Issue 01, January 2019

CENT PERCENT

Monthly Newsletter by Group Treasury

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Bank Asia

Liquidity Mismatch in Banking Sector

After a couple of years' spell of excess liquidity, banking sector at present is facing increasing demand for loans from the private sector since December'17. In this situation, few banks have exceeded the allowable loan-deposit ratio (ADR/IDR). As it is a breach of one of the macro-prudential policies, Bangladesh Bank summoned some banks and advised to reduce the LDR to 83.5% by March'19. Consequently, the situation compelled banks to collect more funds by applying traditional strategy i.e. increasing the rate of interest. As experienced from the market incidences, this mismatch of liquidity is the combined effect of gap between fiscal and monetary policy declaration and actual happenings, rate variance of national savings certificate and deposit, side by side balance of payment pressure as well as central bank's foreign currency buy from commercial banks.

The initial pressure came from higher yield of national savings certificates as rates offered by the banks for their deposit regarded unappealing to household savers. This is one of the reasons why credit growth is more than deposit growth in economy during last fiscal year. The recent escalation of dollar price in commercial and cash market also contributed liquidity fall in taka market. The swap point of foreign currency holding increased greatly as payment pressure is putting pressure in FX market also. Propensity of foreign currency holding by banks hiked in natural course of action. This resulted an augmented pressure on liquidity. What is more, for the same reason, selling of US dollar directly by the central bank to the commercial banks inflicted added pressure on the money market. More than Tk 92 billion drained off to BB's vault in exchange for US$1.09 billion sold during July'18- 23rd December'18 period. The figure is US$2.31 billion or Tk. 190 billion, if we consider the whole year 2018.

Besides, government's higher bank borrowing ahead of the election has also played a partial role on liquidity stress. The government has already revised its auction calendar keeping an option for borrowing Tk 30 billion more in December for financing the budget deficit ahead of the polls.

Additionally, spiraling non-performing loans, fund channeling of money in to the share market, and alleged siphoning of money outside of the country might be the other possible causes behind the current liquidity dearth. (Continued in next page)

Liquidity Mismatch in Banking Sector

Way out: Short and Long Term Strategies

Cause of concern is that banks, to whom deposit is nothing less like their life-line, started to pay higher interest rates for deposit due to their immediate funding needs as well as for new lending business. As a result, entrepreneurs regardless of their creditworthiness, finding investment more expensive than earlier. This is shoving the investment and capital expansion prospect into grimmer situation. At this point of time, when country is aspiring for progress and all set for stepping into sustainably developed economy, nation cannot afford to see its investment growth slackening. There are obviously some needful duties and remedies remain at banking sector's end to escalate from this situation.

Reaching out the appropriate segment of the society for fund is a key to success as rightly demonstrated by Bank Asia. Convenient branches, agent banking, mobile banking, internet banking, and strong websites with appropriate marketing and sales activities can be used to reach new households to collect core deposits.

Thus, going to un-banked people is the key to liquidity solutions. Banks should have more suitable deposit product that takes into account the requirements of aged persons. Besides, the women population is also another important source of unbanked money as most of them are still homemakers. Apart from these, banks can introduce deposit products for different types of marginal people by offering financial and non–financial benefits.

In this situation, strategies, like initiating a strong drive to collect idle money from savers and bring earnings of the non-resident Bangladeshi (NRBs) with financial and non-financial benefits can play an effective role. Furthermore, stopping loopholes of siphoning money can improve the scenario also. To catch the attention of NRBs, the bankers may design some incentives to the remitters and familiarize the Wage Earner Development Bonds to the NRBs. In addition, bank may design different product with added benefits by replicating Wage Earner Development Bonds.

Banks can craft deposit products similar to long term pension schemes with added features like insurance and other benefits. Moreover, investment-linked deposit products can be planned by pledging to invest the deposited amount of NRBs in real and fixed-income bearing assets.

Religious organizations like mosque, temples, and churches and their sister organizations holds a staggering amount of money in different formats. This money may also be channeled to banks if appropriate products can be structured considering the religious sentiment.

Even in this digital world, we are still habituated to printed money. People hold money in their wallet which is massive in total. The usage of plastic and e-money should reduce the amount of printed money and can increase the volume as well as velocity of currency in the system.

Sourcing funds by issuing bonds is a common phenomenon in financial system in different countries. A developed and matured bond market will not only facilitate industrialization process of the country also will relax liquidity pressure to a great extent. Bank can come up with securitization ideas and initiative in this regard. In addition, banks can open new wings to source funds through issuing and under-writing bonds, which will cut reliance on deposits.

