

A roadmap to restore banking sector stability



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I have been writing about the danger of non-performing loans (NPLs) and the related threat to the stability of the banking sector since 2012. Some 13 years later, the problem has escalated astronomically with little signs of reversal. The problem was somewhat muted between FY2012 and FY2020, but has gotten out of hand since then. The total value of NPL surged from a low of Tk 22,700 crore in FY2012 to a peak of Tk 4,20,300 crore in FY2025. In terms of share of the total loan portfolio, gross NPLs surged from six percent in FY2011 to 24 percent in FY2025.

The underlying factors for this rapid deterioration in the quality of the banking portfolio are well-known. Poor banking sector governance such as corruption in bank management, poor lending and loan recovery practices, especially in public banks, large scale thefts often aided by political intervention, ineffective banking sector supervision, and dual banking oversight arrangement under which the public banks are managed by the government while private banks are supervised by the Bangladesh Bank (BB), are such factors.

With the induction of the interim government, it was expected that there would be a sea change in the management, regulation and supervision of the banking sector that would usher in visible positive outcomes.

Indeed, starting in mid-August of 2024, some swift actions were taken by the BB to restore the financial health of the 14 weakest-performing private banks. These included board and management changes, injection of new liquidity, and tighter supervision. To improve transparency, asset classification norms were modified to comply with Basel III norms. Banks were instructed to pursue vigorously the

recovery of NPLs. A Bank Resolution Ordinance 2025, which allows BB to take swift actions against any financial institution to protect the stability of the sector, was adopted in May 2025. Several task forces were established to comprehensively address the ills. These include a task force to strengthen the independence of the Bangladesh Bank, another to develop specific resolution strategies for handling the problematic banks, and another to pursue asset recovery options at both home and abroad.

Many of the banking problems and solutions are long term in nature. Yet, some visible signs of progress have emerged. Most prominently, the bleeding of the banks through outright theft has stopped. The liquidity situation of several problematic banks has improved, enabling them to service the deposits of their customers, thereby preventing a threat to the rundown on deposits. Lending decisions are now more professionally managed. The supervision oversight of BB has been strengthened. The progress with asset recovery, however, has been very limited.

What then explains the near doubling of NPLs between FY2024 and FY2025? BB argues that this reflects the application of internationally accepted asset classification norms. Previously, the true value of NPL was hidden through manipulation of the accounting norms, and now we have a correct picture of the problem at hand.

While there is no doubt that the true picture of NPL was hidden previously through accounting gimmicks, it is nevertheless important to do a holistic diagnosis of the NPL problem and changes over the past 10 months. The economy has been going downhill, with GDP growth sliding to four percent or less in FY2025. Businesses have been complaining

regularly about cost escalation and weak profitability, especially in the manufacturing sector. It is hard to imagine that these factors had no impact on the banking portfolio, and the near doubling of NPL is all explained by a change in accounting norms.

A comprehensive resolution of the NPL problem will require two

climate, including establishing the rule of law, improvements in trade logistics and energy supply, acceleration of ITC adoption, and investment in critical skills are recommended. The government must understand that not all banking problems are necessarily due to theft and corruption. A significant part may be related to the downturn in

amount of new financing required to restore the banks that are rescueable and can be put back in the market on a profitable basis. Once this amount is known, a financing strategy needs to be developed. This, arguably, will pose the biggest challenge to the banking reforms.

