Strong financial sector key to sustainable growth

ADB country director says in an interview with The Daily Star

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BANGLADESH should put emphasis on building a strong financial sector in order to ensure macroeconomic stability, increase efficiency and liquidity of markets, draw investment and deepen economic integration, the Asian Development Bank's Bangladesh chief said.

"A strong financial sector helps in regional and international market integration, attracting long-term investments, public private partnerships, and deepening and broadening economic integrations," said Manmohan Parkash, country director of ADB.

Domestically, it helps to improve financial sector stability, increase the efficiency and liquidity of markets, and strengthen the regulatory environment, he told The Daily Star in an interview in Dhaka recently.

Bangladesh has been a member of the Manila-based lender since 1973. Since then, the ADB has approved around $25 billion in loans, technical assistance and grants as of June 30 this year.

The ADB's active portfolio in Bangladesh is more than $10 billion with 54 projects. The transport and energy sectors constitute about 55 percent of the portfolio amount.

Last year, Bangladesh topped the list of countries in terms of commitments and approvals for funds, including co-financing, from the lender.

The ADB had a record lending for Bangladesh and approved $5 billion worth of programmes in 2018, of which $2.5 billion came from its own coffer and another $2.5 billion in co-financing.

"It's the largest amongst all our countries. For us, Bangladesh is very important. And over the years our assistance has grown for many reasons. This is one of the top five countries for us," Parkash, who took the helm of the Manila-based lender's Bangladesh country office in November 2017.

He said the global economic outlook is challenging and a moderate growth is expected across most of developing Asia at 5.7 percent in 2019 and 5.6 percent in 2020. However, South Asia will buck this trend growing at 6.8 percent in 2019 and 6.9 percent in 2020, he said.

"Bangladesh will stand out by growing at record 8 percent in 2019 and 2020, making it the fastest growing economy in Asia-Pacific. Today Bangladesh is seen as a model for growth even in this difficult global economic outlook," he said.

ADB's priority areas for support in Bangladesh include energy, transport, urban infrastructure and water supply and sanitation, education, agriculture and natural resources and financial sectors.

Around 68 percent of the portfolio is in infrastructure and 32 percent is in social sectors.

Parkash, an Indian national with more than 34 years of professional experience, talked about the financial sector.

He said a 10-year roadmap for financial sector development can be devised based on three pillars -- financial integration, fiscal transparency and financial resilience -- to help further catalyse Bangladesh economy and financial markets.

"It will also protect the economy against external shocks."

The advice comes because the financial markets are getting more complex and rapidly changing and there is advent of digital financial services, such as e-payment platforms, blockchain technology or use of artificial intelligence for asset management and more frequent cross-border financial transactions.

"The financial sector is still developing and is at the stage where there is good opportunity. So, if Bangladesh can have a mature financial services industry, it could actually add a significant part to the economy, in addition to the industry and trade and remittances."

Parkash is aware about the challenges the financial sector in Bangladesh faces. He said if the country did not have any of the problems, the market would be absolutely ideal.

Manmohan Parkash

"It is still a developing country. These are the pains of growing up. When you develop, there will be few of these irritants that come in. The important thing for us is to manage them well. Here again I am quite happy to see that the government has taken proactive actions."

The ADB is involved in the capital market development and is helping in strengthening the capital markets to better support the real economy and build much-needed infrastructure. It has so far approved $630 million for capital market development.

The ongoing Third Capital Market Development Programme seeks to strengthen enforcement capacity of the Bangladesh Securities and Exchange Commission and the Insurance Development and Regulatory Authority and ensure quality financial reporting by public companies as per international standard.

The programme also targets to facilitate demutualisation of the two stock exchanges and recapitalisation of intermediaries, develop market infrastructure, introduce new regulations for Sukuk (Sharia-compliant bonds) and derivatives and develop more liquid government securities market.

"In any country, a good capital market is a prerequisite for a well-developed economy."

"The programme is very important because it will not only help the capital markets but also the financial sector in general because more financially literate people can invest domestically and in some international markets. They will be helping to develop a stronger financial market too."

Under the programme, the demutualisation of the two stock exchanges was done and the Financial Reporting Council has been established. Removal of tax distortion and introduction of more streamlined securities issuance procedures are considered as game changers.

"The markets have got more stabilised and actions have been taken for broadening and deepening the markets," he said.

