

WE W E E K E N D M A G A Z I N E

Conversation

A K N Ahmed, a Former Governor of Bangladesh Bank, Talks to The Daily Star on Reforms in the Country's Financial Sector, on Problems of Bad Loans and the Threat of Inflation and, Finally, on Remedies for Deficiencies of our Monetary Situation.

THE name of A K N Ahmed, a former Governor of Bangladesh Bank, had been near the top of the list of experts this paper had been planning to invite to join it in conversations and to share their views with our readers. The problem is that this internationally-noted banker, now living in quiet retirement in Washington DC, visits Dhaka only a couple of times a year. Until last year, these visits were taken up by the work for two organisations which Mr Ahmed had helped to set up — he could well be called their founder — during the last decade, a welfare organisation known as BCC Foundation, established in 1983 and the Bank of Small Industries and Commerce (BASIC) which, in collaboration with the Government of Bangladesh, opened its doors to business in 1989. Since he gave up his honorary top positions in the two bodies, his visits to Bangladesh have become essentially private, making him more reticent than ever in talking to a newspaper.

The effort by The Daily Star to engage Mr Ahmed in a conversation eventually paid off last week, just when the banker was getting ready to return to the United States after a few weeks spent in Dhaka.

There were good reasons for our persistence. With so much being said here on the question of reforms of our fi-

In his last job for the Government of Bangladesh, Mr Ahmed served as the country's Ambassador to Japan, an assignment that helped him to produce the book, "Japan, the Centrepiece of the World", his third publication after his "Economic Essays" and a book of poems written during the liberation war.

The conversation with Mr Ahmed was conducted by The Daily Star Editor S M Ali who was assisted by the paper's Economic Editor Moazzem Hossain.

Below are extensive extracts from the conversation:

DS: Daily Star (DS): These days one hears a lot about reforms of financial system of our country. Can you enlighten us what this is about? What is this supposed to achieve and in

methods are outdated, its technology is almost primitive, the quality of its assets is very poor and it is just unable to absorb any risks. In order to bring our financial institutions to an acceptable level of efficiency and viability, a huge amount of money has to be injected into the system for improving its liquidity and solvency and to upgrade its technology. Unless this is done our system would not be able to stand on its own if it is exposed to full blast of competition from outside world. Even within the country, our smaller banks and newer banks will also go to walls in competition with the biggest ones. The mere technology gap between Bangladesh and the West is immense. A recent OECD report indicates that 24 members of the Paris based Club

related to reform of our financial system?

Ans: I do not know what has prompted the authorities to take this action. I can only surmise in the matter as an outsider. It is now well-known that our banks, both in private and public sector, are saddled with considerable amount of bad and doubtful loans causing not only concern but adversely affecting profitability and solvency and greatly eroding their capital and reserves. It is quite

DS: Do you think that the decision to publish the list of defaulters has been a right one? Will it be helpful in financial structure reforms?

Ans: Well, I do not have any answer to this question. All that I can say is that there are more than one elements involved in the process. There is, for example, business and industrial class which will borrow and utilise bank funds, depositors who will place their surplus savings in trust with banks, regulators who will regulate and supervise our banks and the international lending agencies and donor countries,

relative prices including interest rates.

Macro economic disequilibria may also be reflected in balance of payments difficulties or may be disguised or suppressed by price and foreign exchange controls, real exchange rate appreciation, excessive external borrowing, lagged adjustment of public enterprise tariffs, increasing subsidies etc. In all these situations prices become less reliable guides to resource allocation and economic actors become more concerned with protecting the value of their assets rather than identifying productive investments.

Inflation also reduces the willingness of savers to hold domestic financial assets, especially if interest rate and exchange rate adjustments lag

truck owners, unable to fill their tanks, killed gas station attendants in desperation.

Sensing the dangerous potential in the situation President Carter called in Mr Volcker to head Federal Reserve System to rein in inflation at any cost by taking drastic monetary measures which he did and brought the situation under control. Those of us in our country who are anxious to maintain status quo and who seek peaceful solution of our social and political problems should be well advised to keep this aspect of the problem in view.

