

STRONG INSTITUTIONS FOR GOOD GOVERNANCE

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Fixing the mess in our banking sector

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The worst case scenario, however, is when all this money, or at least portions of it, are never returned to the domestic economy at all, but are siphoned off abroad by the wealthiest 1 percent for the purpose of “asset hiding”. It is difficult to pin down the specifics of how much money is being hidden and where when it comes to the problem of asset hiding, mainly because of the nature of the global offshore banking industry and other associated industries; a number of international organisations and reports have voiced concerns that huge chunks of money have been siphoned out of Bangladesh to a number of countries abroad.

One such report by the Global Financial Integrity in 2014 revealed that USD 75 billion was lost from our economy because of trade misinvoicing and other unrecorded outflows between 2005 and 2014. And USD 6-9 billion, equalling 9-13 percent of Bangladesh's total trade for that year, was lost through illicit money outflows in 2014 alone. As is usually the case, this leakage almost perfectly coincided with skyrocketing loan defaults in our banks which, as has been seen in many other countries of the world previously, are often the force that drives the former.

The reason why this siphoning of funds—driven somewhat by rising loan defaults and poor regulatory oversight of the financial sector—is exceptionally more damaging to our economy is because, every time someone launders money abroad to any country, they are buying a foreign currency by selling the taka, which results in the debasement of the taka in relation to other currencies. This makes everything for all Bangladeshis more expensive (as with the debasement of the taka, prices of all imported goods get pushed up). There are, of course, many other harmful impacts that result from this. But one could just as easily tie all of them back to the crisis of bad governance and poor regulations in our banking sector, which has sort of become a central hub from which many other forms of corruption that are harming our economy and our country are stemming.

Interestingly, a report by one financial daily at the end of December last year, highlighted “banking”, “balance of payment (BOP)” and “exchange rate crises” as the three major economic woes that Bangladesh faced last year, which “eclipsed” its economic achievements. According to Dr Zahid Hussain, lead economist of the Dhaka office of the World Bank, the BOP deficit was created directly by capital flight. If we go back to the fact that capital flight itself is, to some extent, driven by the many festering problems in our banking sector, one could conclude that the three biggest economic problems that we, as a nation, are facing are really the result of one—our troubled banking sector.

Thus, it becomes obvious that the state of our banking sector and where it is heading is the biggest economic problem that we must address today. And that is a sad reality because it could just have easily been the mirror opposite, had policymakers, regulators and others within the government prioritised the wellbeing of our nation, its population, and the economy, over the interest of a handful of corrupt individuals and special interests.

There is, however, another way of looking at it as things stand. If the banking sector is the biggest problem for our economy, and if that problem is a direct result of poor governance and lack of regulatory oversight across

the many spectrums of our government and its various institutions, then with good governance and proper regulatory oversight, the banking sector would cease to be such a burden on the rest of the economy. And that could give our economy the kind of impetus that it needs to move ahead, grow and perform exceptionally well by any global standards, which is by no means out of our reach yet.

As for how the government can fix this mess that is the product of its own creation, there have been plenty of solutions that have been expressed, explained and published by experts, media, academics, etc. What is needed is for the government to acknowledge the reality, to get out of believing its own propaganda which it has been repeating for years now, and to work with others to implement the solutions that have already been offered to it.

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But regardless of what the government decides, what is equally important for them to understand is what would happen if they continue to provide political patronage to corruption in our banking sector, already reeling from past scams. Fortunately, for the government, perhaps, it seems we are now also living in times when examples of what consequences await those who fail to address the problems caused by the neoliberal economic policies of the past several decades—with corrupt banking right at the heart of it—adopted by the world, are popping up in one corner of the world after another, in country after country. With that in mind, one could only hope that going into the future, we'd prove to be a nation that, in comparison to them, is a much faster learner. And by doing that, hopefully, prevent non-performing loans from rising even by “a penny”, as the new finance minister, Mustafa Kamal, has promised.

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