

Rewarding delinquency

The plight of our banking sector



A CLOSER LOOK
TASNEEM TAYEB

THE central bank has found itself in a bit of a quandary. The bank recently gave the remittance award to 36 individuals, including a loan defaulter—a top defaulter of Bangladesh Commerce Bank Ltd. (BCBL)—who also happens to be a money launderer, having laundered Tk 200 crore through the bank. This tragicomic episode neatly sums up the situation of our banking sector, especially with regard to loan defaults and the treatment afforded to them.

According to Bangladesh Bank (BB), default loans stands at Tk 1,12,000 crore as of June 2019. IMF says the figure stands at Tk 240,167.17 crore—more than double the amount of defaulted loans as reported by BB. The recent IMF report on bad loans is alarming and for two reasons. The first is obvious, the very amount of defaulted loans—a major burden on our banking sector; the second is more insidious: the discrepancy between the central bank and IMF figures.

In its recent report on the situation of defaulted loans, commissioned by the government of Bangladesh, the IMF has suggested that this difference is essentially the result of the central bank's policies and practices, which have enabled the banks to mask bad loans as special mention cases or rescheduled loans. The problem therefore essentially lies in the BB's definition of default loans, which does not encompass all sources of problem assets. But is the problem of default loans really one of semantics?

According to economist Hossain Zillur Rahman, also the Chairperson of BRAC, "The problem

with BB's definition of bad loans is not necessarily a question of lack of technical understanding, but an attempt to resorting to creative accounting to show better performances of the banks. It is also essentially a misgovernance issue."

This might have resulted from the regulators' preoccupation with window-dressing the performance of the banks, rather than actually working towards improving the banks' performance. This also raises questions about our willingness to recover the money blocked as bad loans. This concern has been echoed by the international money lender in its report where it mentioned that technical discussions with the authorities have given it the impression that well-connected and wealthy businessmen have realised that "there is no palette to enforce repayment of their loans." "The mission understood that important and connected borrowers default because they can", the report further added.

The central bank by backtracking on its previous more stringent initiatives to recover bad loans, if anything, has provided a sense of relief to delinquent borrowers. "The BB had originally planned to allow banks to pursue these defaulters under the Bankruptcy Act of 1997, which indeed would have created a powerful deterrent and demonstrated that defaulting would have serious consequences", said the international moneylender. The about-face turn by the central bank to relax repayment terms of defaulted loans has according to the IMF mission "rewarded non-compliance with commitments and also undermined credit discipline throughout the economy".

One might be pardoned for wondering if by formulating such policies the policymakers are trying to protect the defaulter class; a concern shared by former deputy governor of Bangladesh Bank Khondkar Ibrahim Khaled, who believes that



the banking sector is lacking in professionalism. "One might ask Atiur Rahman, Salehuddin Ahmed and Mohammed Farashuddin—all highly knowledgeable on this subject—if what is happening is professional?" was one of his suggestions. Ibrahim Khaled fears, perhaps rightfully, that we are "prioritising personal or group benefits".

In the face of all these, one wonders how much of the problem is financial and how much of it is political. According to Iftekharuzzaman, Executive Director of Transparency International Bangladesh (TIB), "The crisis in the banking and financial sector in Bangladesh is no longer a banking issue, no longer a financial sector issue; it has been converted into

essentially a political issue. The loan default culture has now been converted into a syndrome of the deeper problem of the linkage of business and politics."

If that be the case then one might ask: what is the way forward from here? Perhaps separating business from politics might be an—albeit utopian—option. A more practical approach might be to craft creative solutions to address the bad loan situation, as suggested by the IMF.

The IMF has prescribed that the solutions to this problem should be in line with the strong macroeconomic performance of the country, with focus on ensuring that a fair share of the wealth being accumulated in the corporate sector reaches the financial sector to support our growth and

strengthen credit discipline. It also warned that "Whatever the solution selected, delinquent borrowers in particular when they are rich and connected should not be provided with any relief, but on the contrary subjected to increasingly elevated rates, so that their liabilities toward the lenders rise at an accelerating pace with time."

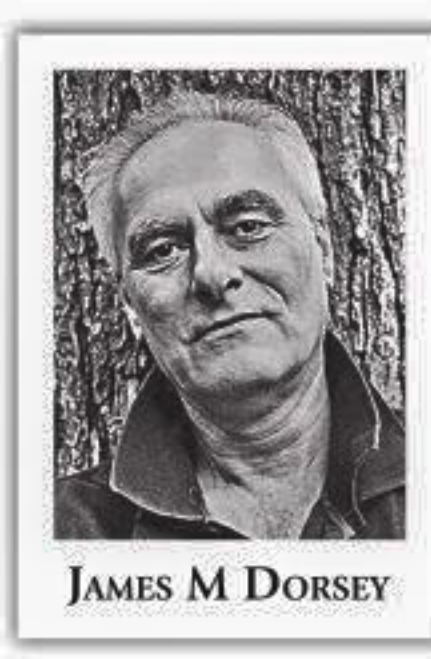
The finance minister is expected to discuss the contents of the report with the IMF officials on the sidelines of the multilateral lender's annual meetings due to be held in Washington from today to October 20. But can prescriptions suggested by the IMF alone help address the situation? According to Iftekharuzzaman, we need effective homegrown strategies to address this problem.

The TIB has been asking the government and the central bank to try and form an independent commission consisting of relevant experts—of whom, according to Iftekharuzzaman, there is no shortage in our country—to come up with "short, medium and long-term strategies on how to address this really big gap in the financial sector, without which the bubble of so-called growth can burst anytime"; a fear shared by the international money lender.

