

# 'The bigger the defaulter, the more benefit h/she gets'

**In an interview, Professor Dr Mohammed Farashuddin, former governor of Bangladesh Bank and chief advisor of East West University, explained the context and nuances of banks writing-off loans and NPLs to The Business Standard**

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Professor Dr. Mohammed Farashuddin, former governor of Bangladesh Bank and chief advisor of East West University.  
Illustration: TBS

**When people or business entities borrow money from banks, they have to pay interest to the banks at regular intervals. And after a certain period of time, the borrower needs to pay back the principal of the loan too.**

When a borrower does not make interest payments or does not pay back the principal over a specified period of time, they default and their loans become non-performing loans (NPLs). If an NPL sits on a bank's balance sheet for years and is deemed unrecoverable, it turns into a bad debt.

Banks generate profits by taking the money people deposit and lending it to other people or companies who need money. In this process, banks charge interest with the principal and a part of the collected interest is given to depositors as incentive to deposit more or reel in new depositors.

But if a bank has too many bad debts, it will not be able to provide depositors with their cut of the interest rate. In some special cases, the bank will not even be able to return the original deposit to its depositors, which is why the loan portfolio is considered a prime asset of a bank.

**So, what can a bank do if it has too many bad debts?**

Primarily, banks write off the bad debts as an expense rather than an asset. That helps them pay lower taxes and maintain the integrity of their loan portfolio.

Writing off loans was first permitted in Bangladesh in 2003. In only the first quarter of 2021, banks had written off loans worth Tk973.95 crore, while only Tk471.95 crore were recovered.

The situation is actually worse compared to that of 2020, when banks wrote off Tk970.59 crore and were able to recover Tk763.43 crore.

The Business Standard had a conversation with Professor Dr Mohammed Farashuddin, former governor of Bangladesh Bank and chief advisor of East West University, to learn about the context and nuances of this problem.

Normally, writing-off loans can give banks the opportunity to break away from the problems

surrounding non-performing loans. But we have seen that a huge amount of loans get written-off. From 2003 to September 2021, loans worth Tk57,975 crore were written-off, which amounts to 57.31 percent of the total amount of defaulted loans. Is it normal to write-off such a large portion of debt?

I do not know how you will react to my answer but the figure you have provided is not acceptable to me. You have said that loans get written-off as a normal process, which is absolutely not true. Writing-off economic loans are not common at all. Nobody wants to write loans-off, not even kings.

But if the borrower is a day labourer or someone who is extremely poor, someone who absolutely has no means to return the loan, then their debt may get written-off as a desperate measure.

But the defaulters in Bangladesh do not belong to that socio-economic class either. They are not the landless poor who need to be rescued by writing their loans off; they do not need to be helped in that way.

Secondly, writing-off is a temporary relief. The liability from the debt will remain even if it is written-off. This interim solution is achieved by writing-off the interest, not the principal. Writing-off principals is an extremely rare occurrence.

I will be surprised if the write-off you are talking about is principal. As far as I know, until 2020, loans were worth Tk49,000 crore, mainly consisting of interest rate defaults. The total amount of defaulted loans, on the other hand, was approximately Tk100,000 crore.

This is endemic to the whole financial regime of Bangladesh. For example, non-banking financial institutions (NBFIs) are not like commercial banks. A commercial bank can take deposits and issue cheque books. NBFIs take loans from their clients, not deposits and cannot issue cheque books. But they were issuing cheque books anyway and the Bangladesh Bank has commanded them to stop doing that.



Illustration: TBS

So yes, some interests can also be written-off due to catastrophic circumstances like the Covid-19 pandemic. But in most cases, the defaulters are usually rich individuals who can afford to pay back their debt, but simply do not or will not.

**We often hear that these defaulted debts become unrecoverable. Why does that happen?**

As I have already said, loans can become unrecoverable due to especially hard circumstances like a pandemic, natural disaster or a global economic depression. I think we are managing the current situation quite well, in that regard.

However, I believe that there is a link between money launderers, tax dodgers and loan defaulters. They take loans, they default and launder the money abroad. Bangladesh's GDP was \$9 billion in 1972. It is now \$416 billion.

But the tax revenue from this large sum is not increasing. We have one of the lowest tax-GDP ratios in the world.

I will not play a blame game here. Our society, the government, the revenue collecting authorities and those who can pay taxes but do not, are all to be held responsible.

There are three different types of exchange rates in our country. The lowest exchange rate is for importers and the general populace. The second rate is for exporters, who receive cash incentives ranging from 1-20 percent.

Then there is a rate for expats who send remittances to our country as they get a 2.5 percent cash incentive. So, in some instances, launderers can just send laundered money from abroad, make their wealth appear legitimate and receive a handy cash increase in the process.

As long as such opportunities are available, defaulters and launderers will use them to increase their wealth and create problems for the rest of us. Because when borrowers default on loans and banks write those loans off, they have to increase the interest rate for other borrowers or have to decrease the interest rate for their depositors.

**State-owned banks also write loans off. In that case, are they not lining the pockets of already wealthy defaulters with taxpayer's money?**

See, that is the problem with the media. They only focus on government organisations while ignoring the failures of private entities. Commercial banks are responsible for the most amount of loan write-offs. But the media will still focus on state owned banks.

Private banks have formed a formidable pressure group which they use to retain dividends for themselves and their owners while writing-off bad debt. The main focus should be on them.

**Should writing-off such large sums of debts not decrease the confidence of depositors in commercial banks?**

Yes, it should. But that does not happen because state-owned banks are portrayed in the media as corrupt and inefficient. So, people do not have any other alternatives, even though state-owned banks provide their depositors with higher interest rates on their savings.

The government also decided in 2021 that the interest rate from savings certificates are too

high and lowered them. It created a lot of problems for lower-middle class and middle-class families, especially retired government employees and other pensioners.

This measure further limited the options available for saving for the general populace. So people have no other option than to deposit their earnings in private banks, even though they are not demonstrating good business practises.

### **In your opinion, what should Bangladesh Bank do in this situation?**

Bangladesh Bank sometimes takes good initiatives like the cancellation of NBFI cheque books. Last year also, they demanded that the full scheduled payments are made by the borrowers to keep their loans as performing.

But the government pressurised Bangladesh Bank and then they decided that one can avoid the defaulted status by only paying 20 percent of loan instalments. So Bangladesh Bank is probably just not assertive enough; it probably does not have stubborn people like us.

From 1996, we maintained a list of large defaulters. The then governor, Lutfar Rahman Sarkar, was attacked on an open street regarding this. People of this country know about it only because it made headlines at the time. We filed cases against the biggest defaulters and even the most influential of them had to stand before the courts.

But everything has changed since 2008. Defaulters have become the ideal citizens of our country. The bigger the defaulter, the more benefit he/she gets. And Bangladesh Bank has to bear the burden of that. They are kind of helpless in this situation.

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## **FEATURES**

