

# Robust Governance for a Resilient Banking Sector in Bangladesh

*Presented by*

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# Importance of the Banking Sector

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Bangladesh's financial sector is mainly **bank-based**, given that **financial markets are still underdeveloped**.

The banking sector of Bangladesh has expanded over the years in terms of **number of formal institutions (62 banks)**, types of **financing instruments**, and **volumes of assets**.

Bangladesh's banking sector has demonstrated vulnerability over time, manifested through **high loan default rates** and **sub-par** performance across various indicators.

The new Bangladesh Bank initiatives should show immediate results, but reforms **must continue** for sustained impact.

# Performance of the Banking Sector

- **Financial Depth:**

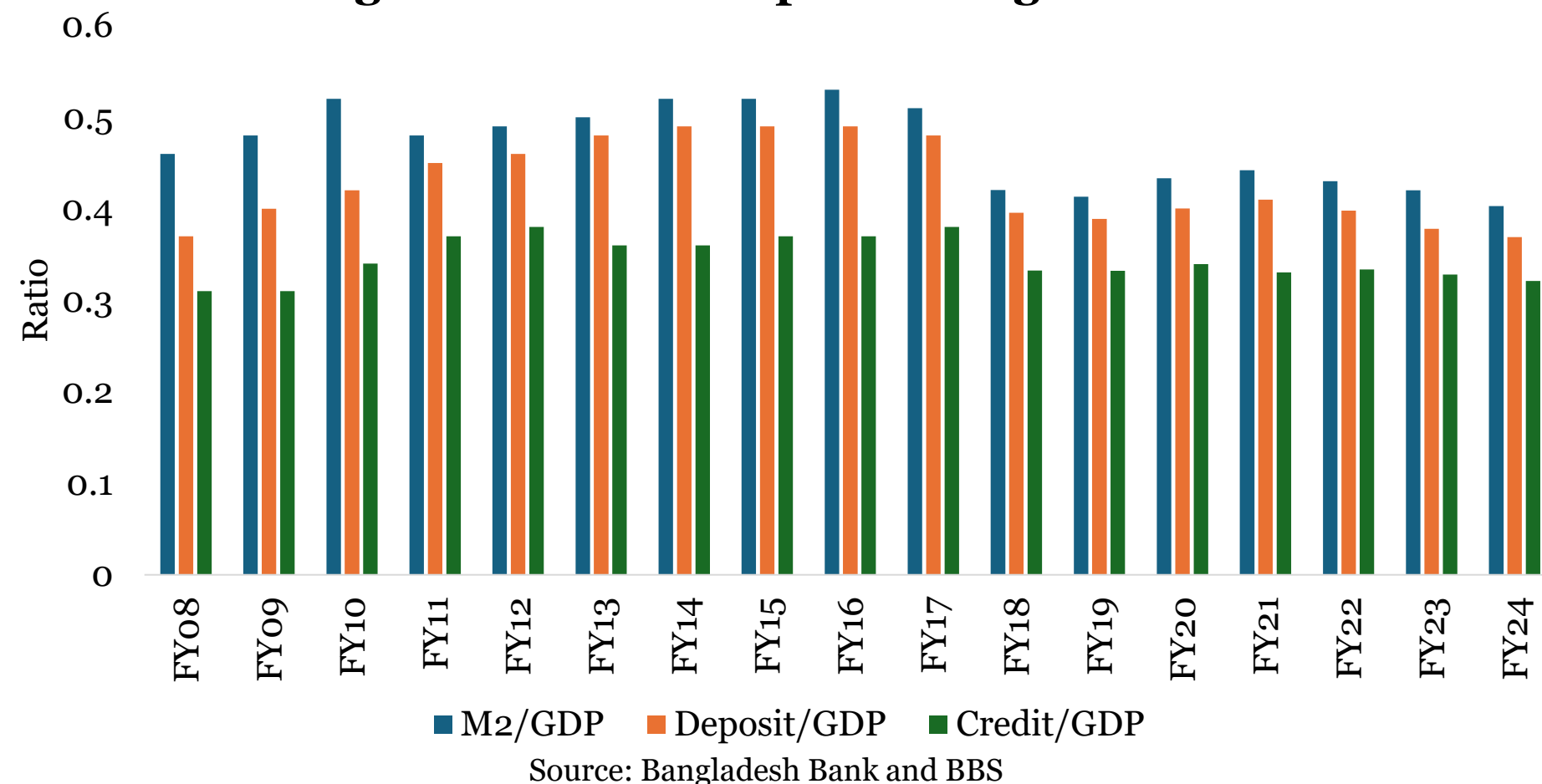
- Increased from FY2008 to FY2015 (M2/GDP; Deposit/GDP; Credit/GDP).
- However, from FY2016 onwards, financial depth began to decline.
  - This may be because the base year for the GDP was updated from 2005-06 to 2015-16.

