

FINANCE

Bahrain banks wait and see on Third World debts

Bahrain's two largest offshore international banks have said they will not follow immediately the example of major Western banks — including Citicorp — in massively increasing loan loss provisions for Third World debt. Arab Banking Corporation (ABC) and Gulf International Bank (GIB) both say their current provisions are adequate — but expressed concern about the recent moves and say they may revise their policies in the future.

ABC president Abdulla Saudi told MEED: "ABC is, we believe, adequately provided for against potential losses in its portfolio, and its capital is not in danger. As a bank seeking to operate to the highest international standards, however, we cannot afford to ignore current trends in the market.

"If after careful study we find that further provisions have to be made against our loans to developing countries, we will be in a position to allocate part or all of this year's profit, either during the course of the year or at the end of the 1987 financial year."

GIB announced that its board has approved management recommendations to build up the bank's reserves from annual operating profits and indicated its intention to take any specific action when deemed necessary. "While GIB considers existing loan loss provisions to be adequate, the bank has taken full account of the developments in the international debt markets and the recent actions taken by international banks. In assessing these new movements, GIB has reviewed its own position in detail and taken decisive action consistent with the bank's conservative policy."

GIB did not explain what "decisive action" it has taken. Neither does it disclose its level of loan loss provisions. In its half-year results to 30 June, the bank announced profits of \$22.27 million, a 38 per cent reduction on the previous year. Officials would not say if the decline in profits reflected an increase in provisions.

Explaining ABC's strategy, Saudi said

the bank had "adopted from inception a policy of building up a large pool of reserves/provisions against all our risk assets, prominent among which are our medium-term loans. ABC has created over the years specific provisions, general provisions and special reserves in support of our loan portfolio and, if these are put together, would represent something in the region of 20 per cent cover of our loans to rescheduling countries" (other reserves such as legal, general and exchange translation adjustment reserves are not included).

"These provisions and special reserves amount to 7.5 per cent of ABC's total loans and advances, which we feel compares favourably with other financial institutions throughout the world." The US Bankers Trust Company, for example, recently added \$700 million to provisions, pushing them up to \$1,300 million, or 4.9 per cent of total loans. Citicorp's move, in adding \$3,000 million to provisions, means that it has provided for about 25 per cent of its problem loans.

Some of the reasons behind the US provisioning are not relevant for the Middle East banks. Bankers suggest that prices of Latin American debt have fallen dramatically in recent months, affecting the whole concept of provisioning (MEED 18:7:87, page 7). Also, Gulf banks, unlike US ones, do not stand to gain from tax benefits.

"There is no tax incentive to ABC to change its system of creating reserves and provisions when needed," Saudi said, "by charging all such provisions to the profit and loss account, thereby reporting a loss so as to avoid tax payments for the current year and year to come. In our case, taxes are not applicable and the overall effect on the total net worth is the same."

In 1986, ABC made provisions of \$53 million, compared with \$61 million the previous year. Profits for 1986 were \$107 million; if all or part of a similar figure for 1987 were put into provisions, it could set an important precedent in the region. □

Sharp rise in debts for Iraq and Turkey

Both Iraq and Turkey's gross external debts rose sharply in 1986, according to new figures released in a joint report by the Basle-based Bank for International Settlements (BIS) and the OECD.

At the end of the year, Iraq's debts had risen by 27 per cent to \$12,804 million, mainly as a result of higher bank borrowing

and a \$1,100 million increase in non-bank credits.

Turkey's 24.8 per cent rise in debts — to \$13,868 million — was also largely due to increased bank loans (up by \$2,100 million) and trade credits (up by \$700 million).

Credits to Turkey guaranteed by official export credit agencies rose by 70 per cent

in the year to \$2,384 million. But guaranteed credit to Iraq fell significantly.

Algeria remained the region's largest bank borrower in 1986. Its overall indebtedness increased by 16 per cent to just under \$19,800 million. This was entirely due to higher external bank claims, including a 25 per cent rise in officially guaranteed credits.

The figures in the report combine external claims to the countries by banks in the BIS-reporting area, with non-bank trade-related claims by the 22 OECD countries.

External indebtedness of selected Middle East countries, 1986 (\$ million)

		% change on 1985
Algeria	19,799	+16.0
Egypt	15,841	+11.0
Iran	4,114	-8.3
Iraq	12,804	+27.2
Kuwait	8,358	-6.0
Morocco	7,052	+15.6
Saudi Arabia	14,061	+2.9
Turkey	13,868	+24.8
UAE	8,590	-3.9

Source: Statistics on external indebtedness: bank and trade-related non-bank external claims on individual borrowing countries and territories at end-December 1986, OECD, Paris, and BIS, Basle, July 1987

They do not cover all external indebtedness — excluding much of the official country-to-country debts. In Egypt, for example, this is quite considerable.

Excluding this, Egypt's external debts rose to \$15,841 million as a result of higher uninsured trade claims. Egypt was off cover for most of the major export credit insurance agencies in 1986.

Of the other main Middle East borrowers, Iran, Kuwait and the UAE showed a decline in external indebtedness, because of reduced bank borrowings. Changes in all figures may reflect alterations in the exchange rates between the dollar and other currencies. □

● Ali Negm, deputy chairman of Cairo's Arab International Bank and former Central Bank of Egypt governor, has been appointed chairman of Paris-based Union de Banques Arabes & Françaises (UBAF). The appointment was made at the bank's 28 July board meeting. The consortium bank's retiring chairman and founder, Mohammad Abushadi, has been named honorary chairman and "super-consultant" for the group.

● Japanese investment in the Middle East amounted to \$3,016 million in the year to 31 March 1987. This represented 2.8 per cent of Japan's total \$105,970 million overseas investment, according to statistics from the Ministry of International Trade & Industry. Saudi Arabia and Kuwait were the biggest recipients, with a total of \$1,309 million.