Last but not the least, customers' confidence and satisfaction in financial institutions and relationship package with higher level of service goes hand in hand. A loyal customer is far effective marketer of bank than anything.

Sooner or later, only collective and prudent initiatives can change the scenario and may help banks and financial institutions bring un-tapped money into the financial system, consequently supplying highly sought after lubricants in our economy to enable it for a confident take off towards a greater economic cycle of a developed nation.

Global Economy: Outlook 2019

Global economy continues to expand in 2018 but it is becoming evident that the growth has reached its peak as economies all over the world getting slow. Trade war between the US and China is expected to continue well into next year with higher tariffs causing higher inflation and lower growth.

Global economic growth is forecasted to slow to 2.9% in 2019 from an estimated 3.3% in 2018. This is below consensus (3.1%) and largely reflects more pessimistic view on the US. US GDP growth will slow in 2019 as the boost from tax cuts fades while interest rates move higher and the effects of a prolonged trade war with China are felt. While the recent 90-day truce is welcome, prospects for a longer-term agreement on issues such as intellectual property rights is not very promising.

In the Eurozone, growth is forecasted to slow further in the first half of 2019 due to the effects of the trade war between the US and China. if UK can settle Brexit amicably then it should see a positive growth in 2019.

For Japan, GDP growth is believed to remain unchanged in 2019. The start of the year promising, helped by reconstruction spending after the damaging earthquakes, floods and typhoons of 2018. However, VAT is due to rise to 10% from 8% in October and previous VAT hikes have had a significant impact on economic activity.

Emerging economies are seeing mixed signal, with China and the wider Asian economies under pressure from trade tensions and lower demand in the technology sector. Chinese growth is to slow to 6.2% in 2019 from 6.6% in 2018. Latin America can show significant progress within the emerging markets as Brazil's economy looks set to strengthen after the election.

Despite cooler economic growth and lower oil prices, global inflation forecast has increased to 2.9% for 2019. This is a due to higher inflation in the emerging markets, where import prices are increasing because of currency weakness.

Three more interest rate increases is anticipated from the US Federal Reserve (Fed), taking the Fed funds policy rate to a peak of 3% in June 2019. It is assumed that the Fed will "look through" above-target inflation in 2019 and will pause to take account of the effects of slower growth on future price rises.

For the Bank of England, two rate rises are expected in next year, although this is dependent on a smooth exit from the EU with a transition period for the economy.

Commodity Market

U.S. Crude oil price is continuously falling. In last three months it has fallen almost 40% from $75.30 to $45.59 with no sign of bouncing back to previous price any time soon. Though, OPEC and Russia has agreed to reduce global oil production by 1.2 million barrels a day, market has yet to be turn around. Slow development prediction due to USA-China trade war, increased production by US shell companies and relaxation of US sanction on Iran's oil sale to some countries including India are also adversely affecting the oil price.

Other commodities like Coal, Soybean Oil and Raw Cotton are also showing price drop at varying degrees while both Rice and Gold price has increased by 5%. Gold price is at $1,258.10 right now but as per our prediction it should grow up to $1,300 in year 2019.

Commodity	1-Oct-18	21-Dec-18	Changes
Crude Oil	$ 75.3	$ 45.6	-39.46%
Coal	$ 113.0	$ 99.3	-12.17%
Rice	$ 10.1	$ 10.6	4.94%
Wheat	$ 509.5	$ 514.0	0.88%
Soybean oil	$ 29.3	$ 28.2	-3.89%
Raw cotton	$ 76.3	$ 73.2	-4.1%
Gold	$ 1,191.7	$ 1,258.1	5.57%

Foreign Exchange Market

Import

Fresh LC opening in September, 2018 was $4.74 Billion which is a 4.37% decline from August, 2018 and a 3.62% decline Y-O-Y from September, 2017. At the same time, import of both capital machinery and industrial raw material has increased at 19.99% and 37.38% Y-O-Y respectively. Import of consumer goods has declined significantly at 62.58%.

Settlement of LC in September, 2018 was $4.31 Billion which is a 12.23% increase from August, 2018 and 13.78% increase Y-O-Y from September, 2017.

LC Outstanding in July-September, 2018 has reached to $39.76 Billion which is an increase of 62.07% Y-O-Y. Though, a special LC of Rooppur Power Plant of $11.38 Billion is included in outstanding. So, actual growth in LC outstanding, excluding LC of Rooppur Power Plant, was 15.70%.

Export

Export in September, 2018 was $3.15 Billion which was $3.21 Billion in August, 2018 with a decline of 2.11%. However, export in July-September 2018 has reached to $9.94 billion which is a 14.75% growth Y-O-Y.

