Saving banks takes more than clearing bad loans



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FILE VISUAL: **SALMAN SAKIB SHAHRYAR**

Financial strength makes a bank resilient, but public confidence keeps it alive. People deposit money in banks expecting to withdraw it when needed and receive the agreed interest or profit. However, when irregular lending, influential borrowers' reluctance to repay, and weak regulatory oversight undermine bank assets, the resulting crisis threatens the wider economy.

The current situation in Bangladesh's banking sector reflects this reality. At the end of June 2026, non-performing loans (NPLs) stood at Tk 606,555 crore, accounting for 32.78 percent of total outstanding loans, according to Bangladesh Bank data. In these circumstances, the challenge is not simply to reduce bad loans but to restore banks' financial strength and rebuild depositors' confidence.

The success of banking reforms should not be measured solely by a reduction in the NPL ratio. It should also depend on cash recovered, banks' ability to meet deposit obligations through their own income, and their capacity to resume lending to productive sectors. Genuine recovery must begin with recognising losses, recovering money from those responsible, rebuilding income-generating capacity and capital, and protecting depositors.

Following the Great Depression of 1929, around 9,000 US banks suspended operations between 1930 and 1933. In 1933, a bank holiday and emergency banking legislation were introduced. The subsequent establishment of the Federal Deposit Insurance Corporation (FDIC), with deposit insurance taking effect in 1934, created an institutional framework to protect depositors. The FDIC's historical account of the Great Depression and the introduction of deposit insurance illustrates the importance of institutional safeguards in restoring public confidence. The lesson is clear: restoring a banking system requires more than financial assistance to struggling institutions. A credible mechanism to protect depositors' money is equally essential.

In the early 1990s, Sweden's banking sector suffered substantial losses following a housing market collapse. The government took control of the troubled Nordbanken and separated its performing assets from its distressed ones. Viable loans and businesses remained with the bank, while NPLs and risky assets were transferred to a state-owned asset management company called Securum. Securum managed and gradually sold these assets to maximise recovery. This arrangement gave Nordbanken room to restructure and resume its core operations. The intervention's direct fiscal cost was approximately 4.2 percent of GDP, but subsequent asset recoveries and the sale of the government's ownership stake helped reduce the net cost.

Following the Asian Financial Crisis of 1997, South Korea established a 39.2-trillion-KRW fund through the Korea Asset Management Corporation (KAMCO), which acquired distressed loans worth 111.3 trillion KRW. KAMCO employed several recovery mechanisms, including international auctions, asset-backed securitisation, participation by foreign investors, and debt-to-equity swaps. Eventually, recoveries exceeded the fund's initial investment by 4.3 trillion KRW. According to KAMCO's account of its role in resolving the Asian Financial Crisis, this experience demonstrates how professional asset management and a well-planned recovery strategy can improve the effectiveness of public investment.

Japan, meanwhile, experienced a prolonged banking crisis during the 1990s, partly because the true scale of NPLs was concealed and financially weak institutions were artificially kept afloat. Authorities eventually addressed the crisis through stricter asset assessments, disposal of bad loans, government capital support, and restructuring of weak banks. Japan's lesson is clear: delaying recognition of losses deepens a crisis and makes recovery harder.

Greece's Hercules Asset Protection Scheme, introduced in 2019, took a different approach. NPLs were securitised into Senior, Mezzanine and Junior tranches. The Senior Tranche received a conditional government guarantee, while arrangements were made to sell the riskier portions to investors. NPLs in Greece's banking sector declined from approximately 81 billion euros in 2019 to around six billion euros by the end of 2024. However, these loans did not disappear from the economy; recovery efforts continue.

One important question for Bangladesh is what happens when a bank writes off a loan? A write-off can reduce the burden of distressed assets on a bank's balance sheet, but it does not automatically extinguish the borrower's legal obligation to repay. A loan write-off, a loan sale and a loan waiver are three different things.

Banks, therefore, must retain their legal right to recover outstanding amounts after a write-off. Legal action should be pursued against wilful defaulters, those involved in misappropriation of funds and borrowers who obtained loans through fraudulent means. This requires enforcing collateral and identifying the assets of actual beneficial owners. Entrepreneurs facing temporary business difficulties may be allowed to restructure their loans. But repeatedly granting concessions to borrowers who can repay but deliberately refuse to do so must end.