Another element of the capital market and the financial sector development is also about creating new wealth.

"If the stock market goes up and foreign investors come in, the country can have a booming economy."

"This is how Singapore and Hong Kong developed. They built this financial architecture to attract the investors."

"So, creating this new wealth is also a possibility if you have a good capital market. For that, of course macroeconomic policy is very important."

"I think to be fair to the government, it has made good effort in getting the stock exchange and the securities market going. There is a very clear message from the government that they want a strong capital market to prosper in the country."

The ADB is also going to help the government develop a bond market.

Parkash, who joined the ADB in 2002, said the capital and bond markets can provide cheaper and long-term financing, compared to banks and non-bank financial institutions.

"People will only buy bonds when the country has good ratings. Currently, if you look at the ratings, they are not investment-grade and that is where the ADB can help."

"We are going to provide consultants to the financial institutions division so that there is a clearer understanding about how these bonds can be issued and subscribed. The process has started and hopefully in the next few months or one year you should see some good bond initiatives coming into the market."

According to Parkash, three things are important for Bangladesh. First, there has to be more investment in human capital. Second, there is a need for the export diversification to happen so that the country has more trade. Third, there has to be much more emphasis on the infrastructure side.

"This is simply because if you want to attract investment what you need is an enabling environment."

The ADB is also helping the country develop the skills of its growing youth population.

He said things are well within control for Bangladesh. "Your inflation is in control; remittances are growing and domestic consumption has been good. The fundamentals are actually good."

"Going forward, the main aspect of the Bangladesh economy is going to be making sure that the outlook remains stable and that the country remains politically calm. Good weather is also important."

Speaking about the future, Parkash said the bank's programme will move into new areas where more value can be added.

"I can only say that our assistance will grow in the coming years."

Trade war, Brexit stoke debt and dollar, hit stocks and sterling

Reuters, London

RESURGENT trade tensions, concern over the outlook for corporate America and the growing risk of a chaotic Brexit in the United Kingdom curtailed appetite for equities on Wednesday and stoked demand for "safe" government bonds.

US President Donald Trump renewed his threat to tax another $325 billion of Chinese goods, amid nervousness over when the two sides will resume trade talks. But the United States could also face Chinese sanctions, following a World Trade Organization ruling on Tuesday.

After surging to record highs recently on Federal Reserve rate-cut signals, Wall Street has grown nervous this week as big banks reporting quarterly earnings — Citi, JPMorgan and Wells Fargo — have recorded drops in net interest margins, a sign low interest rates are squeezing bottom lines. Bank of America, Bank of New York Mellon, Netflix, IBM and eBay are among the companies reporting results later in the day and investors will watch for signals on the profit outlook.

"The market is over-extended. The anticipation is for a lot of liquidity injections and rate cuts and there's little room in the market for disappointment in corporate earnings," said Francois Savary, chief investment officer at Swiss wealth manager Prime Partners.

"If there is disappointment in earnings-per-share, that will drive more consolidation in the market," he predicted.

The fear is central bank may find it hard to rescue a world economy under pressure from the year-long trade conflict — the latest sign of which came from Singapore, whose exports sank by the most in six years in June.

Equity futures for the S&P500, Dow Jones and Nasdaq suggest Wall Street will open up 0.15 percent to 0.25 percent, while MSCI's global equity index held just off recent 10-day highs.. A pan-European benchmark weakened for the fourth straight day.

A Fed rate-cut cycle would put further pressure on US bank margins. Money markets are are 100 percent priced in for three rate cuts of 25 basis points each by next March. Some banks, such as Barclays, predict three cuts by the end of the year.

Those wagers have not budged even after a surprisingly strong US retail sales report on Tuesday, robust June jobs data and the biggest rise in New York manufacturing in over two years. In fact, Chicago Fed President Charles Evans touted a 50-basis-point cut this month.

But those expecting three rate cuts this year could be disappointed, Savary said, because that magnitude of easing would be "compatible with a recession."

Michelle Girard, chief US economist at NatWest Markets, said domestic data would not deter the Fed.

"The Fed knows the US consumer is strong; policymakers are worried about the downside risks associated with global growth and weak manufacturing/business investment, which is why they believe a rate cut is appropriate."

Along with the trade uncertainty and soft equity markets, that kept bonds well-bid — US Treasury yields, which rose after the retail data, inched lower again and German bonds also saw a fall in yields.

