

# Saving our ailing banking sector



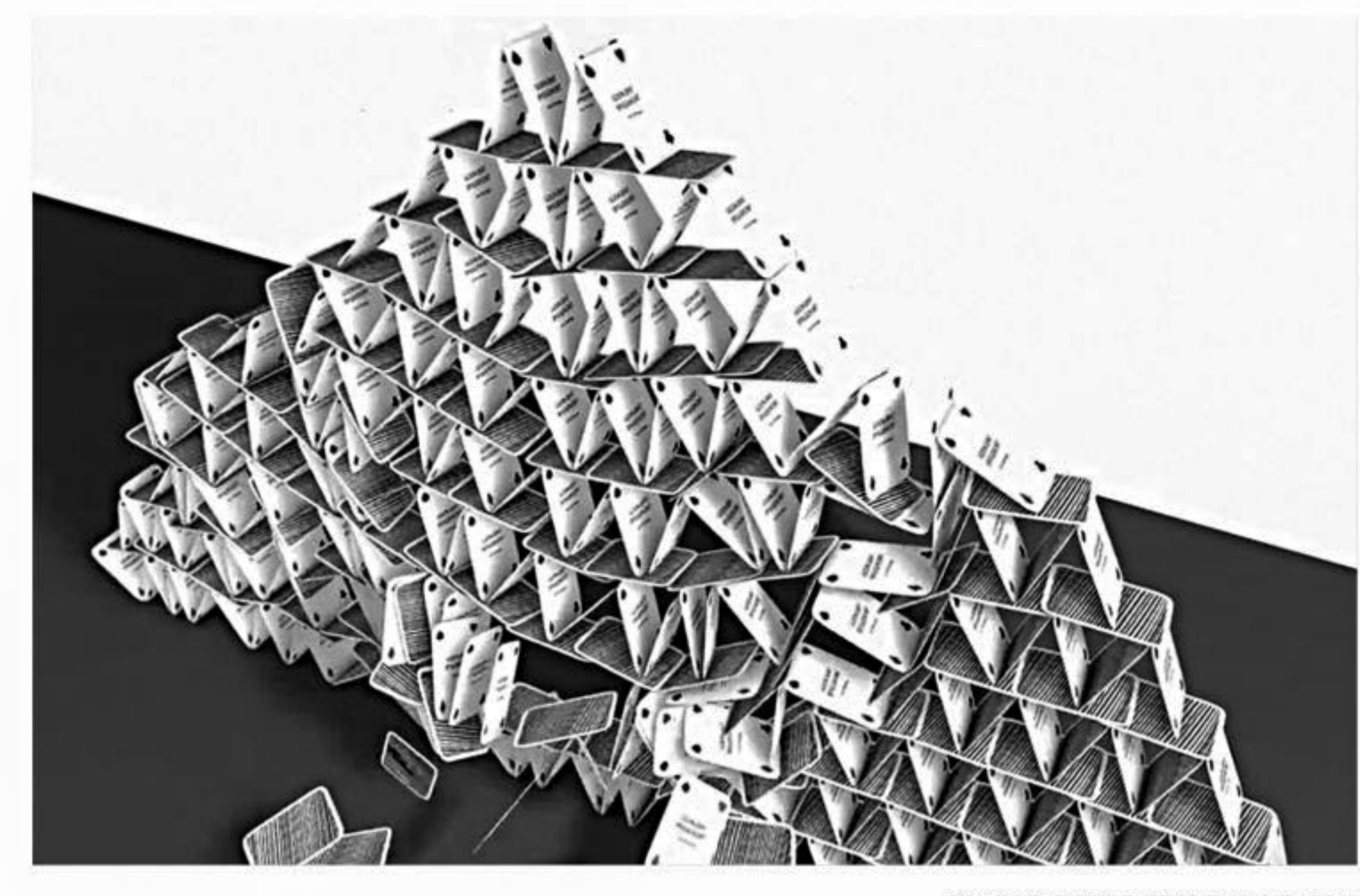
**B**ANGLADESH'S banking sector faces a number of major challenges including rising nonperforming loans, credit concentrations, poor culture of professionalism, the rise of family oligarchy, lack of corporate culture, capital market

The British at some point realised that their central bank should be bestowed with greater powers and discretion. The Bank of England's governor enjoys a high level of authority in monetary and financial decisions. He was even made the chair of the financial stability board of Great Britain. If we look further to the west, the Fed chair is deemed as the second most powerful person after the president in America.