Amidst all these uncertainties what is certain is that there is an affliction within our banking sector. The awarding of an acknowledged loan defaulter, though unwittingly, speaks of a system that cushions delinquent borrowers, at the expense of the public good. Strong political will, along with stringent policies will be required to salvage the situation we have put our banking sector into. The question remains: given the ground realities, are we ready to put national interests above those of certain groups?

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A self-inflicted wound: Trump surrenders the West's moral high ground



JAMES M DORSEY

FOR the better part of a century, the United States could claim the moral high ground despite allegations of hypocrisy because its policies

It probably won't even though Muslim nations are out on a limb, having remained conspicuously silent in a bid not to damage relations with China, and in some cases even having endorsed the Chinese campaign, the most frontal assault on Islam in recent history.

This week's seeming endorsement by Mr Trump of Turkey's military offensive

of Mr Trump's transactional approach towards foreign policy and relations with America's allies, his hesitancy to respond robustly to last month's missile and drone attacks on Saudi oil facilities, his refusal to ensure Saudi transparency on the killing a year ago of journalist Jamal Khashoggi and his perceived empathy for illiberals and authoritarians symbolised by his

blunt preview of what they can expect next time they come calling, whether it is for support of their holding China to account for its actions in Xinjiang, issues of religious freedom that are dear to the Trump administration's heart, or specific infractions on human rights that the US opportunistically wishes to emphasise.

"Let me start with Saudi Arabia," Mr Erdogan said in blistering remarks to members of his Justice and Development Party (AKP). "Look in the mirror first. Who brought Yemen to this state? Did tens of thousands of people not die in Yemen?" he asked, referring to the kingdom's disastrous military intervention in Yemen's ruinous civil war.

Addressing Mr Al-Sisi, Mr Erdogan charged: "Egypt, you can't talk at all. You are a country with a democracy killer." The Turkish leader asserted that Mr Al-Sisi had "held a meeting with some others and condemned the (Turkish) operation—so what if you do?"

The fact that the United States is likely to encounter similar responses, even if they are less belligerent in tone, as well as the fact that Mr Trump's sanctioning of Chinese entities is unlikely to shame the Muslim world into action, signal a far more fundamental paradigm shift: the loss of the US and Western moral high ground that gave them an undisputed advantage in the battle of ideas, a key battleground in the struggle to shape a new world order.

China, Russia, Middle Eastern autocrats and other authoritarians and illiberals have no credible response

to notions of personal and political freedom, human rights, and the rule of law.

As a result, they countered the ideational appeal of greater freedoms by going through the motions. They often maintained or erected democratic facades and payed lip service to democratic concepts while cloaking their repression in terms employed by the West like the fight against terrorism.

By surrendering the West's ideological edge, Mr Trump reduced the shaping of the new world order to a competition in which the power with the deeper pockets had the upper hand.

Former US national security advisor John Bolton admitted as much when he identified in late 2018 Africa as a new battleground and unveiled a new strategy focused on commercial ties, counterterrorism, and better-targeted US foreign aid.

Said international affairs scholar Keren Yarhi-Milo: "The United States has already paid a significant price for Trump's behaviour: the president is no longer considered the ultimate voice on foreign policy. Foreign leaders are turning elsewhere to gauge American intentions... With Trump's reputation compromised, the price tag on US deterrence, coercion, and reassurance has risen, along with the probability of miscalculation and inadvertent escalation."

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Turkish President Recep Tayyip Erdogan called for international support to set up a 'safe zone' in Syria.

PHOTO: FILE/ CARLO ALLEGRI/ REUTERS

against Syrian Kurds, who backed by the United States, fought the Islamic State and were guarding its captured fighters and their families drove the final nail into the coffin of US moral claims.

The endorsement came on the back

reference to Egyptian field marshal-turned-president Abdel Fattah al-Sisi as "my favourite dictator."

Rejecting Saudi and Egyptian criticism of his intervention in Syria, Turkish president Recep Tayyip Erdogan gave the United States and Mr Trump a

QUOTABLE Quote

MARTIN LUTHER KING, JR
(1929-1968)
American Baptist minister and social rights activist

There comes a time when one must take a position that is neither safe nor politic nor popular, but he must take it because his conscience tells him it is right.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Fail at the comedy club
- 5 Egg layers
- 9 Blender speed
- 10 Lesser of two --
- 12 "West Side Story" role
- 13 San --, California
- 14 Clay targets, informally
- 16 Dripping
- 17 Watch over
- 18 Characteristics
- 21 Museum subject
- 22 Has faith in
- 23 Songs for two
- 24 Backbones
- 26 Vigor
- 29 New York opera house

DOWN

- 1 Sand trap
- 2 Help new freshmen
- 3 Doled (out)
- 4 Trounce
- 5 Skirt edge
- 6 Juan Peron's wife
- 7 Pinhead
- 8 Winter showers
- 9 Linguine or penne
- 11 Drunkards
- 15 City routes
- 19 Tire tracks
- 20 Burro
- 22 Melody
- 23 Poorly lit
- 24 White sale buy
- 25 Former Spanish coin
- 26 Disrobed
- 27 Comes in
- 28 Fence supports
- 29 Keyboard goof
- 30 Bolshevik leader
- 33 Use a sponge on
- 35 Gunpowder
- 36 Fourth-yr. students

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YESTERDAY'S ANSWERS

S T E P C O A S T
T U N E R L A M A R
U L T R A A R E N A
N I A T E N F I L I P
S P I N A L F L I P
S L A T E G R A Y
S A M O A
P L A T E F U L S
C O O L N O D E A L
A R C T R A V A
S T A G E I N N E R
E A T E N T U T O R
S L E E T T O N Y

BEETLE BAILEY by Mort Walker

BABY BLUES by Kirkman & Scott