FOCUS ON FINANCING POWER PROJECTS

HSBC: Powering Bangladesh

STAR BUSINESS REPORT

THE government of Bangladesh has set a target to bring the whole country under electricity coverage by 2021. To achieve this target, the country requires multibillion dollar investments in the power sector. As a result, the government is increasingly diversifying the sources of investment.

"We are attracting innovative funds. One of the big innovative ways is Export Credit Agency (ECA) financing," Nasrul Hamid, state minister for power, energy and mineral resources, told reporters at the Dhaka Reporters Unity on January 21.

Under the ECA arrangement, the agencies involved in the project implementation will mobilise finances, said the minister.

Small power projects are attracting private sector investment while the government is seeking innovative financing through joint venture and the ECA backed financing for large power projects.

The Hongkong and Shanghai Banking Corporation (HSBC) had pioneered the ECA financing in the country's power sector in 2012 arranging $420 million credit facility for Ashuganj Power Station Company Ltd. Since then, HSBC has arranged about $1.14 billion of financing to implement five major power projects in the country. Other international banks followed the suit.

About $4.5 billion has been invested in the power sector of the country under the ECA arrangement in the last five years, establishing ECA as an alternative financing mode. Under the arrangement, power plants get a grace period in the first two to three years while the unit is under construction. The loans are repaid in instalments in the next 10 years.

ECAs are government departments or government-sponsored institutions with sovereign status in developed countries, established to support the export of capital goods and services from its country to the developing nations. Some ECAs have direct lending programmes which can increase the competitiveness of the funding to the project. It follows a common set of guidelines and characteristics known as the "OECD Consensus".

ECA funding is not only a matter of credit risk mitigation, it also enables projects to access a much larger pool of liquidity.

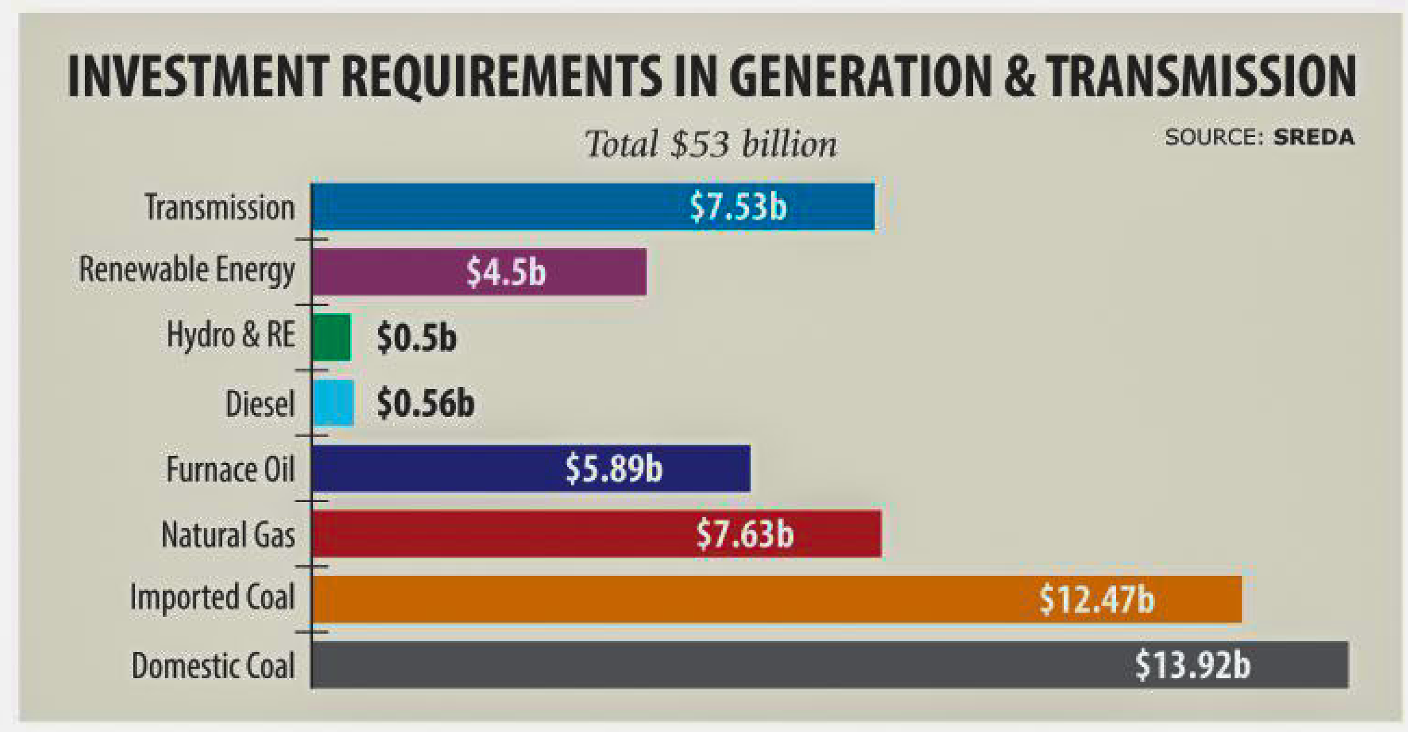
What is popularly known as suppliers' credit in Bangladesh is basically a form of export credit in the international financial market.

