Bamboo baskets of different sizes being transported on a battery-run three-wheeler. One craftsperson can make up to six baskets a day, selling each for Tk 150 on an average in Patuakhali. The photo was taken in Choiapara area on the Barishal-Kuakata highway recently.

PHOTO: TITU DAS

US retail sales zoom higher in June despite soaring prices

AFP, *Washington*

US retail sales shot up in June amid the ongoing surge in prices, according to new data Friday that spelled more bad news for the Federal Reserve as it struggles to rein in rampant inflation.

The data showed that after pausing in May, American consumers last month were still eating out and buying furniture and cars, even amid the fastest inflation in more than four decades.

That poses a challenge for the US central bank, which has been hoping to see more decisive signs that its aggressive interest rate hikes were starting to take the economy off the boil and tamp down high prices.

Increased costs for gas, food and housing have squeezed American families and heaped pressure on President Joe Biden, whose approval ratings have taken a battering from the relentless rise in prices and fears of recession.

While inflation was already picking up speed last year as the world's largest economy emerged from the pandemic and demand outstripped supply, the price surge worsened in the wake of the Russian invasion of Ukraine that has led to increased costs for energy and food.

Meanwhile, the US manufacturing sector, which has struggled with global pandemic supply constraints, saw output drop again in June, according to new Fed data Friday.

But consumers appear to be feeling a bit better about the current state of the economy, according to a new survey, defying expectations of a continued slump.

After total retail sales dipped 0.1 percent in May, they recovered with a vengeance last month, climbing one percent to $680.6 billion, the Commerce Department said.

Record gas prices at the pump in June were a major factor, boosting sales at gasoline stations 3.6 percent in the month, and an eye-watering 49.1 percent over the past year, the report said.

But the data showed increases were widespread, and sales were still up 0.7 percent even when gasoline is removed from the calculation.

As inflation picked up speed, the Fed started raising the benchmark borrowing rate in March, and last month increased it by 0.75 percentage point, the biggest hike in nearly 30 years.

But talk has now shifted to the possibility of a massive, full-point increase later this month, and higher borrowing costs have raised fears that the Fed's efforts could push the economy into recession.

Fed Governor Christopher Waller on Thursday said he could favor the mega step -- which would be the biggest such move in four decades -- if there were no signs of cooling in the retail sales data and the new home sales report due out in two weeks.

In other data, manufacturing output fell 0.5 percent in June, the second consecutive drop, which led to decline overall industrial production, according to the Fed.

But the University of Michigan's consumer sentiment index rose unexpectedly rose by 2.2 percent in July to a still-low 51.1, amid a big jump in feelings about the current situation, but another dip in the expectations index.

The preliminary reading showed current assessments of personal finances continued to deteriorate, reaching its lowest point since 2011, survey director Joanne Hsu said, noting a worrying trend of shoppers buying now to get ahead of price increases.

The Fed's policy-setting Federal Open Market Committee is due to meet July 26-27 to debate the next move in its war on inflation.

Kathy Bostjancic of Oxford Economics said the strong sales data "keeps the Fed in an aggressive policy tightening mode -- the debate at the July FOMC meeting will be between a 75bps or 100bps rate hike." High prices mean Americans have to shift spending more to necessities.

EBL wins Euromoney Best Bank Award

STAR BUSINESS DESK

Eastern Bank Ltd (EBL) was yet again named Bangladesh's Best Bank by Euromoney, a UK-based monthly magazine focused on business and finance, in its Awards for Excellence 2022 for its timely intra-banking model.

According to Euromoney, the bank as a Bangladesh institution logged a net profit of 13.5 per cent to Tk 4.65 billion ($53 million) in 2021, when its return on equity was 15.51 per cent, cost-to-income ratio was 39 per cent and non-performing loan ratio was 3.7 per cent, representing the best trinity of metrics in the industry.

SM Jakaria Huq, commercial counsellor of the Bangladesh High Commission in London, the UK, recently received the award on behalf of Eastern Bank at the Euromoney Awards for Excellence programme in London.

This is the fourth time that EBL has clinched the award and is the only bank in Bangladesh to do so, a press release said.

