

Balancing inflation control and banking stability



Deen Islam
is associate professor of economics
at the University of Dhaka.

DEEN ISLAM

Bangladesh's banking sector is undergoing a significant crisis, one that has been exacerbated by past mismanagement, particularly under the previous regime. In recent years, a troubling trend of misappropriation, embezzlement, and money laundering has eroded public confidence. The situation became so dire that early this year, Bangladesh Bank was compelled to inject liquidity into these struggling institutions to prevent a full-fledged banking collapse. However, this cash infusion, in large part through printed money, has placed mounting inflationary pressure on the economy, challenging both consumer welfare and monetary stability.

With the change in political leadership, citizens hoped for improved financial oversight and regulatory discipline. Yet, some argue that recent developments have deepened the chaos, with critics blaming much of this on the central bank's management. This necessitates a critical examination of the central bank's monetary policy, its impact on inflation and banking stability, and potential alternative strategies to address these intertwined issues.

Upon assuming office, the Bangladesh Bank governor made several public comments about the financial health of banks under investigation for past misconduct. While intended to inform, these statements inadvertently alarmed depositors, prompting many to withdraw their savings for fear of losing them. This created undue pressure on newly appointed directors at these banks, somewhat hindering efforts to restore stability.

The situation worsened when BB halted liquidity support as part of its anti-inflationary measures. While inflation control is critical, this abrupt withdrawal left already vulnerable banks scrambling for capital. To mitigate the impact, the central bank encouraged solvent banks to lend excess funds to struggling institutions, with the central bank acting as a guarantor. However, this approach has seen limited success, as public trust in Bangladesh Bank's assurances remains low. Solvent banks, cautious about their depositor bases and potential contagion effects, have responded

sluggishly. Only a fraction of distressed banks' needs has been met by institutions like Sonali Bank, Dutch-Bangla Bank, and City Bank. Consequently, distressed banks have been forced to ration services, further aggravating public dissatisfaction.

To combat inflation, Bangladesh Bank has implemented a contractionary monetary policy—raising policy rates and limiting money supply. While such policies aim to curb consumer demand and slow price increases, they are less effective in economies like Bangladesh, where inflation is driven by supply constraints rather than demand-side pressures. In Bangladesh, most household income is spent on essentials, leaving little room for delayed consumption. Households cannot easily delay or reduce consumption of essential goods, so intertemporal substitution (the postponement of consumption to a

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future period) is unlikely to occur to any meaningful extent.

In addition, the contractionary policy risks deepening the economic slowdown by raising borrowing costs across the board. Businesses, already facing higher input prices and uncertain demand, are discouraged from taking on additional debt under high interest rates, which can stifle investments and ultimately lead to job losses. This reduction in employment further dampens consumer demand, affecting businesses and slowing

GDP growth—a particularly troubling prospect given Bangladesh's current economic fragility.

Moreover, wealthier individuals, who might otherwise allocate funds to savings or bank deposits, may opt to invest in non-banking assets, such as real estate, gold, or foreign currencies, especially if they lack faith in the sector's stability. As a result, the intended effect of reducing money in circulation is



FILE VISUAL: SHAIKH SULTANA JAHAN BADHON

undermined, while bank deposits decline, further tightening the credit available for real-sector investments. In essence, this policy framework could unintentionally fuel inflationary pressures by constraining the supply side, which is the root cause of the ongoing inflationary spiral in Bangladesh.

BB's strategy to address liquidity issues by directing solvent banks to lend to distressed banks, with BB as guarantor, presents its own set of complications. Participation of only a few solvent banks, even with BB's assurances, reflects broader concerns over BB's credibility and the potential impact on their depositor bases. Given the structural weakness in several of these banks, solvent institutions are understandably hesitant to divert significant funds to their troubled counterparts, fearing a ripple effect that could jeopardise their financial health.

Moreover, this policy inadvertently creates inequality among depositors. Customers of distressed banks receive limited or delayed access to their funds, which can lead them to transfer savings to more stable banks. These solvent banks, however, then end up lending those funds back to the distressed institutions at higher interest rates, thereby introducing

a cycle that not only prolongs the distressed banks' recovery but also reduces returns for depositors across the board. This effectively discourages saving, further reducing the funds available for economic investment and threatens the long-term stability of the banking sector.

Given these challenges, Bangladesh Bank could consider adopting a more targeted and modern approach to monetary policy

banks' bad assets. This approach ensures that the funds injected into struggling banks remain within the banking system, reducing liquidity for speculative activities while simultaneously providing much-needed support to distressed banks.

Bangladesh Bank could work with government agencies and development partners to recover outstanding NPLs and repatriate laundered funds. This would not only boost the banking sector's balance sheets but also deter future malfeasance. A focused effort on recovering these funds could ease some of the financial burdens on distressed banks and reduce the need for ongoing interventions.

