

Banking and Financial Sector Reform: The New Government's Biggest Test

Having won the 13th National Parliamentary Election, the BNP and its alliance partners are set to form the new government. However, compared to any previous period, the current situation is far more complex. Analysts believe that restoring discipline in the financial sector, reducing non-performing loans, and rebuilding investor confidence will be among the toughest challenges ahead.

Overall, restructuring the banking and financial sector is emerging as the new government's most critical test. To pass this test, coordinated measures must be implemented, including strengthening the legal framework, enhancing the capacity of the central bank, reducing political interference, and ensuring good governance.

Economists say that only by establishing a stable and predictable financial system can investment increase, employment be generated, and the economy move toward sustainable recovery. The key question now is how quickly and effectively the new government can address these multidimensional challenges.

Record Burden of Defaulted Loans

The non-performing loan (NPL) ratio in the banking sector has surged to 35.73 percent, amounting to more than Tk 6.44 trillion. In September 2024, the ratio stood at 16.93 percent. A similar crisis persists in the non-bank financial institution sector. Economists warn that this situation poses a significant risk not only to the banking industry but also to the overall stability of the economy. Given this sharp rise, strong and effective measures to recover defaulted loans

are urgently needed.

They note that political influence, misuse of loan rescheduling, and a culture of inaction against willful defaulters have complicated the situation. To reduce NPLs, it is essential to revitalize productive sectors and enforce strict legal action. Strengthening the central bank's capacity and ensuring institutional governance in the financial sector are also pressing needs.

Establishing a stable and predictable banking and financial system is now a major challenge. Recovering defaulted loans and repatriating laundered money have become top priorities. Meanwhile, ongoing security concerns have led to stagnation in both domestic and foreign investment. Many investors are reluctant to move forward with new projects. In this context, creating a transparent, strong, and trust-based financial environment is crucial. Such an environment would not only support domestic entrepreneurs but also build confidence among international investors and global buyers in making new contracts and investment decisions.

M. Helal Ahmed Jony, Research Fellow at Change Initiative, said that restoring discipline in the banking and financial sector is a difficult but essential responsibility for the new government. According to him, the NPL amount reaching Tk 6.44 trillion signals a serious risk for the entire economy, not just the banking sector. He warned that without curbing political interference, preventing the misuse of loan rescheduling, and taking strict action against willful defaulters, the situation could further deteriorate and undermine governance. Therefore, ongoing banking sector reforms must continue, while strengthening the capacity and independence of the central bank and reinforcing the institutional foundations of all banks and financial institutions.

Legacy of Irregularities in the Financial Sector

During the tenure of the Awami League government, widespread allegations of irregularities, corruption, and money laundering surfaced in the financial sector. Reports of control over several banks and financial institutions for looting and the siphoning of funds abroad left some institutions virtually dysfunctional. Many depositors faced uncertainty in recovering their savings.

In response, the interim government merged five crisis-ridden banks: First Security Islami Bank, Social Islami Bank, Union Bank, Global Islami Bank, and EXIM Bank. These banks together hold around 7.5 million accounts and deposits totaling Tk 1.31 trillion. They have been consolidated into a new entity named "Combined Islami Bank."

Crisis in Investment and Employment

Following mass unrest and political instability, the economy plunged into deep uncertainty. New investment stalled, employment was severely affected, and export-oriented industries suffered setbacks, leading to negative trends in export earnings. Experts suggest that reopening closed industries and businesses to quickly generate employment opportunities should be prioritized. Establishing new factories is a long-term process; therefore, utilizing existing capacities is a more realistic short-term solution.

Professor Dr. Mustafizur Rahman, Distinguished Fellow at the Centre for Policy Dialogue (CPD), identifies key challenges for the new government as overcoming investment stagnation, generating employment, controlling high inflation, increasing private sector credit flow, and restoring confidence among domestic and foreign investors. Inflation currently remains above 8 percent, increasing the cost of living for ordinary citizens. Restoring economic relief is thus one of the government's top priorities.

Law and Order and Confidence Crisis

Mohammad Hatem, President of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), emphasized that visible improvement in law and order is essential for maintaining normal operations in industry and business. He also called for strict action against corruption and extortion, along with the effective implementation of a zero-tolerance policy. According to him, these issues must receive the highest priority to revive economic momentum.

Professor Dr. Abdul Bayes, former Vice-Chancellor of Jahangirnagar University and an economist, believes that restoring normal law and order is the government's first and foremost challenge. Without security and stability, it will be impossible to attract domestic and foreign investment. He noted that the current legal framework is not sufficiently effective in taking swift action against loan defaulters. Therefore, establishing special tribunals or a separate judicial structure for the financial sector could be considered. Recovering defaulted loans and bringing back laundered funds are urgent priorities.

Analysts also stress the importance of foreign trade relations for the new government. In particular, trade and economic agreements with India and the United States should be reviewed to safeguard national interests. Without rebuilding international market confidence and creating an investment-friendly environment, economic recovery will be prolonged.

Dr. Zahid Hussain, former Lead Economist at the World Bank's Dhaka office, said that restoring macroeconomic stability, controlling inflation, and rebuilding investor confidence will be the most critical early priorities for the new government. Ensuring the security of all citizens is equally important for creating an environment conducive to sustainable growth.

Economic recovery does not depend solely on policy decisions; it also hinges on stability, governance, and trust. Experts believe that if the new government can address these

challenges with competence and determination, it will be able to maintain public confidence and inject new momentum into domestic and international economic activities.