US adds Japan to its currency watchlist

AFP, *Washington*

The United States added Japan to its "monitoring list" of major trading partners whose currency practices "merit close attention" on Thursday, while reaffirming that none had been designated as a currency manipulator.

The Treasury Department's semi-annual report looks at countries with big trade surpluses that actively intervene in foreign exchange markets to gain trade advantages.

In its report, the Treasury Department said Japan had met two out of the three criteria needed for "enhanced analysis," namely "having a material current account surplus and a significant bilateral trade surplus with the United States."

But it was not deemed to have met the third test, being "engaged in persistent one-sided intervention in the foreign exchange market."

Japan joins China, Japan, Taiwan, Malaysia, Singapore, Vietnam and Germany on the monitoring list, the US agency said in a statement, with none meeting all three criteria to merit enhanced analysis.

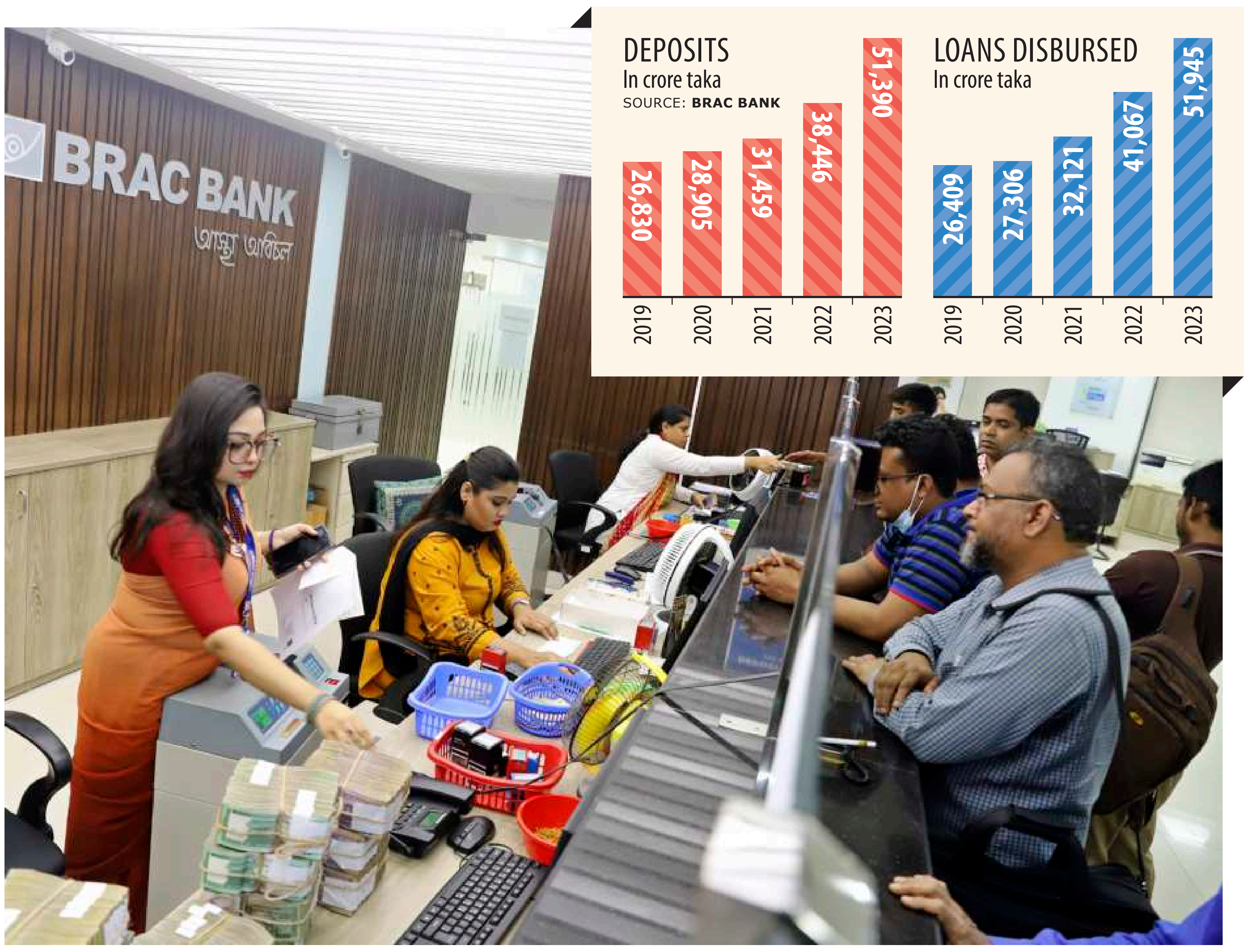
Treasury Department's semi-annual report looks at countries with big trade surpluses that actively intervene in forex markets to gain trade advantages

"No major US trading partner manipulated the rate of exchange between its currency and the US dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade during the four quarters through December 2023," the Treasury statement said.