- **Capital Adequacy:**

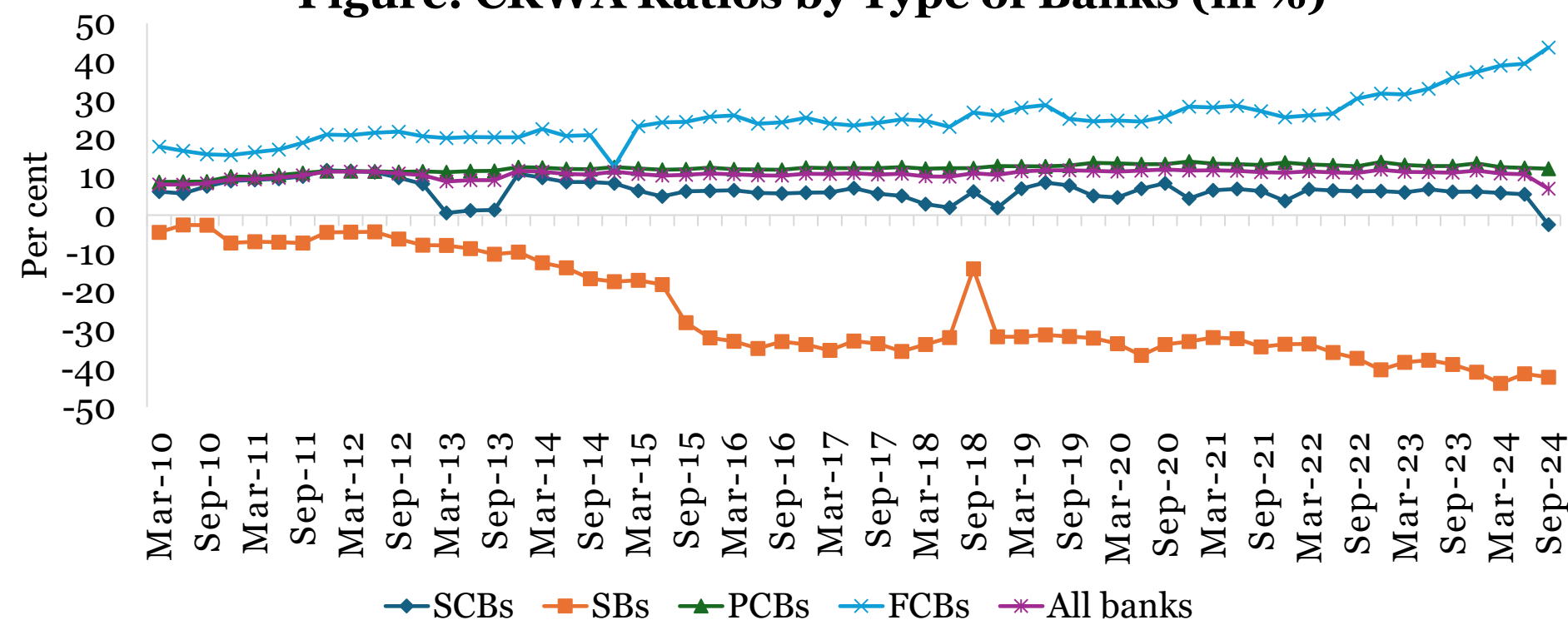
- Banks in Bangladesh are **required** to maintain a Credit to Risk Weighted Asset (CRWA) of **at least 10%**.