DS: Do you think there is any way by which we can avoid inflation in our country?

Ans: I do not see how we can avoid inflation altogether under the prevailing circumstances. Part of inflation we are now suffering from is imported and part of it is created by us. Take for example, the high price of oil. This is dictated to us and the inflation generates within our economy due to high price of oil imported by us. Similarly, the high price of some machinery and manufactured goods imported from abroad are due to decline in productivity and high rate of inflation in manufacturing countries. But because of uneven competition and our over-dependence on foreign aid we are not in a position to bargain with them. We have to

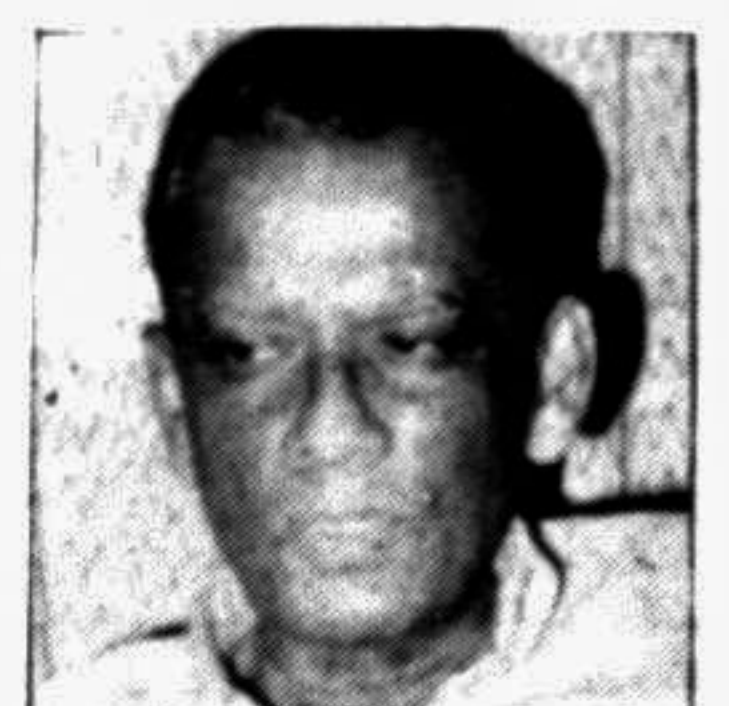


'There is nothing like an ideal financial system that is in some sense suitable to all economies and all circumstances. Much depends on local conditions, history and traditions and the level of economic development.'



A K N Ahmed: 'It is necessary to put monetary policy in the centre of the stage.'

'Part of inflation we are now suffering from is imported and part of it is created by us. Take for example, the high price of oil. This is dictated to us and the inflation generates within our economy.'



ancial sector, about the problem of bad debts faced by our banks and so many other issues relating to this all-important but little-understood area of economic activity, it was imperative to talk to an expert who, besides knowing the situation here, could look at the overall situation from a broad international perspective. In this respect, this former Governor of Bangladesh Bank, a one-time consultant of the International Monetary Fund (IMF) and a former Chief Economic Adviser of the BCC Group, first in London and then in Washington, among other positions occupied by him in his 40-year banking career, seemed more than qualified in enlightening us on the issues we had in mind.

During our conversation, we agreed to focus on a few selected areas, instead of going over the whole range of subjects which fall within the expertise of Mr Ahmed. In addition to central banking, he is also a recognised expert in development finance and investment banking. Again, while serving as Governor of Bangladesh Bank from 1974-76, he was instrumental in the setting up of the first financial institution in the private sector in 1976, known as IFIC, a move that, with active support and encouragement from the late President Ziaur Rahman, paved the way for subsequent privatisation of banks and financial institutions in the country.

what directions will these reforms be undertaken?

