



More People to Bring under Financial Services*

Dr. Atiur Rahman

Governor, Bangladesh Bank

Shomokal: Allow me to ask a question from personal experience. The minimum unit of Bangladeshi currency is one paisa. Since I could not collect a 'one paisa' coin from any place I had to go to the Counter at Bangladesh Bank, Head Office. Not only one paisa, the coins of five, ten, twenty-five and fifty paisa have also become worthless to the general people. Besides, one, two and five taka notes are hardly available. It seems that the ten taka note has become the minimum unit for economic transaction. Therefore, it can be said that despite having presence in the market, the minimum units are becoming increasingly valueless. What are the implications of such situation for the economy?

Atiur Rahman: Your observation sounds interesting. Today, only the coin collectors value our coins and perhaps will soon turn into antique. But if you think from economic point of view, you will find that the purchasing power of people increases with the rise in real income. People those we regard extreme or hardcore poor also become capable of purchasing more goods and services with economic development of the nation. As a result, not only one or two paisa coins, even one or two taka notes become valueless to them. Per-capita income in Bangladesh was USD 440 in 2003-04 which has increased to USD 690 in 2008-09. On the other hand, the exchange rate of taka against US dollar has remained stable in the foreign exchange market for a long period. For all these reasons, 2/3 taka is becoming insignificant in the total household income. However, demand for the lower units goes up substantially during Eid and other festivals and as a result, they spread widely in the rural and urban areas.

Shomokal: While announcing the monetary policy for January-June, FY 2009-10, you expressed your optimism about Bangladesh turning into a middle income country in the near future. What is the basis of such prediction?

Atiur Rahman: It is clearly visible that the base of our economy is strengthening over time. Economic growth had been buoyant during the last few years. Besides, we

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have also successfully escaped the global financial turmoil supported by strong domestic demand and well regulated financial system. Bangladesh will require increasing her per capita income to the threshold of USD 976 to achieve the middle income country status. Per capita income of Bangladesh has risen by over 50 percent to USD 690 in the last four years up to FY 2008-09. At this rate, reaching the middle income threshold should not take more than another four years. I expect support from all segments of population in reaching the middle income goal.

Shomokal: It will undoubtedly be a huge achievement. Which sectors are contributing large to this development?

Atiur Rahman: Agriculture sector is doing well. Export growth held up well even during the crisis period. Besides, workers, particularly women, entrepreneurs, banking sector had significant contribution to the recent macroeconomic progress of Bangladesh. The robust growth of workers' remittances helped keep a positive current account balance. We must appreciate their contribution in exceeding our foreign exchange reserve USD 10 billion recently.

Shomokal: Once it was assumed that Bangladesh Bank can print any amount of domestic currencies and can circulate in the market accordingly. How the actual volume of is determined?

Atiur Rahman: The volume is determined taking into consideration the rate of real GDP growth and inflation. The Central Bank makes frequent discussions with the Ministry of Finance in this regard. Inflation, though a little bit high, is under control and we are trying to bring it down further. The overall macroeconomic environment indicates that it is possible to settle down to a moderate rate of inflation over the near term.

Shomokal: Is the banking sector presently experiencing excess liquidity?

Atiur Rahman: At this moment, excess liquidity amounts to three-four thousand crore taka. It is not that large if we consider domestic demand and the size of our economy. One of the most important reasons for the collapse of many banks in the developed economies was shortfall of liquidity. Our banking sector did not experience such liquidity crunch during the global financial crisis. In different occasions, the World Bank remarked that the monetary policy in Bangladesh is technically sound. Besides, latest statistics reveal that credit demand has increased and the call money rate is around 4 percent.

Shomokal: The Government determines priority sectors for the economy. The central bank also plays a significant role in this regard since funds have to be channeled through the banking system. Is the banking sector providing credit in accordance with these priorities?

Atiur Rahman: The role of the private banks in deposit collection and credit disbursement is increasing over time. They have increased disbursement of agricultural credit in the current fiscal. However, they should expand more credit to the priority sectors such as agriculture and SMEs. Presently, most of them are using external funds such as refinance line from Bangladesh Bank. We desire that they will build their own manpower and infrastructure over the near term. In the next fiscal, Bangladesh Bank will raise the target for agricultural credit by the private banks.

Shomokal: Is the credit channeling to the growth centre?

Atiur Rahman: This is very important. Banks now have to ensure both credit to the potential customers and monitoring of proper utilization of that credit. We are continuously monitoring agricultural credit. About 50 percent of the target for agricultural credit has already been achieved in the first six months of the current fiscal. If the current trend continues, we can expect the target of 12,000 crore taka to be achieved by the end of the fiscal. On the import side, the opening of fresh LCs for capital machineries has increased recently. Larger amount credit is now allocated to boost up the export sector. Certainly, these are positive signs. I expect, the banking sector will welcome any potential move towards raising domestic production.

Shomokal: There are some other constraints to domestic production beside financing. Will you comment on this?

Atiur Rahman: The present supply of electricity and gas is not enough to meet the growing demand. The government is rationing gas to reduce the excess demand. Many projects have been taken to raise the production of power and electricity. Load shedding has declined to some extent but the demand for gas and electricity in industrial production is much more than the existing capacity. The role of banks in helping expansion of these sectors has to be widened immediately.

Shomokal: Is the sign of economic development clearly visible in Bangladesh?

