ECB does not see repeat of 2008 crisis

REUTERS, *Brussels*

ECB Governing Council member Pierre Wunsch does not expect a repeat of the 2008 financial crisis despite turbulence caused by the collapse of Silicon Valley Bank, arguing European banks were subject to tougher rules than regional US banks.

Banking stocks globally have been battered since Silicon Valley Bank collapsed and Credit Suisse was forced to tap $54 billion in central bank funding, raising questions about other weaknesses in the financial system.

"We don't have any information indicating the European banks to be vulnerable," Wunsch, also governor of the Belgian central bank BNB, told Belgian newspaper L'Echo in an interview published on Saturday.

"If you look at the Belgian banks, they are more solid than the average of European banks. That's why it is very hard to imagine a repeat of the

financial crisis".

Wunsch said it was crucial to distinguish between Europe and the US, where a softer application of capitalisation rules had enabled some regional banks to run up higher interest rate risks than they would have been allowed to in Europe.

"It is important to make a distinction between Europe, where banks are subject to certain rules, and the US -- with Credit Suisse, in my opinion, being a case apart," he noted.

"We do neither see a risk of contagion nor a risk of instability if we look at the figures from a rational perspective," the central bank governor said.

Asked about the future of Credit Suisse, Wunsch said he only saw a "very low" likelihood that the bank might go bankrupt.

"For one, according to the public figures its situation is not bad, in itself, and, secondly, the Swiss authorities would intervene if necessary as it is a bank of systemic importance," he said.

Labourers at a boatyard in Nizampur village under Kalapara upazila are seen working on the only wooden trawler being constructed so far this year. Ranging from 40 to 55 feet in length, each of these vessels can be used for sea fishing for about 10 years. PHOTO: SOHRAB HOSSAIN

Wooden trawler industry on the wane

SOHRAB HOSSAIN, *Patuakhali*

The once vibrant wooden trawler industry in Bangladesh is losing its sheen as the use of these vessels has gradually declined over the years, according to manufacturers.

More than 2,000 wooden trawlers would engage in sea fishing off the coast of Patuakhali just 15 years ago but now, their numbers have thinned to about 250 in face of various adversities.

The demand for new vessels has decreased as less people are interested in sea fishing due to a number of bans each year, the threat of being attacked by pirates, labour shortages and higher fuel costs.

Fishers and traders in the district say hundreds of wooden trawlers were built each year before Cyclone Sidr hit in 2007. At the time, thousands of carpenters across Kalapara upazila and Rangabali upazila earned a living from the industry.

But now, the demand for wooden trawlers has fallen to such an extent that only three or four new vessels are made each year.

Jasim Uddin, head craftsman of the wooden trawler industry in Kalapara's Mahipur area, said he has been making the vessels since 1995.

Built out of good quality sapwood, mahogany and chambal wood, these trawlers take about three months to make at a cost of around Tk 40 lakh.

Each trawler, which ranges between 40 and 55 feet in length, can be used for about 10 years.

Before Cyclone Sidr, Uddin would make three or four trawlers each year, earning him as much as Tk 4 lakh per vessel.

Shahjahan, a craftsman of the Alipur area, said around 1,000 people were working in the industry just 15 years ago. However, many of these workers have since become unemployed due to the lack of work.

Now, just 100 to 150 people are living off the profession with much difficulty, he added.

Yusuf Fakir of Nizampur village is the only local craftsmen now to build new wooden trawler.

Fakir, who worked as a labourer on fishing trawlers since his childhood, had eventually decided to start making trawlers seeing as it was all he knew.

"I am still in this profession but it is not as profitable as before," he said.

Fakir went on to say that the government imposes numerous fishing bans each year.

Overall sea fishing is off limits for 65 days from May 20 to July 23 while Hilsa fishing is banned for 22 days from October 7 to 28 and Jatka Hilsa is conserved for eight months from November 1 to June 30.

"So, we are unable to fish for most of the year," he said.

Additionally, the seas are still plagued by pirates so even when fishers sail out, they are often attacked and looted for their catch, fuel, food and other goods.

Considering such losses, many people are leaving the job in search of work elsewhere. As a result, the demand for wooden trawlers has dropped, Fakir added.

Yusuf Khan, a resident of the same area, said sea fishing was his ancestral profession. Following his father's death, Khan took over the family business in the year 2000. Having started with just two wooden trawlers, Khan went on to own a total of nine vessels within the next 10 years.

However, he started facing steep losses due to a surge in piracy with some fishers even being kidnapped and ransomed. Ultimately, Khan was forced to sell his vessels and leave the profession.

Other former fishers in the area, such as Zainal Majhi, Malek Howladar and Babul Majhi, echoed the same.