Removing NPLs from a bank's balance sheet does not automatically generate cash. Banks must still repay depositors and provide the agreed interest or profit. Accounting changes alone cannot solve the problem; banks must restore their income-generating capacity and cash flows. This requires recovering cash from collectable loans, selling distressed assets at transparent market prices, and generating regular income through government securities and properly assessed productive investments. Banks must also restore a sustainable balance between deposit costs and income from lending and other investments.

The distinction between liquidity and capital is equally important. A central bank can provide conditional lending support for a liquidity shortage, but a capital shortfall requires genuine capital. Therefore, after recognising their losses, weak banks need shareholder participation, fresh private investment and, where necessary, government recapitalisation subject to strict conditions. International experience shows that no single measure is sufficient to resolve a banking crisis. Bangladesh needs a coordinated recovery strategy built around several steps.

First, drawing on Sweden's experience, an independent Asset Quality Review (AQR) should establish the true financial condition of every bank. Based on the findings, banks should be classified into three categories: viable, suitable for restructuring, and non-viable. Each category should have a separate resolution strategy. Second, distressed loans and asset recovery must be professionally managed. South Korea's KAMCO and Malaysia's Danaharta show that distressed loans can be managed more effectively through specialised institutions. Bangladesh could establish an independent National Asset Management Company to acquire selected distressed loans at transparent market prices and oversee collateral management, auctions and professional recovery. However, Malaysia's reported recovery rate of 80.2 percent referred to assets restructured or sold by the end of 1999, not all loans acquired by the institution. This distinction matters when evaluating an asset management company's performance. Alongside identifying the assets of wilful defaulters and pursuing legal recovery, loans to potentially viable businesses should be restructured where appropriate. Any capital support to weak banks must depend on meaningful changes in management, accountability and corporate governance.

Ireland's National Asset Management Agency (NAMA) acquired loans worth 31.8 billion euros and repaid its entire funding by 2020. By the end of 2024, cumulative cash income had reached 48.3 billion euros. However, the market value of the acquired loans was 26.2 billion euros, while an additional 5.6 billion euros represented state support to banks. The Irish Comptroller and Auditor General's review of NAMA's performance details the agency's loan acquisitions and repayment of its funding. In contrast, the Indonesian Bank Restructuring Agency (IBRA) recovered only around 23 percent of the original loan value through sales between 1999 and 2004. These experiences show why transparency is essential in government-backed banking interventions. Asset valuation, public support costs and loan recovery efficiency must be carefully monitored

Third, timelines, transparency and accountability must be ensured. A three-year banking recovery programme should include quarterly, bank-by-bank disclosures of cash recoveries, newly classified NPLs, capital shortfalls, deposit costs, and operating income. Shareholders and directors must also be held accountable. Depositors must be protected, and non-viable banks resolved in an orderly manner.

The success of banking reforms should not be measured solely by a reduction in the NPL ratio. It should also depend on cash recovered, banks' ability to meet deposit obligations through their own income, and their capacity to resume lending to productive sectors. Saving banks is not simply about removing NPLs from their balance sheets. Genuine recovery must begin with recognising losses, recovering money from those responsible, rebuilding income-generating capacity and capital, and protecting depositors. The savings of ordinary people must never become the price of granting financial relief to influential borrowers.

Why falling costs don't always mean cheaper food



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Food prices in Bangladesh are shaped by more than production and import costs. Food passes through multiple hands between the farm or port and the consumer's kitchen. The final price includes transport, storage and handling costs, as well as traders' margins. Consumers can feel the effects of rising international prices or a depreciating taka fairly quickly. However, when import prices fall, or supplies improve, retail prices do not always follow as quickly. This raises an important question: why do consumers continue to pay high prices even when some of the underlying costs have declined?

Several factors affect food prices. For imported products, these include international prices, freight, insurance, customs duties, port charges and the exchange rate. Domestic distribution adds transport, storage, handling and financing costs. Seasonal shortages, floods and rising fuel prices can also affect supplies.

