

STRONG INSTITUTIONS FOR GOOD GOVERNANCE

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Bangladesh Bank's role as an independent regulatory body

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Small economies like Bangladesh are by no means invulnerable to fallout from global downturns or negative spill-over of policies of large economies and therefore have a strong stake in global stability and economic growth. In forums such as the G-20, countries like Bangladesh need to argue forcefully for the same priority in stability as in recovery, as well as for stability action agenda going beyond addressing the symptoms (i.e. lapses in risk management, inadequacies of regulation and supervision) to addressing underlying causes (i.e. lax policies, non-compliance of prudential and management norms, poor financial reporting, unbridled liquidity expansion that incubates bubbles). Financial crisis of 2007-08 is due to massive regulatory failure, a breakdown that goes all the way from regulatory fundamentals to implementation of prudential and management norms.

To have an independent and effective Bangladesh Bank, three major steps

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are necessary: (a) a strong and independent central bank with more focus on core banking issues, (b) a well thought out set of prudential and management norms of the central bank that are not subject to frequent changes due to external political/administrative pressure, and (c) a system of prompt corrective actions for management of crises and for legal/administrative actions against persons responsible for crises in a particular bank or in the banking 'system' as a whole.

In a real-world situation, extraordinary independence and full autonomy to the central bank may not be easily achieved. Therefore, central banks like Bangladesh Bank can minimise political and other external pressure by constantly engaging with them and gaining public support for actions which may make Bangladesh Bank autonomous and effective. Whether in good or bad times, supervisors always face pressure from lobbyists and from politicians that can undermine the stability of the

financial system.

For Bangladesh Bank to be successful in regulating the financial sector, it has to have very relevant and pragmatic policies, prudential management rules and ensure that these are fully followed by all banks and financial institutions. "Discretionary" powers or "ad-hoc measures" have to be avoided in order to safeguard the independence and autonomy of Bangladesh Bank. The typical case of "policy" versus "discretion" has to be resolved with strong

stance of Bangladesh Bank where policies and rules will be supreme—not the discretionary powers of any individual and agency. Time has come for Bangladesh Bank to strike a balance, showing appropriate professional stance while avoiding the danger of politically motivated reforms in a highly technical domain.

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