

Triple Crisis in the Banking Sector

The newly elected BNP government has assumed office, but the country's most critical economic pillar – the banking sector – remains unstable. Massive defaulted loans, money laundering, and years of irregularities have emerged as major challenges for the new administration.

Stakeholders warn that without effective measures to restore governance, recover defaulted loans, and curb money laundering, it will be difficult for the broader economy to rebound.

During the previous government's tenure, prolonged irregularities, weak oversight, and unplanned loan disbursements pushed the sector into deep crisis. Former Managing Director of Mutual Trust Bank, Anis A. Khan, believes a new task force should be formed to identify the structural damage in the banking sector. He emphasized that a separate and focused strategy is essential to tackle defaulted loans. According to him, indiscriminate loan approvals without proper scrutiny led to the current surge in non-performing loans (NPLs). Without firm action, the situation may deteriorate further.

According to Bangladesh Bank data as of September 2025, total outstanding loans in the country's banking sector stood at Tk 18,03,840 crore. Of this, nearly Tk 6.5 lakh crore are classified as defaulted, accounting for 35.73 percent of total loans – more than one-third of all disbursed credit.

When the Awami League-led government assumed power in January 2009, defaulted loans amounted to Tk 22,481 crore. Allegations have long existed that the volume of bad loans was underreported in subsequent years. Insiders say the actual

figures are now being disclosed, bringing the true extent of the crisis to light.

Former Governor of Bangladesh Bank, Dr. Farashuddin Ahmed, stated that restoring discipline in the banking sector should be the highest priority. According to him, proper discipline would curb fraudulent loan disbursements, reduce hundi transactions, and increase remittance inflows and foreign exchange reserves. He described defaulted loans as “a cancer” within the banking system, stressing that resolving this issue is unavoidable. He also underscored the importance of controlling inflation and increasing revenue collection.

During the interim government’s tenure, several measures were undertaken in the banking sector. Bangladesh Bank dissolved the boards of 14 banks and merged six banks. Liquidity support amounting to Tk 52,500 crore was provided. Several ordinances were issued to amend relevant laws, and the policy interest rate was raised to 10 percent. Despite these efforts, desired stability has yet to return.

The central bank maintains that raising the policy rate alone is insufficient to control inflation, emphasizing the need for discipline in supply chains as well. However, it claims success in curbing hundi operations, which has contributed to increased remittance inflows and higher foreign exchange reserves. At the time of Sheikh Hasina’s departure, reserves stood at USD 20 billion. By the end of the interim government’s tenure, reserves had surpassed USD 29 billion.

A White Paper Committee formed by the interim government to assess the overall economic situation reported that over the past 15 years, “crony capitalism” had evolved into what it described as a “kleptocratic system.” The report alleged involvement of politicians, military and civil bureaucrats, and members of the judiciary. According to its findings, approximately USD 234 billion was laundered abroad through 28 different mechanisms during that period.

Chairman of Agrani Bank, Syed Abu Naser Bakhtiar, stated that over the past one and a half years, Bangladesh Bank has played an effective role in suppressing hundi and stabilizing the foreign exchange market. As a result, the dollar exchange rate has not fluctuated excessively. Banks have intensified promotional activities in remittance-source countries, contributing to reserve growth. He recommended that the new government adopt a zero-tolerance policy against hundi and ensure strong governance in the banking sector.

The banking industry now faces three major challenges – defaulted loans, money laundering, and governance deficits. Swift and visible reforms to address these issues will determine the future trajectory of the country's economy.