

# 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 very 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 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 renegeing on previous commitments, let alone revelations about ghost-lending. Why?**

**MF:** Under the rules, two reschedulings can be done. In case of several 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 we need 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?**

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**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 cooperation 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 need amendments to respond to the situation?**

**MF:** The Bank Companies Act is being amended on our recommendation and of 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-*vamp 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:** The Bank Companies Act is being amended on our recommendation and of 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.

**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 the 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 about 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.

**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. Whichever 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 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: Is it happening now?**

**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 agro-credit, 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

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.

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**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?**

**MF:** This again is 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-flod micro-credit operations succeeded?**

**MF:** It has a tremendous success, 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 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 set 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.

**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 pre-conditions 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).

**April in 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 Purbo 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.

**Snaps polls again for India**