



COLLAGE: ZARIF FAIAZ

SILICON VALLEY BANK COLLAPSE

Should US bank failures concern our financial sector?



OPEN SKY
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In a village, there used to be a rich man who used to drink wine every night. Eventually, he died of liver damage. A poor man in the same village used to hate the rich man for his drunkardly behaviour. However, the poor man was a chainsmoker and he, too, died one day of lung cancer. On the surface, their deaths are not correlated, and their terminal diseases are different. But the core cause is the same: addiction.

What has led to bank failures in the US may look different from what Bangladeshi banks are living through now, but the bottom line is the same. The failure to understand the term mismatch between assets and liabilities, and inept risk management – which led to the collapse of two US banks – are quite common in most Bangladeshi banks (with a slightly different texture).

The Silicon Valley Bank (SVB) was founded in 1983. It focused on the clientele of technology start-ups and venture capital. Being situated in the heart of the world's leading tech village in Santa Clara, California, the bank became very popular among young tech entrepreneurs, particularly in the 1990s. The Covid pandemic forced remote workers to make the best use of technology and the internet. And that acted as a springboard for the bank, whose deposits rose steeply to \$175 billion in 2022, from a low of \$62 billion in 2020. SVB invested that money into the most secure treasury bonds and mortgage-backed securities.

SVB's decision couldn't have been a better one at the time because of the pandemic-led recession, when the stock market was in a pathetic state.

But sticking to that stance even in 2022-2023 triggered the sudden death of SVB, because it failed to update its strategy from what it was in 2022 when the US' central bank took on a new tightening stance – just diametrically opposite to its position in 2020-2021. With rising inflation, which the US hadn't seen in 40 years, the Fed kept on raising its policy rate from early 2022 – which made the return on government bonds much more attractive than before. But SVB was sitting on a mountain of previously-purchased bonds, which were supposed to earn near-zero interest rates. And, hence, they were less attractive to secondary market buyers.

Unlike stocks, bonds have a different trajectory. Bondholders wait till the maturity date to redeem the full face value of their instruments, while stocks have no maturity timelines. As such, SVB's managers were waiting on the maturity dates rather than selling them on secondary markets at losses. This was akin to holding onto a deposit pension scheme, waiting for its maturity date, rather than breaking it before its maturity and

thus incurring losses.

But luck didn't favour the SVB due to increased pressure on deposit withdrawals, stimulated by rising inflation and the ensuing increased demand for cash. SVB was compelled to sell off some public securities at losses, hurting their income statement.

On March 8, the SVB disclosed its loss of around \$2 billion, sparking a fire of fears among tech depositors who are apt at communicating messages within a couple of minutes. The bank's entire tech clientele rushed frantically to withdraw their deposits at lightning speed. Within 24 hours, \$42 billion evaporated from the bank's vault, triggering a classical bank run and forcing the collapse of the 40-years-old financial institution.

The ghost of the Great Depression reappeared under a different facade.

Bangladesh's financial policymakers are quick to brush aside any risk the country's financial sector may be facing. Some may even go as far as to claim Bangladesh's financial stability as being much superior to that of the US'. But their claims are fundamentally flawed if they downplay what has happened in the US. Herein lies the relevance of the story of how the poor man died despite not drinking wine every night like the rich man. The state of asset-liability mismatch and the risk of a liquidity crisis are quite prevalent among all Bangladeshi banks.

The SVB wasn't supposed to fall for reasons which lead other banks to die. It was a sound bank with no fears of default loans or insidious plundering by its directors – which also means most Bangladeshi private banks are fragile. The SVB's asset position was quite good at \$209 billion against its liability of deposits to the tune of \$175 billion. The nature of the asset side was also secure because of the US treasury bonds and mortgage-backed securities. But the management failed to address the term mismatch between deposits and investments.

Deposits being susceptible to fluctuating withdrawal patterns is a situation belonging to the short run, while investment securities being locked under maturity contracts falls under the long run. Still, the tenure mismatch would have been manageable to some extent if customers didn't keep on withdrawing cash at a more-than-anticipated rate due to growing consumption demand and a stubborn inflation during 2022-2023.

The Signature Bank of New York,

whose main clientele was law firms, collapsed due to a different set of reasons. It was already known to be a distressed bank due to its past obsession with crypto currency. When the bubble of crypto burst in 2022, Signature Bank's asset base deflated, too. Still, the bank was more or less surviving. But the panic that originated from the SVB also erupted among the depositors of Signature, triggering a premature death that resembles the same bank run of the 1930s. The ripple effect hit Credit Suisse in Europe, too, though Credit Suisse has been long known for troubles and scandals.

