STRONG INSTITUTIONS FOR GOOD GOVERNANCE

Fixing the mess in our banking sector

Our economic future at stake

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When we look at Bangladesh's recent economic performance broadly, we see that it has done quite well having maintained a GDP growth rate of 7-plus percent from 2016 to 2018. This is particularly impressive considering Bangladesh was among only five countries out of 45 least developed countries that had managed to do so in the year 2017, according to the United Nations Conference on Trade and Development—making the preservation of such growth for three straight years, and possibly longer going into the future if we are to believe the expectations of most forecasters, even more impressive.

Another accomplishment that is eye-catching is the growth of its overall size of the economy. According to the World Economic League Table (WELT) 2019 produced by London-based Centre for Economics and Business Research, Bangladesh is set to become the 24th biggest economy in the year 2032, climbing up from its current position of 41st.

In what seems to be almost unanimously the case with the majority of politicians and governments around the world, ours too has claimed a large part (if not all) of the credit for these positive aspects of our performance. While at the same time, just as naturally doing their best to shirk responsibility for the downsides—the most glaring of which is the disastrous performance of our banking sector over the past years, and thus its resulting fragility and lack of good governance at present.

Some within the government (or who were previously a part of it) have, in fact, gone so far as to allege that the banking sector is doing "just fine", and that those who *see* or *say* otherwise are all "ignorant". While one could only *wish that was true*, the overwhelming evidence suggesting otherwise makes this "denial syndrome" extremely unhelpful and indeed dangerous to some extent, first and foremost, as it indicates that those with the most influence to make change have no intention of doing so.

This evidence that I speak of includes the fact that defaulted loans grew by about 176.5 percent between 2009 and 2016—and beyond ever since. And that government handouts to "zombie banks"—which most likely would have died without government bailouts—amounted to more than Tk 13,500 crore between 2011 and 2018 despite the fact that these banks were riddled with mismanagement and corruption, and seemingly still are, in spite of the never-ending bailout money taken directly out of taxpayers' pockets being handed to them.

By bailing out losers, what the government has essentially done is destroy any semblance of a market economy that we may have had—as in a free market, banks making boneheaded business decisions would get wiped out, not bailed out—and the market's ability to determine prices on anything other than whimsical government decisions and interventions at the behest of special interests. In this particular context, the destruction of the free market has been wrought through the "socialisation" and transfer of banks' losses onto ordinary people for them to bear, through the machinations of government and its institutions.

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But the fact that repeatedly bailing banks out is a disastrous practice that eventually snowballs into greater disasters economically and socially speaking, should never have come as a surprise to anyone in the first place. Plenty of countries had tried it before, all with horrendous consequences. And thus to even consider otherwise is simply illogical and idiotic. And so the promotion of the idea that bailouts would or could be beneficial for the people and the general economy can either be classified as *propaganda with no substance*, or the result of *economic and financial illiteracy*. After all, the protests raging across France and other European countries, the protest vote in the UK (i.e., in support of Brexit) and the one in the US which brought Donald Trump to power (over Hillary Clinton who was commonly referred to as the "Goldman Sachs candidate" within financial circles), were all primarily down to the discontent of people with their government's decision to unjustifiably bail out zombie banks for years at their expense.

Yet, our government not only decided to ignore such obvious examples, but also the alarms raised by economists, as well as the time-tested concept of economic "moral hazard". Unfortunately, ignoring the latter has only turned our own financial sector into a further test-case where the concept of economic moral hazard has held true; as despite the endless bailouts, defaulted loans

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