Once inflation stabilises and the banking sector regains credibility, Bangladesh Bank could sell off the bad assets purchased from banks to private investors, either through the share market or direct sales to institutional investors. This would allow Bangladesh Bank to gradually recoup its investments and further reduce money in circulation as the economy strengthens.

The success of these strategies would also depend on broader fiscal discipline across Bangladesh's government institutions. Addressing inflation and restoring confidence in the banking sector require coordination between monetary and fiscal policies. Bangladesh Bank's efforts to stabilise the banking sector may be hampered if fiscal policies inadvertently exacerbate inflation, such as through excessive public spending or inefficient tax policies that place an undue burden on certain segments of the population.

Bangladesh's current monetary policy, focused on traditional contractionary measures, appears misaligned with the economic realities and unique challenges of the country. The interconnected issues of inflation and banking sector instability demand a more nuanced approach—one that goes beyond standard interest rate adjustments and direct liquidity restrictions.

For this approach to succeed, however, it is essential that Bangladesh Bank rebuilds its credibility. Clear, consistent communication is critical, as is a commitment to policies that inspire public confidence in the banking system. The adoption of these alternative measures could help control inflation while ensuring the stability and sustainability of the banking sector, laying a stronger foundation for economic growth. If Bangladesh Bank and the government can work together to implement such reforms, Bangladesh could emerge from this crisis with a more resilient and inclusive financial system, better equipped to serve its people and support long-term development.

WORLD TOILET DAY

Women should not have to struggle with a toilet crisis



Barrister Noshin Nawal
is a member of the editorial team at The Daily Star
and an environmental activist.

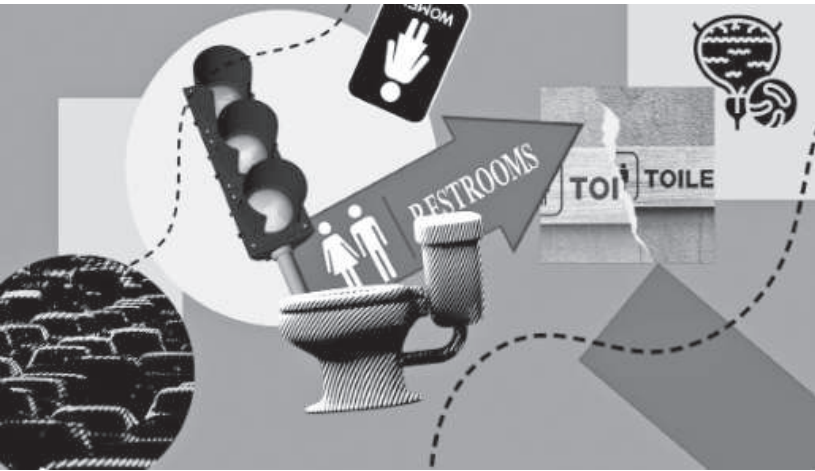
NOSHIN NAWAL

World Toilet Day, observed on November 19 each year, highlights the global sanitation crisis. In countries like Bangladesh, it is essential to address how this issue disproportionately affects women in the workforce, particularly those who face long commutes. The severe lack of usable public toilets in Dhaka is a major concern, where over five million people commute daily but fewer than 100 toilets are available. Inadequate sanitation facilities are not just a matter of hygiene; they also hinder health and economic participation for millions of Bangladeshi women.

Numerous challenges, both on the supply- and demand-sides, impede women's labour market participation. Many of these challenges stem from entrenched patriarchal norms that marginalise women's needs in public discourse. Despite some progress in urban infrastructure, the lack of safe and private public toilets for women continues to undermine gender equality and public health, revealing a disregard for inclusivity. It remains an unaddressed challenge.

Statistically, Bangladesh's public sanitation facilities are grossly inadequate. A study of 52 public toilets found that only 45 were operational, and just 28 were properly maintained by local authorities or organisations like WaterAid. Maintenance is inconsistent, and many toilets, especially those intended for women, are poorly kept or unsafe. In urban centres like Dhaka, this shortage forces women to endure unsanitary conditions or avoid these spaces entirely. A recent study revealed that many women avoid drinking water at work to prevent using communal toilets, highlighting the severe impact of inadequate facilities on their health and well-being.

Access to safe sanitation and



VISUAL: ALIZA RAHMAN

hygiene is one of the core principles of the United Nations under the Sustainable Development Goals (SDG). It is emphasised that access to clean toilets is a basic human right. However, the chaotic traffic situation in cities like Dhaka adds another layer of difficulty for women commuters. With severe congestion and long travel times, women often find themselves stuck in traffic for hours, unable to find a clean or safe restroom. As a result, many delay bathroom breaks and endure discomfort. This lack of accessible toilets during commutes not only inconveniences women but also creates serious health risks, highlighting the need for better urban planning and infrastructure.

