



How default culture plagues Bangladesh's banking sector

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While Sri Lanka should be seen as an exception because of its unprecedented financial disaster in 2023, Bangladesh turns out to be South Asia's champion in generating default loans, even though the country witnessed a respectable GDP growth rate above six percent since 2013, illustrating that the rise in defaulted loans in Bangladesh has not been economy-driven for sure. It is entirely due to an indulgent culture orchestrated by wilful financial delinquents who are fuelled by political patrons. The lobbyists and advocates of default loans eventually benefit from this institutional method of embezzling funds and rent seeking.

Hence, the first public impression about the banking sector is that it is obliged to

GLOBAL OR DOMESTIC REASONS FOR DEFAULT LOANS?

The banking sector suffers from leadership issues. The role of the central bank to regulate the banking industry has come under criticism since the 1980s. But it has been much worse during the third term of the Awami League government (2019-2023) when both threats and opportunities reigned the market. The Covid-19 pandemic paralysed the world economy. Global GDP growth was on average three percent from 2013 to 2019. It plunged to negative 3.1 percent in 2020 during the pandemic.

However, the rebound of the world economy was spectacularly rewarding with global growth as high as six percent in 2021—an unprecedented rate in the postwar era. Growth reached



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the positive territory—while it was 7.88 percent in 2019, 6.94 percent in 2021, and 7.1 percent in 2022. The figure is expected to be around 6.5 percent in 2023, as the government predicts. Thus, the average growth rate during the third term of Awami League becomes 6.4 percent, while it was 6.7 percent in the second term

during Awami League's third term does not justify a drastic rise in the volume as well as the ratio of NPLs.

Under the Awami League government, defaulted loans amounted to Tk 225 billion in 2009, Tk 502 billion in 2014, Tk 943 billion in 2019, Tk 887 billion in 2020, and surprisingly as high as Tk

was during the Covid year. This upward trend does not justify any rationale related to the real economic situation.

POOR LEADERSHIP AND POLITICAL INDULGENCE

The central bank and the ministry of finance (MOF) are jointly responsible for the default loan culture. While the central bank is primarily responsible for regulating the banking sector, the Bangladesh story is different. Here, the MOF keeps the central bank in its grip. Since the mid-2010s, central bank governors have usually been retired secretaries of the MOF. And the central bank leadership has virtually obliged with what the MOF has wished politically. This mechanism is pushing the state of the banking sector from bad to worse.

The amount of default loans that we see today is just the tip of the iceberg. The provision of rescheduling, which is dominantly the brainchild of a previous finance minister and has been unquestionably carried out by the obedient governors since 2016, perverted the definition of default loans. The restructuring provision allowed the big loan takers to extend their repayment dates for an unconscionable amount of time for loans of Tk 500 crore or above. The rescheduling provisions allowed defaulters to make their loans regular and normal by adjusting only 5-10 percent of their default loans. This a perversion that corrupted the normal practice of prudential banking governance. And that

is how the default rate has been forcibly shown as low as 10 percent, which would be above 20 percent otherwise—had these two redefinitions not been adopted.

POLITICAL DECISIONS FOR THE CORRECTION

Thus, it does not make any sense when someone makes a reference to the NPL ratio and attempts to compare it with previous numbers. The elephant has been defined as a cat, but the elephant is wreaking havoc in the paddy field because we let it do so. Simply put, every one Taka out of four Taka that has been lent is not supposed to come back to the bank's coffers. And such practice is spreading like cancer, increasing moral hazards for the rest of the borrowers who are now looking for windows into gaining any type of political favour to become default graduates, and eventually seek political nominations if possible. The defaulters turn into money launderers, and they develop a symbiotic relationship with powerful politicians or lawmakers.

No one can break the vicious circle of loan default unless political will is genuine and indomitable at the top level. China's government posted pictures of the top defaulters in grand billboards and added the caption: "Shame on Them." Eventually, defaulters adjusted their loans to escape from such a big national humiliation. A similar treatment is needed in Bangladesh to get rid of the spreading cancer of default loan culture.



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embrace the looting of funds by big business tycoons who maintain solid lobbying power with powerful politicians. They can manage delaying numerous cases on default loans in courts, convince the finance ministry to pressurise the central bank to act in their favour and, finally, compel the central bank to reschedule or restructure their loans so they can either contest in the election or take further loans to cater for money laundering, or both. In case the banks sue the defaulters, the litigations take ages to be resolved and, meanwhile, the defaulters manage to get the authorities to come up with new ways to whitewash their misdeeds.

3.1 percent again in 2022, suggesting that it had returned to normal. The Russian attack on Ukraine in early 2022 caused a spike in inflation globally, but GDP growth did not fall from its average of three percent or so. Moreover, the labour market was tight and unemployment rates did not go up in most developed countries. The US had an unemployment rate of 3.6 percent in 2022—never seen in its past 50 years.

As WB data suggests, Bangladesh's growth always remained in the positive territory since the 1990s, and the country never saw a recession. Its growth even in the Covid year of 2020 turned out to be 3.45 percent—still in



VISUAL: SALMAN SAKIB SHAHRYAR

The percentage share of classified loans peaked at 10.11 percent of total outstanding loans in June 2023.



Bangladesh occupied the second highest position in South Asia following Sri Lanka, whose default loans amounted to 13.33 percent of total loans.

VISUAL: STAR

(2014-2018), suggesting that the economic performance

1,560 billion in 2023—almost double the amount of what it



The economic performance during Awami League's third term does not justify a drastic rise in the volume as well as the ratio of NPLs.

VISUAL: COLLECTED