With this backdrop, Ansar Uddin Mollah, president of the Alipur Fishing Trawler Owners Association, said craftsmen are not making new trawlers for the lack of buyers.

Fazlur Rahman Gazi, president of the Mahipur Fish Market Owners Association, said many people have left the profession as profits are not adequate.

When the 65-day ban is in effect, trawlers from neighbouring countries invade the waters and take away fish. So, some 5,000 fishers have left the profession in the last 10 years due to dwindling profits.

As a result, there are no more people to invest in making new trawlers, he added.

US bank failures and role of central banks

MAMUN RASHID

We just witnessed the collapse of two large US banks -- Signature Bank and Silicon Valley Bank (SVB). A few others are also reportedly in the same mess.

History taught us that banks do fail. But these circumstances are uncannily like 2008 and may be worse. We can easily remember the case of Lehman Brothers in 2008. However, SVB was no Lehman Brothers. Where Lehman bet almost its entire balance sheet on risky mortgage bonds, SVB had a surprisingly conservative balance sheet. As of December 31, 2022, SVB had $173 billion in customer deposits and only $74 billion in loans.

SVB did not fail because it was making a bunch of high-risk NINJAS (no income, no job, and no assets) or dicey loans. SVB failed because it parked most of its depositors' money ($119.9 billion) in US government bonds.

US government bonds are supposed to be the safest asset. But many didn't realise even government bonds can lose value. Most of SVB's portfolio was in long-term government bonds, like 10-year Treasury notes, and they are extremely volatile.

In March 2020, the Treasury Department sold 10-year Treasury notes at as low as 0.08 per cent. A week ago, the yield was more than 4 per cent.

As treasury managers, we were made to understand that bonds lose value as interest rates rise. And this is what happened to SVB. They were loaded with long-term government bonds when interest rates were much lower. The average weighted yield of its bond portfolio was just 1.78 per cent.

The same bonds that SVB bought two to three years ago at 1.78 per cent now yield between 3.5 per cent and 5 per cent, meaning that it was sitting on steep losses. Its 2022 annual report, published on January 19, showed about $15 billion in unrealised losses on government bonds. It only had about $16 billion in total capital, so the $15 billion in unrealised losses was enough to kill it.

Since the 2008 financial crisis, legislators and bank regulators have rolled out an endless number of new rules to prevent another banking crisis, but it seems without much results.

SVB passed its stress tests very satisfactorily. It also passed the examinations of the Federal Deposit Insurance Corporation (FDIC), the primary banking regulator in the United States, its financial audits, and its state regulatory audits. It was also followed by dozens of Wall Street analysts and many of them had previously issued strong 'BUY' advice on its stock.

SVB published its 2022 annual financial report after the market closed on January 19. This was the same financial report where it posted the $15 billion in unrealised losses.

The day before the earnings announcement, SVB stock closed at $250.04. The day after the earnings call, the stock closed even higher at $291.44. This means despite SVB management disclosing that its entire bank capital was effectively wiped out, Wall Street investors excitedly bought the stock and bid the price up by 16 per cent. The stock continued to rise, reaching $333.50 on February 1.

It told us that all the warnings were there but the experts failed again. The FDIC saw SVB's dismal condition and did nothing. The Federal Reserve also reportedly did nothing. Within a matter of days, its stock price plunged, depositors pulled their money, and the bank failed.

The same happened with Lehman Brothers in 2008 and to some extent with a few others too. What were the lessons learned?

Now is the time to return to basics: better liquidity management, better balance sheet management, and of course, better internal governance, not very good profit or fancy awards.

The author is an economic analyst

OECD raises global growth forecast

But recovery fragile, it says

AFP, *Paris*

The OECD raised its global economic growth forecast on Friday as inflation eases and China emerges from Covid restrictions but warned of vulnerabilities as seen in the US bank sector turmoil.

The Organisation for Economic Co-operation and Development said it now expects the global economy to grow by 2.6 per cent this year compared to 2.2 per cent in its previous forecast in November.

But it remains under the 3.2-per cent expansion seen in 2022, the Paris-based OECD said in its updated economic outlook titled "A Fragile Recovery".

