The Daily Star
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Don't allow criminals to milk the banking sector

Authorities must take stern action to stop scams and frauds

IT'S unfortunate that at a time when we should err on the side of caution and restraint – rather than of excess – in financial matters given the country's economic crisis, the opposite is happening. A combination of factors including bad decisions, poor regulation and absent accountability for the wrong-doers continue to plague us. The High Court on Tuesday made a succinct observation that should be taken seriously: that the "most serious crimes" are being committed in the banking sector. How can our economy get out of the current mess if we don't stop this procession of scams and frauds?

The court's observation comes on the heels of the exposure of another scam in which a firm named SB Exim, using forged documents in the name of exporting terracotta tiles, allegedly swindled Tk 200 crore from Bangladesh Commerce Bank Ltd (BCBL) in 2018. That wasn't the end of it, however. BCBL, in response, created a loan against the payments made to the borrower as it hadn't received the money from foreign banks. Subsequently, the loan defaulted, leading to BCBL rescheduling it without informing Bangladesh Bank. Then, in a shocking move, the central bank permitted rescheduling the defaulted loan in violation of its own rules. It's like a crime cycle that begins and ends with bad decisions, with the public – the main sources of funds for lenders – caught in the middle.

Such scams are taking place quite regularly, thanks to lack of good governance and legal action for the criminals and their enablers. Our memories of scams involving BASIC Bank, Hallmark Group, Farmers Bank, Reliance Finance Ltd, International Leasing and Financial Services, People's Leasing and Financial Services and other institutions are still fresh. Many billions of taka were thus looted. But hardly anything happened to the nexus of politicians, bankers and business magnets that took advantage of our fragile regulatory structure.

The government's role in all this is quite disquieting: Not only has it not taken exemplary action against these "financial thugs", to quote an earlier HC observation, the central bank has even appeared to harbour defaulted borrowers, relaxing rules on loan classifications and rescheduling and thereby helping the industry camouflage scams. Reportedly, bad loans totalled Tk 113,441 crore in March this year, just shy of the record high of Tk 116,288 crore totalled in September 2019.

A vested quarter is clearly at work trying to cripple our economy, laundering money through under-invoicing and over-invoicing in the name of exports/imports. Had the laundering been tackled, our foreign exchange reserves would have been in a better shape today. Besides the financial regulators, the Anti-Corruption Commission and the cumbersome judicial process are also responsible for the continuation of this situation and the culture of impunity enjoyed by criminals. We urge the government and the judiciary to take strong measures to stop financial irregularities.

Why such disregard for directives on official trips?

Govt must take action against officials violating the ban

IT is inconceivable that despite calls by the prime minister for government employees to observe austerity involving foreign exchange such as public projects and foreign trips, some are ignoring the directive. According to a report by *The Daily Star*, as many as 39 officials of the civil aviation ministry and the Civil Aviation Authority of Bangladesh (CAAB) made over 50 foreign trips during the 2021-22 fiscal year, which cost around Tk 1.5 crore. Earlier, in mid-July, we were surprised to learn of foreign trips made by officials of the Chattogram Water Supply and Sewerage Authority (CWASA), including its managing director, as part of a project that had over 80 percent of its physical work already completed.

It should be mentioned that the government banned non-mandatory official tours to ensure the best use of scarce resources amid the ongoing economic crisis. According to our report on aviation employees, the list of officials who went on trips included the civil aviation secretary and CAAB chairman. Reportedly, these officials went abroad despite there being no urgency, but merely to attend seminars, conferences, and workshops, and even to enjoy air shows or product demonstrations. In case of CWASA, the purpose apparently was to train and inspect some factories. In other words, those were simply pleasure trips, undertaken at a time of national crisis, using public money that should have been saved for better purposes.

The question is: How will the "experience" thus gained help the work or sectors of relevant public officials? In the wake of the financial crisis stemming from the pandemic, the government had ordered all routine foreign tours to be abandoned, except for those involving emergencies. On July 1 last year, the finance ministry issued a circular on this, suspending 50 percent allocation for tours, saying the money can only be spent for unavoidable purposes. We see neither "emergency" nor "unavoidable purposes" in these recent tours. The CAAB chairman remains ahead of all other aviation officials when it comes to foreign trips. After him comes the secretary of civil aviation. And lo and behold, even the personal secretary of the state minister for civil aviation visited a country to attend a seminar.

This is totally unacceptable. We urge the higher authorities to strictly monitor the activities of all government agencies to ensure compliance with the travel restrictions. Public officials also should use better judgment before making such decisions or using hard-earned taxpayers' money to ensure it only serves public interests, and not anyone else's.

'We can't afford any further depletion of our reserves'

Ahsan H Mansur, *executive director of the Policy Research Institute, talks about Bangladesh's current economic crisis and related solutions in an interview with* **Eresh Omar Jamal** *of* **The Daily Star**.