The world has changed but we haven't. It's as if the ministry expects a completely pliant leadership at the central bank so that the monetary authority can't question any weakness in fiscal capacity, fiscal deficit, and fiscal desperation. This tug-of-war has always been there since the birth of the central bank. But most countries have solved this conflict in two ways: (i) by clearly separating the powers and responsibilities of these two institutions, and (ii) by empowering the central bank to make it a nonpartisan custodian of the economy. While the ministry gets its oxygen from political mandates, the central bank can't. Hence, it looks to the constitution for the powers bestowed upon it to guard the greater interests of the economy in a dispassionate, scholarly, honest, and nonpolitical manner.

Timely reform of the BB Order and strong leadership at the central bank are the need of the hour to tackle the threats (calling them "challenges" is an understatement) looming in the banking sector. And Bangladesh has to do this, because, unlike other emerging countries, the banking sector is the main vehicle of development since the capital market has already been partly vandalised.

The government has to understand that policy inconsistency will ruin the market in the long run. It has to realise that the central bank should be the main controller of the interest rate. All other interest rates, even some offered on government instruments, must follow the market or the long-term bond rates assigned by the central bank. Otherwise, attempts to develop either the bond market or secondary market will be thwarted. Short-term management of fiscal deficit shouldn't empower the ministry to assign out-of-market interest rates to fiscal tools. That is how fiscal desperation ruins the



SOURCE: INNER-LIGHT.NING.COM

effectiveness of monetary policy. We shouldn't forget what 16th-century economist Sir Thomas Gresham observed: "Good and bad coins cannot circulate together." The bad will drive the good away.

In the same way, the "bad" interest rates (which are of course "good" for the super-rich) on National Savings Certificates (NSCs) are leading to deposit rates offered by the "poor" banks becoming dysfunctional. The government wants the lending rates to be brought down to single digits. How can it happen when the government itself is offering double-digit rates on its NSCs? Lending rates must sit on the deposit rates and the spread needed for bankers' bread and butter. *Sanchayapatra* is doomed to fail no matter how much it grows. The flood of inflows from *Sanchayapatra* is temporarily hiding the fiscal incapacity of the ministry, but it is leading to a burden on one of the most expensive ways of deficit financing in the world. The interest liability is rising—a threat that will wipe off a big segment of the budget which could otherwise be spent on development.

Inconsistent policies and fiscal trespassing are the main hindrances to interest rate rationalisation. The Reserve Bank of India made a policy so that government-offered interest rates are always linked to the central bank's long-term bond rates. It's similar in the cases of Sri Lanka and Pakistan. And the central bank's long-term bond rates by and large follow the neoclassical Fisher equation where the nominal interest rate is a summation of the real interest rate and expected inflation. While the real interest rate, linked with the real economy, should be more or less stable, the nominal interest rate can go up if expected inflation rises, and rates must fall when inflation drops. Our fiscal gurus seem to disregard this theory entirely. It's a threat to the banking sector.