Ans: Reform of financial system covers a wide area. Basically, the exercise aims at improving the competitiveness of the system by enhancing its solvency and efficiency. This is sought to be achieved by making our banks and financial institutions more market oriented, exposing them to more competition both within and from abroad and making the playing field more even by doing away with most of the existing controls and laying down uniform yardsticks for judging their performance.

DS: Can you be more specific as to how the level playing field is proposed to be created?

Ans: Well, I do not know what steps exactly are being contemplated for Bangladesh in this respect. But, generally speaking, I should think level playing field would imply uniform criteria for judging liquidity, quality of management and bank assets, capital adequacy, quantification of provision for non-performing loans and the extent and standard of disclosures. It is of course another question whether such level playing field can be created for our financial system in near future.

DS: Why not?

Ans: You see, the financial system in our country suffers from certain inherent deficiencies. For example, it is costly, its payment mechanism is archaic, its systems and

spent more than \$ 350 billion on research and development in last year alone and employed 2.5 million scientists and engineers on research and development in private, government and higher education research establishments and that due to technological gap economic performance between developed and developing countries is diverging. Compared to this, how much have we spent on research and development? In fact, how much can we really afford to spend to bridge this widening technological gap? Unless some prior agreement is reached with the West on burden sharing of transfer of some of the needed technologies to us how can we expect to make the playing field even for our financial system to compete with technologically more efficient, more superior financial system of the advanced countries? It will perhaps be little naive to assume that mere infusion of private ownership in the public sector banking units or starting more and more privately owned banks will per se remove some of the major deficiencies of our financial system.

DS: Do you think the authorities are aware of these difficulties?

Ans: I should think so. Even the World Bank recognises that the resolution of systemic financial distress is both laborious and costly and a significant infusion of resources may be unavoidable. The fundamen-

correction of the macro economic imbalance and policy and institutional inadequacies that caused or permitted the present distress situation in our financial system. We must bear in mind that there is nothing like an ideal financial system that is in some sense suitable to all economies and all circumstances. Much depends upon local conditions, history and traditions and the level of economic development. Whatever its structure, a financial system will ultimately be judged by its capacity to offer lenders satisfactory returns for saving and to direct funds to the most profitable ventures. If that can be assured the system will have served the purpose.

DS: Recently Bangladesh Bank has published a list of persons and firms who have defaulted in repayment of their bank loans. How is this action

who are anxious to remove the unnecessary legal and other barriers to competition including barrier to the entry or departure of financial enterprises to the sector. Right now these various elements seem to have divergent interests. The challenge before our policy planners seems to be how to devise some sensible way to make these diverse interests to converge so that a powerful consensus can be built up in favour of reforms contemplated by them.

This does not seem to be evident now. On the contrary, the undercurrent for the maintenance of status quo seems to be strong and persistent.

DS: We understand that while serving as the Governor of Bangladesh Bank, you had taken measures which coupled with good harvest in 1975, had the effect of arresting the price explosion and lowering the rate of inflation in the country. However, in recent years, price level has again been on the rise and inflationary pressures have been persistently building up in the economy. Would you share with us your views on inflation in our economy?

Ans: As you well know, inflation increases uncertainty about the general level of prices. As it accelerates, it brings greater instability to

behind expected price rises. In such a situation economy-wide resource misallocation and contraction of productive investment take place and speculation becomes the centerpiece of all economic activities.

If this condition persists earnings are no longer related to efforts and the society starts to degenerate and then disintegrate. Besides, inflation is also a very regressive form of taxation making poor poorer and rich richer and thereby aggravating social polarisation with all its attendant consequences.

There is also a psychological dimension of the inflation problem which often are not noticed by many of us.

In a society afflicted with high rate of inflation, it becomes difficult to make any prediction about price level, cost of living etc and people are forced to survive by their wits draining all their energies in living from day to day, hand to mouth and in extreme situation from moment to moment.