A total of $6.9 billion ($3.1 billion in the public sector and $3.8 billion in the private sector) of investment has been made for setting up power plants in the country for generating 7,200 megawatts (MW), according to Bangladesh Power Development Board (BPDB).

To implement the proposed ongoing power projects which will generate about 10,700MW electricity, the country will require a total investment of $15.5 billion, out of which the public sector is investing $8.2 billion and the private sector investment will be $7.3 billion.

KEY POINTS

$1.14b of ECA-backed financing arranged by HSBC for 5 power plants
Country's first ECA-backed deal in power sector for $420m arranged by HSBC
Country's first power import of 250MW facilitated by HSBC
Country's first commercial financing in power transmission sector arranged by HSBC



The government also has a plan to generate 60,000MW of electricity by 2041 - a move that will require further investment worth $20 billion.

The investment opportunities are not restricted to generation of power: the country will require another $20 billion of investment in transmission and distribution, said Tawfiq-e-Elahi Chowdhury, the prime minister's adviser on power, energy and mineral resources, last year.

The government, which has trebled the installed power generation capacity as well as the actual generation in the last six years, has also enabled and created the environment for international financiers and arrangements to become part of the effort.

In 2013, Bangladesh Institute of Development Studies carried out a study to find out the average cost of unserved energy, which was calculated using the share of energy consumed by different sectors. It showed a weighted average of Tk 26.73 per kWh.

The average bulk tariff on electricity in the country at present is less than Tk 5 per kWh which indicates that the cost of unserved energy was more than five times the country's average electricity tariff.

According to the World Economic Forum's Global Competitiveness Report 2014-2015, inadequate and unreliable energy and power supply appears to be the most binding constraint on the country's competitiveness. The cost of power outages has been estimated to equal 0.5 percent of gross domestic product.

Bangladesh has one of the lowest per capita power consumptions in the region which stands at roughly 350kWh compared to 1,075 kWh in India, 527 kWh in Sri Lanka, and 495 kWh in Pakistan. Bangladesh needs more credible power supply to bring the remaining one-third population under its electricity coverage.

Electricity demand in Bangladesh is growing due to underlying economic growth which averaged more than 6 percent over the last decade and climbed above 7 percent in the last fiscal year.

Being the leading trade finance bank in the globe, HSBC has been facilitating international trade in Bangladesh. To note, HSBC has worked as the trade bank for the first cross-border electricity trade of the country.

In 2013, the prime minister of Bangladesh inaugurated the first electricity import of 250MW from India. HSBC has also arranged low cost foreign financing for the state-owned electricity transmission authority to implement a 61-kilometer inter-district electricity transmission line and substation project.

The bank sees infrastructure as the backbone of development for a country.

HSBC's expertise and international network give the bank the capability to help support the Bangladesh government's infrastructure development plans, Tawfiq-e-Elahi Chowdhury added.

HSBC has one of the largest global export and specialised finance teams and has arranged ECA supported facilities across diverse business sectors worldwide, with almost all the ECAs globally. Today, HSBC is in a leading position in arranging ECA financing around the world, raising $5.23 trillion in ECA-backed financing with more than fifty deals in 2015.

HSBC Bangladesh believes that the investment gives a very positive message to international investors about Bangladesh, which is very important.

