Standard Ceramic narrows losses

STAR BUSINESS REPORT

Standard Ceramic Industries Ltd, a tableware ceramic manufacturer, reduced losses in the fiscal year 2022-23 as sales dropped.

The net loss stood at Tk 12.29 crore in the last financial year against Tk 19.32 crore in 2021-22.

The ceramic company recorded a turnover of Tk 24.44 crore in FY23, down from Tk 31.13 crore in FY22, according to the financial statement.

Shares of the company declined 8.93 percent to Tk 115.30 on the Dhaka Stock Exchange (DSE) yesterday.

As of June 30, the company's liabilities stood at Tk 40 crore while it was Tk 24.80 crore on the same day a year ago.

In a filing, the ceramic maker said various reasons like the post-Covid-19 financial crisis, the shortage of raw materials and suspension of gas and electricity supply led to the stoppage of its production.

"We could not import raw materials regularly for around last two years due to a lack of capital and difficulties in opening letters of credit amid the shortage of the US dollar," said Jamal Uddin Bhuiyan, company secretary of Standard Ceramic.

BBS Cables records 33% higher profit in Q2

STAR BUSINESS REPORT

BBS Cables Limited registered a 33 percent year-on-year increase in profit to Tk 2.5 crore in the October-December period of the ongoing financial year.

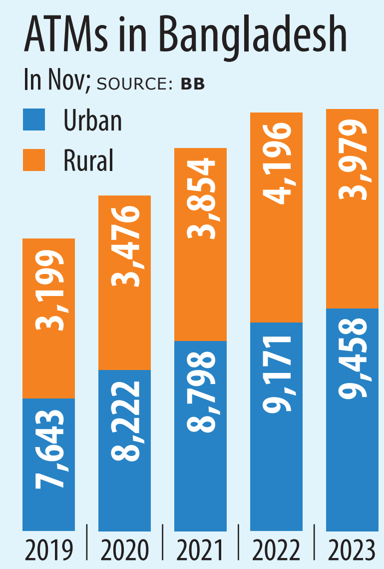
The manufacturer of electrical cables and wires made a Tk 1.90 crore profit in the second quarter a year ago, according to the un-audited financial statement.

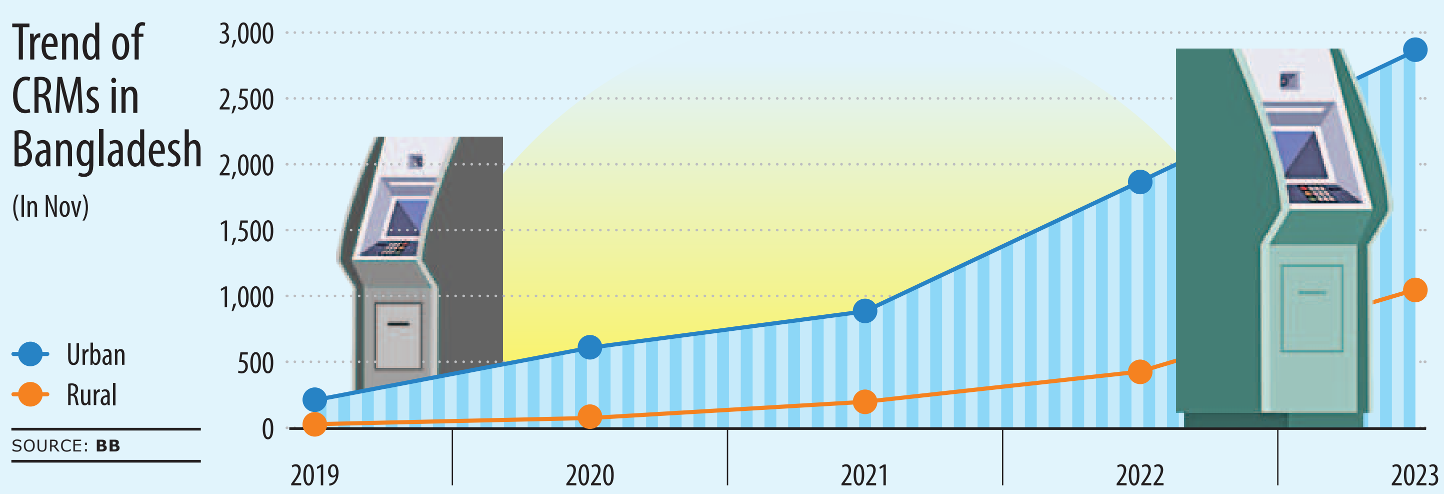
Therefore, BBS Cables reported earnings per share of Tk 0.12 for the second quarter of 2023-24 against Tk 0.09 a year ago, according to a disclosure on the Dhaka Stock Exchange yesterday.

The company said the EPS increased thanks to its performance in managing assets, controlling costs and maintaining good sales prices by managing trade discounts although sales decreased.

However, the company incurred a loss of Tk 4.4 crore in July-December of FY24, a reverse from a profit of Tk 4.8 crore in the identical period in FY23.

