Shadow-banking risks curbed

Says China

REUTERS, *Beijing*

The assets and risks of China's "shadow" banking sector have declined significantly through continuous regulation, the state-run Securities Times on Saturday quoted a top regulator as saying.

The sector has reduced by more than 29 trillion yuan ($4.3 trillion) as of the end of June from its historical high, Liang Tao, vice chairman of China Banking and Insurance Regulatory Commission, was quoted as saying. He did not specify when the peak was.

Liang warned of high hidden risks, however, as some products have complex structure and high leverage levels, the newspaper said.

People should be vigilant of a rebound of shadow banking risks as some institutions may use improper financial innovations to create new variants of shadow banking, Liang was quoted as saying.

In recent years, China has clamped down on shadow banking, concerned about the hidden risks in the high volume of complex and potentially risky loans in the sector.

But as a weakening economy puts pressure on businesses and individuals, authorities fear shadow lending and illegal loans might surge.

Oil up over $2 per barrel

REUTERS, *New York*

Oil prices settled up more than $2 a barrel on Friday as attention turned to next week's OPEC+ meeting and dimming expectations that the producer group will imminently boost supply.

Brent crude futures contract for September, which expire on Friday, jumped more than $3 a barrel during the session and then pared gains to settle at $110.01 a barrel, up $2.87, or 2.7 per cent. The more active October contract was up $2.14, or 2.1 per cent, at $103.97.

US West Texas Intermediate (WTI) crude futures settled at $98.62 a barrel, rising $2.20, or 2.3 per cent, after jumping more than $5 a barrel.

Both contracts logged their second monthly losses, with Brent down about 4 per cent for July and WTI nearly 7 per cent lower.

Oil pared some gains after the release of data from oil services firm Baker Hughes, which showed that US drillers added crude rigs for a record 23 months in a row, indicating more supply ahead.

Traders carrying sugarcane bunches bought at the Sadek Khan Krishi Market in Dhaka's Beribadh area recently. Demand for these stalks typically peaks amid hot weather, when people walking along the streets can enjoy a refreshing glass of sugarcane juice from various roadside vendors. Sugarcane, which mainly comes to the market from Manikganj, is currently selling for Tk 2,500 per 100 pieces.

PHOTO: PALASH KHAN

Fed's aggressive rate-hike path bolstered by new data

REUTERS

Federal Reserve Chair Jerome Powell said this week he's looking for compelling signs that inflation is cooling before the US central bank will let up on what's so far been its most aggressive set of interest rate hikes in decades.

In data released on Friday, he largely got the opposite. Inflation by the Fed's preferred measure, the personal consumption expenditures price index, jumped 6.8 per cent in June, its steepest increase since 1982, and the rise in core prices - excluding food and energy prices and used by the Fed as an indicator of the inflation outlook - accelerated.

Meanwhile labor costs surged 5.1 per cent in the second quarter from a year earlier, the fastest pace in decades.

The data prompted traders of futures tied to the Fed's target policy to begin to price back in another 0.75-percentage-point interest rate increase at the Fed's September policy meeting, putting the likelihood of that outcome at about a one-in-three, up from one-in-four earlier on Friday.

"I'm convinced we're going to have to do more in terms of interest rate increases," Atlanta Fed President Raphael Bostic said in an interview on National Public Radio's "Morning Edition" program before the release of the inflation and wage data.

"Exactly how much and then what trajectory will depend on how the economy evolves over the next several weeks and months. We're going to get a lot of data ... before our next meeting" on September 20-21.

That data includes more than a dozen critical readings covering inflation, employment, consumer spending and economic growth.

The Fed this week raised the target range for its policy rate to 2.25 per cent-2.50 per cent, and for the first time since the current cycle of rate hikes began in March, Powell declined to specify exactly how much he expected the central bank would have to raise rates at its next meeting.

That, along with his comments about softening consumer spending and a nod to the eventual need for reducing the pace of Fed rate hikes, prompted some analysts and equities traders to conclude the Fed would stop its policy tightening soon.

Much of Friday's data appeared to undermine that thesis.

The employment cost data, which Powell said on Wednesday he would be watching, "doesn't provide any evidence that wage growth is slowing and leaves the Fed on track to lift the funds rate another 75bps at its September meeting," Oxford Economics analysts wrote in a note.

But there was some welcome news on the inflation front on Friday, as the University of Michigan's consumer sentiment index showed US consumers in July lowered their views of where inflation is headed.

Respondents to the survey indicated they see inflation in the next year easing to a rate of 5.2 per cent from their previous expectation of 5.3 per cent in June. That is the lowest one-year price increase expectation since February.

While that decline may provide some comfort that inflation expectations have not become unmoored, it is still far above the Fed's 2 per cent goal.