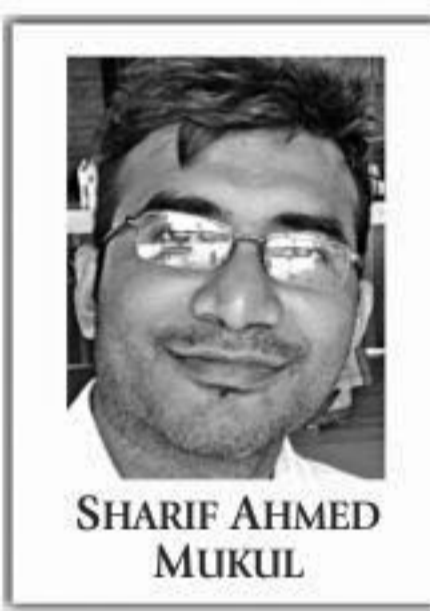
The ministry's behaviour, which defies Fisher's formula, neither follows the dynamics of inflation nor does it understand why real interest rates matter for savings. This duality is creating an interest rate anarchy in the entire banking sector, making the most powerful tool of the sector defective. This is the fiercest threat to the banking sector and

one which actually masks the ministry's fiscal incapacity. This is one of the main reasons why private investment as a share of GDP has remained almost stagnant for years. This is also one of the main reasons why Bangladesh still ranks below its neighbours in the Ease of Doing Business Index of the World Bank.

Thus, institutional irregularities and a lack of understanding of the theoretical underpinnings are at the root of the weaknesses of our banking sector including the default culture and poor governance. We live in a society whose ranking in the Knowledge Economy Index is one of the poorest in Asia and the Pacific. Policymakers seem to be more comfortable creating space for obedience to compliance, and not as comfortable freeing up space for knowledge, research, expertise, and skills. Despite trumpeting about innovation et al, we are the least innovative nation in Asia. We go on and on about our impressive growth figures, but we have failed to generate adequate jobs for the youth in the country. The informal sector still accounts for more than 80 percent of our labour force. Where is this growth going? Doesn't it nullify the truth of Okun's law which says that higher growth generates higher levels of employment? Banking has come to a crossroads, but better ways can still be found. More autonomy for the central bank can be ensured by getting rid of the banking division of the ministry whose dual role is weakening the central administration of BB. We don't need the National Savings Department. Banks are supposed to take on the role of deposit mobilisation. NSD's nonmarket rates are obviously distortive for the market and private investment. Bangladesh shouldn't turn into a "savings society". It needs investment more than ever before. More autonomy and greater economic insight of the central bank leadership, along with the elimination of fiscal trespassing on banking affairs, are the answers for a healthier banking sector in Bangladesh.

Dr Biru Paksha Paul is Professor of Economics at the State University of New York at Cortland. This writing draws from his recent speech at the BDI International Conference at Yale University. Email: birupakshapaul@gmail.com

# Will Bengal tigers really disappear from the Sundarbans?



**W**E recently published an article titled "Combined effects of climate change and sea-level rise project dramatic habitat loss of the globally endangered Bengal tiger in the Sundarbans" in *Science of the Total Environment* journal. The findings of our study have been highlighted in leading national and international newspapers including *The Daily Star*.



PHOTO: RAKESH NARALA

The elusive Bengal tiger spotted in the Sundarbans.

ability of existing terrestrial-protected area networks to support Bengal tiger habitats in the Sundarbans.

Our study projected a dramatic decline in suitable Bengal tiger habitats in the Sundarbans. Other than the various aspects of local climate, we found that sea-level rise will have a substantial negative impact on Bengal tiger habitats in this low-lying delta system. Our model also predicts that due to the combined effects of climate change and sea-level rise, there will be no suitable Bengal

tiger habitat remaining in the Sundarbans by 2070.

Most of the future suitable Bengal tiger habitats will be confined within or in the periphery of the Sundarbans (west and south) Wildlife Sanctuary, which is closer to the Indian part of the Sundarbans and has relatively greater salinity than the rest of the Sundarbans. Quite interestingly, it is also one of the lower elevational zones and dominated by tree species such as Goran (*Ceriops decandra*). The area is also quite far

from human settlements and, thereby, less prone to anthropogenic disturbance.

