

Trying to Steady a Rocking Boat

ONLY under six months into office, Bangladesh Bank Governor Dr. Mohd. Farashuddin has gone about his job with a noticeable degree of dynamic flair. In the process, he may have stirred some controversy but generally his initial steps and comments have been well taken. It is believed that he is facing facts and trying to do a good job of his difficult assignment.

He is currently in the process of acquiring sufficient powers for the central bank so that it can play its due role in the areas of banking supervision, and formulation and operation of the monetary policy. This has two aspects: the central bank has to have a certain degree of operational independence from the finance ministry and that it also needs better working equations with the banking sector.

Dr. Farashuddin in the following exhaustive interview deals with this question at great length and many more things besides. The intricacies of the central bank's complex functions are explained in a manner that should be intelligible to common readers.

The Daily Star (DS): As the guardian of depositors' money, which is public money, what role is the central bank playing under your stewardship?

Dr. Mohd Farashuddin (MF): We have estimated that the sponsor directors as well as the government provide the NCBs with only about eight per cent of the resources. The remaining 90 plus per cent fund is from the depositors. I think it is one of the most important functions of the central bank to look after the interests of the depositors. That is why we have been telling the banks, including the government, that they are not the owners. The real owners are the depositors. Towards that end we are trying to increase the representation of directors in the board from the depositors' community. All the functions that we are exercising in supervising the banks are actually directed towards the interests of the depositors.

DS: There is talk of empowering the central bank to enable it to play its due role. But is Bangladesh Bank exercising the powers already vested in it? For instance, it can always invoke the right to protect public money. It can deal with banks which mismanage their liquidities through bad lending practices and unrecovered loans and turn to Bangladesh Bank for a bail-out.

MF: Well, I think this is a good question, an important question, and a wide one, too. I feel in the next two years if we aspire to be like the Bank of England, we will be very unrealistic. What we think is possible is to have considerable operational independence within the framework of principles and policies. You will be pleased to know that already many of the things which were either taken away by the government or were surrendered by the central bank, are coming right back. For instance, granting of a licence to a new bank or to a branch of an old bank was within the powers of the central bank under the Banking Companies Act. Now this power, somehow or the other, was being exercised by the government. I advised the government that this was not a very good thing. The first thing the government did was to abolish the standing committee. There was a standing committee comprising the governor and members from the Finance Division, the Commerce Ministry and the Prime Minister's Secretariat. This has been done away with. So, the governor is free from one layer. Now what remains is that for the final approval one has to go to the government. I think, in course of time, with experience and as the government develops further confidence in us we will have a balanced working system.

Similarly, for the non-banking financial institutions, the entire approach should have been with the central bank, and it is. But in the interim period it had been taken away by the government. So, I have no hesitation in saying that whatever authority lies with the central bank — and there is a law providing for it — we are quite determined to exercise it with two main considerations in mind: one, the greater good of the economy; and two, healthy development of the banking system.

DS: Defaulters have been allowed to reschedule their loans even after reneging on previous commitments, let alone revelations about ghost-lending. Why?

MF: Under the rules, two reschedulings can be done. In case of severe big houses, including Beximco, there have been benami loans as you have pointed out. Now, one has to be realistic. What is better? To come to a standstill with such a group, or even if you violated one of the practices find out a way and give this group or that group a final chance, and in the process, you recover a big chunk of the money? For example, in the case of last rescheduling with Beximco it was standstill for more than a year. There was a court case that was going on. There was no end in sight. Only when we rescheduled under stricter terms, that we were able to realise 13 crore taka and every year one crore taka is being refunded. So, I would think that to find out ways even for a big defaulter if they would like to behave well and repay their loans and clear its name, I would rather do that than kick them out of business.

DS: But were the benami loans not a proven fact?

MF: What we did in the overall settlement is that — and this is the standard practice — we made sure the party owned

In a revealing interview, his first ever to any newspaper since assuming the governorship of Bangladesh Bank in November 1998, Dr. Mohd. Farashuddin speaks to Shah Husain Imam with candour on financial discipline, legal framework, enforcement mechanism, and different aspects of monetary, credit and interest rate policies, and an extra bit of client service as well.



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up the benami and withdrew all cases and then only we did the settlement.

DS: Would it not make it liable for action?

MF: Well, yes. But when you go for criminal action on a benami, it may become very difficult to prove it. I am not making any judgment on the court system. I would not rule out the option but there is another way of looking at it and I thought of the option of providing for action to consolidate all the loans, even the bad ones, and the borrower owning it up and repaying according to rescheduled terms and conditions.