Recent inflation data reinforces this concern. According to the Bangladesh Bureau of Statistics (BBS), food inflation increased to 7.22 percent in September 2026, from 7.02 percent in August. Although this was lower than the 7.64 percent recorded in September 2025, food prices were still rising. On October 13, The Daily Star reported that fine rice in Dhaka was selling at Tk 74-75 per kilogramme, compared with Tk 72 a week earlier. Medium-grain rice rose from Tk 55-62 to Tk 58-65 per kilogramme, while coarse rice remained unchanged at Tk 50-55. Even modest price increases matter when families are already struggling with their food budgets.

One question merits particular attention: how much of the price consumers pay reflects production or import costs, and how much is attributable to distribution? A Bangladesh Bank study, titled A Survey Report on Trends and Causes of High Food Inflation in Rural and Urban Areas, examined price disparities across food supply chains. Its December 2024 case study of locally produced onions found that distributors, wholesalers and retailers applied mark-ups of around 2 percent, 3 percent and 25 percent, respectively, to their purchase prices. These figures relate to one commodity at a particular time and cannot be taken as representative of the wider food market. Nevertheless, they highlight the importance of examining retail-level costs and margins.

Research by the Centre for Policy Dialogue (CPD) raises similar questions. A study presented in July 2026 examined ten key commodities, including rice, lentils, onions, potatoes, eggs, fish and chicken. Based on 820 interviews with market actors in ten major markets across Dhaka division, it traced supply chains between producers and retailers. The findings revealed significant price disparities between producers and retailers, with green chillies recording the highest increase of 116 percent, followed by rice at 100 percent, onions at 87 percent and lentils at 78 percent. Such differences do not automatically indicate excessive profits. Prices are influenced by transport, storage, product quality, spoilage and financing.



Bangladesh needs a regular food price monitoring system to examine the rise and fall patterns. FILE PHOTO: **STAR**

Several factors affect food prices. For imported products, these include international prices, freight, insurance, customs duties, port charges and the exchange rate. Domestic distribution adds transport, storage, handling and financing costs. Seasonal shortages, floods and rising fuel prices can also affect supplies. Hence, a decline in international prices may not immediately translate into lower retail prices, particularly when traders still hold stocks purchased at higher prices. However, such explanations should be supported by solid cost data, not simply taken on faith.

Another issue is that prices in some markets appear to rise faster than they fall. Traders may quickly raise selling prices when import costs increase, but pass on reductions more slowly. Existing stocks, contractual agreements and limited competition may partly explain this delay. It would be unfair to assume that all traders are acting improperly. Bangladesh should introduce a regular food price monitoring system to examine these patterns. The Bangladesh Trade and Tariff Commission (BTTC), Ministry of Commerce, Department of Agricultural Marketing, Bangladesh Competition Commission and BBS could coordinate the collection and publication of comparable farm-gate, wholesale and retail prices. For imported products such as edible oil, wheat and lentils, the data should also cover international prices, exchange rates, duties and estimated landed costs. For locally produced items, it should include farm-gate prices, seasonal production, transport costs and retail prices. This would help identify where price differences arise and why.

Such information would also help policymakers choose the right response. If prices are rising at both farm-gate and retail levels, the problem may be linked to production shortages, imports or transportation. Where farmers receive low prices while consumers pay high ones, the distribution chain warrants closer scrutiny. Authorities should investigate whether the difference reflects storage costs, market concentration, a lack of competition or other factors. All assessments must account for actual distribution costs and compare similar products and grades over the same period.

Effective competition policy must form part of the solution. Where there is evidence of collusion, artificial shortages or other anti-competitive behaviour, the relevant authorities should act. Improving transport and storage infrastructure is also critical. Poor rural roads, inadequate warehousing and cold storage, and delays in loading and unloading can increase food distribution costs. Perishable products are particularly vulnerable to spoilage. Improving storage, modernising wholesale markets and upgrading transport systems can help reduce these losses. Import policy also requires attention. When domestic production is insufficient to meet demand, timely imports and appropriate tariff adjustments can help stabilise supplies. But lowering import taxes does not guarantee that consumers will benefit from lower food prices. Authorities should monitor whether such reductions are reflected in landed, wholesale and retail prices.

Finally, food policy should not be judged solely by harvests, import volumes or inflation rates. It should also be evaluated on whether consumers can buy food at fair and reasonable prices. Falling international prices and improved domestic production are of limited value if their benefits are not reflected in household food budgets. Bangladesh needs to monitor what happens to food prices at every stage of the supply chain.