Leading by example: EBL

JEBUN NESA ALO

BANGLADESH has an excess number of banks at present, which has given rise to unhealthy competition, said Ali Reza Iftekhar, managing director of Eastern Bank Limited.

"Time has come to merge the banks as the financial health of many of them is very weak," he told The Daily Star in an interview recently.

Some banks are making losses year after year, he said.

"They have no right to do it, putting public money at risk. If any international rating agency rated the banks neutrally, many banks will have to be merged."

Eastern Bank, which marks 25 years of operation tomorrow, though is seeing all its financial indicators improve consistently.

In 2016, the bank registered the lowest default loan rate among banks: 2.69 percent against the industry average of more than 9 percent. Its net profit in 2016 was Tk 265 crore, up 19.37 percent from a year earlier.

For the second straight year, EBL was awarded the 'Best Bank of Bangladesh' by Euromoney, a London-based monthly magazine focused on business and finance, in a ceremony held in Hong Kong on July 13.

Since 2013, the bank has been winning the 'Best Retail Bank in Bangladesh' award of The Asian Banker, a Singapore-based financial publication.

It is the first bank in the country to be rated by Moody's Investors Service this year.

But EBL's path to success did not come so easily.

Its success was full of struggle since its inception in 1992 from the ashes of the then-collapsed

Ali Reza Iftekhar

BCCI (Bank of Credit and Commerce International).

The bank was restructured as per the guidelines of the central bank and some depositors of the BCCI got shares in the new bank and became directors.

And thus began the journey of EBL -- with Tk 365 crore in negative capital. The directors did not take any dividends and fees until it made profits, which happened six years later.

Iftekhar, who joined the bank in 2004 as a deputy managing director and assumed the office of the managing director and CEO in 2007, credits the performance to the bank's 1,584 employees, garnered through a thoughtful human resource policy.

"We started our journey from negative balance and went on to become one of the most profitable banks in the country and it is down to efficient management of human resource."

EBL has adopted an international standard policy for human resource department to give the bank an institutional shape.

No high official, even the managing director, can influence recruitment. As a result, any changes in the top management cannot interrupt the banking activities, he said.

"We reward the good performers with huge financial benefits and are strict against the non-performers, sometimes saying goodbye to them," he said, adding that the bank also invests substantially on skill development.

He also spoke at length about the bank's "Speak up" policy, which saved EBL from probable reputation damage and financial loss in different times.

The policy means if employees find any activity of their colleagues that can cause financial harm for the bank or damage the reputation, they will inform it to the appropriate authority.

For instance, a female employee of EBL's old Dhaka branch once found a teller's activities to be suspicious and promptly informed the office authority under the 'speak up' policy.

Following the information, the bank discovered that the teller was taking money from the till regularly. The teller was removed and the female employee rewarded for protecting the bank from probable financial loss, Iftekhar said.

EBL also invests substantially for

EBL AT A GLANCE

Net profit in Jan-Jun:	Tk 170.51cr
Total deposits as of Jun:	Tk 15,400cr
Non-performing loans as of Mar:	4.76%
Total employees as of Dec 2016:	1,584

skill development of its employees as well.

Iftekhar also touched upon the state of the banking industry.

He identified three causes behind the rising default loans, the bane of the industry: weakness in project analysis, lack of skilled manpower and monitoring.

Project analysis is of the essence in granting loans but banks still give priority to mortgaged property instead of looking at project viability.

If the project becomes viable and have adequate cash flow, the loan will be out of default risk, even if there is no adequate collateral.

"The loan recovery from mortgaged property is very insignificant, so banks should give loans analysing project viability."

EBl is also expanding its footprint beyond the four corners of Bangladesh.

In 2013, it set up EBL Finance (HK) Limited in Hong Kong to support the garment sector. It has an outpost in Myanmar and is also planning to open a full-fledged subsidiary in India and a representative office in China.

Saudi budget deficit halves after reforms, oil rebound

AFP, Riyadh

Saudi Arabia's budget deficit halved in the first six months of this year, the finance ministry said Sunday, following sweeping spending cuts and a stabilisation in oil prices.

The ultra-conservative kingdom has moved to diversify its traditionally oil-dependent economy following a sharp fall in crude prices.

The budget deficit dropped by 51 percent to 72 billion riyals ($19.2 billion, 16.2 billion euros) in the first half of 2017, the finance ministry announced.

