 loan programme will end in June this year. A new programme, IDA 18, will start from July for three years. Under the existing programme, the country received \$2 billion every year on an average. In the next programme the amount will be \$3 billion each year.

Bangladesh is now the largest recipient of IDA resources: the country accounts for close to 10 percent of overall IDA, according to Fan. IDA has got much larger replenishment for the next three years, so Bangladesh will get a significant increase. "We don't have the number yet, but it will be a significant increase." In the new programme, stability and integrity of the financial sector will be a big focus, Muhith said.

"Bangladesh Bank has given it a serious talk, particularly after the hacking. In the new programme, financial inclusion will also get significant importance." Muhith went to praise former BB governor Atiur Rahman, saying that many programmes for financial inclusion were taken during his tenure.

"The stability and integrity of this market has become a matter of great importance."

In the next programme, capital market development, bond market and the live-stock sector will get importance.

The finance minister also said the progress of the three projects under the existing programme involving around \$1 billion is very slow. The tenure of the financing will end in June, so the WB team has called for acceleration such that the projects can be wrapped up by the deadline.

Retailers concerned over labour unrest

FROM PAGE B1

Last month, more than 1,600 workers from a number of factories in Ashulia, known as a hub of about 350 of the most compliant garment units, were suspended for their alleged involvement in demonstrations over pay hike. The workers demanded that the minimum salary be increased to Tk 15,000 a month from Tk 5,300 now.

While the brands made it clear they do not support any illegal strikes or violent protests, they expressed concern over the detention of union leaders during the unrest.

The retailers requested the government to take steps to safeguard worker rights and pay special attention to the representatives of workers who were arrested.

"H&M Group is deeply concerned by the recent unrest in the Bangladeshi textile industry," the Swedish retailer said in the

joint note that was also posted on the company's website.

"Our staff members in Dhaka are monitoring the situation and are in close contact with our suppliers, industry associations, trade unions and other buyers." For H&M Group it is important that its products are manufactured under good working conditions, in all production countries, it added.

Siddiqur Rahman, president of Bangladesh Garment Manufacturers and Exporters Association, said he also received a letter from the retailers. "The letter expressed concern over the unrest," he said.

The last time the wage board was revised was in 2013.

The Ashulia-based factories contributed about 20 percent to Bangladesh's total garment exports last fiscal year, according to industry insiders.



Officials of Rigel Technologies, a sanitary ware brand of Singapore, and Tushin, the distributor of Rigel in Bangladesh, attend the opening of a showroom of Rigel in Dhaka on Sunday.



Jadoo Digital awarded the winners of a month-long quiz—DW Watch & Win Contest—on January 10 to support the collaboration between Jadoo and Deutsche Welle's English-language television.