The financing can be a combination of additional financing

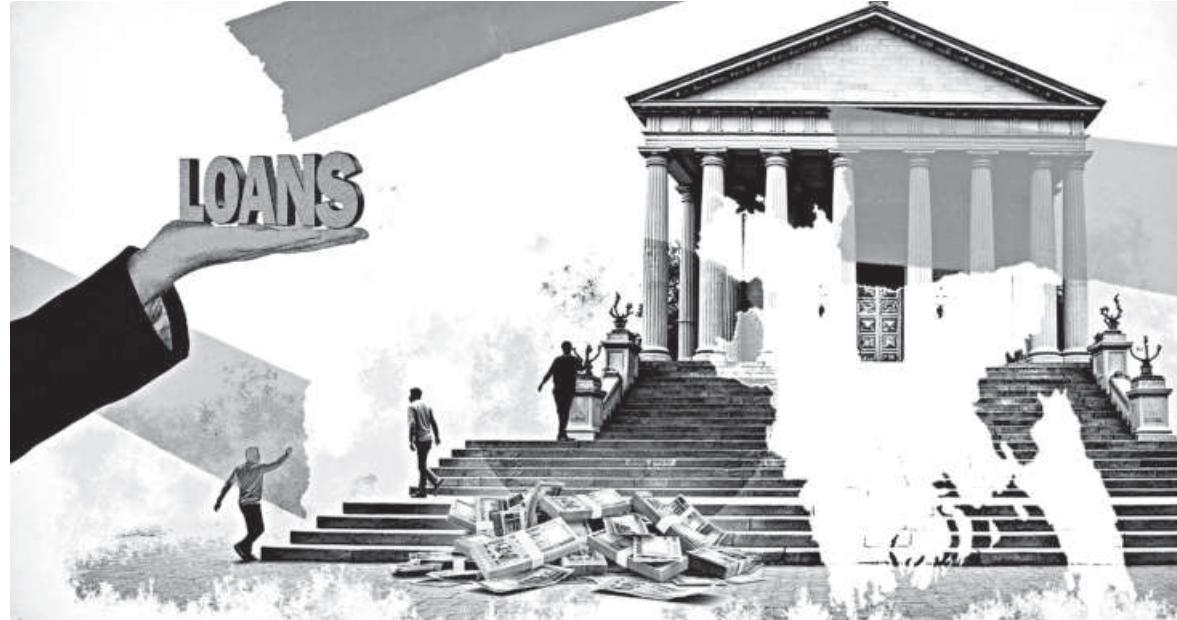
done. This requires comprehensive banking reforms including sharp improvements in bank management, quality staffing and IT systems, strengthening financial accounting and auditing standards to international norms, strong internal mechanisms for loan supervision and recovery, strong internal controls and risk assessment, and sound outcome-based BB supervision.

Some banks are simply non-viable and suffer from inherent governance problems. These typically belong to the public sector. Even though the lending share of public banks has fallen to 25 percent of total loans, these banks present a huge fiscal risk.

Policy options include: privatisation of all except the Sonali Bank that will only pursue treasury functions; full corporatisation and stock market divestment with management control to private shareholders; and converting the four large public banks into narrow banks that allow deposit holding and investment in treasury bills but excludes lending, while closing down the two small banks—Basic Bank and the Bangladesh Development Bank.

Some private problem banks are also candidates for closure unless owners are willing to invest new capital to restore financial solvency and readiness to face the market with full compliance with Basel-III prudential norms.

Finally, there is an urgent need to strengthen the banking crisis prevention mechanisms. The most important policy reform is the need to sharply enhance the deposit insurance scheme. The US Federal Deposit Insurance Corporation is a good example of how a strong deposit insurance scheme can prevent a large-scale banking crisis. A second built-in mechanism is to increase the share of equity by increasing the tier-1 capital requirements beyond Basel-III minimum standards to provide an incentive to bank owners against undue risks. A third reform is the strict implementation of Basel-III supervision norms for all banks with no exceptions. A fourth crisis prevention action would be to establish a system of bank-risk ratings based on independent credit agencies. This information should be publicly available.



VISUAL: SALMAN SAKIB SHAHRYAR

types of interventions: policies that address the flow of new NPLs, and policies that address the outstanding stock based on the adoption of Basel III loan classification norms for all banks, including public banks.