Atiur Rahman: Reasonable success has been achieved in the agriculture sector. We are not only monitoring bank credit to the SMEs but also their proper utilization.

Small production firms are also important for economic breakthrough. Despite having strong importance, it is not possible to implement larger projects overnight. Project implementation of Jatrabari-Gulistan-Palashi flyover will start soon. It is also imperative to initiate construction of roads and bridges in the Aila affected areas. We should identify such important projects from the Annual Development Programme and should start working fast. Larger projects should also be taken in the private sectors to reduce unemployment. However, I will stress more on investment in agriculture and SMEs over the near and medium term.

Shomokal: Despite discouraging the unproductive sectors in the monetary policy, some private banks tend to be interested in allowing credit to such sectors. How do you view such behavior?

Atiur Rahman: We have discouraged consumer loans in the monetary policy. However, I will not say that such loans are of less importance for the economy; they raise demand for industrial production. Recently, private banks have increased credit for capital machineries. Besides, credit demand has increased for fishery and livestock and the demands are being met accordingly.

Shomokal: You are visiting many places following the joining of your duty as the Governor. You are also monitoring agricultural credit programmes directly. Please share your experiences.

Atiur Rahman: I always feel attached to the rural economy. While performing duties for many bodies, raising the welfare of rural poor people has been my first priority and I am trying to do the same from the central bank. More credit is now being allocated to the agriculture sector. Banks are now directed to disburse more and more credit to the productive sectors. We have taken the initiatives to allot loans to the sharecroppers from refinance line of Bangladesh Bank. While visiting many places I have seen the enthusiasm of farmers to grow crops on their own. Even educated people are engaging themselves in the production process. Biogas plants are expanding and people are seeking loans for many diversified agricultural investments.

Shomokal: Which sectors can be identified for large investment?

Atiur Rahman: Shipbuilding industry has huge potentials since it is export oriented and has large markets in the developed countries. We are considering refinance line for this sector where banks and financial inclusions will be able to access to the

central bank funds. A super mobil project worth 350 crore taka is now being funded by a group of banks where refinery waste will be used. Pharmaceutical sector is doing well and has potentials in the global markets. The global recovery is off to a stronger start than predicted earlier and our leather and RMG exports will benefit from the global economic turnaround.

Shomokal: Any other sectors?

Atiur Rahman: Large investment can take place in automobile industries. Despite having large markets for automobiles, Bangladesh has no industry for automobile value addition. The government can itself take the initiative of large investment in the transport sector.

Shomokal: Private investors are more interested about their business profit. How this can be coordinated with the priorities set by the government and the central bank?

Atiur Rahman: Any firm will try to attain its highest possible profits in a free market economy; it is quite natural. However, everybody should remember his or her own social obligations. The central bank has identified the priority sectors for credit allotment which some may not like. But, the country must move on and the pillar of the economy must be strengthened over time. We all have to work hard to turn our country into a middle-income economy within a very short period of time which will not be possible by raising only per capita income. The market should have wide variety of quality products and people must have money in their pockets to purchase those goods and services. And for this to happen, private sectors must move ahead along with the government to the social and economic development of our country.

Shomokal: Bangladesh and India have come to a MOU on the use of Chittagong and Mongla port. Businessmen believe that such decision will enhance regional trade. Do you feel the same?

Atiur Rahman: The MOU and agreement between Bangladesh and India during Prime Minister Sheikh Hasina's visit in India have longer term development implications; it is well accepted, both nationally and internationally. Some believe that, India may choose Bangladesh as production house for some of its own products, that is, they will outsource. Indian investment in Bangladesh may take place for Bangladeshi markets as well as for the markets in the North-East region of India; even in a third country.

Shomokal: Inflation has become a matter of concern. What is your observation?

Atiur Rahman: Inflation situation is still under control. Moreover, there are some positive signs arising from the Indian side. A major proportion of our imports come from India where price level is now on decreasing trend which will benefit us. However, rice prices are increasing in the local market which is distressing many people particularly those with fixed incomes. But on the other side, the main source of income of farmers is paddy-rice. Decent prices during the Aman season will encourage farmers during the production of next Boro crop and therefore agriculture will experience higher growth in the current fiscal. Day labors will also benefit who now earn 200-250 taka per day. In the 1980s, workers demanded wages equivalent to the purchasing power of 3 kg rice per day. With the present wage structure, they are capable of purchasing 8-10 kg rice. This indicates our economic development. Most of the agricultural credit is going to the rural areas which are creating demand in other sectors of the economy.

Shomokal: What is your best experience as Governor?

Atiur Rahman: People come to understand that financial services are no longer beyond their reach. Banks will not only serve the elite group of the society but also will reach the mass people. Monetary policy had been viewed by many people as the only responsibility of Bangladesh Bank. But now they believe that Bangladesh Bank can contribute to their welfare. This is my greatest satisfaction as the governor. Bringing more and more people under the financial services will reduce poverty by allowing people to enjoy the gains from financial inclusion. We have taken the move to allow farmers to open bank account at only 10 taka. This is one of the steps toward our goal of financial inclusion and inclusive growth. We are also thinking about expanding such services for the students. We are stressing on e-commerce and modern banking. To sum up, we want to bring more and more people under the basic financial services, which is their right. The more we can broaden financial inclusion the stronger will be the base for inclusive growth.

Shomokal: Many thanks.

Atiur Rahman: Thanks to all the readers and well wishers.

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