Credit demand to surge to fund infrastructure projects

Liquidity management will be a major challenge, Prime Bank CEO says

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LIQUIDITY management will be the major challenge for the banking sector in 2019 as credit demand from both public and private sectors will surge on the back of the ongoing mega projects, said a top banker.

"Banks have already started to face a huge liquidity pressure from the beginning of the year and it has been reflected in the rising deposit rate," said Rahel Ahmed, managing director and CEO of Prime Bank.

The reversal in the liquidity situation came after it had eased for a couple of months at the later part of 2018 amid slowdown of investment on the occasion of the parliamentary election.

"The tight liquidity will push up the lending rate interrupting the private sector investment," Ahmed told The Daily Star in an interview recently.

The 47-year old previously worked at two large multinational banks in Bangladesh -- ANZ Grindlays Bank and Standard Chartered -- for more than a decade in various leadership roles.

He subsequently resided in Dubai for about seven years and worked for two large regional banks -- Emirates NBD Banking Group and First Gulf Bank. He helmed the top post of Prime Bank in December 2017.

He said some state-owned banks that mostly play the role of suppliers in the call money market started to borrow in January, which reflects that they are under liquidity pressure.

"When state-owned banks come under liquidity pressure, it means that the overall market is in a tight money supply."

He said non-performing loan (NPL) is a major factor behind the liquidity shortage.

"The ease of liquidity situation depends on the government's will on to what extent it will be stricter with the defaulters."

The new finance minister has announced that default loans would not increase any longer and if it happens in reality by improving governance in the banking sector, the liquidity will ease up, he said.

"If the NPL can be controlled and no new loans become non-performing, then the market will not face any additional liquidity pressure."

NPL totalled Tk 99,370 crore in

> *"When state banks come under liquidity pressure, it means the overall market is in a tight money supply"*

Rahel Ahmed

September, which accounted for 11.45 percent of the total loans in the banking sector, according to Bangladesh Bank data.

The public sector expenditure will increase significantly in the infrastructure sector as many new projects are being approved and implementation of the ongoing mega projects will accelerate.

"Lots of infrastructure projects will be implemented which will require a huge financial support. A large portion of the financing will come from the banking sector, fuelling credit demand," said the career banker.

High interest rate on savings instruments is said to be another major cause behind the deposit crisis, but the banker disagrees.

He says the rate of savings instruments is not the factor; rather non-compliance of the investment rule is creating a problem in the market.

"Savings instruments aim to support senior citizens and there is a ceiling on investment. But in reality, many businessmen are investing in the instruments violating the limit and they invest in different names," said Ahmed.

"If the investment rule is properly followed, liquidity will not flow to saving instruments. The central bank is working to develop a database on investors of savings instrument that will be helpful for proper application of the investment rule."

According to the CEO, the banking sector needs a mega transformation to cope with the growing challenges of rising borrowing cost, slowdown in profit and deposit crisis.

The interest rate on deposit went past 9 percent in January.

Ahmed said when the country is marching towards becoming a middle-income country from the lower middle-income status, traditional banking model will no longer be effective.

In all other countries such as India, Singapore and Malaysia, the financial industry has transformed as their economies evolved.

"In Bangladesh, the banking sector will see such a transformation between 2019 and 2021 and banks that will bring changes to their operations and business model will survive in the race."

Nowadays, digital transformation is common and the banking sector needs it right now, as there is no alternative to digitalisation for sustainable business, according to the banker.

Prime Bank has also transformed its operations and business models into centralised system from the decentralised one.

"The transformation yielded many benefits for the bank such as better risk assessment, lower NPL and reduction in operational cost."

The bank began transformation into centralisation model in 2015 and completed it in 2018.

"The NPL of the loans given during this transformation period was almost zero," Ahmed said.

The banker also played a key role in the last three years in leading the "Business Model Restructuring and Centralisation" for Prime Bank.

Prime Bank saw moderate growth in NPL rate to 8.22 percent in September last year from 7.93 percent in December 2015, according to Bangladesh Bank data.