Experts, however, said, when projects such as public infrastructure are funded with external finance – concessional or non-concessional, such as export credits, suppliers' credits and buyer credits, it is absolutely essential to focus on cost recovery-related issues.

Fed's Yellen says rate hike coming; fiscal policy adds uncertainty

AFP, *Washington*

US Federal Reserve Chair Janet Yellen made it clear on Tuesday that interest rate hikes are coming, and could happen at any time.

It was the signal analysts were looking for to confirm their belief the next increase in the benchmark rate could come as soon as the March 14-15 meeting, even though her comments mostly echoed what she has said multiple times before.

At the same time Yellen weighed into the debate over spending plans and tax cuts promised by President Donald Trump, as well as potential immigration limits, cautioning about measures that could bust the budget or slow economic growth.

While treading carefully and not commenting on specific policies -- of which there are few in any case -- Yellen responded to a question with a warning that US fiscal outlook has been "a long standing problem."

With an aging population and rising health care costs, the budget is "already not sustainable," she told the Senate Banking Committee in the first day of her semi-annual testimony, her first since Trump took office.

"Some of the policies that are being discussed might well raise deficits and ... may also have impacts on economic growth."

However, there simply is not enough "clarity" on the policies, and the impact on the economy will depend on their "timing and composition."

Yellen did not elaborate on the kinds of policies she would like to see, but the Fed frequently has stressed that sluggish economic growth is partly the result of the small increases in productivity in recent years, and has encouraged spending on projects focused on that.

The fear is that pumping money into an economy near full employment will ignite inflation, unless the policies are geared toward improving productive capacity, for example through improved infrastructure such as roads, ports and airports.

Inflation is the Fed's primary enemy and policies that set off a spending spree in the economy risk pushing the central bank to raise interest rates faster.

Although Trump criticized the Fed during the campaign for keeping rates near zero to help then-president Barack Obama, he is unlikely to look favorably on higher rates that would crimp economic growth and investment.

Yellen warned that curbing immigration could slow already sluggish US economic growth. Immigrants help increase the pool of available workers in the US labor force as older workers age out, which is key to increasing slow growth and the "depressingly slow" productivity growth, she said.

"So slowing the pace of immigration probably would slow the growth rate of the economy."

Trump's immigration policies have included an order barring entry to nationals from seven Muslim-majority countries, since blocked by the courts, as well as nationwide raids to scoop up and deport illegal immigrants with criminal records.

Yellen presented an upbeat view of the economy, with labor market conditions continuing to improve and inflation slowly inching up to the Fed's two percent target. She confirmed the next rate increase could come at any time.

If those factors continue to improve as expected, "it probably will be appropriate to raise interest rates further," she said.

Yellen said she could not be specific on the timing, but "every meeting is live" -- a signal analysts were looking for, as many have raised the chances for a rate increase at next month's policy meeting.

The Fed's policy-setting Federal Open Market Committee raised rates in December for only the second time in a decade, a year after its first post-crisis increase, but kept rates steady in January.

AFP

Federal Reserve Board Chairwoman Janet Yellen testifies before the Senate banking, housing and urban affairs committee in Washington, DC on Tuesday.

Five reasons the Greek debt crisis is back

AFP, *Brussels*

AFTER Brexit stole the limelight last year, the spectre of Grexit is back. Greece, the eurozone and IMF are in a three-way Mexican stand-off over a review of the country's 86 billion bailout agreed in July 2015, its third since 2010.

Time is now running out once again before Greece faces a possible default on its debt that threatens renewed turmoil in the eurozone.

Here are five reasons the crisis has flared up:

THE IMF

At the heart of latest flare-up is the International Monetary Fund, the world economy's anti-crisis firefighter that played a central role in the first two financial rescues of Greece.

But the fund, led by the tenacious Frenchwoman Christine Lagarde, never formally joined the third bailout alongside the eurozone and there is increasing talk it may now choose to walk away. The IMF disagrees with the eurozone on two key issues: economic targets and debt.

On the economic targets, the IMF says those demanded by the Europeans of Greece are unrealistic.

The eurozone insists that Greece can deliver a primary balance, or budget surplus before debt repayments, of 3.5 percent of GDP over several years.

The IMF has said only 1.5 percent is feasible, saying that 3.5 percent requires too much austerity. The IMF also insists that Greece's debt pile is "explosive" and requires significant debt relief.

