



Financial sector crisis spreads to other sectors: Salehuddin Ahmed

Shawkat Hossain and Sanaullah Sakib | Update: 16:31, May 29, 2019



Salehuddin Ahmed is a former governor of Bangladesh Bank. He was in charge between May 2005 and April 2009. He was also a government official and has worked in international organisations as well. He is now teaching at the Business School of BRAC University. In an exclusive interview with Prothom Alo, he talks on good governance in the banking sector, loan default, interest rate and recent various initiatives of the central bank.

Prothom Alo: You were a governor of Bangladesh Bank. How do you view its function in the present context?

Salehuddin Ahmed: As a regulatory body, the central bank in any country has independence and liberty. It has some special functions. Implementation of monetary policy is the main responsibility of

the central bank in all countries. Generally, others do not interfere in its job. Bangladesh Bank has the same responsibility and legally it has been given full liberty. It is true that politicians in all countries may advise it and create pressure on it. Amid this situation, the central bank is to do its job properly. All of us who were in charge at different times tried to do our duties. There was pressure during our period too. We had to perform tactfully.

I have no doubt about the efficiency of Bangladesh Bank. But now we notice the international norms and local rules and regulations of the financial management are not being followed. The rules and regulations are not being formulated thoughtfully. It does not seem that the central bank is issuing these circulars on the basis of its own consideration.

The financial sector was in a relatively good shape in Bangladesh. Everybody knew there was an organisation like Bangladesh Bank which had a role in the banking sector. Now Bangladesh Bank cannot play the proper role to implement the rules and regulations which exist for the banking sector.

Prothom Alo: Why can't Bangladesh Bank play its role?

Salehuddin Ahmed: Bangladesh Bank may play role in most of the cases, but it is unable to play role in some of the cases as we note from outside. Currently the central bank is issuing some circulars. It seems these decisions are not made on good judgment. It is not taken into consideration what may be the consequence. It seems these circulars are issued after being influenced by a quarter of politicians and bureaucrats for their own interest. It is true that it is not possible for Bangladesh Bank to do anything bypassing the government. But now-a-days various initiatives are being taken outside the central bank to issue circulars. Bangladesh Bank is merely giving the legal recognition. Bangladesh Bank may discuss with the government on interest rates, budget deficit and monetary policy. In that case, it should analyse and advise decisions that need to be taken for various sectors.

Yes, there are problems in our banking sector. These include default loan, governance and law. The central bank will take decisions out of its own efficiency. If necessary, it would discuss matter with the board of directors. Analysing the impact of different decisions, it may give its opinion to the government.

Accordingly the government policymakers can take decisions based on Bangladesh Bank's views. It is the job of the commercial banks to maintain order and good governance in the banking sector. It is the responsibility of Bangladesh Bank to detect flaws in the activities of the commercial banks. If anything wrong happens, the central bank will take quick action. But many flaws are detected and overlooked. Bangladesh Bank merely says it is looking into the matter. But what the hell is Bangladesh Bank looking into? It is not an organisation like other ones. Banks are not factories to manufacture cars and build houses. Banks are run by public money. In-depth analysis is needed before taking any decision. A big crisis will be created if the public confidence in banks is disturbed.

Prothom Alo: Bangladesh Bank is neither able to continue monitoring nor to maintain monetary policy. Then what is left in the hands of Bangladesh Bank?

Salehuddin Ahmed: There was no Bank and Financial Institution Division in the finance ministry during my tenure. A dual rule has been created in the banking sector due to creating Bank and Financial Institution Division. This division is now running the state-owned banks. It is also recruiting directors and making managing directors. It is now time to bring all banks under one umbrella and to run under the uniform rules and regulations. As I said earlier, banks are run on public money. People deposit money in banks on trust. Banks make business out of it. So a dual rule cannot be applied in the private and public banks.

Bangladesh Bank can constitute a panel to recruit MDs in the state-owned banks. The central bank can select directors for the board too. It is not like that all of the directors of banks have to be economists. Someone having knowledge of development, social economics and policies of the country can become directors. But whoever is made MD, he or she must be a good banker.

There are onsite and offsite supervision systems in Bangladesh Bank. Offsite supervision examines the reports of the banks. Under the onsite system, Bangladesh Bank visits spot and takes matters into consideration. Then an assessment is made on the banks. After analysing this, quick steps have to be taken. I hope the irregularities the inspectors of the central bank find are not covered up and that high officials don't interfere. Now it is learnt that the decisions are taken after the higher level officials see the inspection report. It takes much time and sometimes it gets stuck. It is not proper. Power has to be delegated to the lower tier to take decisions. During my tenure, all files did not come to the governor. Many decisions were taken in the concerned department.

Look at Basic Bank. It was a very good bank. The bank did not turn bad to worse overnight. Millions of taka did not vanish in a day. Huge amounts of money could be saved if steps were taken timely. Out of its own initiative, the central bank should have played a role. It should be made open what steps the central bank was taking in such a situation.

Prothom Alo: What is the necessity of Bank and Financial Institution Division?

Salehuddin Ahmed: There should not be separate Banking Division or Financial Institution Division. There may be a wing or a section to take care of the financial sector as there is a budget section. Skilled people have to be recruited for that section. Looking after the banking sector is not bureaucracy. It is a technical job. The banking sector has to be made free from the influence of bureaucracy and politics.

Prothom Alo: What type of pressure were you under from the higher level when you were the governor?

