{ CONTEXT OF TREASURY }

IMF says China must tackle its corporate debt

The International Monetary Fund (IMF) has warned that China's need to tackle its levels of corporate debt is now pressing, if it is to avoid deepening economic problems.

In a speech last month in Shenzhen, first deputy director David Lipton said the country's ongoing problems with non-performing loans (NPLs) puts it at odds with the IMF's recent decision to include the renminbi in its basket of reserve currencies.

While acknowledging China's moderate success in moving from an investment phase towards an economy based on consumption, Lipton criticised the government's more limited progress on corporate debt.

Lipton pointed out that total debt in China is equal to about 225% of GDP. Of that, government debt represents about 40%, while households account for a similar proportion. By international standards, he said, neither of those burdens are particularly high.

However, corporate debt is a different issue. China's approximate level of corporate debt stands at around 145% of GDP, which Lipton described as "very high by any measure".

By IMF calculations, Lipton noted, state-owned enterprises (SOEs) account for about 55% of corporate debt – far greater than their 22% share of economic output.

"[SOEs] are also far less profitable than private enterprises," he said. "In a setting of slower economic growth, the combination of declining earnings and rising indebtedness is undermining the ability of companies to pay suppliers or service their debts."

He added: "The past year's credit boom is just extending the problem. Already, many SOEs are essentially on life support. [Our] most recent *Global Financial Stability Report* estimated that the potential losses for Chinese banks' corporate loan portfolios could be equal to about 7% of GDP.

"This is a conservative estimate based on certain assumptions about bad-loan recoveries and excluding potential problem exposures in the 'shadow banking' sector."

{ OLIVER WYMAN'S *WOMEN IN FINANCIAL SERVICES 2016* RESULTS }

THE STATS

20% – level of female representation on the boards of financial services companies

16% – female representation at executive committee level in financial services

32 years – the time it will take at current rates of growth for female representation on executive committees to reach 30%

33% – executive committee members in financial services in Norway who are women

20-30% higher – the attrition rate among female managers, senior managers and executives compared with peers in other sectors

{ AROUND THE WORLD IN 30 DAYS }

ITALY BANKS, LSE-DB MERGER, BANKERS ON BREXIT

Italy bids for bank bailout

Italy's prime minister, Matteo Renzi, put a full-scale restructuring for his country's beleaguered banks on the EU table for discussion. According to reports, Renzi has sought agreement for a €40bn plan that would allow Italy to inject capital into a banking sector weighed down by around €200bn in delinquent debts and bring about the kind of recapitalisation that other European countries undertook in the wake of the 2008 financial crisis.

But the move runs counter to the trend post-2008 away from taxpayer-funded bailouts in favour of creditor-funded bail-ins and would require a waiver of the EU's Bank Resolution and Recovery Directive.

London and Frankfurt merger doubts

In further fallout following the Brexit vote, the head of Germany's financial regulator cast doubt on whether London could host the headquarters of a merged London Stock Exchange and Deutsche Boerse.

Felix Hufeld said it was hard to imagine how the biggest exchange venue in the eurozone could be steered from outside the EU or provide a base for its euro-based clearing business.

He went on to suggest that euro clearing could be processed in Frankfurt. At the time of writing, the management teams of both exchanges believed the merger itself would still go ahead even with the UK outside the EU.

Italian prime minister, Matteo Renzi

PHOTO BY 360B/SHUTTERSTOCK

Central bankers put heads together over Brexit

The heads of the UK and US central banks, Mark Carney and Janet Yellen, excused themselves from the European Central Bank's annual economics conference to confer in the wake of the UK referendum result.

Following the success of the 'Leave' voters and a sell-off across international financial markets, Carney cancelled his ticket to the Lisbon event in favour of staying in the UK and Yellen returned to the US. In the aftermath of the referendum, which included sharp falls in sterling, sell-offs in bank stocks and downgrading in the UK's rating from the three main agencies, Carney faced criticism about his pro-Remain stance from prominent campaigners.

The Bank of England said in a statement that both the bank and its governor were focused on shoring up financial and price stability.

Rio's financial black hole

Brazil's financial woes have led the state of Rio de Janeiro to declare that it is on the brink of 'public calamity', a statement intended to trigger central government aid. Acting governor Francisco Dornelles said the state's financial woes will affect its ability to support the Olympic Games in August. The money shortages stem from a decline in tax revenues brought about by falling royalties from oil and recession in Brazil.