DS: What is the legal framework like now?

MF: In terms of the legal provisions there are enough, if we are serious and if there is co-operation from all sectors and institutions we can make good use of these. There is not too much lacunae there. The only complaint I hear is there are not enough judges all the time in the Arthorin Adalats or the bankruptcy courts. The framework is there, but there is scope for improvement.

DS: Do the Banking Companies Act and the Arthorin Adalat Act need amendments to respond to the situation?

MF: The Banking Companies Act is being amended on our recommendation and on the government's own volition, on a regular basis. Even this week we submitted several amendments which are confidential and I can't disclose them right now. Arthorin Adalat is too early to comment on, let it function for sometime before we think of it.

DS: Does Bangladesh Bank have an adequate enforcement mechanism?

MF: This is one of the pleasant surprises I discovered in Bangladesh Bank since coming here. The bank has a real large core group of excellent, honest, knowledgeable, competent persons and we are in a position to enforce, and I think slowly and gradually you will see that there is some stamp, some mark whereby Bangladesh Bank would be regarded as an effective enforcer of the Banking Companies Act and other laws.

DS: How are you doing time management over the default issue?

MF: We have apportioned at least a third of our time on the default issue. Practically every week we have a review within ourselves. Even this morning we had a meeting with the Managing Directors of Nationalised Commercial Banks and the five DFIs to work out ways and means to keep further pressure on the big defaulters and to deal with the issue generally.

DS: Henceforth, the chief ex-

ecutives of commercial banks, especially of the NCBs, will be appointed in consultation with the central bank. Does it re-empower BB adequately vis-a-vis the banks?

MF: Well, again this is one instance where the power originally should have been with the central bank but it was not. The order you are talking about is fine, this gives a consultative role to the central bank but we have suggested some amendments in the relevant Banking Companies Act and hope that the NCBs and DFIs will be brought at par with private sector banks. The central bank will have symmetrical and complete authority over the entire banking system, private and public.

DS: Do you see any contradiction between Bangladesh Bank's supervisory role over the NCBs and the fact that the banking division of the Finance Ministry deals directly with them?

MF: Not so much conflict. But what happens is and this is a very important issue you have raised, right now NCBs have three masters. They are managed and administered by the Ministry of Finance. They are answerable to the Board of Directors for approval of loans and advances and they are answerable to the central bank for the banking functions. I am of the rather firm view that the Ministry of Finance's powers should be slowly reduced, and one of the institutions, either the board or the central bank — and I think the central bank — should be given more power and more responsibilities and the executives should be made answerable to the central bank. And that way there will be a conformity between responsibility and power.

DS: The donor community has recently suggested that we state off outside interference in the management of NCBs including their sanction of loans, investment decisions etc. At the same time, they want the central bank to play a supervisory role, to enforce financial discipline. Where is the line to be drawn?

MF: I always call them development partners. They are not always very clear about this. I think, what they mix up sometimes is in the developed countries supervision function is carried out by a separate authority. For instance, in England, there is an authority called Financial Services Council. It is a subsidiary of the Bank of England, but not the Bank of England, which exercises supervision over the banks. But here, since we are not in a position to have it, the central bank will have to, for a

considerable time to come, do the dual function of monetary policy formulation as well as banking supervision. There is no way out.

DS: How do you perceive a sound monetary policy?

MF: For the central bank the most important function has to do with the monetary policy. The monetary policy's first priority is stable price. In monetary policy we see what is the best way, what are the best numbers in terms of money supply which would give stability to the markets in terms of price. We do our best to ensure that there is a balance between private and public sector borrowings and that the money supply is not quite regulated, but synchronised in such a way that there is not too much money and at the same time, not too little saving to hamper the development process.

DS: What is your action plan to recover the outstanding loans in the public sector?

MF: There are serious misgivings in many sections of the people that public sector still monopolises the credit of the banking system. This is farthest from the truth. Right now, out of the total accumulated credit worth Tk 55 thousand crore only about 11 to 13 thousand is in the public sector. So in terms of proportion, the ratio is reversed now. The private sector has the larger amount.

There is a serious dilemma for the government here. Before clearing its own house, can it legitimately put all the pressure on the private sector? There is a lot of argument in saying that the public sector loan recovery should run in tandem with the private sector.

DS: Is it happening now?