PHOTO: AMRAN HOSSAIN





Banks phasing out ATMs as focus shifts to both deposit and withdrawal

SOHEL PARVEZ

Automated teller machines (ATMs) were once a symbol of modern electronic banking for facilitating quick and easy cash withdrawals alongside other banking solutions, including credit card payments and balance confirmation.

However, banks in Bangladesh are now switching to cash recycling machines (CRMs) as they provide customers the added convenience of being able to deposit or withdraw funds from a single location.

Besides, CRM usage is helping banks reduce their operational expenses associated with having to load the machines with cash for withdrawals by recycling deposited funds.

At the same time, people are increasingly turning toward electronic solutions for fund transfers, bill payments and other transactions in a trend that is gradually reducing the need for cash handling.

Data of Bangladesh Bank showed there were about 13,732 ATMs in the country as of August 2023. However, the number fell to 13,437 by the end of November that year as banks started reducing the number of ATMs in rural areas.

On the other hand, CRMs were first introduced in Bangladesh just seven years ago but their usage has steadily risen with banks having installed 3,897 units as of last November.

Arup Haider, head of retail banking at City Bank PLC, agreed that electronic solutions are becoming exceedingly popular payment methods.

For example, Mobile Financial Services (MFS) are now a major medium for conducting transactions, thereby reducing the need for cash withdrawals and furthering the country's move towards a cashless society.

Additionally, banks are gradually replacing ATMs with CRMs as the latter enables customers to deposit or withdraw money in real-time from a single spot, he said.

Haider also informed that like ATMs, which mainly facilitate cash withdrawals, banks are gradually phasing out cash deposit machines (CDMs) as these too have little purpose other than taking deposits.

Moreover, the money deposited through CDMs does not show in the customer's account until after the bank's cash officers register the transaction, he added.

And although installing CRMs required more investment compared to ATMs and CDMs, banks are preferring CRMs as they reduce the cost of cash replenishment.

The number of ATMs fell from 13,732 in August 2023 to 13,437 by the end of November that year, BB data shows

"A lot of cost goes into loading cash in ATMs both in terms of money and time. But when it comes to CRMs, it is actually reducing the operating cost," Haider said.

Md Shafquat Hossain, deputy managing director and head of retail banking at Mutual Trust Bank PLC, said the number of CRMs will grow as they facilitate both deposits and withdrawals.

"These are benefiting banks too. They can bring down the queue of clients in branches," he added.

Meanwhile, as the cost of operating ATMs is high, some banks are depending on the ATMs of other banks to serve their customers instead of establishing their own.

Md Mahiul Islam, deputy managing director of BRAC Bank, said some big banks are downsizing the number of their ATMs.

"We did not close any ATMs recently. Instead, we are opening sub-branches featuring ATMs," he added.

In May 2023, Standard Chartered Bank (SCB) Bangladesh began to restrict access to ATMs at its branches to encourage cashless transactions.

It eventually closed down several of its ATM outlets.

In an email response regarding the closure of ATMs, SCB said as cash and ATMs lose relevance and Bangladesh Bank charts a course to become cashless by 2027, it was following suit.

"We started promoting cashless lifestyle through campaigns that we started in March 2023," SCB said.

"We believe in having separate ATM networks for each bank but having them at the same locations is redundant not only in terms of investment for installation, but the use of electricity and carbon emissions associated with the operation of these networks," it added.

SCB also said that since almost all of the ATMs were connected through Visa/Mastercard/ National Payment Switch Bangladesh (NPSB) network, it is only a matter of time before there is a convergence of these networks.

However, Abul Kashem Md Shirin, managing director and CEO at Dutch-Bank PLC, said demand for cash withdrawal through ATMs/ CRMs will persist for some time in the future.

"This is because people in Bangladesh are still not ready to go fully cashless. But the growth of ATMs will not be that high anymore as CRM usage will grow," Shirin added.

At present, Dutch-Bangla Bank PLC has 5,500 ATMs and 2,000 CRMs across the country.

The private bank recently placed work orders to buy another 3,000 CRMs as a part of its effort to install the device at all branches.

Why banks fail?

DH CHOUDHURY

There is no single and straight answer to this question. The causes of failure are multiple and complex. We shall try to analyse some of them and see if we can arrive at a rational outcome.

The modern banking system runs on a principle called "fractional reserve banking". This principle permits banks to lend money after keeping in reserve a fraction of the deposit to provide for withdrawal.

Each loaned amount is credited to the borrower's account. Thus, a new demand deposit is created to the extent of each loan. These new deposits are known as "derivative deposits". This is how banks can create new money.

To understand the vastness of this issue, let us consider some examples of bank failure at home and abroad:

In Bangladesh, banks are not allowed to fail. For cultural and political or perhaps because of public sentiment, banks are provided with central bank funding and support to thrive as going concern for an indefinite period.

In 1974, Herstatt Bank, a privately owned bank in the German city of Cologne, collapsed because of over-trading in the foreign currency markets. The bank indulged in cross-border foreign currency trading in multiple time zones.

The well-established bank went burst due to failure to settle payment obligations on a timely basis. Before this incident, the banking community was not aware that there was a risk called settlement risk. To mitigate the risk, real-time gross settlement (RTGS) came into being.