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The governor of Bangladesh's central bank recently blamed the periodical mismatch in the banking sector as a major cause of rising defaults. Though the major cause is political indulgence and policy slackness for the big defaulters as well as fund launderers, the governor is quite right in pointing out a flaw in the banking sector that has been prevalent for decades. Short-term deposits can best be used for working capital, not for long-term funding of investments (which should be collected from the stock market).

The US government stood beside the SVB, and the rescue effort was justified since the bank was not a house of defaulters and fund looters. The SVB has helped technology to boom and has created thousands of jobs. Its assets weren't toxic. President Biden warned that the wrongdoers in the bank's management will be brought to justice. If Bangladeshi policymakers can't bring local wrongdoers to justice, that would be the biggest concern for the country's financial industry.

The futility of political dialogue



THE STREET VIEW

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MOHAMMAD AL-MASUM MOLLA

It is an established fact that elections bring about a gust of uncertainty for Bangladesh. Every election is preceded by a prolonged period of tension, when every discussion appears to swirl around the same concerns: "Will it be free, fair, and inclusive?" and "Will the parties – meaning the two major parties, Awami League and the BNP – hold talks to avert any uncertainty?"

With the national election coming up in less than a year, the situation is no different this time, either. Regarding discussions, Prime Minister Sheikh Hasina, also the president of the ruling Awami League, apparently ruled out any possibility. "Who will we hold a dialogue with? We held a dialogue [with them] before the 2018 election. What was the result? They did nothing except make the election questionable."

While the PM hinted that there would be no talks, the BNP went one step further.

The party's secretary general, Mirza Fakhrul Islam Alamgir, said,

The history of distrust between the two political parties and their leaders is nearly as old as the journey of democracy in Bangladesh. And it is still gradually widening. That's why we often see that whenever there is mention of talks, the opposition camp welcomes it, and the ruling party gives it a cold shoulder.

After the BNP government assumed office in 1991, the AL questioned the neutrality of arrangements by a political party following BNP's interference in the Magura by-polls of 1994. At that time, the Commonwealth secretary general, Ninian Stephen, came to Dhaka as a special envoy to break the political impasse, but that was not accepted by the ruling BNP.

So, the initiative fell flat on its face.

After that, a group of civil society members took an initiative to mediate talks between the two battling camps, but neither of them warmed to it. Noted economist Rehman Sobhan, journalist Foyez Ahmed, barrister Syed Ishtiaq Ahmed, former Justice Kamal Uddin

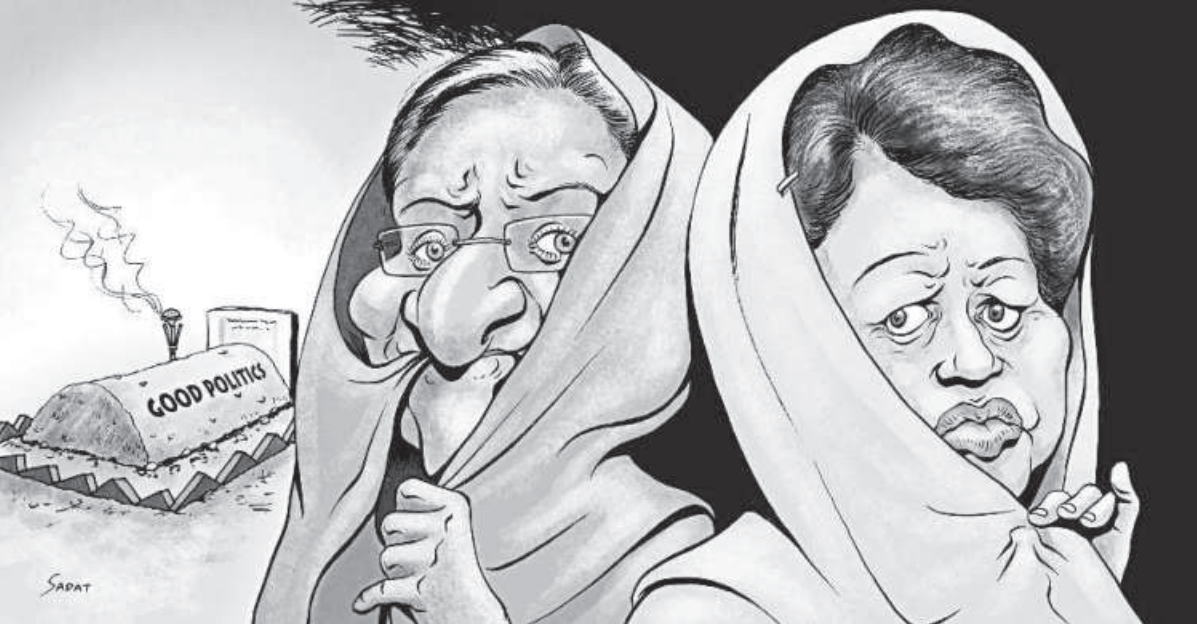
street clash and an eventual takeover by the military on January 11, 2007, which gave way to a state emergency.