Regarding new NPL flows, first and foremost, the actions already taken by BB to stop the bleeding in the problem private banks must be extended to public banks as well. The system of dual banking supervision, where public banks are supervised by the Banking Division of the Ministry of Finance, must be stopped. All banks, public or private, must be regulated and supervised by the BB with full application of Basel-III norms.

Secondly, to the extent that the surge in NPL reflects the underlying economic downturn, swift policy actions are needed to reverse these trends. With the implementation of comprehensive reforms in fiscal policy, trade policy, investment

the economy and has to be addressed accordingly.

Regarding the stock of NPL, the steps taken by BB are in the right direction, but they have to be substantially strengthened, and implementation must be stepped up. The necessary comprehensive approaches are: restoring the financial solvency of the distressed banks; ensuring the profitability of the rescued banks; closing the inherently unprofitable banks down; and strengthening built-in mechanisms for preventing future banking crises.

Restoring the financial solvency of distressed banks is relatively easy when the number of problem banks is limited, recovery prospects for outstanding loans are good, and there is adequate fiscal space. On all three counts, Bangladesh seems to be in a very difficult situation. BB will need to do a full workout of the

from the treasury, additional funding from BB, new financing from current owners, and money raised from the capital market by new shareholders. Given the dire fiscal situation and the inflationary risk from BB financing, much of it will have to come from current and future owners. The government may also seek financial support from multilateral development financing institutions like the World Bank. Where public financing is involved, new capital must be injected only into potentially viable banks that can be restored with adequate operational reforms to earn profits from future operations.

Furthermore, steps have to be taken to ensure that the treasury/BB has first claim on profits of the restructured banks to fully recover injected funds. International experience shows that ensuring the profitability of rescued banks is easier said than

Greater synergy between media and civil society a must for energy transition

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The global transition to clean energy is widely recognised as an unstoppable phenomenon, with the critical question being how soon it will occur. For Bangladesh, navigating the energy transition involves more than simply overcoming technological or financial challenges. It also requires addressing social issues, such as health and economic inequalities, and pursuing justice for future generations. A sustainable energy transition demands a greater collective effort from all corners of society, and stronger collaboration between the media and civil society organisations (CSOs) is a key aspect.

In Bangladesh, civil society has demonstrated a renewed commitment to promoting clean energy since early 2020. Many local think tanks, campaigners, and academics have begun to explore the nation's journey towards clean energy, producing a remarkable amount of data and evidence that was previously unavailable, thereby increasing media discussions. Over the last three years, the number of thorough and analytical media reports on the clean energy transition has increased, according to MRDI, a leading media development organisation in the country. This increase suggests a more mature stage of reporting; however, event-driven reporting remains the most common approach. MRDI's media monitoring has identified key areas where media performance needs improvement, including the allocation of resources to data-driven investigative journalism that

engages the public.

Nonetheless, both the media and civil society have played an important role in shaping the national narrative around energy security. They have challenged the previous government's misleading concept of energy security—focused narrowly on high power generation capacity—by introducing a broader perspective that emphasises affordability, reliability, and sustainability. Through extensive reporting, the media have exposed details of controversial undertakings such as capacity

the media or organising events such as press conferences. Rather than relying solely on press releases, CSOs could proactively pitch story ideas to journalists and offer support through expert analyses, data interpretation, and contextualisation. However, many CSOs struggle with slow response times and rarely produce timely, focused content beyond expert commentary. To better meet media needs, CSOs should strengthen their capacity to respond quickly to breaking news with relevant data, fact sheets, or concise analyses.

For CSOs, building credibility by being transparent about funding and operations, and ensuring visible accountability mechanisms, is key for their data and evidence to earn the trust of the media and the public. While challenges such as a lack of political will, bureaucratic inertia, and corporate or foreign influence persist, deeper collaboration between the media and civil society could create an enabling environment to mitigate these challenges.

payments, as well as the associated financial burdens and corruption. In-depth reporting, expert analyses (often sourced from CSOs), and data-driven narratives have helped debunk myths about renewable energy, increased public awareness, influenced policy debates, and advocated for greater transparency. Local expert voices contributing to this discourse now include economists, scientists, technical specialists, financial analysts, and human rights activists—extending far beyond traditional energy-sector professionals.

