Fixing the mess in our banking sector

CONTINUED FROM PAGE 34

in the country's banking sector once more soared by 20.23 percent in the first six months of last year—by Tk 89,340 crore. With that figure actually rising to Tk 1,38,000 crore when written-off loans of around Tk 50,000 crore are added.

Moreover, as per the central bank's own data, 57 scheduled banks rescheduled loans of Tk 19,120 crore in 2017, while classified loans (when conservatively calculated) amounted to 10.41 percent of banks' total outstanding loans at the end of June 2018. Classified loans in just six state-owned commercial banks—Sonali, Agrani, Janata, Rupali, BASIC and Bangladesh Development Bank Limited—increased to Tk 43,853 crore at the end of June 2018 from 37,326 crore on December 31, 2017—which remarkably means that 28.24 percent of all their disbursed loans are now classified loans.

The number one reason why the banking sector has been struggling to address this culture of loan defaults almost entirely by big borrowers is, as former Bangladesh Bank governor Salehuddin Ahmed explained, that "People involved with the loan nonpayment are very influential and linked with other influential quarters as well as politics." This was further evidenced by the non-prosecution of politically appointed bank high-ups even when the Bangladesh Bank's own investigations found them guilty of being at the centre of financial corruption and scams. Then there were countless interventions by government ministries in the regulatory operations of the central bank to prevent it from implementing measures that would go against the interest of certain groups or a group of individuals, even though they were clearly in the public interest.

And the reason why this problem is much more significant in reality than what it seems on the surface, is because we now live in an overly financialised world, where the global economy, as well as the economies of individual countries, are influenced most heavily by the financial sector. One such example of influence can be seen in the financial sector's control over levers that determine whether people can gain access to finance for their businesses, education, housing, etc., or not. These levers, among others, include the interest rate banks afford to savers and the rate at which it lends to borrowers.

When loan defaults by big borrowers skyrocket as it has in our country, that obviously has a massive effect on these rates, typically increasing the cost of borrowing: i) Directly, by raising the rate at which banks lend (which ironically doesn't affect those who don't pay back, i.e. defaulters); and ii) Indirectly, by potentially leading to inflation because of the massive injections of money into circulation via government money printing and bailouts (and spending by defaulters), which sometimes also take a somewhat different shape that often goes unnoticed—it reduces the living standards of everyone other than those who first received the money, i.e. corrupt banks (and defaulters to some extent), as the value of money goes down with each transaction.

Because we have experienced all of these happening in our country over a number of years now, we have witnessed simultaneously an increase in inequality also, as highlighted by various reports published by numerous organisations. After all, when the government bails banks out, what is it essentially doing? First, it is making up for the money lost at the hands of big borrowers (the wealthiest) by taking from everyone else (bottom 99 percent in terms of wealth), i.e. transferring wealth from the 99 percent to the 1 percent. And, second, it is lowering the purchasing power of the newly injected money when it finally arrives at the hands of the 99 percent from the 1 percent, as mentioned above.

CONTINUED ON PAGE 38

SINCE 1988
Glorious 30 Years

Are you in safe hands?

Trust **Reliance** and make it your lifetime partner for your complete **general insurance solutions**

With our unwaivering commitment to quality services we offer an array of products and services tailored to meet all your requirements

Property | Marine | Motor | Engineering | Health | Export Credit | Casualty and many more.....

AAA Rated by CRISL

রিলায়েন্স ইন্স্যুরেন্স লিমিটেড
RELIANCE INSURANCE LIMITED
Head Office : Shanta Western Tower (Level-5), 186, Tejgaon Industrial Area, Dhaka-1208, Bangladesh
PABX: +88 02 8878836-44, Fax: +88 02 8878831-34
E-mail : info@reliance.com.bd, Web: www.reliance.com.bd

We extend our good wishes and warm greetings to The Daily Star on 28th Anniversary

CA BANGLADESH

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH
CA Bhaban, 100 Kazi Nazrul Islam Avenue Kawran Bazar, Dhaka -1215, Bangladesh
+880-2-8189255-7, + 8809612612100
facebook.com/cabdofficial
secretary@icab.org.bd
www.icab.org.bd