Japan's addition comes after the authorities there began intervening in the currency markets in April to bolster the flagging yen, which has cratered from around 115 per dollar before Russia's February 2022 invasion of Ukraine to almost 160.

This was due in part to the Bank of Japan's decision to maintain ultra-low interest rates while other central banks have hiked theirs.

Since then, the authorities have spent around $62 billion to help prop up the Japanese currency, according to government data published late last month.



BRAC Bank thrives on SMEs that many consider a no-go

MD MEHEDI HASAN

Small and medium enterprises (SMEs) are considered risky clients by most formal sector lenders since their financial health is weak and they are not good at managing risks and are expensive to lend. However, BRAC Bank has a different story to tell.

In 2001, the private commercial lender started its journey with the vision of providing banking solutions to unbanked SMEs, the backbone of the economy. Two decades later, its enthusiasm about the segment has not faded.

"We have become better at managing the SME business, finding solutions, and understanding and lowering the risks," said Selim RF Hussain, managing director and chief executive officer of BRAC Bank.

He spoke during an interview with The Daily Star recently as the bank is set to celebrate its 23rd founding anniversary on July 4.

"Majority banks are afraid of SMEs because they present higher risks, it is expensive to lend to them, and the NPL ratio in the segment averages double-digit, which is a no-go," he said.

The non-performing loan (NPL) in the SME segment is low at BRAC Bank thanks to the years of experience of dealing with them and learning how to do it better, according to Hussain.

"This has not happened overnight. We have invested heavily in people, process and technology."

Hussain said when he joined the bank as the managing director and CEO in 2015, the NPL ratio in the SME segment was close to double digits. It has gradually come down over the years.

It registered a record 35 percent increase in profit to Tk 827.50 crore last year.

Hussain, who attained the bachelor's degree in accounting from the University of Dhaka, and an MBA from the Institute of Business Administration at the same university, thinks SMEs will not be affected by the growing interest rate because the lending rate constitutes a small portion of their total cost.

"We understand SME clients better than any other banks in the country. They want timely credit access and don't bother about the interest rate."

Selim RF Hussain

The private sector bank plans to grow its lending by 30 percent in the SME segment, 20 percent in the corporate segment, and 10 percent in the retail segment this year.

He said BRAC Bank is fixing interest rates on SME loans considering the issue of whether borrowers will be able to pay back and are not facing any losses in their business.

Since the central bank adopted a market-based lending rate regime in May this year, interests have soared and gone past 14 percent. It was capped at 9 percent for more than three years to June last year.

"Interest rates have not surged above 14 percent for any types of loans at BRAC Bank," said Hussain.

Under the leadership of Hussain, the bank's deposit base as well as lending have widened.

BRAC Bank ranked 14th in deposit mobilisation among private banks in 2015. It has now climbed to third place. Presently, it is placed fourth in terms of loans, up eight notches from 2015.

"We have grown 25 to 30 percent annually in the last three years," the CEO said.

"We have a strong growth strategy, and in the next five years, we will grow at the same rate. We will be the largest private sector bank in the next five years."

According to Hussain, good governance is the key strength of the bank. "We are the highest-rated bank in the country as per the assessments of international rating agencies."

He also spoke about the digital transformation of BRAC Bank that began in 2019. Recently, it appointed a digital officer to enhance digital capability.

The bank has adopted a hybrid distribution strategy. It serves customers digitally through apps, call centres, automated teller machines, and cash deposit machines. Its physical outlets include branches, sub-branches, and agent banking booths.

Its retail banking app "Astha" is considered one of the top applications in Bangladesh.

"In the future, banks that have no digital capability will not be able to do banking. All banks must enhance their digital capability in the next five to six years to stay in the business," Hussain said.

Also the chairman of the Association of Bankers Bangladesh, the platform of CEOs of banks, Hussain thinks NPLs are the biggest challenge to the banking sector.