Despite these contributions and collaborations, the current relationship between the media and CSOs still has some notable gaps. Engagement is primarily limited to CSOs sharing branded communication materials with

relevant materials. Both the media and CSOs need to consistently frame the energy transition as a public interest issue, focusing on its broad societal implications.

To advance beyond these limitations and effectively promote the sustainable energy transition, a deeper, more collaborative relationship is required, shifting from a transactional approach to a genuine partnership. Undertaking joint investigations and data storytelling could be potential avenues for collaboration. Combining the in-depth knowledge

and connections of CSOs with journalists' investigative skills can reveal unknown information, such as potential corruption in the power and energy sector or the influence of fossil fuel lobbies. In addition, exploring the establishment of a CSO media collaborative data repository for the energy transition could enhance data storytelling.

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the trust of the media and the public. While challenges such as a lack of political will, bureaucratic inertia, and corporate or foreign influence persist, deeper collaboration between the media and civil society could create an enabling environment to mitigate these challenges. Moving beyond conventional interactions towards genuine partnerships in investigation, data sharing and narrative building provides a powerful pathway to create the necessary public discourse and pressure to accelerate Bangladesh's sustainable energy transition.

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সীমিত দরপত্র পদ্ধতিতে (LTM) ঠিকাদার তালিকায়িত লাইসেন্স নথায়ন বিজ্ঞপ্তি

এতদ্বারা সকলের অবগতির জন্য জানানো যাচ্ছে যে, সিলেট সড়ক বিভাগ কর্তৃক পাবলিক প্রক্রিয়ামেট বিধিমালা ২০০৮ এর আওতারে সড়ক ও জনপথ অধিবক্তৃত্বের পরিবাল (যাজ্ঞ) বাজ্যের আওতায় সীমিত দরপত্র পদ্ধতিতে (LTM) অভ্যন্তরীণ কার্য (NCT-Work) সম্পাদনের লক্ষ্যে ২০২৫-২০২৬ অর্থ বছরের জন্য সীমিত দরপত্র পদ্ধতিতের ঠিকাদার তালিকায়িত পদ্ধতির কর্তৃত করা হবে। নিপিটিইট কর্তৃত নির্ধারিত আবেদন কর্ম অতি দন্তর হতে অফিস চলাকালীন সময়ে আগ্রামী ৩০/০৬/২০২৫ তারিখের মধ্যে অবিস্মেচ্যে পরিবেশপূর্বক আবেদন কর্ম সঞ্চালন করতে পারবেন। নির্ধারিত আবেদন কর্ম সঠিকভাবে পূরণপূর্বক প্রয়োজনীয় কাগজপত্রসহ আগ্রামী ৩১/০৭/২০২৫ পরিকল ৫,০০ ঘটিকার মধ্যে অতি দন্তরে জামা প্রদান করার জন্য অনুরোধ করা হলো।

উল্লেখ্য যে, ইতিপূর্বে অতি দন্তরের তালিকায়িত ঠিকাদার/ ঠিকাদারী প্রতিষ্ঠানের জন্য নথায়ন করা হলো।

ক্রমিক নং	বিবরণ	ঠিকাদার পরিমাণ	জমাদারের সময়
০১	বিনা জরিমানায়	২০০০ + ১৫% ভাটি	জুলাই/২০২৫ পর্যন্ত
০২	৫০% জরিমানায়	৩০০০ + ১৫% ভাটি	অগস্ট/২০২৫ পর্যন্ত
০৩	১০০% জরিমানায়	৪০০০ + ১৫% ভাটি	সেপ্টেম্বর/২০২৫ পর্যন্ত

অধিকারী

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