Category-wise breakdown of exports shows that during July-September, 2018 exports of agricultural products (+97.31%), specialized textile (+55.00%), chemical products (+26.20%), plastic products (19.20%), woven garments (+17.30%), knitwear (+12.27%) and engineering products (+8.77%), experienced positive growth. On the other hand, frozen & live fish (-18.17%), leather and leather products (-17.46%) and jute and jute goods (-8.15%), experienced negative growth during July-September 2018 as compared to that of July-September,2017.

Remittances

Total receipts of workers' remittances during July-September, 2018 increased by $0.47 billion or 13.73% to $3.86 billion against USD 3.39 billion of July-September, 2017. Receipt of workers' remittances in September 2018 stood at USD 1.13 billion against USD 0.86 billion of September 2017 with an increase of 31.57%.

Foreign Exchange holding

The gross foreign exchange reserves of BB stood at US$31.83 billion on December 20 from $31.34 billion a week ago as higher inflow of foreign aid and loans of the government level.

Bangladesh will be able to settle around five months import bills with the existing FX reserve.

Earlier on 20 December last calendar year, the reserve was $32.91billion. It was $32.94 billion on June 30, 2018.

Exchange Rate Movement

Exchange rate of BDT against USD has remained mostly unchanged at BDT83.90/USD in the month of December, 2018 due to continuous liquidity flow from the central bank.

A total of $1.07 Billion has been sold to the commercial banks since July 01 during the FY 2018-19, as part of its ongoing support, the BB data showed. The central bank sold $ 2.31 billion in the FY 18 on the same ground.

Balance of Payment

Trade balance recorded a deficit of USD 3.85 billion during July-September, 2018 as compared to the deficit of USD 3.65 billion during July-September, 2017. Overall balance incurred a deficit of USD 0.72 billion during July-September, 2018 as compared to the deficit of USD 0.36 billion during July-September, 2017. This deficit of overall balance was due to the deficit in current account balance during July-September 2018, as trade deficit widened and primary income fell short as compared to the same period of the previous year.

Domestic Economic Insights

Deposit

Total Deposit in banking sector stood at BDT 977,875.70 Crore in September, 2018 in which BDT 103,917.10 Crore is Demand Deposit and BDT 873,958.60 Crore is Time Deposit. The figure excludes Inter bank deposit and Government deposit. This is a BDT 81,998.10 crore or 9.15% overall increase, 5.50% increase in Demand Deposit and 9.60% increase in Time Deposit, from September, 2017.

Advance

Domestic credit of the country has reached to BDT 1,034,072.80 Crore in September, 2018 with a growth of BDT 120,731.80 crore or 13.22% from September, 2017.

Public sector advance has grown 2.86% Y-O-Y to BDT 115,327.20 crore and private sector advance has grown 14.67% Y-O-Y to BDT 918,745.60 crore.

Outstanding SME loans provided by banks and non-bank financial institutions at the end of June 2018 increased by 5.92% compared to the same period of the previous year. Disbursement of industrial term loans increased by 46.46% and stood at BDT 20,141.42 crore and recovery also increased by 70.55% during the fourth quarter of FY18 as compared to the corresponding period of the previous fiscal year.

Broad Money Growth

The broad money (M2) recorded an increase of BDT 90,193.80 crore or 8.77% at the end of September 2018 against the increase of BDT 97,177.70 crore or 10.43% at the end of September 2017. Of the sources of broad money, net domestic assets (NDA) rose by BDT 88,011.40 crore or 11.50% and net foreign assets (NFA) increased by BDT 2,182.40 crore or 0.83% at the end of September 2018 as compared to the same month of the previous year.

Inflation

In October 2018 the twelve-month average general inflation decreased due to decrease in average food inflation, offsetting the rise in non-food inflation. The twelve-month average general inflation was 5.63%, which was higher by 0.03% than the target of 5.60% for FY19.

The point to point general inflation decreased to 5.40%, in October 2018 from 5.43% in September 2018, as food inflation decreased to 5.08% in October 2018 compared to 5.42% of September 2018. This fall in food inflation has offset the rise in nonfood inflation from 5.45% in September 2018 to 5.90% in October 2018.

Interest Rate Spread

The spread between the weighted average interest rate on advances and deposits of banks remained unchanged at the end of September, 2018 as compared to August, 2018 at 4.27%. Weighted average interest rate on deposits of banks decreased to 9.88% at the end of September, 2018 as compared to that of August, 2018.

