



Repeated rescheduling of loans fuels inflation

Says ex-BB governor Farashuddin

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Former Bangladesh Bank Governor Dr Mohammed Farashuddin on Thursday said the repeated rescheduling of loans forces the central bank to print more money due to financial squeeze, which leads to inflation, noting that loan defaulters, tax evaders and money launderers are interwoven.

He made the comments



Dr Mohammed Farashuddin

while addressing an event titled "Conversation with ERF" organised by the

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Repeated rescheduling of loans

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Economic Reporters' Forum (ERF) at its auditorium in the capital.

Farashuddin said banks could not get back the money from the influential. "As a result, the banking sector is suffering a liquidity crisis, which forces the central bank to support them through Repo and assured liquidity support facility (ALSF) every day apart from printing money. That's why the country has been facing high inflation, which has been over 9% for the last 10 months." He, however, said it will be difficult to stop the printing of money without recovering classified loans.

The former central bank chief lamented that if farmers default on a Tk10,000 loan, they are thrown into jail. "But nothing happens to those sitting with Tk10,000 crore default loans. Rather, the big defaulters enjoy various privileges. Interest is waived for such defaulters."

He said US\$700 crore is laundered from the country every year, venting his

anger at the government and International Monetary Fund (IMF) for their silence over the issue.

"The amount of classified loans is now Tk155,000 crore, excluding Tk45,000 crore interest which was waived. Otherwise, the figure would have been much bigger," Farashuddin said.

He said the banking sector fell under the grip of the loan default culture when commercial banks started providing long-term loans from short-term deposits.

The former BB governor also underscored the need for insuring deposits up to Tk1 crore. "I think all obstacles should be removed to boost deposits of 3-6 months. Right now the banking sector needs more deposits. It needs Tk1 crore insurance against the deposits."

He said most of the deposits are collected from rural areas of the country, while 80% of the lending is given in big cities like Dhaka and Chattogram. We're now taking short-term deposits and giving long-term loans," he added.

Farashuddin advised going to the stock market instead of relying on banks for long-term loans.

Turning to inflation, he said many countries around the world have managed to bring down it. "But the inflation in our country is still around 10%," he said, suggesting increasing the government's warehouse stock and taking some special measures to bring relief to people.

Forced bank merger not the right step

The former BB governor said the bank merger is a global practice and it is good when both banks agree willingly. "A forced merger procedure won't be good for the banking sector. If the central bank and the Ministry of Finance are strong, there's no need for a banking commission."

He also said there are other ways than mergers to turn a weak bank into a good one.

ERF President Refayet Ullah Mirdha presided over the event moderated by its Secretary Abul Kashem.