There has been a sudden increase in the price of the dollar recently. In reaction to that, some experts have criticised the central bank's policy of trying to artificially keep the taka's price high against the dollar. Do you think that criticism is justified?

The central bank did two things. It intervened significantly in the exchange rate market by selling USD 8 billion in the last one year. This intervention didn't work and resulted in a significant reserve loss. What the global experience tells us is that market intervention works to smoothen things out, but it cannot stop fundamentally driven market trends. The market trend in recent weeks showed that the taka would depreciate against the US dollar – that cannot be stopped. But if on a particular day there is a shortage of dollars and its price is rising, an intervention can be used to smoothen things out.

Ahsan H Mansur
PHOTO: COURTESY

But what we've had is continued large-scale interventions, which have led to a reserve loss of USD 8 billion. In the face of strong and unending market pressure, the Bangladesh Bank (BB) has now let the exchange rate float, as it could not afford any further reserve loss.

Aside from that, the BB staff are calling the banks and verbally asking them to fix their dollar rate at around Tk 94. But no private transactions are happening at this rate in the interbank market – the only transactions in the interbank market that are happening are when the BB gives dollars for public sector imports – for example, to import oil or gas. I learned that we are importing oil at the rates of Tk 97, Tk 98 or Tk 100 – because the interbank exchange rate set by BB is completely ineffective. Since the BB authorities no longer want to spend more dollars, which is the right policy stance, they can no longer intervene in the market directly, but they are intervening verbally. Because of that, the interbank market has become completely dysfunctional.

What is happening as a result is that, if someone sends remittance through the official channel, they will get around Tk 93 for USD 1. But if they send it through hundi, they will get around Tk 110. So, remittance through the official channel has decreased. Obviously, this policy is not working and needs to change. The interbank rate should be brought closer to the market rate, so that the difference is not more than Tk 2.

VISUAL: SALMAN SAKIB SHAHRYAR

We have too many banks and too much mismanagement in the banking sector, which have been overlooked by our regulators.

Bangladesh's foreign exchange reserves have now slipped below USD 40 billion. How concerned should we be about that?

The government is saying it is around USD 40 billion. But, in reality, according to the IMF's definition of reserves, Bangladesh has USD 8 billion less than the official number. The reason behind that is that USD 7 billion has been allocated to the Export Development Fund (EDF) and is being used by Bangladeshi exporters. Another USD 450-500 million is locked up in the Green Transformation Fund, and around USD 250 million has been given to Sri Lanka, which is unavailable for now.

When we evaluate the sustainability of a country's forex reserves, we look at two things: a) The adequacy of the reserve level; and b) its direction. In Bangladesh's case, the direction is obviously a big concern. We have already sustained a reserve loss of USD 8 billion. So there is a significant declining trend, despite the government receiving substantial aid from different development partners due to the pandemic.

What we have right now will allow us to import merchandise and services for about four months. Since having reserves that can pay for imports for three months or less is considered to be critical, what we have right now is above the bare minimum. It is below a comfortable level, but it's okay. However, because the direction is also negative, it's concerning.

Even the new BB governor, on his first day at the job, said we need to think about how to increase our forex reserves. We cannot afford any further depletion of our reserves, because we will need to keep importing and imports will be naturally increasing in a growing economy.

Another issue is the high trade imbalance we had in the last fiscal year, amounting to around USD 33 billion, while the current account deficit amounted to almost USD 17-18 billion, which we borrowed to cover the financing gap. If we cannot address such a high current account deficit and trade imbalance, then our reserves will continue to deplete. So, we have to work urgently on correcting the imbalance in our balance of payments.

The government's debt service is still at an acceptable level this year. The debt obligation for many of the big projects – Roopur Nuclear Power Plant, Karnaphuli Tunnel, the Padma Railway Bridge – will come due around 2024. In the future, that will exert some pressure, but will still be manageable.

Government and non-government loans till December last year amounted to USD 92 billion: public and publicly guaranteed loans were nearly USD 70 billion, and non-government loans around USD 22 billion. The latter already increased to more than USD 25 billion by this June, and USD 15 billion of that is short-term, which needs to be repaid in one year. That can also create some pressure on the reserves if the private sector cannot roll over USD 15 billion of loans. Even if they are non-government loans, they are ultimately to be paid out of our total forex availability, and ultimately, it's the BB that has to provide the foreign currency for this repayment.

Eminent economist Debapriya Bhattacharya recently said that Bangladesh's debt situation may become tricky from 2024-25. How well-positioned are we to repay our loans that are soon to come due?