"This result reflects an improvement in the management of public finances as a result of economic reform introduced through Vision 2030," said Saad al-Shahrani, a high-ranking ministry official.

The Vision 2030 plan, announced by the kingdom last year, aims to develop Saudi Arabia's industrial and investment base and boost small- and medium-sized businesses to create local jobs and reduce reliance on oil revenue.

It is the second budget report released by Riyadh since the authorities announced in May they would begin issuing the figures on a quarterly basis to boost transparency.

The kingdom has regularly posted budget deficits since 2014, following a slump in oil prices.

Saudi Arabia, the world's largest crude exporter, in December projected a budget deficit of $53 billion for this year.

Revenues for the first half of the fiscal year were up 29 percent to 308 billion riyals ($82.1 billion, 69.4 billion euros) from the same period last year.

Spending in the first six months dropped 2.0 percent to 380.7 billion riyals. As part of its reforms, Saudi Arabia is due to introduce value-added tax (VAT) in early 2018 along with the UAE and Qatar.

Three other Gulf states -- Bahrain, Kuwait and Oman -- plan to follow at a later date. Riyadh announced in June it had begun taxing foreigners working in the private sector as part of its fiscal reforms. The country is also preparing to sell just under five percent of energy giant Aramco next year.

AFP

As part of economic reforms, Saudi Arabia will introduce value-added tax in 2018.

US, Mexico, Canada to open talks on revising Nafta

AFP/FILE

An operator of a cross-border plant walks inside an industrial park in Mexico.

AFP, Washington

US President Donald Trump will have the chance to turn a key campaign promise into reality with this week's start of official talks to renegotiate the North American Free Trade Agreement.

After threatening during the campaign to rip up the agreement, Trump has softened his stance a bit and spoken more recently of renegotiating the agreement as the most efficient course for the US, Canada and Mexico.

But talks to redo the controversial 1994 agreement, which eliminated trade barriers among the three countries, are expected to be thorny. The first round takes place from Wednesday to Sunday in the US capital.

Trump made Nafta a defining issue of his campaign, frequently lambasting the deal as a "disaster" that sold out US workers and dismissing supporters who touted the deal's benefits.

"For Donald Trump this was so central in his campaign that he felt he has no choice but proceed," said Edward Alden, a senior fellow at the Council of Foreign Relations, a leading think tank.

"I think at some point the President Trump has to walk away with something that he can call victory. I don't think he could just walk away."

Trump's biggest gripe with Nafta has been the dramatic shift in the US' commercial balance with Mexico, which since the treaty's inception has gone from a surplus of $1.3 billion to a deficit of $64 billion.

Nafta has been a bedrock of the Mexican economy, with 80 percent of that country's exports going to its Northern neighbor, an especially impactful relationship for Mexican manufacturers and farmers.

The agreement has significantly boosted Mexico's auto sector, which has grown because of its supply of cheap labor as US automakers have shuttered some factories in their home country.

"Too many Americans have been hurt by closed factories, exported jobs, and broken political promises," US Trade Representative Robert Lighthizer said last month. The US trade balance with Canada is more even, but that trade relationship also has points of tension in some sectors, including dairy, wine and grains.

While the US under Trump has been the party to force Nafta back onto the agenda, all three countries agree there will be benefits to revisiting an agreement nearly a quarter of a century old that was crafted prior to the internet era.

"Each country feels they have a lot to gain from pursuing these negotiations," said Jeffrey Schott, a senior fellow at the Peterson Institute for International Economics, a think tank.

Trump administration officials have said they want a swift outcome to the talks, but experts think a speedy deal is unlikely. Next week's opening salvo will be followed by a second round of talks beginning September 5 in Mexico.

"The first round is basically to put forward some initial ideas and to explain them and probably the negotiators won't cover the most controversial issues in the first round," said Schott, who warned a strident "America first" push by the Trump team could cause problems.

"All three countries are committed to successful negotiations that revise and improve the Nafta, but there is a risk that if United Stated is pushing the controversial ideas too hard that the talks could run off," Schott said.

A consideration from the Mexican side will be the 2018 presidential election. But Alden, who predicts the talks will require about two years, noted it also has an experienced negotiating team, as well as a strong consumer market for some US sectors, such as agriculture.

Japanese shoppers open their wallets, raising hopes for sustained revival

REUTERS, Tokyo

JAPAN'S cautious consumers are starting to loosen up, spending more on cars and home appliances and offering hope that domestic demand - and not just exports - will be strong enough to reflate an economy that has been sluggish for many years.