The health consequences of inadequate sanitation are concerning. Around 60 percent of Bangladeshi women experience Urinary Tract Infection (UTI) at least once in their lifetime, with 20-30 percent suffering recurrent infections. The full scope of this issue is often underestimated,

as data is not frequently updated. Poor access to clean toilets leads many women to delay urination, increasing the risk of UTIs, which is a leading cause of antibiotic misuse and contribute to antimicrobial resistance (AMR). Additionally, the medical costs of treating UTIs are substantial, as many women require repeated medical visits, diagnostic tests, and

often overlook the specific needs of women, focusing instead on generic solutions that fail to address privacy, safety, and hygiene.

To address this, the government must prioritise the development of clean, safe, and well-maintained public toilets, particularly in urban areas where women's workforce participation is highest. By allocating resources to improve public sanitation, Bangladesh can empower women, improve public health, and advance its SDG 2030 Agenda. This includes investing in gender-sensitive facilities, addressing the needs of low-income women's population, and offering affordable, community-led solutions.

Partnerships between NGOs, local authorities, and the private sector can bridge gaps in underserved areas. Bhumijo is such an initiative that provides hygienic, inclusive, and affordable sanitation solutions in Bangladesh. It offers smart toilets with additional services such as showers, clean drinking water, laundry, refreshments, and advertisement space, either through new constructions or the renovation and management of existing facilities. These services are accessible through a subscription or pay-per-use model. Today, the organisation operates 43 centres across Bangladesh, serving 10,000 people daily, including 15 percent women. With a dedicated team Bhumijo aims to expand to 100 facilities by 2025, serving 30,000 people daily, and ultimately scale to 1,000 facilities, serving 300,000 people per day by 2030 as required under SGD 6.

On World Toilet Day 2024, it is imperative that both the government and private actors unify to create environments that support dignity, health, and productivity for all women in Bangladesh. Civic society should aim to undertake more initiatives, as aforementioned, to facilitate this. Women's susceptibilities should not handicap them or refrain them from progressing economically. The deficit of governmental planning and policy development should not detrimentally affect them. As Bangladesh strives to build a more inclusive and equitable society, addressing women's sanitation needs in the workforce is a fundamental step.

CROSSWORD
BY THOMAS JOSEPH

ACROSS

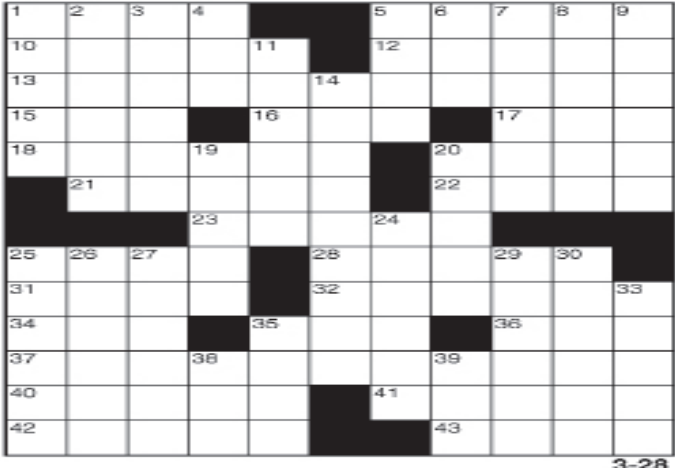
- 1. Floor model
- 5. Boutiques
- 10. Midterms and finals
- 12. Card for fortunes
- 13. White House residents
- 15. Yale student
- 16. Equip
- 17. "Wonder Woman" star
- 18. Gadot
- 18. "The Bathers" painter
- 20. Fork part
- 21. Liner parts
- 22. Finishes
- 23. Aquarium fish
- 25. Take in
- 28. Severe

- 31. Give off
- 32. Solution
- 34. Gorilla or gibbon
- 35. Pen fill
- 36. Before, in poems
- 37. Kind of burn or murder
- 40. Mistake
- 41. Michelangelo statue
- 42. Destitute
- 43. Signing needs

DOWN

- 1. Put off
- 2. Driven out
- 3. Leatherneck
- 4. Meditation sounds
- 5. Antlered animal

- 6. Deli choice
- 7. Genesis
- 8. Warsaw's nation
- 9. Modes
- 11. Bowling feat
- 14. Direct
- 19. Quartet doubled
- 20. Sign of sorrow
- 24. Put in order
- 25. Stun with noise
- 26. Ball caller
- 27. South Dakota capital
- 29. Turn suddenly
- 30. Below, in a contract
- 33. Oboe parts
- 35. Humble response to kudos
- 38. Lawn material
- 39. Opening



YESTERDAY'S ANSWERS



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