MF: It is happening, but very slowly. To be fair, let me clarify another thing. Out of the Tk 13,000 crore or 14,000 crore of classified loans, not more than 3000 crore is contributed by the public sector. It's a big amount. It's perhaps between 20 and 22 per cent of the total amount, but the bulk is in the private sector. But there is no question about it that we should put equal emphasis and the government should take measures to clear up the public sector loans.

DS: Is the interest rate policy doing well?

MF: Well, in the last decade or so, there has been significant liberalisation of the interest rate policy. Right now, excepting three sectors, one is agriculture, the other is small and medium industries and the third one is the export trade, nowhere else are there any savings or interest rate restrictions. We are very actively thinking of liberalising the interest rate in these sectors as

well. Interest rate policy is one of the most complicated areas of monetary policy and management.

DS: How is it impacting on investment now?

MF: It has a tremendous bearing on investment. If you keep the interest rate, for instance, on export on the lower side, the exporters would get some advantage over their competitors. One the other hand, if you suddenly raise the interest rate for the agricultural sector, the poor farmer would suffer. But given that you have a limited kitty, you have to make some balance and it is not easy. I think we are doing well, there has not been any major crisis in this respect. But the problem is because of the stuck up classified loans, a good part of the assets is not earning. As a result, there is a tremendous gap between what the banking system pays to the depositors and what they have to charge to the loanes. That is the disadvantage of our banks vis-a-vis the foreign banks.

DS: Loans have to be disbursed to the small and medium industries sector at a lower rate of interest, I think lower by two per cent. That has really dried out loan supply to the small industries sector because the banks are hesitant to lend. How do we tide over the difficulty?

MF: The higher the interest rate, the more is the supply. Whoever sector has a higher interest rate will get more supply.

DS: But how are you going to cater to the special needs of the SMEs?

MF: That's why there are programmes whereby we will make available credit to the small and medium industries at a concessional rate. I personally think that in the next 12-18 months we must make very serious efforts to make resources available for agro-based small and medium industries which have export potential. I have said a lot of things. They must be agro-based to give a fair price to agriculture and those industries are usually highly labour-intensive as you know. So they create jobs. They must also be export-oriented to yield profits and revenues. That will have a positive impact on the price of agricultural produce. So this is certainly a very, very major thrust area. If I read the mind of the government right, I know they consider it to be of topmost priority. And from the central bank we are going to put in a lot of extra efforts to make more credits available to the agro-based small and medium industries which have export potential.

DS: What are you doing to retain the value of Taka?

MF: It depends on what is happening in the neighbouring countries. We have a reservoir of very competent theoretical knowledge here in the central bank. I myself am a student of economics and we do calculate what is the real exchange rate and not by the psychological pressure of the speculators, nor by the pressure created by the visit of a mission, let's say of the IMF, in the country, nor by any pressure created in the market by any artificial political turmoil, nor by any pressure by created any newspaper item do we do it. We would make best efforts to maintain the value of taka on the basis of our own calculations. If our calculations say that we either need to devalue or revalue, we will do that.

But mind you, there is no convergence of interests. Exporters of readymade garments would like to have a devaluation but importers would not. Consumers would not. So, there is a host of factors to take into account.

We also have to look at the remittances. Remittances have been increasing very steadily and very healthily. That suggests that the value of taka is correctly determined in terms of other foreign exchanges. We also look at the parallel market. That is quite steady. We look at the interbank market. So, we keep our ears and eyes open. We do the calculations. We consider what is happening in the other SAARC countries. We watch what is happening in the East Asian countries but we cannot do what they have been doing. So, we try our best to determine the value of taka to the best of our ability and in the best interests of the nation.

DS: Is the money supply position within safe limits so as to keep inflation in check?

MF: The first part of the answer is yes. We watch it very carefully and whenever the government is borrowing too much from the banking system, we send warnings out immediately. And the government does listen. And there are ways to recoup the situation.

As for the second part, it depends on the money supply received and another component is what happens to our assets abroad, our so-called international reserves. We watch them carefully and if there is a shortfall in one of them we try to address it. In other words, we follow very realistic policies in the best interest of the country. And, we don't see any crisis.

DS: How has the monetary policy impacted on savings and investment?

DMF: This again is a very large comprehensive area and complicated, too. On the one hand there are the savings certificates with a higher rate of interest. On the other hand, we have bank deposits whose rates are lower. We also have the treasury bonds of the government. We are also going to have Agrani Bank bonds and the Sonali Bank foreign exchange bond. There is a spectrum with various price-tags and incentives. We use one instrument or the other to adjust the monetary supply as per the requirements of the country.

DS: How far have the post-flood micro-credit operations succeeded?