- Overall CRWA fell from **10.64%** in June 2024 to **6.86%** in September 2024.

**Figure: Financial Depth in Bangladesh**



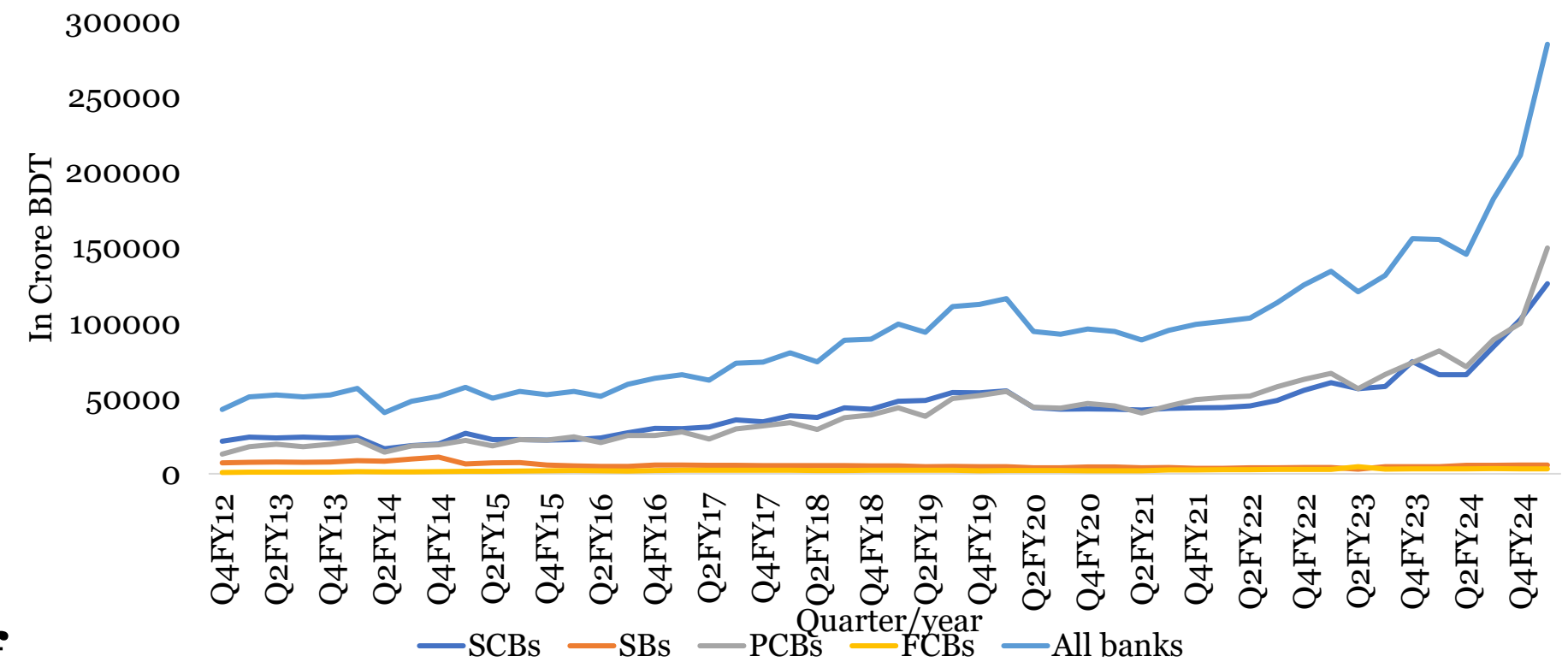
**Figure: CRWA Ratios by Type of Banks (in %)**