GSK spin-off to create consumer healthcare giant

AFP, *London*

British drugs giant GlaxoSmithKline on Monday demerges its newly-named consumer healthcare unit Haleon, resulting in what is set to be London's largest new stock market listing in more than a decade.

The new company -- owning brands including Sensodyne toothpaste, pain relief drug Panadol and cold treatment Theraflu -- is set for a valuation of about 40 billion ($47.4 billion) when it begins trading on the London stock market, according to Bloomberg.

The major strategy shift by GSK chief executive Emma Walmsley comes after she has faced intense activist shareholder pressure over the company's delays in producing Covid jabs and treatments.

US, Saudi Arabia sign 18 energy, other deals

REUTERS

The United States and Saudi Arabia signed 18 partnership agreements in fields including energy, communications, space and healthcare during a visit by US President Joe Biden, Saudi state TV al-Ekhbariya reported.

The agreements include deals with US aerospace and defence firms Boeing and Raytheon, as well as healthcare companies Medtronic, Digital Diagnostics, and IQVIA, according to Saudi state news agency (SPA).

There were also agreements in clean energy projects, nuclear energy and uranium, it said.

How to survive capital shortfall at banks

FROM PAGE B4

A slew of cancelled or postponed orders and a dearth of new orders shook the financial makeup of the organisations operating in these sectors.

While new orders have started coming in, the pressure of continuing to do business for almost two years with minimal turnover has exhausted many organisations and their recovery period has been lengthy. The recent hike in the prices of commodities and raw materials and other inputs as well as the transport cost has also impacted heavily on the cash flow of the borrowers to repay bank debts.

OTHER FACTORS CAUSING CAPITAL SHORTFALL

Banks are growing concerns. They are undergoing a process of continuous growth, which requires them to keep procuring assets. The continuous inclusion of new loans and advances in a balance sheet creates upward pressure on the minimum capital requirement as both total asset value and the risk profile of the asset portfolio remain ever-changing.

This model of continuous growth also encourages less introspection. A failure to analyse the credit quality of existing loans and advances periodically may result in a deterioration in the asset quality.

As per current classification practices, 1 per cent provision is held against a regular loan. Due to the pandemic-induced moratorium periods, most of the loans were considered regular for more than a year and now it has been extended to December.

As the final stages of the moratorium deplete, the true status of the assets held by banks will be revealed and the sudden necessity to keep higher provisions against classified accounts will create issues of its own. With the increase in provisioning, less of the company's retained earnings will make it to the capital base, further weakening the capital base of banks.

Another reason for the persisting problem of the capital shortfall may be the pricing method used in the banking industry to determine interest rates.

Traditionally, institutions would determine interest rates for loans by adding a spread to the average cost of funds or the deposit rate. In the past couple of years, even this archaic practice has taken several steps back.

As per guidelines issued by the central bank, banks are required to maintain an interest rate ceiling of 9 per cent and a deposit rate floor equal to the rate of inflation. This policy has not left banks with many choices but to lend to all types of customers at similar interest rates. In an industry where innovative ideals such as the Basel III guidelines are to be implemented, the existence of a virtually static interest rate is daunting.

It should be kept in mind that the virtually static interest rate and the implementation of Basel III guidelines are contradictory concepts and should not be forced together. Therefore, some regulatory intervention is necessary to ensure that the capital shortfall in banks decreases.

GLOBAL PRACTICES

During the pandemic, European banks retained their earnings instead of paying out dividends. This strengthened their capital bases and increased their resilience.

Even before the pandemic, in strained situations, banks preferred paying out stock dividends as opposed to cash dividends. Thus, retaining adequate profit as reserves.

Some banks maintain a buffer while calculating their minimum capital requirement. They ensure that their capital to risk-weighted asset ratio is well above the required parameter. This ensures that in an event of unforeseen default, the bank can maintain the regulatory capital.

Furthermore, most banks practice risk-based pricing for their loans and maintain extra provisioning against risky assets to safeguard the bank's capital base.

WAY FORWARD

It is prudent that we undertake regulatory and management reforms regarding the management of capital shortfall because the continued issue sends a signal of a weakening financial system.