When people are forced to lead such desperate lives they can be easily allured to a path of violence by extremists. In the recent past when in late seventies rate of inflation in USA ran into two digits due to oil price shock, such an explosive situation developed there and there were instances when

accept their directed and dictated price. Having said this, I must also add that some of the causes of inflation are our own creation viz. larger budget deficit, financing losses of public sector undertakings by expansion of credit through banking system, inefficient and wasteful use of credit, tardy implementation of development programme, lack of proper balance between quick-yielding short term projects and spectacular projects with long gestation period, unwarranted expansion of service sector particularly costly urban housing and surface passenger transport. What is perhaps needed is an in-depth review of the situation for taking appropriate measures. Above all, a meeting of mind between Bangladesh Bank and the Government with mutual respect for each other is needed over the question of safe limits of monetary expansion consistent with actual and not estimated level of growth of the economy and its degree of monetisation every year. It will also be necessary to put monetary policy in the centre of the stage as an important element of economic policy of the government so that growth can take place without threatening monetary stability and monetary stability can exist without throttling economic growth.

DS: Thank you, Mr Ahmed, for your time.

CAN'T you picture them? Teacher has just asked a question to which they all know the answer: "Who discovered America?"

Their faces beam and hands jab eagerly at the air. A child is pointed out, leaps up and bursts out with the answer: "Christopher Columbus, miss".

Could it be that the trace of a smirk crosses teacher's face? "Wrong," she says.

From this point the scenario varies. If it is a Dublin classroom the teacher may talk about Irish explorer Saint Brendan. If the lesson is in Brittany or the Basque country, then the children probably hear about the Basques and Bretons who fished the Grand Banks of Newfoundland long before Columbus dreamed of the spices of the Orient.

The strongest claim to European discovery of America, however, lies with the Vikings. To be more precise, the first-European to set foot in America (the Indians

Viking mariner Leif Eriksson landed in Newfoundland circa 1000 AD in medieval Gokstad longship, explored as far south as Boston

WHO FOUND AMERICA?

by Tom Arms

had arrived there centuries earlier) was the Icelandic-based Viking explorer, Leif Eriksson, son of the Norwegian explorer Erik the Red.

In the year 1000 Eriksson's Viking longship landed on the coast of Newfoundland, which he called Vinland.

For the next 14 years his expedition explored the Eastern seaboard of what is now the US and Canada, going at least as far south as Massachusetts where archaeologists have found evidence of their visit.

When Eriksson completed his explorations they were written down in the Icelandic Sagas.

The facts are indisputable, and they go a long way towards explaining why the Scandinavians are a bit miffed at all the fuss being made about the 500th anniversary of

WHO FOUND AMERICA?

his eight-man and one-woman crew.

The Gaia, as the ship is called, sails to Greenland where the Vikings maintained a colony for 500 years, and on July 20 they expect to land on the American continent at Labrador.

In Newfoundland, the Gaia will be joined by two other Viking ships which are being flown from Norway and assembled in Canada.

The three-ship flotilla will then work its way down the East coast, stopping at Halifax, Boston, New York, Newport, Rhode Island and finally sailing up the Potomac River or finish the voyage at Washington DC.

The voyage will be filmed by TV documentary producer David Lomax and his wife Emily, and they plan to write a book on the trip.

The 75-foot Gaia is a replica of the famous medieval

Gokstad longship which was beautifully preserved in Norwegian clay and is now housed in the Viking Ship Hall in Oslo. Although the Vinland Revisited expedition has copied the Gokstad down to the last detail, the crew are well aware of dangers of the North Atlantic and will have on board modern communications and safety equipment.

They will also have a small inboard motor to ensure that the expedition reaches a variety of civic receptions on time. The engine will not be used unless it is absolutely necessary. Says Lomax: "We will cross the North Atlantic with a square-rigged Viking sail in faithful re-enactment of Leif Eriksson's voyage a thousand years ago."

Now, it should be asked, who will try to walk across the Bering Straits to re-enact the arrival of the Asian tribesmen who first settled North America tens of thousands of years before any European dreamt of sailing beyond the western horizon?

— GEMINI NEWS