# Asset Quality

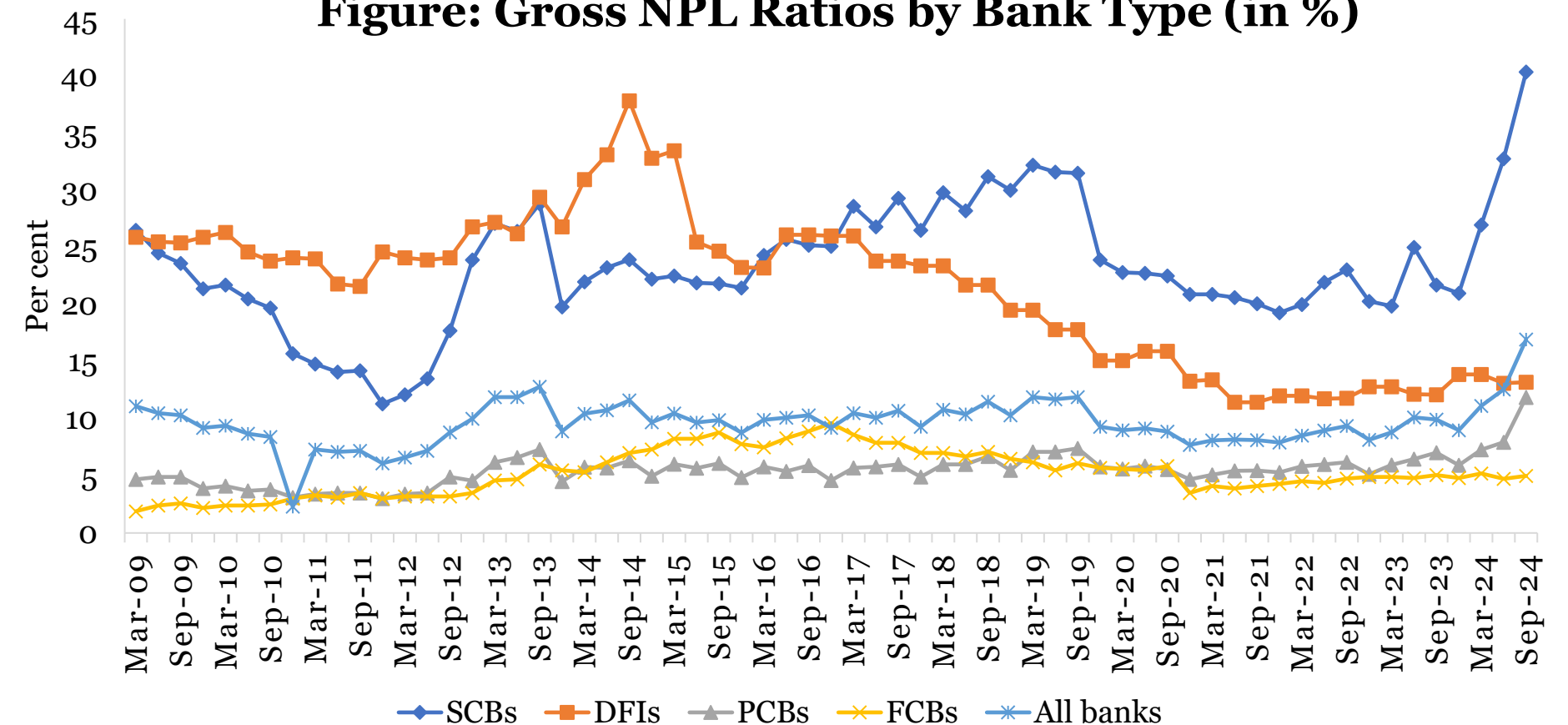
- Total amount of classified loans increased by more than **six** times during June 2012–September 2024.
- Total classified loans:
  - June 2012: **BDT 42,725 crores**
  - September 2024: **BDT 2,84,977 crores**
- Non-performing loans (NPL) will be higher, if following are considered:
  - As of December 2023, the **outstanding balance of written-off loans** was **BDT 53,612 crore**,
  - **Total rescheduled loans outstanding** was **BDT 91,221 crore** (Bangladesh Bank’s Financial Stability Report 2023)
- As of February 2024, **BDT 178,000 crore** was tied up in **72,543 cases** in Money Loan Court (Bangladesh Bank’s roadmap to reduce classified loans).
- Share of NPL as of September 2024:
  - **All Banks (average): 16.93%**
  - **PCBs : 11.88%**
  - **SCBs: 40.35%**
  - **FCBs: 4.99%**
  - **SBs: 13.21%**