"In order to bring down NPLs, we must recognise the problem first. It will not be right to sweep them under the carpet."

Default loans in the banking sector hit an all-time high of Tk 182,295 crore in March.

Hussain said the bad debt provisioning system was relaxed in 2019. It was elevated to the international level in September last year.

READ MORE ON B3

Scaling up startups in Bangladesh

MAMUN RASHID

It was possibly 2008 when my seniors at Citigroup India realised it was becoming hard for global companies to attract IIM (Indian Institute of Management) or IIT (Indian Institute of Technology) graduates as they were building their own startups. It took PwC there to decide in 2016 that it should align more with the emerging startup ecosystem to drive optimum solutions for the client's transformation journey.

Across the world, startups are vehicles through which people come together to develop a scalable innovation. However, Bangladesh's skepticism about the prospects of futuristic ventures like AI assistants is loudly visible in the mere $73 million investment in local startups while India received more than $11 billion in 2023.

Startups in Bangladesh are applying new technologies to add efficiency to archaic processes starting from reducing fuel imports to improving healthcare. The startups working on education have enabled students in remote villages to access quality coaching through internet-enabled phones. By streamlining payments, mobile financial service providers have accelerated the flow of commerce and added significant value to citizens.

Alongside warranting dedication from some smartest citizens, these breakthroughs needed to run experiments to reinforce their ideas, which require investment with no guaranteed success. Entrepreneurs need talented individuals and take on the risk of building these systems.

The mechanism of startup investments differs from investing in established businesses. While startup ecosystems drive economic progress, individual startups are high-risk, high-reward bets. Venture capitalists (VC) specialise in evaluating these businesses and estimating their success probability, but again the VC sector in Bangladesh is still in its infancy.

Bangladeshi entrepreneurs mostly go to banks to raise capital, and the banking sector prefers lending to traditional businesses to investing in startups.

The foreign exchange crisis and political uncertainty have severely impacted late-stage funding in Bangladesh. Top companies are starving for capital as their strategy depends on an evolving ecosystem. Foreign VCs have shied away due to various macro concerns, so have local investors. This lack of late-stage activity will hurt early-stage companies from growing.

Comfortable "exits" have been instrumental in stimulating domestic investments in other countries. For any investor, a key consideration is how they will eventually sell out their investment. For example, the sale of Skype to Microsoft in 2011, Estonia's first exit, created a chain reaction. Since then, Estonia has produced a dozen unicorns and at least two decacorns, which are referred to companies valued at more than $10 billion each.

The lack of exits is holding back Bangladeshi startups. Unlike Estonia, with its mere 1.3 million population, the success of bKash has not yet unleashed the funding landscape here. We are left in a chicken-egg limbo where startups can't scale due to a lack of capital, and capital avoids the ecosystem due to a lack of exit opportunities.

Exits happen in two forms: (i) sale of the company, or (ii) listing the company on a stock exchange. Both return money to early investors. In Bangladesh, the number of buyers is currently limited, but our consumer-driven economy is bound to make Bangladeshi startups attractive acquisition targets for international giants soon.

Nevertheless, the sale of companies is suboptimal. Creating that kind of value requires pursuing an IPO and a serious commitment to the vision. But most importantly, cultivating a supportive ecosystem that drives innovation and encouragement to bring young minds to the table is necessary.

The startup ecosystem in Bangladesh has developed almost organically. To reach the next level, it requires a coordinated master plan. Success will hinge on collective actions from capital allocators, regulators, founders, and other stakeholders.

The author is an economic analyst.

India's oil imports from Russia at record high

REUTERS, *New Delhi*

India's oil imports from Russia rose to a record of about 2.1 million barrels per day (bpd) in May as discounts for Russian oil widened on lower demand from China, according to trade sources and shipping data.

That boosted Russia's share in the world's third largest importer and consumer to nearly 41 percent last month, the data showed.

Meanwhile, supply from Saudi Arabia dropped to a 10-month low, the data showed, after Saudi Aramco hiked term prices for a second month in May.

Refiners in India have been gorging on Russian oil, sold at a discount after some European nations shunned purchases from Moscow over its invasion of Ukraine in February 2022. Also, similar grades from regions mainly in the Middle East are costlier.

India shipped in about 5.1 million bpd oil in May, a growth of about 5.6 percent from April, the data shows.

India's Russian oil imports in May rose 14.7 percent from April and 5.9 percent from a year ago, the data shows.