It needs some short-term and long-term planning to reduce the capital shortfall. Besides establishing strong corporate governance and a prudent credit approving system to improve asset quality, the industry also needs clear guidance from regulators to stabilise the capital shortfall.

The collaboration between the Bangladesh Bank and the Bangladesh Securities and Exchange Commission is now crucial for the development of a vibrant bond market (including perpetual and subordinated bonds), which can support banks in dealing with capital shortfall.

Moreover, investment in such bonds needs to be channelled from the life insurance funds, pension funds, mutual funds, corporate houses and individuals rather than taking investments from banks and financial institutions, which is currently being practised.

Along with the influx of various funds and individuals' small investments in the market, the regulators may also bring an amenable policy for the listing of such bonds with easier terms and a convenient approval system to make the secondary market vibrant.

The author is an analyst.

The big default?

FROM PAGE B4

The crunch comes in September when $1.2 billion of bond payments are due. Aid money and reserves mean Kyiv could potentially pay. But with state-run Naftogaz this week asking for a two-year debt freeze, investors suspect the government will follow suit.

GHANA

Furious borrowing has seen Ghana's debt-to-GDP ratio soar to almost 85 per cent. Its currency, the cedi, has lost nearly a quarter of its value this year and it was already spending over half of tax revenues on debt interest payments. Inflation is also getting close to 30 per cent.

EGYPT

Egypt has a near 95 per cent debt-to-GDP ratio and has seen one of the biggest exoduses of international cash this year - some $11 billion according to JPMorgan.

Fund firm FIM Partners estimates Egypt has $100 billion of hard currency debt to pay over the next five years, including a meaty $3.3 billion bond in 2024.

KENYA

Kenya spends roughly 30 per cent of revenues on interest payments. Its bonds have lost almost half their value and it currently has no access to capital markets - a problem with a $2 billion dollar bond coming due in 2024.

ETHIOPIA

Addis Ababa plans to be one of the first countries to get debt relief under the G20 Common Framework programme. Progress has been held up by the country's ongoing civil war though in the meantime it continues to service its sole $1 billion international bond.

PAKISTAN

Pakistan struck a crucial IMF deal this week. The breakthrough could not be timelier, with high energy import prices pushing the country to the brink of a balance of payments crisis.

Foreign currency reserves have fallen to as low as $9.8 billion, hardly enough for five weeks of imports.

Abdul Hai Sarker, chairman of Dhaka Bank, and Mirza Abbas Uddin Ahmed, founder of the bank, pose for photographs at the bank's head office in Gulshan, Dhaka after cutting a cake to celebrate its 27 years of banking excellence in Bangladesh. ATM Hayatuzzaman Khan, founder vice-chairman, Aman Ullah Sarker, current vice-chairman, and Emranul Huq, managing director of the bank, were present.

PHOTO: DHAKA BANK

Enamul Hoq, chairman of Federal Insurance Company, virtually presides over the insurer's 34th annual general meeting recently. The meeting approved 10 per cent cash dividend for 2021. Sheikh Mohammad Anwar Uddin, senior executive vice-president of the insurer, conducted the meeting where Hasina Banu and Abrarul Hoque were re-elected directors.

PHOTO: FEDERAL INSURANCE COMPANY

Biden to talk oil at Arab summit

AFP, *Jeddah*

US President Joe Biden is set to discuss volatile oil prices during a summit with Arab leaders on Saturday in Saudi Arabia, the final stop of his Middle East tour.

On his first trip to the region as president, Biden is also looking to outline his vision for Washington's role in the region in order to not cede influence to Russia and China.

He plans to announce Saturday that the US is committing $1 billion in food aid to the Middle East and North Africa amid rising food insecurity induced by the war in Ukraine, a senior official told reporters.

Saturday's meeting in Jeddah will bring together leaders of the six-member Gulf Cooperation Council as well as Egypt, Jordan and Iraq.

Biden landed Friday in Saudi Arabia, a longtime US ally he once vowed to make a "pariah" over its human rights record, and met with King Salman and de facto ruler Crown Prince Mohammed bin Salman.