Ahmed took the charge of the bank at a time when the banking sector was going through a host of challenges amid uncertainty surrounding the national polls, slow business activities, and tight liquidity.

"Still, the bank fared well in the core banking business," he added.

Though the centralisation model helps the bank to curb loan scams, it has slowed retail customer service in some cases, he said. The bank is now examining the problems of post-centralisation system to improve the service.

The bank is also paying more attention to consumers and small and medium enterprises, thanks to the changing spending habit of customers.

"Prime Bank is trying to introduce a variety of products in line with the eco-system of young professional consumers. From this perspective, the bank is focusing on consumer and SMEs," said Ahmed, who received an MBA from the Maastricht School of Business, Netherlands.

The bank's deposit was Tk 20,100 crore and the outstanding loans Tk 16,800 crore in September 2018, BB data showed.

Pakistan says curbing power sector debt, seeks energy investors

REUTERS, *Islamabad*

PAKISTAN expects debt being built up within its troubled power sector to level off this year and start falling, its power minister told Reuters, outlining measures to shore up confidence and attract foreign investors.

Pakistan has long been bedevilled by electricity shortages, with power outages crippling industries and economic growth, as well as stoking voter anger in the mainly Muslim nation of 208 million people.

Vast Chinese investment has helped drastically reduce power outages, lifting economic growth, but years of mismanagement has led to accumulated power sector payment arrears, or "circular debt", rising to 1.4 trillion rupees ($10.1 billion).

Independent power producers angry with late government payments have warned of a crisis, while economists fear rising circular debt will further widen Pakistan's yawning fiscal deficit, a key part of ongoing bailout talks with the International Monetary Fund (IMF).

Power Minister Omar Ayub Khan, appointed soon after premier Imran Khan took office in August, said the decision to hike electricity tariffs, which kicked in at the start of January, will stop the sharp rise in power debt.

"All of a sudden, after January 1, you have a levelling off of circular debt, because the new tariff has kicked in," Khan, who is the grandson of Pakistan's first military ruler, Ayub Khan, told Reuters in Islamabad on Tuesday.

Built into the tariff is an extra cost that will allow the government to pay off arrears from the previous year, which in 2019 should result in a 226 billion rupees reduction of circular debt, Khan added. Within three to four years, the government expects to claw back 470-500 billion rupees.

The government will also recover an extra 43 billion rupees annually in circular debt parked in state-owned Power Holding Private Limited (PHPL), which holds about 600 billion of the 1.4 trillion debt. "That will take longer," Khan said.

He said cash from a planned 200 billion rupee Islamic bond will be used to retire old expensive debt, and pay independent producers to ease their financial crunch.

To prevent circular debt rising again, the government plans to crack down on endemic power theft and modernise distribution companies and a creaking transmission network struggling to cope.

A new energy policy is also due to be announced soon, with plans to re-orient Pakistan's energy mix. The current split in the mix is 60 percent fossil fuels, 30 percent hydel, 6 percent nuclear, and 4 percent renewables.

Pakistan's Federal Minister for Power, Omar Ayub Khan

Pakistan wants to use more indigenous resources such as hydel and hike the renewables portion of the mix to 20 percent by 2025, and to 30 percent by 2030.

Khan estimates Pakistan will need to double generation capacity to 55,000 megawatts by 2030, and is seeking investors to a nation where electricity demand is fast rising but about 25 percent of the population is yet to be connected to the grid.

"People were content with using one fan or light bulb, but that's not the case any more," Khan said. "You go into the most remote areas and you'll find washing machines in people's houses and electronic items, and that all requires electricity."

Trade wars: We're next, European investors fear

REUTERS, *London*

WHILE global markets would hail a US-China trade deal, fears are growing that the European Union could be the fall guy in any breakthrough, which would allow Donald Trump to turn his attention to German cars or French luxury wines.

Investors thinking of chasing a rally on a trade accord through European trade proxies, such as Germany's export-heavy DAX index or the continent's luxury names, should probably think twice, analysts believe. For trouble could come in a lot of different forms.