Liquidity Position of the Scheduled Banks

Total liquid assets of the scheduled banks decreased by 2.89% and stood at BDT 256,617.52 crore as of end September, 2018 which was BDT 264,267.37 crore at the end of June, 2018. The minimum required liquid assets of the scheduled banks were BDT 175,529.65 crore as of end September, 2018.

Capital Market Development

Junk stocks are once again rising on rumors despite bearish market in the past few weeks centering on the upcoming polls. Out of top ten gainers on December 24, 2018, five were junk stocks. According to market insiders, a vested quarter is spreading rumors that junk stocks and stocks that are trading close to face value will shoot up in the coming days. The DSE index started on 6,254.51 point with the trade volume BDT 374.30 crore on January 01, 2018 and on December 24, 2018 index was 5,300 with trade volume BDT 357.41 Crore. It has been observed that the the index fell by 954 point except some textile and short paid up share movement was mentionable.

Money Market

Call Money Market

Inter-bank call money rate moved up slightly in the third week of December 2018 that ended on December 23, 2018 while foreign exchange and stock markets were almost stable. Inter-bank call money rate moved up slightly in that time following higher withdrawal of cash from the banks ahead of the national polls.

The weighted average call money rate rose to 4.49% on December 20, 2018 from 4.08% a week ago. It was 3.66% on November 29, 2018. Such increase in rate is mainly caused by money requirement by different banks for balance sheet management. The market is expected to cool down from third week of January, 2019 and the rate should come down to 3.50% to 4.00%.

National Savings Certificates

The sale of National Savings Certificates (NSC) during July-September 2018 stood at BDT 22,256.09 crore which was 13.64% higher than the sale of NSC during July-September 2017. The net borrowing of the government through NSC during July-September 2018 was BDT 13,412.02 crore against BDT 12,694.32 crore of July-September 2017. The outstanding borrowing of the government through NSC as of end September, 2018 stood at BDT 251,178.54 crore.

Treasury Bill Bond Market

The weighted average yields on 91-Day, 182-Day and 364-Day treasury bills increased to 2.55%, 2.90% and 4.10% up to December 17, 2018 compared to November, 2018 respectively. The weighted average yields on 2-Year BGTB increased and stood at 4.41% in December, 2018 from 3.05% of November, 2018. The weighted average yields on 5-Year, 10-Year, 15-Year and 20-Year BGTB stood at 5.45%, 7.54%, 7.55% and 8.24% respectively in December, 2018.

Regulator's Corner

DOS Circular No.-01 -Date: 01/01/2015 :

Implementation of Basel III Liquidity Ratios

In accordance with the current market reality, banking industry's major challenge is now to remain resilient amidst asset quality deterioration and onus of asset funding at profitable manner. Under this backdrop, one unique circular of Bangladesh Bank as mentioned in headline, though came few years back, has now more significance than ever.

Bangladesh Bank gave guideline for maintenance of 02 important liquidity standards vide mentioned circular:

1. Liquidity Coverage Ratio (LCR)
2. Net Stable Funding Ratio (NSFR)

LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs in short term for a pre-set stressed environment. Further explained in Banking Trivia section.

NSFR or Net Stable Funding Ratio is another new standard of Basel Committee to asses longer term stability of balance sheet at given asset base.

NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on and off-balance sheet items.

This vital circular has deep rooted impact on bank's business strategy as it articulates that risk adjusted return must be ensured in every business activity (asset & liability) recognizing the actual cost of doing business. Curious bankers should go through the circular for complete understanding.

TechTalk

BlockChain: Simplified

With the promise of decentralization, strong security and real time result, blockchain is one of the most sought-after technology in the financial world. Now, what is actually a blockchain?

In simple words, a blockchain is essentially a decentralized digital ledger that's distributed across a number of different users. It means that no single entity holds the keys to the data and that it's not possible to change the ledger once data has been recorded.

How does it work:

1. All the transactions/records in a certain time (10 minutes) has been grouped as a cryptographically protected block
2. The block is transmitted to all participants in the blockchain
3. Every participant individually verifies each of the transactions by solving a complex coded puzzle
4. The first participant who solves the puzzle gets a reward
5. The validated block of transactions is then added to the block chain in a chronological order
6. Every block is linked to its previous block which creates an unbroken chain

How it is more secured:

Blockchain's ingenuine security lays in its two simple but uncorruptible characteristics:

1. The database is maintained by thousands of participants
2. In a certain time, interval (normally 10 minutes) the whole database is updated and audited simultaneously

Since, it has no single storage and control, nobody can make any undue change in the database and for the similar reason hacking of blockchain is also practically impossible. For example — if someone wanted to hack into a particular block in a blockchain, hacking that particular block will not be enough, rather he needs to hack the whole blockchain of every single participant in the blockchain and within the stipulated timeframe.