MF: Micro-credit is very successful, be it by the NGOs, be it by the NCBs, and more importantly, be it by BRDB or under the youth programme of the government or the women's programme. However, there have been problems with agricultural credit, be it in the public sector or the NGOs. Micro-credit is diversified but agricultural credit is dependent on one particular crop or whatever, so the risk of failure is more here, not only in this country but elsewhere, too. This is a very special case and the government, the country and the society are rightly very bothered about it, but it is to the credit of the government that following the devastating floods last year there have been extraordinary efforts in mobilising agricultural credit. And this has done a lot to raise our hopes of a good Boro crop.

DS: Why don't you have the NCBs open more counters to accept utility charges, fees, taxes etc because the few branches that are now authorised to collect these cannot obviously cope with the pressure? If you did so, public will be relieved of a routine hardship and revenue collection could improve, too.

MF: This is a very good question and also a crucial question and we are aware of this. Let's see it from this position. Nationalised Commercial Banks that collect these charges are not given any fees, so they do it on gratis. And we should expect their service to be not of the highest quality. So, I think they should be given some kind of a fee, however little, for doing this and then perhaps we can enlarge it to NCBs.

But I have a very significantly different and alternative suggestion to give. In Malaysia and several other countries, these utility rates are collected by private agencies. In this age of automation, if the private sector is given the responsibility and it exercises power in this area, and if we could have one-stop utility collection centres for municipal dues and electricity, gas and telephone bills this would not only have been done efficiently it would have also reduced the pressure of traffic jam. People can just go to one place for four things rather than to four places. So, my suggestion is that we either strongly think of giving fees to the NCBs for collecting these and enlarging the number. This is, in my view, the second best solution. The first best solution is to encourage the private sector to set up one-stop utility collection centres.

World Review

CIH invasion

Thousands of computers operating on Windows 95 and 98 across the country went out of order on April 26 due to a widely circulated destructive virus called CIH. The CIH virus was programmed to go off on April 26. Virtually all computers affected were rendered useless, the virus destroying the hard disk partition. Computer users queued up at different service providers to have their machines reactivated and their data retrieved.

Outlaw atrocity

Seven people were slaughtered by terrorists belonging to the outlawed Purba Banglar Communist Party in Bishnupur village under Damurhuda thana on April 26. The seven, all male, were kidnapped and taken to Bishnupur High School where they were murdered execution-style.

Snap polls again for India

Indian President K R Narayan dissolved the Lok Sabha on April 26, with fresh elections September-October this year. The decision came as the mainstream opposition party, headed by the Congress, failed to come up with an alternative solution. The cabinet of Prime Minister Atal Behari Vajpayee advised the President to dissolve the lower house of parliament after a 90-minute meeting.

Stock prices hit new lows

The Dhaka and Chittagong stock exchanges hit new lows April 20 and many businessmen and brokers had to shut down businesses, waiting for a better market atmosphere. The finger was pointed at the 1996 share market scammers who were believed to be behind this fall. The Dhaka Index read 484 points while in Chittagong it was 209.46 points.

Bad news for Benazir

The Pakistan National Assembly (NA) began a formal process on April 20 to unseat former Prime Minister and Pakistan People's Party chief Benazir Bhutto and her husband Asif Ali Zardari. The two were earlier found guilty of corruption and fined some 8.6 million dollars. Under procedural rules, the speaker of the NA will forward this verdict to the chief election commissioner, who will then strip the Leader of the Opposition Benazir and her husband of their seats in parliament.

BSF on marauding

BSF personnel killed six Bangladeshis in Jamalpur under Daulatpur thana "without any provocation", leaving the border area tense. The incident took place, according to witnesses, when a BSF patrol intruded in Bangladesh and caught hold of a farmer and after an altercation shot him. This triggered the violence in which a BDR personnel was also killed.

JCD procession attacked

Fifteen persons belonging to the Jatiyatabadi Chhatra Dal (JCD) were injured, four seriously, when their procession came under attack from a group of Juba League activists on April 25. The JCD were marching towards the Prime Minister's Secretariat to press home a 12-point demand. The JSD group had earlier been stopped by police.

Bangladeshis hurt in Brick Lane blast

Seven people were injured on April 25 in a car bomb blast in East London. Among them were four Bangladeshis, two identified as Emdad and Russel. A neo-Nazi group, Combat-18, claimed responsibility for the blast, which police believe to be a racist one. In Brick Lane, the heart of one of Britain's largest Bengali communities.