"Russian oil was available in plenty and at better discounts last month due to lower demand from China," said an official at one of the Indian refineries.

Indian private refiners Reliance Industries and Nayara Energy, majority owned by Russian entities, have signed a term deal to buy Russian oil.

In contrast, state-refinersIndian Oil Corp, Bharat Petroleum Corp, Hindustan Petroleum and Mangalore Refinery and Petrochemicals are buying Russian oil from the spot markets.

Eurozone business activity growth slows sharply in June

AFP, *Brussels*

The growth of business activity in the eurozone slowed down in June after the manufacturing sector posted its biggest decline in six months, a key survey said Friday.

The HCOB Flash Eurozone purchasing managers' index (PMI) published by S&P Global recorded a figure of 50.8, down from 52.2 in May and its lowest level in three months.

Any reading above 50 indicates growth, while a figure below 50 shows contraction.

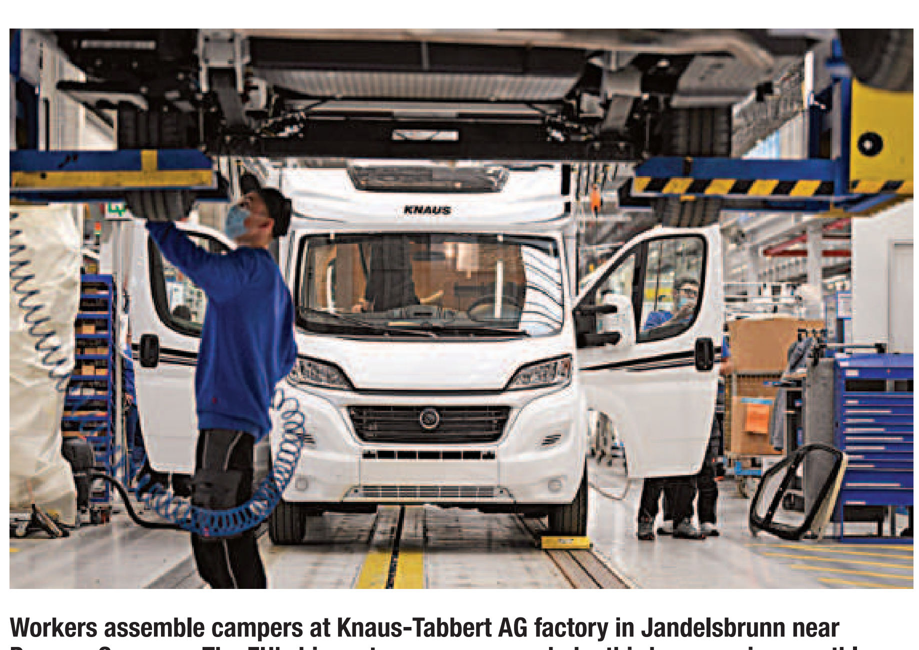
Manufacturing activity slid to 46 in June from 49.3 a month earlier.

The data however "suggested that GDP will continue to expand in the second quarter", S&P Global said. But the lower PMI in June showed growth "may be slower than initially expected", said Bert Colijn, senior eurozone economist at ING Bank.

Economists agreed it was unlikely that the European Central Bank would cut interest rates again in July, although there could be further cuts later in the year.

"The HCOB PMI do not provide ammunition for another rate cut in July by the ECB," said Cyrus de la Rubia, chief economist at Hamburg Commercial Bank (HCOB).

The situation in France, the EU's second biggest economy, is however weighing on the single currency area's economic performance, according to the economist.



Workers assemble campers at Knaus-Tabbert AG factory in Jandelsbrunn near Passau, Germany. The EU's biggest economy recorded a third successive monthly increase in business activity.

PHOTO: AFP/FILE

"It is evident that France's poor economic performance has significantly contributed to the deteriorating economic conditions in the Eurozone," de la Rubia said.

The survey showed both services and manufacturing output falling.

De la Rubia said it could be tied to the far right's drubbing of the party of President Emmanuel Macron in EU elections this month and his call for a snap vote on June 30.

"This unexpected turn of events has likely stirred up a lot of uncertainty about future economic policies, causing many companies to hit the brakes on new investments and orders," he added.

Capital Economics' senior Europe economist Franziska Palmas however warned not to "overemphasise" the point since "the French PMI started falling in May before the political turmoil started".

In contrast, Germany, the EU's biggest economy, recorded a third successive monthly increase in business activity, the survey showed.