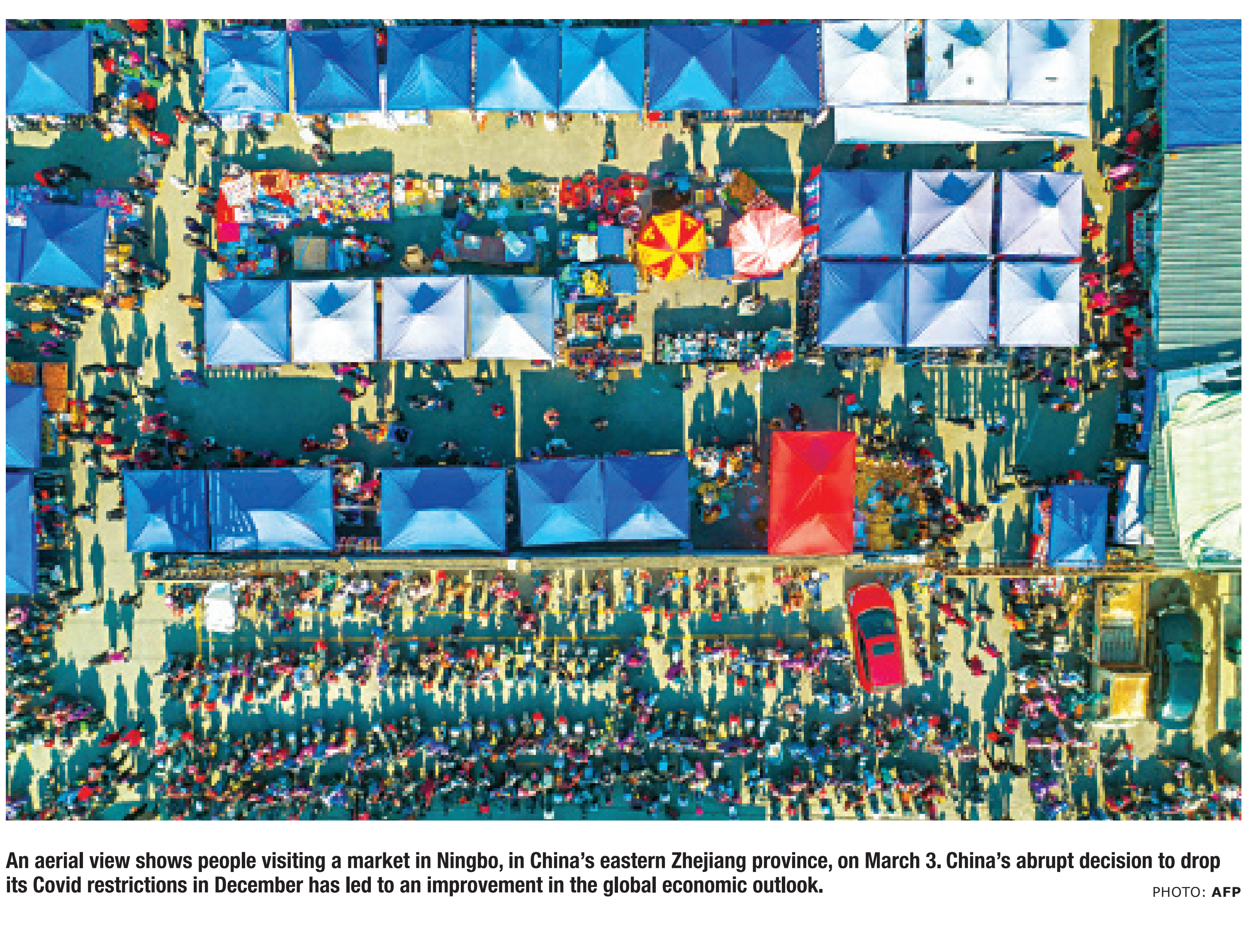
"More positive signs have now started to appear, with business and consumer sentiment starting to improve, food and energy prices falling back, and the full reopening of China," the OECD said in its Interim Economic Outlook report.

But it warned "the improvement in the outlook is still fragile. Risks have become somewhat better balanced but remain tilted to the downside".

It cited uncertainty over the course of the war in Ukraine, the risk of renewed pressure on energy markets and the impact of rising interest rates.

Central banks worldwide have hiked rates in efforts to tame decades-high inflation that soared after Russia invaded Ukraine, but markets fear rising borrowing costs could tip economies into recession.

"Signs of the impact of tighter monetary policy have started to appear in parts of the banking sector, including regional banks in the United States," the OECD said.



An aerial view shows people visiting a market in Ningbo, in China's eastern Zhejiang province, on March 3. China's abrupt decision to drop its Covid restrictions in December has led to an improvement in the global economic outlook. PHOTO: AFP

Startups of India have deposits of $1b in SVB

REUTERS, *Mumbai*

Indian startups had deposits worth about $1 billion with embattled Silicon Valley Bank and the country's deputy IT minister said he had suggested that local banks lend more to them going ahead.

California regulators shut down Silicon Valley Bank (SVB) on March 10 after a run on the lender, which had $209 billion in assets at the end of 2022.

Depositors pulled out as much as $42 billion on a single day, rendering it insolvent. The government stepped in to ensure that depositors had access to all their funds.

"The issue is, how do we make startups transition to the Indian banking system, rather than depend on the complex cross border US banking system with

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