Fed expectations have not weakened the dollar much. It stood around a one-week high against a basket of currencies after the previous day's half-percent jump.

REUTERS

A pro-Brexit demonstrator is seen outside the Houses of Parliament in London, Britain yesterday.

Mixed earnings at large US banks as Fed rate cut looms

AFP, New York

JPMORGAN Chase reported record quarterly profits on Tuesday but shares were volatile amid businesses, but shares were volatile amid worries over expected Federal Reserve interest rate cuts on a day of mixed results by large banks.

Wells Fargo also notched higher profits, while Goldman Sachs reported a dip in earnings but still topped analyst expectations.

The trio of results moved markets into the heart of second-quarter earnings season, which comes against a backdrop of uncertainty over international trade and an anticipated loosening of monetary policy, with the Fed expected to cut interest rates later this month.

Bank profits have been boosted the last few years from a series of interest rate hikes. But the Fed has pivoted away from that stance and is now expected to cut interest rates as soon as this month.

Lower interest rates are generally viewed as a drag for large banks because it reduces the net interest income of financial companies -- the difference between the interest rates it charges consumers for loans and the interest it must pay for deposits.

At JPMorgan, key areas of strength included consumer banking, where it scored from higher net interest income. JPMorgan also generated increased revenues connected to the credit card business and higher auto loans and lease originations. Net profit came in at $9.7 billion, up 16.1 percent and a company record. Revenues were up 4.1 percent to $29.6 billion.

Chief executive Jamie Dimon said uncertainty about issues such as trade and monetary policy is "a constant" while geopolitical tension s "may be a little bit higher now than normal," but added that "the consumer in the United States is doing fine" and that economic conditions are solid in other key markets.

"So I wouldn't get too pessimistic yet," Dimon said. But shares were choppy after the report, with analysts pointing to the bank's forecast for $57.5 billion in 2019 net interest income, down from the prior $58 billion forecast.

The decline reflects the expected hit from Fed actions to cut rates. Bank executives said they anticipate up to three interest rate cuts this year.

At Wells Fargo, net income rose 19.7 percent to $6.2 billion, while revenues were essentially flat at $21.6 billion.

Wells Fargo experienced a dip in net interest income due to a significant jump in interest payments for deposits. But that increase was largely offset by other gains, such as higher service charges on deposit accounts and lower non-interest expenses.

Results in the year-ago period were hit by a large one-time tax expense.

