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# Rescheduling classified loans behind stubborn inflation: Ex-governor Farashuddin



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**MOHAMMED FARASHUDDIN**

FORMER GOVERNOR, BANGLADESH BANK

**BANKING - BANGLADESH**

## **TBS REPORT**

Inflation has remained stubborn for months and cannot be curbed because of the frequent rescheduling of classified loans at banks, said Mohammed Farashuddin, a former governor of the Bangladesh Bank.

“The frequent rescheduling of classified loans has led to a growing shortage of money, prompting the central bank to print more currency. This is why inflation is not cooling down,” he said at an event titled “Conversa-

tion with Dr Mohammed Farashuddin”.

“So, defaulted loans must be recovered with an iron hand. We need someone to effectively communicate these issues to policymakers,” he said during the programme organised by the Economic Reporters’ Forum (ERF) at its Paltan office in the capital yesterday.

The economist who helmed the central bank from 1998 to 2001 emphasised the challenge of halting currency printing without addressing the issue of classified loans. He also underscored the importance of insuring deposits up to Tk1 crore.

“I believe all barriers to short-term **SEE PAGE 2 COL 2**



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deposits of 3-6 months should be eliminated. Banks worldwide offer short-term loans, and it was the same in our country at the beginning of the 1990s. However, later, under pressure, medium and long-term loans were prioritised. Currently, we are accepting short-term deposits while granting long-term loans," he said.

The former governor suggested turning to the stock market instead of depending solely on banks for long-term loans.

On the issue of bank mergers, Farashuddin said the idea is not new and occurs in different countries. However, he said a struggling bank cannot be improved by forcibly merging it with another.

"Perhaps a merger or takeover could be considered, but nothing should be imposed. Both banks involved in the merger must give their consent willingly. This approach is common worldwide and has previously occurred in Bangladesh. It should be pursued through mutual discussion rather than coercion," he added.

The former governor said many people have voiced concerns about the increasing number of banks in the country. He stated, "I don't believe the number of banks is the issue; rather, the main problem lies with the distribution of bank branches."

He elaborated that bank branches have become focused on major urban centres for deposit and loan disbursement. He further noted that while the central bank authorises banks, it also permits the opening of branches.

In Bangladesh, a bank branch can serve 15,000 people, whereas in India and Pakistan, the figure stands at 12,000 people. While there may be a higher proportion of bank branches relative to the population in these countries, the key is to ensure a balanced distribution of deposits and loans, he continued.

Mentioning the low flow of loans in rural areas, he said, "A large portion of deposits is collected from rural areas, yet 80% of the loans are given in big cities like Dhaka or Chattogram."

Regarding discrimination, the former governor noted that as the capitalist economy grows, people's generosity decreases, contributing to increased inequality.

He added, "But there are some differences. Because the poor of 30 years ago and the poor of today are not the same; there is a distinction between them. This is why we need to prioritise reducing inequality."

Farashuddin criticised multiple exchange rates, stating, "Having multiple exchange rates is entirely objectionable. Only intermediaries profit from it."

He said, "Those discussing the exchange rate should understand that keeping the exchange rate overvalued is not right. Neighbouring India has consistently devalued their currency, which we have not done to the same extent."

He highlighted the harmful effects of overvaluing the currency in a country like Bangladesh.

The former governor highlighted the need to address inflation, stating, "Many countries have successfully reduced inflation. However, infla-

tion in our country remains around 10%. We need to focus on monitoring and increasing the number of importers. It's crucial to recognise that inflation has been persistently high for ten consecutive months, and not everyone is content."

He criticised the disparity in consequences for loan defaulters, stating, "If a farmer defaults on a Tk1,000 loan, they are thrown in jail. But nothing happens to those with Tk10,000 crore in default loans."

Regarding money laundering, the former governor questioned the government's silence on the issue, stating, "Why is the government silent about money laundering? The publication of money launderers' list is discussed in parliament but not published. Along with the government, the International Monetary Fund is also silent on money laundering. This silence is very harmful to the country."

Acknowledging the "deterioration" of the Bangladesh Bank, the former governor expressed concern. "It is disheartening to hear about the decline of the central bank. Many of-

ficers are resigning from their positions. Irregularities are occurring, yet they are unable to fulfil their responsibilities in addressing this issue."

He also criticised the practice of waiving interest on loans, saying, "Waiving interest on loans is not a favourable practice."

He added, "The amount of classified loans is currently Tk1,55,000 crore, excluding the Tk45,000 crore of interest waived. If not for the interest waived, the figure for classified loans would have been even larger."

Mohammed Farashuddin said the scope of the banking sector has nearly doubled in the last 15-16 years, with a corresponding increase in the amount of deposits and loan disbursements. However, in contrast, the manpower and capacity of the central bank have not seen a similar increase.

"We have been recommending since 2000 to grant constitutional status to the Bangladesh Bank," he emphasised. "We also suggest appointing the governor for a term of six years, which would enhance their independence."