The Fed's fast pace of rate hikes this year has already begun to slow the economy, contributing to a negative reading on gross domestic product in the second quarter and fanning worries that the economy is already, or soon will be, in a recession.

Powell is keeping his eye on that slowdown, but he was clear this week that with price stability of "bedrock" importance, his sharpest focus is getting inflation back on track toward the Fed's goal.

"We need to be confident that inflation is going to get back down to mandated consistent levels," Powell said.

Brac Bank wins Asian Banker Transaction Finance Award 2022

STAR BUSINESS DESK

Brac Bank has recently won "The Asian Banker Transaction Finance Award 2022" in two categories–The Best Transaction Bank" and "The Best Cash Management Bank" in Bangladesh.

Tareq Refat Ullah Khan, deputy managing director of Brac Bank, virtual received the award from Foo Boon Ping, president and managing editor of The Asian Banker, a press release said.

The Asian Banker, a leading platform in the banking and financial services industry, in its award citation stated that they have chosen Brac Bank for its dynamic and client-centric cash management solutions, trade products, digitisation of transactions and maximum API connectivity with key service providers.

"Our digital platform– 'CORPNet' – helps businesses keep pace with the fast-changing business landscape through this secured and seamless digital transaction services anytime from anywhere," said Selim RF Hussain, managing director of Brac Bank.

Indonesia blocks Yahoo, Paypal

REUTERS, *Jakarta*

Indonesia has blocked search engine website Yahoo, payments firm Paypal and several gaming websites due to failure to comply with licensing rules, an official said on Saturday, sparking a backlash in social media.

Registration is required under rules released in late November 2020 and will give authorities broad powers to compel platforms to disclose data of certain users, and take down content deemed unlawful or that "disturbs public order" within four hours if urgent and 24 hours if not.

Several tech companies had rushed to register in days leading to the deadline, which had been extended until Friday, including Alphabet Inc's, Meta Platforms Inc's Facebook, Instagram and WhatsApp and Amazon.com Inc.

Turkey's tourism revenues triple

REUTERS, *Istanbul*

Turkey's tourism revenues nearly tripled in the second quarter while first-half foreign visitor numbers surged close to 2019 levels, data showed on Friday, recovering from a coronavirus-driven slump and bringing in badly-needed foreign currency.

The rebound, following the lifting of tight restrictions at the height of the pandemic, has been helped by the lira's slide, which lost 44 per cent against the dollar last year and 27 per cent so far in 2022, making Turkey cheaper for foreign tourists.

How to resolve the current account crisis?

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The government spending, therefore, accelerated and a large part of it was leading to a growth in imports of capital goods over time. But the same is also believed to be stimulating national economic growth and employment in the long term.

The issue of time and cost-overruns is a perennial issue in the developing world. Bangladesh is no exception. Rather, it observed persistent improvement in project management. The successful completion of Padma Multipurpose Bridge, Dhaka-Chattogram highways and the like bear testimony to this claim. A long-term capacity building of the government is evident in this area.

The prohibitive current account deficits in 2021-22 are an outcome of all these factors. At the heart of this imbalance lies widening dissaving by both the government and the private sector. While public dissaving is the excess of the government spending over its revenue, the dissaving of the private sector is the excess of private sector investments over gross domestic savings. The policymaker's job is to bring about sustained improvements to both fronts.

I will offer a mix of public policies to achieve this end.

First, government spending must decrease. Every element of government expenditure shall require a critical review. The government's spending on unproductive activities is better eliminated or substantially curtailed and the expenditure for new or early-stage large infrastructures is better deferred for an indefinite period until the economy navigates into sustainability.

The spending on social safety nets shall also need to be revisited and made more efficient. The government is in fact in the process of eliminating or minimising spending of lesser importance.

Second, Bangladesh lived with an overvalued exchange rate for years until 2021. In an environment where a developing country experiences persistent inflation differentials with respect to the rest of the world and more so against the cohort of low-inflationary advanced economies, a de facto fixed exchange rate will result in a persistent real appreciation.

The extent of the real appreciation for Bangladesh is large but varies across countries. The central bank shall need to orchestrate a gradual devaluation of the local currency.

A 15-per cent nominal devaluation has already happened over the last six months. The exchange premium in the open market is an indication that the central bank will likely permit a further devaluation.

A currency depreciation itself will cause the private sector dissaving to improve over time. However, it may be coupled with some fiscal policy reforms. For example, a reduced corporate tax rate will stimulate foreign capital inflow and encourage more capital expenditures by local corporations. Bangladesh is also offering a window of reporting unexplained income or wealth for non-resident Bangladeshis provided that they pay a one-time tax at reduced rates. But the goal should be the repatriation of capital into the country.

Third, tax authorities may revise tariffs and non-tariff regulations discouraging imports of cars and luxury goods. A currency depreciation itself will prove discouraging for this kind of imports. A new tariff in addition and some non-tariff barriers will further diminish their demand. On the other hand, a reduction in tariffs for food and energy imports will mitigate cost-pushed inflationary pressures to some extent.