India to announce successor at central bank

Two former deputy governors at India's central bank are the frontrunners for the top role due to be announced this month.

Prime minister Narendra Modi is expected to appoint a successor to Raghuram Rajan later this month. Rajan's surprise departure came in June, when he announced he was not seeking a second term and would return to his academic career. The two main contenders are Subir Gokarn and Rakesh Mohan, according to a central bank official.

German court rules on bond schemes

Germany's highest court has rejected a case against a landmark bond-buying programme, declaring it to be constitutional.

The Constitutional Court in Karlsruhe rejected a challenge to the European Central Bank's (ECB's) emergency bond-buying scheme that asserted the Outright Monetary Transactions (OMTs) were effectively state aid. OMTs were conceived by the ECB to shore up the euro and give the bank broad powers to buy the debt of financially strained members.

The court has endorsed the OMTs, which have yet to be used, but has placed some limits on Germany's participation in the scheme.

Rio de Janeiro, Brazil

Abu Dhabi banks to merge

National Bank of Abu Dhabi (NBAD) and First Gulf Bank confirmed that they are discussing a potential merger to create one of the largest banks in the Middle East and Africa.

More consolidation within the region's banks could follow. The UAE banking sector has more than 50 banks and has been hit by lower government spending and falling oil prices, which have taken their toll on deposits.

NBAD shares rose 15% on the day of the announcement and other banking stocks also saw increases. Local investors welcomed the news, but analyst response was muted.

{ CONTEXT OF TREASURY }

Industry bodies say Basel risk rules will hinder corporates

Basel Committee plans to alter banks' internal risk frameworks could backfire and restrict financial services available to corporate clients.

That's according to the International Swaps and Derivatives Association (ISDA), which has drawn up a joint response to the proposed measures with three other, heavyweight industry groups: the Global Financial Markets Association (GFMA), the International Association of Credit Portfolio Managers (IACPM) and the Japan Financial Markets Council (JFMC).

Outlined in a March consultation document, the Basel Committee's changes would strip banks of the option to use internal risk-based (IRB) methods for calculating capital requirements for credit-risk exposures. In particular, the committee aims to rein in variability in risk-weighted assets (RWAs). However, in their response, the groups argue that a host of key, corporate lifelines – from project finance deals to aircraft, shipping and commodities finance – would be drastically affected.

The committee's March consultation paper outlined proposals to remove the option that banks currently have to use IRB approaches for certain risk exposures, in cases where the parameters cannot be estimated with sufficient reliability for regulatory capital purposes; enforce exposure-level, model-parameter floors, to ensure minimum levels of conservatism for portfolios where IRB approaches remain available, and reduce variability in RWA; also for portfolios where the IRB approaches remain available.

A joint response from ISDA, IACPM and JFMC criticises the objectives, arguing the measures represent a "major step backwards".

"The removal of risk sensitivity," explained the response, "will distort capital allocation decisions, origination incentives and pricing to the detriment of banks' customers and the global economy."

In particular, it warned: "Corporates are likely to suffer restrictions on the availability of many banking services and products needed to support their commercial activities and hedge financial risks. Corporate lending, capital markets activity, project finance deals, aircraft and shipping finance... will all be extremely affected by the proposals."

{ CONTEXT OF TREASURY }

SME FUNDING IN EUROPE

If Europe is serious about supporting jobs and growth, it requires deeper capital markets capable of funding smaller businesses.

That is the message from the former EU financial services commissioner Lord Hill in new London Stock Exchange report *1,000 Companies to Inspire Europe 2016*. Focusing on the SME landscape, the report examines firms that have collectively reached an average annual compound growth rate of 71%, while increasing their staff by 66% over the past two years.

The report notes that the top 100 companies on its list have grown by more than 400% over the past three years – yet in four decades, just one of the world's most successful start-ups has come from Europe, while 25% of them have emerged from California alone. In the report's view, European start-ups are saddled with the "short-term fix" of debt, while equity offers greater space for development and innovation. For Hill, work towards capital markets union is only the beginning of what Europe could do for its SMEs.

Lord Hill, who resigned his EU post in the wake of Brexit, wrote in the report: "if promising companies can't get financing in Europe, they will vote with their feet and look for it elsewhere", benefiting other regions.


Lord Hill

PHOTO: BLOOMBERG/GETTY IMAGES