GERMANY

The IMF's refusal to budge is putting Germany in a weak spot.

Germany leads the eurozone's fiscal hardliners in refusing the deep debt relief demanded by the IMF.

But at the same time Berlin and other hardliners such as the Netherlands have made their participation in the rescue of Greece conditional on the full involvement of the IMF.

Berlin has serious doubts that the EU alone can keep a hard line against Greece on delivering reforms without the discipline of the IMF, which firmly holds to the demands of its bailouts.

If the fund should walk away, German Chancellor Angela Merkel and Finance Minister Wolfgang Schaeuble would be left in an extremely tight position just months ahead of elections set for September in which the anti-EU Alternative for Germany is expected to make big inroads.

GREECE

Greece faces a debt repayment bill of 7.0 billion euros in mid-July that it cannot afford without unblocking more funds from the bailout.

For nearly two years debt-wracked Greece has delivered on reforms and budget commitments, winning plaudits in a significant change from the fractious days of early 2015.

But the latest tranche of bailout cash money is blocked until Greece passes the current review, which Germany and the Netherlands refuse to allow without the IMF as a full member.

As a solution to the deadlock, the IMF has demanded that Greece deliver more austerity reforms, even though it is dubious of the budget targets set by the Europeans.

The Tsipras government firmly rejects this on principle and also because of its razor-thin majority in Greek parliament that would likely fail to survive a new round of austerity.

ELECTIONS IN EUROPE

Unofficially, a meeting of eurozone ministers on February 20 is the deadline to reach an agreement, but a deal looks increasingly unlikely with Athens, the IMF and the Europeans still wide apart.

After that date, Europe enters a busy election schedule starting in the Netherlands on March 15. Jeroen Dijsselbloem, the Eurogroup chief and Dutch finance Minister, faces a very uncertain re-election.

The Dutch vote is followed by French elections in the spring and German elections in September.

Amid the campaigning, a noisy return of the debt crisis would make a solution difficult. The idea of offering more help for Greece is unpopular with many Europeans.

TRUMP?

The unknown intentions of the Trump administration hover in the background. The United States is the biggest voting bloc on the IMF's executive board and for now, the US seat remains vacant.

Throughout the Obama years, the US cautiously backed IMF participation in the Greece saga, but whether that remains the case under the unpredictable Trump is not known.

Last week, in a rare case of making its internal affairs public, the IMF said that opinions on its board regarding Greece were divided. Only the Europeans defended a more positive assessment of the Greek economy.

AFP

Greek farmers chant slogans in central Athens against the new taxation measures during an anti-austerity demonstration on February 14.

Big banks avoid hiring spree despite trading boom

REUTERS, *London*

MARKET trading is booming at US and European banks thanks to Donald Trump and Brexit, and yet the glory days of dealing rooms the size of football pitches remain as distant as ever.

Scarred by the 2007-09 global financial crisis and a subsequent regulatory clampdown, cost-conscious banks aren't taking on more traders, uncertain whether the revival will last.

"There's no hiring spree," Jason Kennedy, chief executive of recruitment firm Kennedy Group in London, told Reuters. "Management don't know if the boom is real or not, if we're in a bubble or not. The last thing they are doing is gear up, only to find there's nothing behind it."

Last year's shocks of the British vote to leave the European Union and Trump's US presidential election victory fueled a surge in market volatility and banks' trading activity, revenue and profit.

But that won't mean more traders, with banks avoiding any return to dealing rooms staffed by hundreds like before the crisis, instead investing more in automated trading.

Europe's largest bank HSBC began cutting around 100 senior jobs last month in its investment banking division worldwide, according to sources with direct knowledge of the matter, without saying how many were traders.

Germany's largest lender, the troubled Deutsche Bank, is set to scrap roughly one in five equity trading jobs under a scheme to cut costs across the globe, according to sources, and will slash pay and bonuses.

Even Wall Street's big beasts, which have profited most from the boom, are cautious about how long it will continue, with some offering existing staff juicier bonuses to prevent departures of talent rather than expanding the payroll.

"We'd always rather do more with less," said one senior source at a major Wall Street trading firm.

"We are not looking to ramp up hiring. New technology will help," the source told Reuters. "We are always looking at productivity gains. Sometime saying you're hiring a bunch of people is a sign of great stupidity."