But the litmus test for the central bank will be to guide exporters to repatriate their foreign exchange in real-time. In times of large currency devaluation, exporters and domestic residents will form an expectation of further devaluation of the local currency and choose dollarisation of their financial assets. This downward expectation revision is an unmitigated sin and it can bind policy-makers in a spiral of currency depreciation without significant improvement in external account imbalance. Bangladesh Bank must focus on managing this speculative behaviour of economic agents.

Fourth, a monetary tightening, and so raising interest rate, is now imperative in order to depress components of aggregate demand and bring down inflation. Household demand for consumption, corporate demand for investments and also government spending shall diminish as interest rates keep rising.

In an environment of soaring inflation, a slowdown of aggregate demand is rightly the policy objective. Bangladesh Bank may move faster in this direction. A relative economic contraction is now desirable for reducing inflation and improving the current account imbalance.

A very unfavourable monetary development is happening across advanced economies. Advanced economies, too, are invariably pursuing monetary tightening and raising interest rates after a decade of low inflation and (near) zero interest rate policies. It is causing a reversal of global capital flow, putting many developing and emerging market economies at the cliff.

This reversal is causing a fast depletion of their foreign exchange reserves, liquidity crises in the financial system, rising interest rates, and currency crises across the developing world. A global capital reversal will cause financial and stock market shocks.

Bangladesh, too, is now embroiled in this unfavourable global development. Many developing countries, which were hitherto resilient, are now hugely constrained by dwindling foreign exchange reserves and rapidly depreciating their currencies.

Finally, critics of the government are drawing an improper equivalence between Bangladesh and other South Asian neighbours such as Sri Lanka and Pakistan with respect to the issue of debt sustainability.

The external debt stock of the country was reported to be $93.2 billion as of May 2022. Of this, the external indebtedness of the public sector was $68.3 billion. It is 19.25 per cent of GDP and 81.4 per cent of it was long-term in nature.

The external indebtedness of the government declined from 42 per cent of GDP in 1991 to less than 20 per cent in 2022. The total debt servicing is about 6 per cent of current account receipts (including exports of goods and services and primary income) and 0.82 per cent of gross national income.

An unfavourable development happened in the area of external indebtedness by the private sector. This volume rapidly increased from $18.6 billion in June 2021 to $25 billion in May 2022. This is an area of monitoring and control by the central bank as 68 per cent of this mounting private sector indebtedness is of short-term credit. A disproportionate share of this private sector external debt is mostly suppliers' credit and is considered to be opaque.

The author is a commissioner of the Bangladesh Securities and Exchange Commission. Views are personal.

Navana wins Toyota Marketing Excellence Award-2021

STAR BUSINESS DESK

Navana Ltd, a subsidiary of Navana Group, recently won the "Toyota Marketing Excellence Award- 2021" for its outstanding performance.

Saiful Islam, senior vice-president of Navana Group, received the award from Akio Ogawa, vice-chairman (automotive division) of Toyota Tsusho Asia Pacific PTE Ltd, at Toyota's Asia Pacific regional head office in Singapore, a press release said.

Wahed Azizur Rahman, chief executive officer of Navana Group, Ahmed Saquib, chief operating officer of Navana Ltd, and Mohammed Arfadur Rahman Bunty, chief corporate affairs officer of Navana Group, were present.

Morshed Alam, chairman of Mercantile Bank, virtually inaugurates the bank's half-yearly "Business Review Conference-2022" yesterday. ASM Feroz Alam, vice-chairman of the bank, Md Anwarul Haq, chairman of executive committee, M Amanullah, chairman of risk management committee, MA Khan Belal, chairman of Mercantile Bank Securities Ltd, and Md Quamrul Islam Chowdhury, managing director, were present. PHOTO: MERCANTILE BANK

Ala Ahmad, chief executive officer of MetLife Bangladesh, and Rahel Ahmed, chief executive officer of Nagad Ltd, exchange signed documents of an agreement on financial protection of insurance for the mobile financial service provider's employees at the latter's head office recently. Jafar Sadeque Chowdhury, additional managing director of the insurer, Nafis Akhter Ahmed, chief corporate business officer, and Ala Uddin, deputy managing director, Maruful Islam Jhalak, executive director of Nagad, and Sheikh Aminur Rahman, chief marketing officer, were present. PHOTO: METLIFE BANGLADESH

Saiful Islam, senior vice-president of Navana Group, receives a crest of the "Toyota Marketing Excellence Award-2021" from Akio Ogawa, vice-chairman (automotive division) of Toyota Tsusho Asia Pacific PTE Ltd, at Toyota's Asia Pacific regional head office in Singapore recently. PHOTO: NAVANA GROUP