Bearing Bank, a London-based bank, collapsed due to reckless trading of its Singapore-based trader, Nick Lesson. He took huge exposure in derivatives, a speculative capital market product. There was no supervisory control over this rogue trader in his 30s. An investment bank with over 200 years of great legacy went bankrupt in the hands of a flamboyant trader.

Lehman Brothers, the second-largest US investment bank, failed in 2007 for its betting on a US sub-prime mortgage derivative called "collateral debt obligation".

It got overexposed to one single derivative product, ran out of cash and had no collateral to borrow from the Federal Reserve System or from the overnight money market. This was a classic example of greed and impulsiveness.

The recent failure of Silicon Valley Bank was generated by market risk. The bank invested heavily in treasury bonds. It neglected to consider the emerging market risk arising from the interest hike by the US Federal Reserve. At one point in time, it had no cash to pay customer withdrawals.

Banks can create money by fractional reserve banking. It can provide temporary liquidity to its cash flow by borrowing from the overnight money market. It can borrow from the central banks. These tools provide opportunities for banks to hide the underlying stress and at times to take foolish risks.

Again, the banking budget is time-bound. All efforts are set out for the current year's result. In other words, the profit motive keeps bankers bogged down in the numbers and the timeframe, oblivious of their true values.

Conservatism is the essential attribute of bankers. Conservatism in the banking context is the urge to conserve the depositor's interest ahead of profit motives.

Banking truly is a business in which one makes a modest and definite income. Flamboyance and recklessness to earn big profits have no place in the banking realm.

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Europe must not weaponise euro

ECB policymaker warns

REUTERS, *Riga*

The euro zone should not weaponize its own currency in a global conflict as that could ultimately undermine it, an influential European Central Bank policymaker said on Friday, just as the EU was contemplating seizing Russian state assets.

European officials have been debating for months whether to confiscate frozen Russian assets, including central bank reserves, to use the cash to fund Ukraine's reconstruction.

But some are concerned that the broader repercussions of such a move, from retaliation to loss of confidence in European assets, will far outweigh the gain.

"Weaponizing a currency inevitably reduces its attractiveness and encourages the emergence of alternatives," Bank of Italy Governor Fabio Panetta said in a speech without directly referring to Russia.

"This power must be used wisely, however, because international relations are part of a 'repeated game'."

Europe should still help pay for Ukraine's war effort, ECB policymaker Martins Kazaks said separately and argued that the political decision on how to fund that should not be based on the fate of European assets stranded in Russia.

"Forget about the assets stranded in Russia," Kazak, Latvia's central bank governor said, arguing that Europe will likely never recover these.

"I think that hopes that very soon we will be back to the old normal is an illusion," he told a conference. "We must stop helping Russia wage this war by still trading directly or indirectly."

Rock and hard place? China opts to hold yuan

REUTERS, *London*

China's seeming determination to hold the yuan stable in the face of a deflationary asset price bust and capital flight leaves it with an unenviable conundrum familiar in past property crises around the world.

Does it hold the currency steady to prevent a further run on foreign investor confidence? Or should it entertain another export-boosting yuan depreciation as an alternative to the 'internal devaluation' of falling domestic consumer and asset prices already crimping growth?

For now, as government officials publicly state almost daily, it continues to opt for a basically stable exchange rate.

And curiously, the still tightly controlled yuan held firm this week even as authorities moved to ease monetary policy once again to stabilise another alarming lurch lower in China stocks.

For some, the fact that Beijing may be at last ratcheting up piecemeal policy supports to date may be enough of a confidence boost to buoy the currency despite the prospect of lower interest rates.

"Proactive policies can bring more positive impact from the risk sentiment channel, which may overcome the pressure from its yield disadvantage in the near term," HSBC's chief China economist Jing Liu and team told clients.

What's more, expectations of US and European interest rate cuts later this year may also allow China some currency wiggle room - unlike last year when the yuan fell 8 percent as Chinese rates were cut while western central banks tightened.

But the "sentiment channel" may have to work hard to convince foreign investors - many of whom have removed most all direct exposure to China's markets as they await next steps and try to figure out Beijing's priorities.

An employee packages 100-yuan notes at a bank in Nantong in China's eastern Jiangsu province.

PHOTO: AFP/FILE

And the question of why Beijing would even want a strong yuan at this juncture looms large.

"What are the alternatives for China? One thing is they could devalue the currency - but they don't want to," said Cesar Perez Ruiz, chief investment officer at Switzerland's Pictet Wealth Management, adding he has sold out of China last year and remained on the sidelines with no direct exposure.

"The other thing is to grow exports through internal devaluation of prices and wages - as countries like Spain, Ireland and others did over 10 years ago - but that's not great for growth of the country."

China finds itself on the other side of the boom years of rapid growth and a productivity boom, nursing a popped credit-fuelled property bubble, slowing growth and falling prices.

US corporate, banking and portfolio money is exiting - rattled by geopolitical rifts, bilateral investment curbs, fractured world trade patterns and also a population decline that's sapping future growth potential.

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