In our next issue we will discuss about practical uses of blockChain.

Banking Trivia

Liquidity Coverage Ratio (LCR)

Liquidity coverage ratio (LCR) is a new concept introduced by Basel Committee under Basel III Accord. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

During the early "liquidity phase" of the financial crisis that began in 2007, many banks – despite adequate capital levels – still experienced difficulties because they did not manage their liquidity in a prudent manner. The crisis drove home the importance of liquidity to the proper functioning of financial markets and the banking sector. Prior to the crisis, asset markets were buoyant and funding was readily available at low cost. The rapid reversal in market conditions illustrated how quickly liquidity can evaporate, and that illiquidity can last for an extended period of time.

LCR can be defined as, **(Total Stock of High Quality Liquid Asset)/(Net Cash Outflows in next 30 days)** ≥ 100%

Due to introduction of LCR, bank is facing a new kind of cost for undrawn commitment, commercial letter of credit, guarantees, bank deposit and all off balance sheet items which is ultimately limiting bank's ability to take unrestrained exposures.

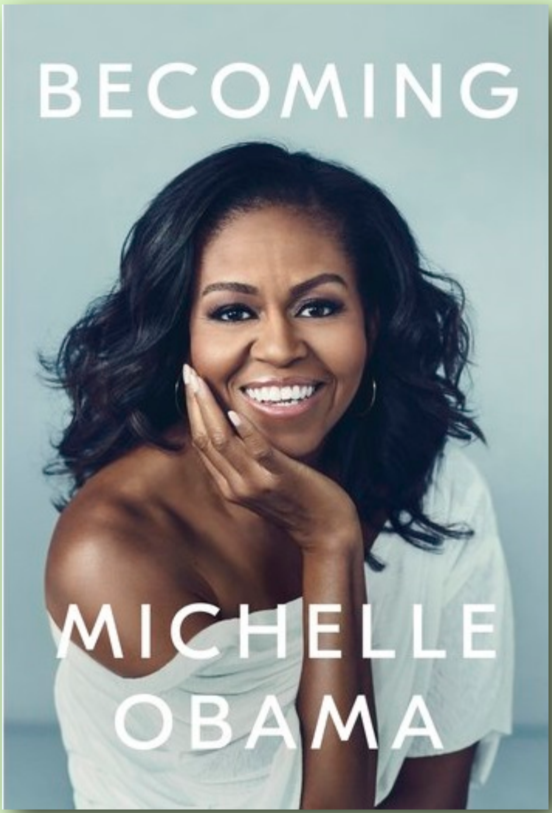
You can learn details about LCR in https://t2m.io/XOws52ZK

Bookmark

Am I Good Enough? Yes, In fact I Am.

Becoming: Michelle Obama

Michelle Obamas rise from a nobody to First Lady of the USA (FLOTUS), to most of the people around the world, is a modern-day fairy tale. Becoming is the not-so-dramatic behind-the-screen story of becoming Michelle Obama.



Becoming is the story of a black girl from a neglected suburb of Chicago. From the very beginning of her childhood who had to prove herself, who had to face racial discrimination and to deal with it. She graduated from two Ivy League Universities in her own merit and became a promising lawyer in a renowned law firm at the age of twenty-four with six figure salary. Instead of such lucrative life, she chosen public service to create opportunities for underprivileged of the society. Even as the FLOTUS, she continued to work for the underprivileged.

At the same time, Becoming is also the story of a working mother with small children; the story of a lonely wife whose husband comes home only at weekends; the story of a concerned mother who is worried about the upbringing, privacy and security of her children; Becoming is like a mirror, where every single woman in the modern world find her reflection, juggling with so many things that often she forgets about herself.

Throughout the book the single most visible thing is Michelle Obama's fight against fear, the fear of failure. According to her, Failure is not a result of inability rather of fear of failure. Repeatedly in her life she faced the question, "Are you good enough?" which always tried to induce self-doubt in her mind. But her answer was always the same, "Yes, in fact I am." She has faced this question at her first piano test with an unknown piano, at her second grade in school where her teacher flat out told they will achieve nothing in life, at her high school where her college counsellor told her she was not Princeton University material, at her university where she was a glowing minority, at her work life, even at national at the time of Barack Obama's presidential campaign when she had been painted as a non-patriot, angry, tall woman by the media. It doesn't mean that only confidence will lead to success. Success will always require endeavor, hard work, patience and sacrifices but it is confidence that will supply energy and perseverance against all the doubts of the society.