**Figure: Total classified loans (in crores of BDT)**



Source: Bangladesh Bank Quarterly

**Figure: Gross NPL Ratios by Bank Type (in %)**

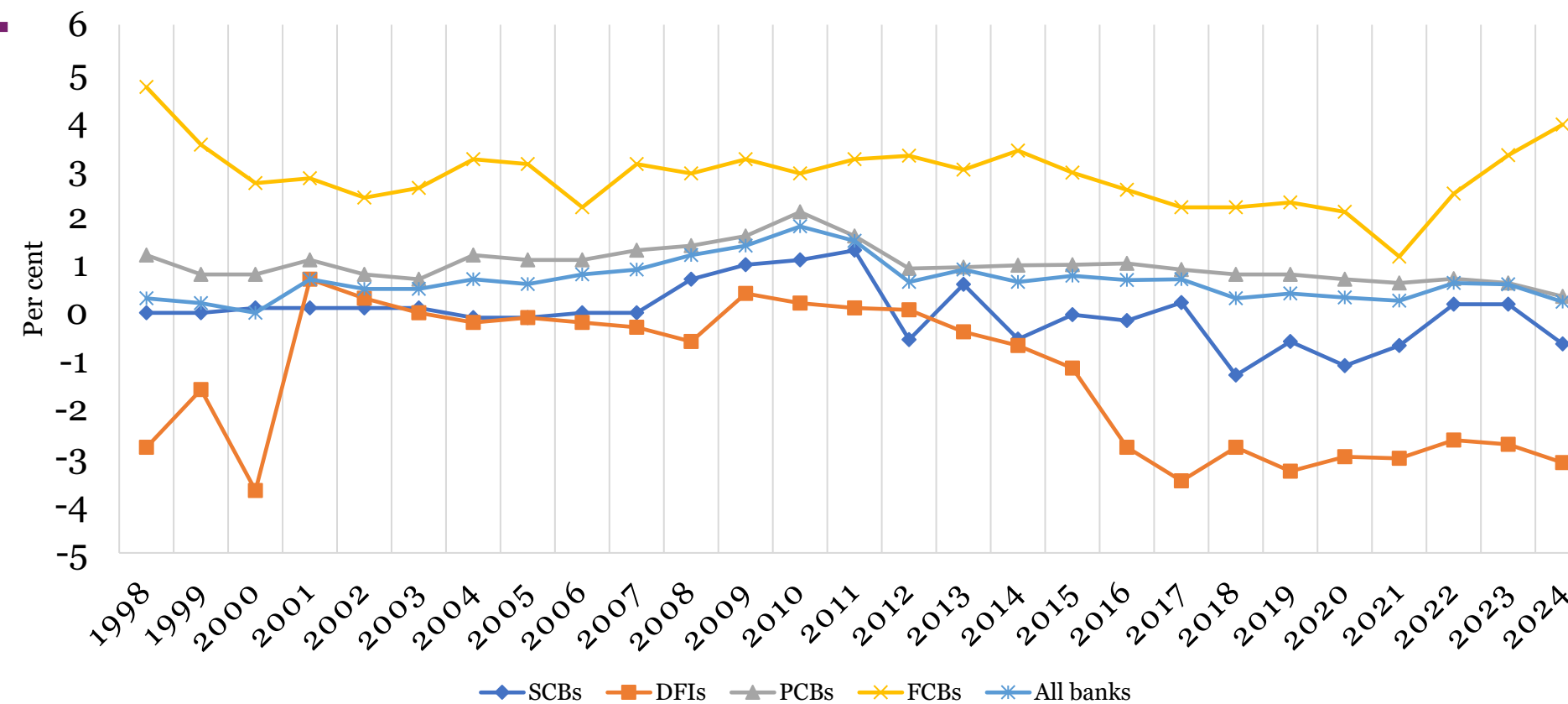


Source: Bangladesh Bank Quarterly

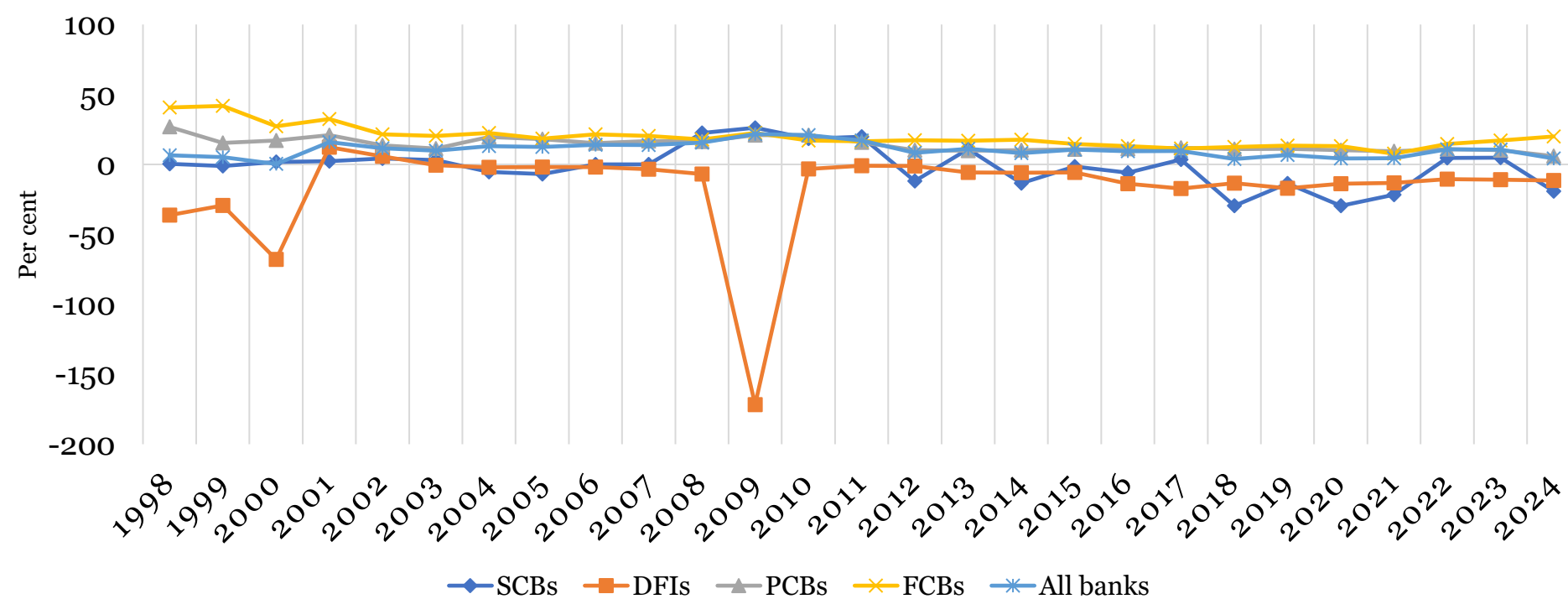
# Earnings of Banks

- As of March 2024, DFIs had the lowest ROA -3.12%, followed by SCBs which had a ROA of -0.65%.
- The best-performing banks, in terms of ROA, were the FCBs, which had ROA of 3.92%.
- DFIs and SCBs had the lowest values at of ROE -16.5% and -1.15%, respectively.

