

The beleaguered financial sector and looming challenges

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steps toward a healthy economic order and fiscal empowerment. The interim regime, however, failed to produce a coherent set of economic laws which would govern the financial industry to reduce default loans and illicit financial transfers.

Default loans kept rising without any sign of abating. The amount of classified loans occupied 16.93 percent of total outstanding loans in September 2024, rising to 24.13 percent in March 2025. Recently, the central bank has resorted to using the sugar-coated definition of default loans, which will simply put the dirt under the carpet temporarily without delivering any viable solution. Global Financial Integrity estimates the annual figure of money laundering as around 8 billion dollars, with no evidence that this figure has gone down since the interim government took office.

A SYSTEM LOCKED IN POLITICAL FINANCE

Politicization of the business world is at the root of the growing disease of nonperforming loans. Since ill-gotten money is not safe to keep inside the country, money laundering becomes inevitable. Rising default loans also enable tax dodging as most oligarchs take the opportunity to show losses



ILLUSTRATION: E. RAZA RONNY

KEY NUMBERS AT A GLANCE

1. Classified loans (Mar 2025): 24.13%
2. Money laundering (annual estimate): \$8 billion
3. DSE Index drop (Nov 2024-2025): 5,347 → 4,968
4. GDP growth in FY2025: 3.97%
5. Private credit growth: 6%

beforehand and are thus waived from paying taxes. This creates a second impulse for illicit financial transfers. The financial industry is trapped in the devils' triangle with loan defaulters, tax dodgers, and money launderers, and the interim government is still far away

from breaking it.

While empowering the central bank with autonomy is a step forward, that reform alone is not enough to rescue the beleaguered financial sector from decadence and perversion. Reforming the capital market first is the way to

push long-term borrowers toward that market, allowing banks to focus on short-term working capital and some startup loans to agriculture and small enterprises. The Dhaka Stock Exchange Index was 5,347 in early November 2024 but fell to 4,968 around the same time one year later, suggesting growing debility in the stock market despite the interim government's six-point revitalization strategy.

STABILISATION WITHOUT REFORM

Although unemployment is a concern for the labor market, addressing joblessness is impossible without financial stability that enables private investment and employment generation. Domestic private investment is not only in the doldrums but dwindling, while foreign investment

remains below one percent of GDP and private investment stands at around 22 percent.

Low inflation—the precondition for financial stability—remains elusive. Its 12-month average stood at 9.95 percent in August 2024 and was still 9.22 percent in October 2025, despite promises to bring it down to 6 percent by June 2025. The call money rate has remained close to 10 percent since June 2024, keeping borrowing costs prohibitively high.

With GDP growth falling to 3.97 percent in FY2025, the overall rate of return in the business sector has likely dropped below 10 percent. Borrowing for business thus becomes unwise unless default is premeditated. Private credit growth has accordingly fallen to around 6 percent, far below the 15

percent needed to support real growth.

The declining trend in reserves has been reverted and that gives credit to central bank policy of the market-based exchange rate but import contraction has played the main role in reserves' buildup. This contraction has been as high as 9 percent for intermediate goods and 25 percent for capital machinery for FY2025, partly hinting at why GDP growth has come to the lowest point in the post-Covid era.

A fair, inclusive, and acceptable election is expected to boost private investment via market confidence, but other tangles of the financial world such high default loans, tax dodging, money laundering, and the capital market irregularities will persist, requiring a fresh batch of reforms by the elected government in 2026.

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