The tightest labour market since the 1970s seems to be a playing a role. Temporary and part-time workers are getting paid more to help fill shifts, and that is helping lift sales.

Consumption was the main driver behind Japan's second-quarter economic growth, which expanded at an annualized 4 percent, gross domestic product data released on Monday showed, the strongest in more than two years and much higher than the growth achieved by the United States and the European Union.

"I ended a big project today, and I wanted to give a present to my girlfriend who has always been supportive, so I bought her a Tiffany necklace," said Yusuke Kawashima, a 29-year-old freelance software programmer in Tokyo.

"Quite a few of my friends have said they either had a pay raise or received a large bonus, so I think they'll be spending as well."

Wage hikes for part-time workers in Japan have accelerated, rising to 2.3 percent year-on-year in May from 0.7 percent in August 2016. Salaries for full-time workers, though, have been little changed.

Susumu Ikeda, 70, says shoppers are buying more at his musical instrument shop in Tokyo's tony Ginza shopping district, and senses the economy is taking a turn for the better.

"Some may be cynical about our growth, but compared to our worst we are getting much better," he said. Furniture maker Nitori Holdings Ltd, convenience store leader Seven & i Holdings Co and coffee shop chain Doutor Nichires Holdings all reported rising domestic sales in their recent earnings reports.

Sales of new cars accelerated in April-June from the previous quarter, and GDP data showed higher purchases of appliances, such as air conditioners.

Private consumption - which accounts for almost 60 percent of GDP - rose in the second quarter

REUTERS

A woman carries a bag at a shopping district in Tokyo, Japan.

at the fastest pace in more than three years, offering the most definitive sign yet that consumers have shaken off the impact of a sales tax hike in 2014.

For some, like 31-year-old Tokyo office worker Natsuki Abe, the economy just feels healthier.

"I do think the economy is doing better than it was before, but it's just a feeling," she said. "My company is doing well, and I think I do have the money to spend on things that I like and want. I mainly spend on clothes, as I want to look good."

There have been previous such advances that have turned out to be temporary during Japan's many years of economic weakness since the early 1990s, with consumer spending often a culprit as it loses momentum. This time may be different, though, some economists argue. That is because the unemployment rate is now low enough - 2.8 percent - to lift wages.

Many economists say Japan reaches full employment, the lowest level of joblessness before upward wage pressures arise, when the jobless rate falls to 3 percent.

Japan's aging population, and the resulting big drop in the size of its workforce, is a major reason for this.

"Wage growth will accelerate going forward, because companies have to raise wages to compete for new workers and to retain workers," said Takuji Adia, chief economist at Societe Generale. "This happens when the unemployment rate falls below 3 percent."

When Prime Minister Shinzo Abe took office in late 2012, the jobless rate was at 4.3 percent. Consumer spending boomed as a stock-market rally fuelled optimism about the new government but then lost momentum because wages were not rising that much.

Some of Abe's structural reforms, such as narrowing the wage gap between contractors and full-time employees doing the same work, raising the minimum wage, and encouraging people to move to better-paying jobs, are also starting to pay off.

One major concern is that Japan's consumer spending revival has yet to translate into faster inflation; core consumer prices rose a meager 0.4 percent in the year to June and inflation expectations remain weak.

The United States and Europe are also struggling to generate inflation despite improving growth, but Japan's case is peculiar because of the decades of deflation and stagnation following the collapse of the bubble economy in the early 1990s.

That's produced a deflationary mindset among many people that cannot easily be changed.

And as the country's population shrinks and ages, saving for the future has become a top priority for many.

"My husband's parents and my parents are getting old, and their pensions will not be enough for them to sustain themselves," said Chisa Tsubuki, a 28-year-old childcare worker. "So in anticipation for the future where nursing and healthcare costs will rise for us, we need to save."

Still, the economy looks like it is at long last starting to move in the direction the Bank of Japan predicted. The BOJ's tankan survey shows more service-sector companies want to raise prices in the future. One example is family restaurant operator Skylark Co, whose president said earlier this month that it will hike prices from October.

"Consumers' perception of retail prices are changing, and people no longer buy something simply because it's cheap," a spokesman at the Takashimaya department store chain said.

"During our summer sale, the items that were not discounted actually sold better than the discounted items."