Salehuddin Ahmed: Before the announcement of the monetary policy, no consultations were held with the government during my period. The government opposed our move but we informed the government that changes could be made if necessary. It did not come from the parliament. The monetary policy was made by the own power of the central bank. It was not like that there was no pressure for approving new banks. There was pressure all the time. We examined and informed the government about the impact of it. The board of directors took firm stance after holding discussions on it. The government accepted the matter and the new banks did not come into being. There was a huge pressure for approving the financial organisations. But that was not approved. As per my view, the central bank has to play role to protect its image. If not, nothing will remain. Nobody will give autonomy naturally, it has to be achieved through work.

Prothom Alo: You did not approve new banks. But later a total of 12 new banks were approved in last one decade. Do we need so many new banks in context of Bangladesh economy?

Salehuddin Ahmed: New banks are necessary or not, it depends on the size and style of the economy of the country. On the size of Bangladesh economy, there is no necessity of new banks. Under the special consideration, special banks can come into being to provide special services. It can be allowed if any bank wants to go to remote areas. Now there are services like mobile banking, agent banking. Banks could provide this type of services. The new nine banks which came into being could not do anything new. How much money has the NRB bank brought in remittances? We see all banks are providing the same type of services.

When the announcement is made that new banks are going to be approved under political consideration, following such an announcement, these banks face problems in dealing with foreign business. Guarantee is being taken from the third bank. The expenditure is rising. If it did not happen, the expenditure would be lower, and interest rate as well. Besides, there are shortages of skilled manpower. The same person is going to different banks. They have built relations with directors of banks. As per advice of the directors, they are acting. But there is a hope that the young persons are doing better, they have to be guided.

Prothom Alo: Recently we notice a number of steps. There are six per cent interest on deposit and nine per cent on loan. But that was not implemented. Did you ever heard to take such decision from the outside bypassing Bangladesh Bank?

Salehuddin Ahmed: No, I didn't see this in the past. In a market economy, the government, Bangladesh Bank and nobody can fix interest rate. However, such a decision was imposed. I thought there would be much discourse, criticism. But nobody talked in that way. Owners of banks discussed with businessmen and fixed interest rate. Interest rate was never fixed in such a way. The matter should have been understood that such a wrong decision would never be implemented. I suggest the gap of interest on deposit and loan has to be narrowed down. Only then the interest rate will go down a lot. The branches have excessive and unnecessary. Default loan has to be reduced. We have to think whether the function of banks is merely to make profit.

Prothom Alo: The issue of loan default is being discussed for long. An initiative has been taken to reduce it by changing definitions. A circular has been issued by giving concession to loan defaulters. How do you view this step?

Salehuddin Ahmed: Following pressure from the outside, circulars on default loan are being issued. The thought on publishing these circulars did come from the central bank. Businessmen, loan defaulters and politicians created pressure to issue these circulars. This is not true that all the defaulters became default willingly. There were problems in many sectors and there were recessions in the international arena. Some of the loan defaulters may need capital and some may need project loan. But random facilities cannot be the solution. This problem has to be solved case by case. But now those, who have taken loan and diverted money to other sector and laundered money to foreign countries, will enjoy same facilities. They will be able to pay loan with nine per cent interest. And those who are good borrowers have to give 10-12 or 13 per cent interest. Instead of controlling the dishonest and patronising the honest, bad people are being brought to a close and good people are being kept away. As a result, the good borrowers will be encouraged. The default loan will increase further. Regular borrowers will lose interest to pay loan.

Prothom Alo: Bank owners are very influential. As per their demand, the law is being changed and the decision of the central bank is being changed. How do you view this?

Salehuddin Ahmed: Bangladesh Bank has to protect its own independence. If it does not accept any decision from the outside, nobody will go physically and create pressure. If the central bank takes a firm stance, nobody can interfere in it. If the influence from the outside cannot be reduced, the banking sector will never be healthy. It was in no way proper that the law was changed by the pressure of the bank directors. There is much weakness in the banking sector. It is in no way fair that the directors bring politics to the board of banks. When a problem emerges in the banking sector, it spreads to other sectors like a contaminated disease. The problems have spread from the state-owned banks to the private banks and financial institutions. Later, this crisis will travel to other sectors. It will spread to the production sector and will have a big negative impact. It will have a big impact on GDP and employment. It will take much time to come out of this problem. During the recession of 1930, there was a big problem in the production sector. As a result, banks were in trouble. In 2008, the global recession was created from the crisis of the financial sector. The mismanagement in the banking and financial were blamed. The global banking sector could not still come out of that crisis. America has been able to do a bit. Except banks in France and Germany, banks in other countries are still suffering. We won't be able to stand up if such a crisis we fall in. So we have to solve with good attention.

Prothom Alo: What are solutions to all these problems?

Salehuddin Ahmed: Everybody is aware of the problems. Even solutions are not unknown. But visible steps have to be taken. Political will is needed for this. Without this political will, whatever power is delegated to the central bank, it will not yield any good result. If there is a political will, good instructions will come from the policy makers. As a result, those who will work will feel encouraged. Now good bankers and businessmen have been silent. Bad people have come to the limelight. Nobody is criticising them.

Prothom Alo: Do you have any specific recommendations?

Salehuddin Ahmed: A temporary bank commission can be constituted to restore order in the banking sector. It is not like that there must be a permanent commission. By constituting a temporary commission, a step has to be taken to solve the problems. Now it is time to review all policies by the commission. Efficient people will discuss and they will decide whether new policies are necessary or not and what have to be done. In this way, the problems in the banking sector can be solved.

Prothom Alo: Thank you

Salehuddin Ahmed: Thank you