The finding of our study is definitely alarming for Bangladesh, the Sundarbans, and the magnificent Bengal tiger, a national pride of the country. However, like many other modelling studies, our study is also based on several assumptions. For example, as the Sundarbans are located in an active delta system, and mangroves are "ecosystem engineers", there have been regular losses and gains of land area due to erosion and

land accretion. The tropical cyclone is a common phenomenon in that area as well and has resulted in tiger fatalities. Industrial developments, including the new coal-based power plant, are also a threat. Other factors that can also control the tiger population include disease outbreak, poaching of tigers, reduction in the prey population, etc. Our study didn't consider these factors due to sparse spatially explicit data. The actual scenario, therefore, could be better or worse than that of our projection.

The findings, however, also gave us some hope as they brought global attention to the vulnerability of the Bengal tiger in the Sundarbans due to climate change and associated sea-level rise. The Sundarbans are a Unesco World Heritage Site and a wetland of international importance under the Ramsar convention. Thus, the more of this unique ecosystem we can conserve—by increasing protected area coverage and reducing illegal poaching—the more resilient it will be to future climatic extremes and rising sea levels. Strengthening the monitoring system and law enforcement capabilities, and improving community awareness to reduce casualties during human-tiger conflicts could also benefit the tiger population in the area.

Both the Bangladeshi and Indian parts of the Sundarbans share similar environmental socio-economic and geographic settings, and climate change is unlikely to follow a different path in the Indian Sundarbans than in its Bangladeshi counterpart. The governments of Bangladesh and India, therefore, should work together and emphasise upon transboundary tiger conservation and monitoring for the future of the Bengal tiger in its largest habitat and world's largest mangrove forest.

Dr Sharif Ahmed Mukul is Assistant Professor, Department of Environmental Management, Independent University, Bangladesh, and Senior Research Fellow, Tropical Forests and People Research Centre, University of the Sunshine Coast, Queensland, Australia. Email: smukul@iub.edu.bd

## ON THIS DAY IN HISTORY



March 27, 1994  
**SILVIO BERLUSCONI RISES TO POWER IN ITALY**  
In his 20 years in Italian politics, Berlusconi arguably made more headlines for his numerous affairs and scandals than for his policies. In 2013, he was sentenced to 4 years' imprisonment for tax fraud.

## CROSSWORD BY THOMAS JOSEPH

- ACROSS
- 1 Small songbirds
  - 6 Talks and talks
  - 10 Zellweger of "Chicago"
  - 11 Permit
  - 13 More mature
  - 14 Home of the Marlins
  - 15 Letter after sigma
  - 16 "a Rock"
  - 18 Buddhism branch
  - 19 Reason given for an action
  - 22 PC key
  - 23 Writer Rice
  - 24 Dance moves
  - 27 Striped cat
  - 28 Window section
  - 29 Egg layer
- DOWN
- 1 Authored
  - 2 Kick back
  - 3 Finish
  - 4 Pre-maiden name
  - 5 Soap operas
  - 6 Letter after beta
  - 7 Boxing great
  - 8 Afire
  - 9 Unnamed person
  - 12 Trophy recipient
  - 17 Picnic pest
  - 20 Jacket flap
  - 21 Pollute
  - 24 Ignores the limit
  - 25 Thing that may be on a house
  - 26 Enclosed territory
  - 27 Brewing vessels
  - 29 Med. coverage provider
  - 31 Isolated
  - 32 Furious
  - 33 External
  - 34 Must have
  - 39 Fresh
  - 41 Fish eggs

YESTERDAY'S ANSWER

M	A	L	I	D	U	C	K		
T	A	P	I	N	I	S	L	A	M
A	L	E	C	S	C	A	I	R	O
B	O	X	K	I	T	E	N	A	P
O	R	E	D	E	S	P	I	T	E
O	Y	S	T	E	R	A	C	E	S
S	P	O	T	I	N	K	I	N	D
W	E	B	S	I	T	E	B	O	W
E	E	L	R	E	W	R	I	T	E
R	E	L	I	T	O	E	A	S	E
A	R	E	G	A	N	E	V	E	R
D	E	N	Y	K	I	S	S		

## Beetle BailEy by Mort Walker



## BABY BLUES by Kirkman & Scott



Write for us. Send us your opinion pieces to dsopinion@gmail.com.