Alicia García-Herrero, Chief Economist at Natixis for Asia Pacific, and a researcher at the Bruegel think-tank, is among those who have warned that a deal "could cost Europe dearly" if China substitutes a large part of its European imports for US goods in a bid to appease the Trump administration.

There is a lot at stake. European-listed firms expect 456 billion euros ($521 billion) in total revenue from China in 2019, with luxury brands and automakers the most exposed sectors, a Refinitiv analysis of company data shows.

Vincent Deluard, global macro strategist at INTL FCStone, said that in the case China and the United States fail to clinch a deal, Europe could be flooded with cheap Chinese goods.

"Europe stands to lose the most when the truce expires on March 1st as China would surely dump billions of discounted goods on the old continent," Deluard wrote.

In 2017, China exported goods worth 374 billion euros to the EU and 505 billion dollars to the United States.

Another dire scenario sketched out by Deluard would be a bitter lose-lose for Europe and arguable win-win for Trump: "Imposing tariffs on European cars and reaching a deal with China could allow the Trump administration to claim two victories at the same time".

Many investors fear the immediate relief of a China-US deal could be swiftly followed by a bitter confrontation between the EU and its closest ally. While Germany takes the lion's share of the EU's trade surplus with the United States, over 63 billion dollars in 2017, other European countries such as Ireland, Italy or France have a lot to lose if tariffs are imposed on European goods.

The diversity of their exports highlights how wide the impact would be.

A graphic from the Atlas of Economic Complexity, Center for International Development at Harvard University, shows how French exports in 2016 ranged from wines (3.80 percent) to gas turbines (10.95 percent) and medicines (6.08 percent).

Analysts trying to decipher the US president's strategy believe that a confrontation with the EU is a probable next step following the revamping of the North American Free Trade Agreement and his current efforts to slash the US trade deficit with China from a record 375 billion dollars in 2017.

"We are next in the queue," warns BNP Paribas' chief economist William De Vijlder, adding that "the subject of the EU-US trade negotiations has been under the radar up to recently but could resurface soon."

Lombard Odier strategist Charles St-Arnaud believes a period of prolonged EU-US tension, with daily incendiary headlines making European markets jittery, is a distinct possibility.

"What Trump tweeted about French wine, I can see the parallel with Canadian milk," he said recalling the tense US NAFTA negotiations with Canada.

On Nov. 13th, Trump complained that while France could easily export wines to the United States, US winemakers' access to the French market was restricted.

"Not fair, must change", he said on Twitter.

St-Arnaud argues that the threat of a trade war with the United States could mean another grim year for European stocks, which have already suffered collateral damage from the trade spat between the world's two biggest economies.

"A European underperformance is possible in 2019," he believes.

If the Chinese negotiating team currently in Washington was to achieve significant progress, European stocks would get a boost, at least in the short-term.

"It is crucial for the world economy that this man-made uncertainty ceases," said De Vijlder. An escalation would meanwhile sharpen the global growth downturn and hit bourses worldwide, according to a big Reuters poll of economists.

But while both emerging and European stock markets underperformed Wall Street during 2018 due to the trade stress endured by exporters, European shares remain very much

REUTERS/FILE

Chinese officials prepare the flags for the China-US bilateral meeting at the G20 leaders summit in Hamburg, Germany.

less loved by global investors than their EM peers.

According to data provider EPFR, while emerging markets equity funds have recorded 15 straight weeks of inflows, European funds saw outflows for 45 of the past 46 weeks.

With a concern about Brexit, unrest in France, Italy's populist government and May's EU elections, the big European benchmarks are seen by many foreign investors as "uninvestable", especially as growth slows.

"It's pretty clear that during the course of conversation with any client, political risk premium, political uncertainty will come into the conversation," said Andrew Milligan, head of strategy at Aberdeen Investments.

Joerg Kraemer, Commerzbank's chief economist, said a confrontation with Washington could be very damaging, notably for the German car industry and that the European Commission would be wise to make a pre-emptive move.