Labour unrest in South Korea

Labour unrest intensified April 25 as striking workers in Seoul held demonstrations demanding a slow-down of corporate restructuring. Violence erupted when riot police charged demonstrators near Catholic Cathedral in Myongdong. More than 500,000 striking workers are believed to be involved in one of the most serious demonstrations in many years.

JP splits

The Jatiya Party formally split April 23 with former Prime Minister Mizanur Rahman Chowdhury and cabinet member Anwar Hossain Manju leading the renegades. The split was blamed for the 'dictatorial attitude' of party leader HM Ershad.

Former DSE chief indicted

Former DSE chairman Hemayetuddin was charged April 23 for manipulating the country's stock market through a syndicate in 1996. Along with him, senior vice-president of the Dhaka Stock Exchange was also charged. He is an associate of the HHMS Financial Consultancy Securities, a company owned mainly by the former DSE chief.

Ammonia in air

At least 500 people fell sick after inhaling air contaminated with ammonia April 21 in a wide area adjacent to the Ghorasal and Palash fertiliser factories in Ghorasal. The gas apparently evaporated with the water from a pond used to dump waste from the complex. The ammonia has reportedly been leaking from the complex since March and has killed around 1,500 fowl and 25 cattle.

Murders in Meherpur

A group of about 40 armed extremists of the outlawed Purba Banglar Communist Party (Lalu group) murdered five people on the night of April 16 in Meherpur district. Three sons of one Motaleb Hossain, aged 35, 32 and 26 respectively, were killed when the group raided their house. Later they kidnapped two other people of the village from their houses and shot them execution-style.

India test-fires Agni-II

India test-fired its new nuclear-capable long-range missile on April 11 to "add range, mobility and strength" to its defence. The firing of the Agni-II immediately raised concerns of triggering another arms race in the region with the US and Pakistan condemning such actions. Pakistan further said they would give a "befitting reply".

Pakistan follows suit

Pakistan test-fired two nuclear capable missiles at Shaheen and Ghouri in 48 hours (April 13 and 14) upping the ante in the missile race with India.

Crime on rise in Chittagong

Police sources in Chittagong supplied crime statistics for the last five years on April 11. They revealed 300 people were murdered, 230 kidnapped and 90 raped over the last five years. Burglaries, dacoities, and muggings were on the increase in the city. Police further said they were concerned with the violators getting bail too quickly.

BNP MP arrested over Atrai murder

BNP lawmaker Alamgir Kabir was arrested April 10 in connection with the murders of two AL leaders in Atrai. The MP however said when he was going to the BNP central office some plainclothes policemen stopped him and told him to go to the police station with them. They did not show any identification, he also said. Police said they wanted Alamgir Kabir for interrogation.

On Bus to Calcutta

A historic bus service to Calcutta from Dhaka was launched April 6. The BRTC bus started at 7:30 a.m. and reached Calcutta at 8:45 p.m. covering a distance of 360 km.

NATO bombs Belgrade

NATO's first attack on downtown Belgrade April 3, destroyed the headquarters of the Yugoslav forces. In a raid just before 1 a.m. local time, the Serbian Interior Ministry building were destroyed, going up in flames. The Serbs are accused of routing ethnic Albanians from the Kosovo.

8 billion by 2026

A US Census Bureau report said April 2, that the world's population could rise to about 8 billion by the year 2026. And it could reach 9.3 billion by 2050. The report further concluded that 99% of the rise would occur in the developing regions of Asia, Africa and Latin America.

Khaleda's "No" to BTV

Opposition leader Begum Khaleda Zia refused to appear in a BTV programme featuring direct questions from a panel of experts and the people unless some pre-conditions were met. It was known on April 1, BNP in a reply said that some of its preconditions included improvement of BTV's partisan attitude, and picturing BNP in an impartial manner. BNP further said that BTV was belittling BNP workers and was used as a tool for Government propaganda.

Hasina wins UNESCO prize

Prime Minister Sheikh Hasina of Bangladesh was awarded the UNESCO 1998 Houphouet-Boigny Peace Prize on April 1. She was cited for her "contribution to the resolution of conflicts in Bangladesh", by an international jury chaired by former US Secretary of State Henry Kissinger.

\$310m ADB loan for Bangladesh

The Asian Development Bank (ADB) has considered giving Bangladesh around \$310 million US dollars to develop its power sector, roads and secondary education. Out of this 235 million dollars will come from the Asian Development Fund (ADF) and about 75 million from the Ordinary Capital Resources (OCR).