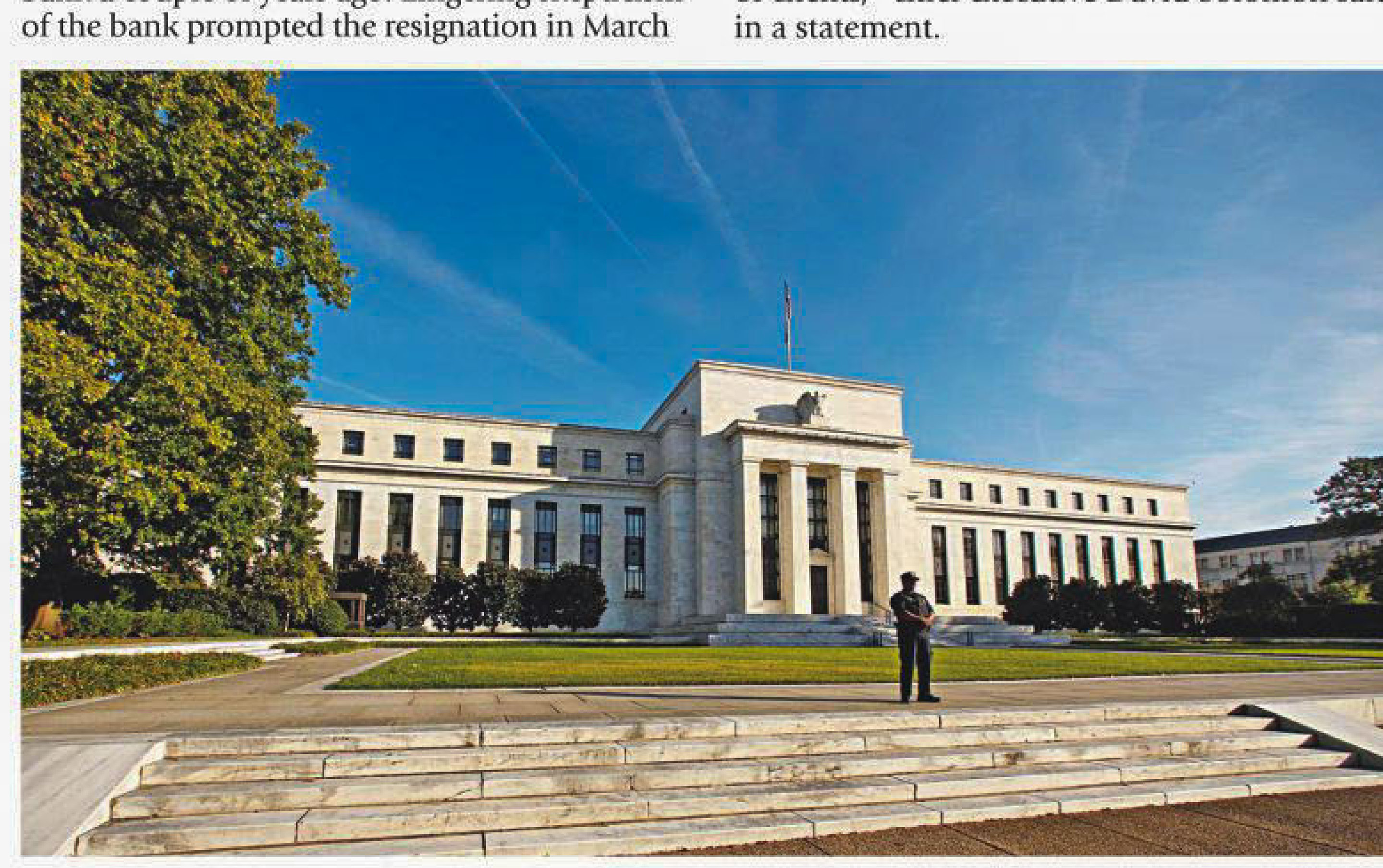
Executives were peppered with questions about the expected hit from Fed actions, as well as additional costs for auditing, risk management and other governance initiatives following a fake accounts scandal that roiled the bank a couple of years ago. Lingering skepticism of the bank prompted the resignation in March of chief executive Tim Sloan.

Interim chief executive Allen Parker said he had no information about the selection of a new CEO and that the board was overseeing the process. Asked if he was under contention, Parker said he had no reason to think the board had shifted from its stated aim to pick an outsider to lead the bank.

At Goldman Sachs, net income was $2.2 billion, down 6.4 percent from the year-ago period. Revenues dropped 1.8 percent to $9.5 billion. Goldman suffered from a decline in fixed income, currency and commodity trading, a weakness at other large banks.

Financial advisory revenues also fell due to lower merger and acquisition activity compared with the year-ago period. Debt underwriting revenue also fell.

"We're encouraged by the results for the first half of the year as we continue to invest in new businesses and growth to serve a broader array of clients," chief executive David Solomon said in a statement.



AFP/FILE

A policeman keeps watch in front of the US Federal Reserve building in Washington.

Lenders of bankrupt Jet Airways to attempt to sell carrier again

Reuters, New Delhi

Lenders to Jet Airways will open bids to sell the bankrupt airline on July 20, as they look to recover about 85 billion rupees ($1.24 billion) of loans, two sources familiar with the matter said on Tuesday.

Last month, Jet's creditors, led by State Bank of India (SBI), took the airline to the bankruptcy court after failing to agree on a revival plan. The airline, grounded since April 17, was admitted to the Mumbai bench of the National Company Law Tribunal on June 20.

Since then, the court has directed the bankruptcy resolution firm Grant Thornton, which liaises with creditors on behalf of the bankrupt firm, to complete the recovery process within 90 days instead of the 180 days that is typically awarded.

The bankers are also considering a request to provide interim funding of $10 million to pay some employee, legal, compliance, operational and maintenance costs, among other things, said one of the sources, who was present at the first meeting of the core committee of creditors (COCA).

The Expression of Interest window to gauge buyer interest in the airline will open next Saturday and candidates should be shortlisted by early August, according to one of the sources.

An SBI-led consortium of 26 banks has informed the resolution professionals that Jet Airways owes them about 85 billion rupees, added the banker. Apart from this, it also owes over 4 billion rupees to employees in unpaid salaries.