He was referring to the government debt, and the debt servicing required for the megaprojects. I think we should be able to handle such payments, if we don't have any problem with rolling over the private sector debt, and our exports and remittances perform relatively well. The issue is that we need to contain our import growth at healthy rates. We need to bring down import growth to 15-20 percent over the medium term. If we can do that, we shouldn't have much problem, as we will be able to use higher foreign exchange inflows and contain import pressures to absorb some of the additional debt service pressure.

There will, however, be problems on the budget management side. The sudden depreciation of the taka against the dollar will increase our public sector debt by Tk 1.8 lakh crore, to Tk 7.7 lakh crore, and there will be corresponding increase in the total debt servicing cost in taka terms. Managing the taka amount will be a major challenge given the very low revenue-to-GDP ratio of only 9.5 percent. Private sector debt will also increase by Tk 65,000 crore to Tk 2.75 lakh crore, which will be a major problem for our corporate sector, since this debt would need to be repaid within a few years or would need to be rolled over in the next one to three years. The rollover risk may emerge as a major challenge for private debts if foreign creditors become risk-averse and recall their money upon maturity.

How can the government contain imports?

There are three policies the government can use. One is by adjusting the exchange rate, so that imports become expensive. The second is to use monetary policy – by increasing the interest rate – to bring down our overall credit demand. This would again bring down aggregate demand. Almost every central bank in the world is increasing its interest rates to tighten credit, bring down demand, reduce imports, and lower prices. But Bangladesh cannot do the same if our interest rates are stuck at nine percent and six percent. During the pandemic, it was fixed at nine percent, keeping in line with the market fundamentals at that time. Though the situation is different now, the government has not changed its policy accordingly.

Thirdly, the government can use fiscal policy. Here it has taken some good decisions, like cancelling foreign trips of its officials, etc. But it still has to pay vast amounts of subsidies for fuel, gas, fertilisers, etc. Since most of these price-controlled products are imported and paid for in US dollars, the cost of these products will significantly increase in taka terms. The government has allocated Tk 82,000 crore as subsidies in FY2022-23 budget, but the amount can easily rise beyond Tk 1 lakh crore, only because of the recent exchange rate depreciation.

The government may be hoping that since Western countries are increasing their interest rates and are likely to continue increasing their policy rates further, that may lead to a global recession, which would slow down the economies, leading to falling commodity prices. As a result, we may not have to make any adjustments. Whether that presumption works out or not, I don't know.

But wouldn't our GDP growth be affected if the government adjusts the interest rate to slow down inflation?

Of course, it would. The purpose of adjusting the inflation rate would be to slow down growth. But this year is not the year for economic growth; but for macro-economic consolidation – restoring balance to our balance of payments, stabilising the exchange rate, bringing down inflation, and addressing other macro-imbalances.

So, would it be correct to say that we are at a point of trade-off, where we need to sacrifice some short-term growth for long-term stability?

Yes; instead of short-term growth, we want long-term growth. For that, we need to create a stable environment. That's why we need to focus on restoring macro-economic stability.

The Bangladesh Bank intervened significantly in the exchange rate market by selling USD 8 billion in the last one year. This intervention didn't work and resulted in a significant loss of forex reserves.

Since the next parliamentary election is due next year, could the government be politically motivated not to sacrifice short-term growth?

I would say that political motivation should encourage the government to make the necessary changes right now. Because if it delays, things could blow up right before the election.

Some have suggested that our banking sector, which has been hit by one scam after another, and has been plagued by corruption and regulatory failures, is now a house of cards. What are your thoughts on it?

Our financial sector is very weak and underdeveloped. Its size, in comparison to India, China and even other East Asian countries, is very small. It has many problems as well. And it's because of these problems that it is not growing.

We have too many banks and too much mismanagement in the banking sector, which have been overlooked by our regulators. If we look at the banks, their return on equity in 2010 was 24-25 percent. That has now come down to around 4.5 percent. As a result, stock prices of banks have collapsed. No one wants to buy and hold them, since there is no return. But it is still highly taxed and abused at the same time. These matters are of great concern.

The non-stop loan rescheduling that we are doing will stop working at some point – when deposit growth stops or slows down. When that happens, it will lead to a major economic and political downfall. Since we have not reached that point yet, it looks alright. But it's a Ponzi scheme.

Economists worldwide have always said that you cannot taper a Ponzi scheme forever. If what we have in the banking sector is a Ponzi scheme, isn't there a point where it becomes impossible to hide?

In the case of many banks, it is a Ponzi scheme. They believe that deposits will keep growing to keep them afloat. There is also the expectation that BB would bail them out. And so far, their expectation has been correct as the government has always bailed out the failed banks.

But that's basically socialising banks' losses onto the public.

Yes. And when it happens on a massive scale, they would have to give these bailouts by printing more money. That would create huge inflation and destabilise the whole economy.

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