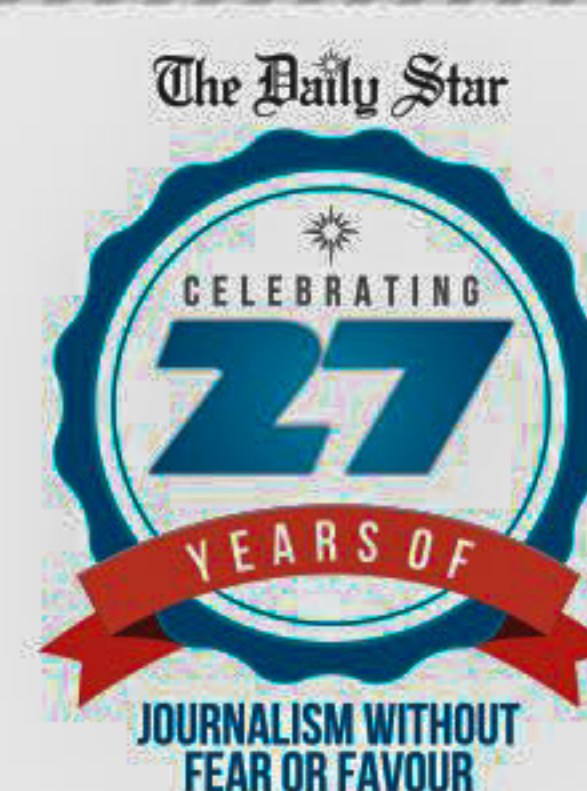


TOWARDS BUILDING A MODERN ECONOMY



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Banking sector and its impact...

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economist Dr Debapriya Bhattacharya, the private banks that were given licences on political consideration a few years back had failed to perform completely and allegations of money laundering through some of these banks were brought forth a number of times. Furthermore, the nine new banks, since obtaining licences, have failed to fulfil the four conditions that they were given

aggressive lending and violations of banking regulations among other issues, posing serious threats to the banking sector according to the central bank's own assessment. According to Dr Bhattacharya, not only were no "preventive measures" taken, but the government actually went on to increase "the control of the family members of bank owners through amending the banking law and regulations."

And following the implementation of

stakeholders. Some top bankers were courageous enough to voice their apprehensions to the central bank, finding "the erratic behaviour of bank directors to not only be a threat to financial stability but also unfavourable for corporate governance" ("Taking banks further away from the public," January 14, 2017). However, Paul also went on to explain that, "While the central bank understands their worries, it can do little if the ministry doesn't

now gotten into a situation where the perpetuation of debt default has in fact been ingrained in business practices," which "is destroying the competitive nature of [the] financial system." Getting back to how this plays a major role in increasing wealth inequality, Professor Sobhan also said that Bangladesh is suffering from a "perverse and totally unethical situation where the biggest defaulters tend to be the elite, and the most credible debt service agents are low-income households."

But apart from increasing wealth inequality, the crisis in the banking sector is harming the country's economy in other ways as well, according to a former governor of Bangladesh Bank, Salahuddin Ahmed. To emerge from the pressure that they are under because of rising NPLs, "banks are reducing interests on deposits" and the "government is also considering new taxes," said he.

Moreover, given that the banking system is supposed to play a major role in the efficient allocation of resources in an economy, it is obvious that its continuing failures are affecting our efficiency and productivity, as well as constraining businesses and industries that truly do have the potential to grow and become a pillar of strength for our long-term growth.

Yet, in spite of the heavy cost, the government's reluctance to hold those responsible for the mess, which can only encourage further corruption and mismanagement at the cost of the overall economy, can best be described as wholly absurd and incredibly damaging. And its selective interventions on behalf of special interests to bailout failings banks go totally against the concept of free market which is another reason why we see such massive misallocation of resources and the continual wealth transfers from the general public to

members of these special interest groups—making way for the political, bureaucratic and financial classes to divvy up the loot from public coffers among themselves.

As Transparency International Bangladesh has expressed, the "unprecedented anarchy and risk" that is prevailing in the banking and financial sectors is on the one hand down to "the misuse of power", "political influence" and "lobbying", leading to "unrestrained forgery", "corruption" and "dominance of loan defaults"; while on the other, it is also down to the "ineffective ad hoc measures by a section of the regulatory authorities." Thus, the only possible way to bring about a reversal in this trend is to depoliticise the sector, especially the regulators and to have greater accountability and transparency (where there is now none) in order to prevent the misuse of power and also the lobbying power of money, and to end the collusion between special interest groups and the political class that has now clearly metastasised into a major threat for our economy.

However, in order to have any of that, what is needed first and foremost, as has been oft-repeated, is the political will. That political will, however, especially given that we are yet to see any shred of it till now, is unlikely to simply materialise out of the blue. And, thus, must be brought about by conscious citizens raising their sustained voices to exert enough pressure on the authorities to change their disastrous ways, before disaster befalls our economy, as it surely will, if things continue down their current path, leading to an almost guaranteed reversal of all the economic progress that Bangladesh has made till date.

Ersh Omar Jamal is a member of the editorial team at The Daily Star.



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by the BB before going into operation and are now pushing the central bank to relax those conditions.

Requesting anonymity, a BB official said that despite providing licences, the central bank could not completely monitor these banks as they were owned by politically influential people—despite some of these banks having been linked to loan scams,

the new law allowing four members of a family to be directors of a bank with extended terms, a former chief economist at the Bangladesh Bank, Biru Paksha Paul, wrote in *The Daily Star* that, "Some bank owners took advantage of this new law and made sudden changes in the directorship positions, triggering a state of panic among depositors and other

want to displease the financial coterie."

In a similar vein, Professor Rehman Sobhan too criticised the weakness of regulators and how that has contributed to increasing the risks of a major financial disaster in Bangladesh, saying that, "The [banking] system as it works in Bangladesh is now getting deeply integrated with the political economy of society." As a result, "The economy has

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