We can also recall the UN assistant secretary general for political affairs Oscar Fernandez-Taranco's visit to Bangladesh to initiate talks. But that, too, did not see the light of the day, and instead resulted in BNP boycotting the election and AL forming the government with 153 lawmakers elected uncontested.

In an evolved democratic world, dialogue is regarded as an inevitable consequence of politics. Democracy and compromise are often two sides of the same coin. And a dialogue is key to reaching an agreement.

In the West, for instance, no matter how difficult and crooked an issue may seem, it is ultimately through dialogue that a decision is made. And public opinion is given the highest importance. Not only domestic issues, but international issues have also been settled through talks. Even far worse confrontations such as wars come to an end through talks.

The problem in Bangladesh is that Bangladeshi politicians consider compromise as a weakness and a sign of defeat. No one wants to "show weakness". Political parties must have a "winning attitude", they seem to believe. But do they also keep in mind the cost at which this is being achieved? Apparently not – and that is why talks fail and confrontation



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CARTOON: FROM THE ARCHIVES

"We will not engage in any talks with [the prime minister]. Why should we hold a dialogue with her when she does not keep her word? That's why we did not speak of dialogues for once."

If these two statements are to be taken as the last word from each side, then there is no possibility of a dialogue before the election scheduled for late December or early January 2024. The one inevitability, if there are no talks, is violence and destruction – for which both parties have been responsible when they were in the opposition.

Bangladesh's recent political history, since the 1990s, shows that these talks are doomed to fail no matter what. There have been instances where civil society members and foreign diplomats stepped in to have the two sides come to an understanding. But the talks were doomed mostly due to the uncompromising mentality of both parties.

Hossain and former ambassador Fakhruddin Ahmed were among those who tried to mediate talks in 1996.

It was only after it was faced with a strong joint campaign from the Awami League, Bangladesh Jamaat-e-Islami, and some other political parties that the BNP government felt compelled to introduce a non-partisan interim government to oversee the national election.

In 2001, before the election, former US president Jimmy Carter tried to mediate a dialogue. But his initiative did not succeed, either.

Then in 2006, the historic talks between the two seconds-in-command of BNP and Awami League took place. BNP Secretary General Abdul Mannan Bhuiyan and Awami League General Secretary Abdul Jalil sat at a dialogue that went on for about three weeks on the issue of election-time government, but they could not reach an agreement. This uncertainty led to a very violent

becomes imminent.

This has become a custom in our politics. Here, talks, elections, and democracy are measured through the party lens, not through the lens of the common people's interest or the country's welfare. And the responsibility of the failure of the talks typically rests on the shoulders of the ruling party, as the onus is upon them to offer something.

However, since there is no precedent of successful dialogue in Bangladesh, one might expect the inevitable – more tension and likely clash. It does not appear yet that the main opposition camp will prove to be as organised and strong in the field to compel the ruling Awami League into certain concessions. Then again, no one had thought the opposition camp would be able to pull off their divisional rallies with such huge public turnout, either. Uncertainty and apprehension should be in good measure for both camps. At least, for now.

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 Sound of surprise

5 Solemn

10 Smell

11 Think about

13 Lion feature

14 Hun leader

15 Cause trouble

17 French affirmative

18 Propriety

19 Light metal

20 Drake's music

21 Shop clamp

22 Expose to intense heat

25 Cut into cubes

26 Moon goddess

27 Attack command

28 Dir. opposite WSW

29 Parvenu

33 Quarterback Manning

34 Reader of secret messages

35 Holiday event

37 Romantic flower

38 Put away

39 Eye part

40 Contest form

41 Landers and Lee

DOWN

1 Lose one's mind

2 Wise saying

3 Boom type

4 Administrative capital of South

5 Regurgitated

6 Tribe symbol

7 Wee worker

8 Foolish

9 Dom of "Spaceballs"

12 Poured

16 Asia's – Sea

21 Long-reigning queen

22 Censors

23 Be behind

24 Goller's creak

25 Brake type

27 Swift

29 Cow feature

30 Decorate

31 Amber or myrrh

32 Lock of hair

36 Gallery fill

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5-23

YESTERDAY'S ANSWERS

M O S Q U E C A L F

A R O U S E O V A L

R A F A E L H O R A

S T I R S M A C A W

H E A R N O N A M E

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J O L T I N J O E

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