**Figure: Return on Asset (in %)**



**Figure: Return on Equity (in %)**

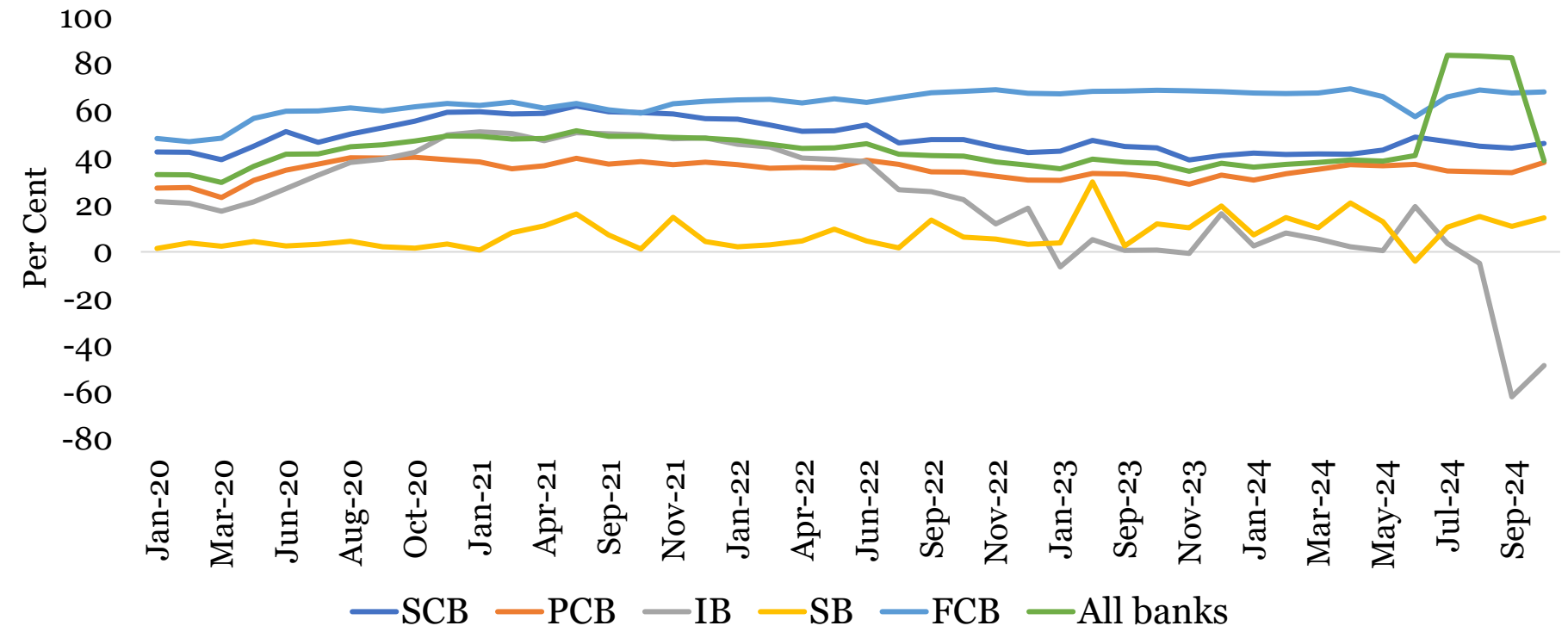


Source: Bangladesh Bank Quarterly & Annual Report

# Liquidity and Loan Loss Provisioning

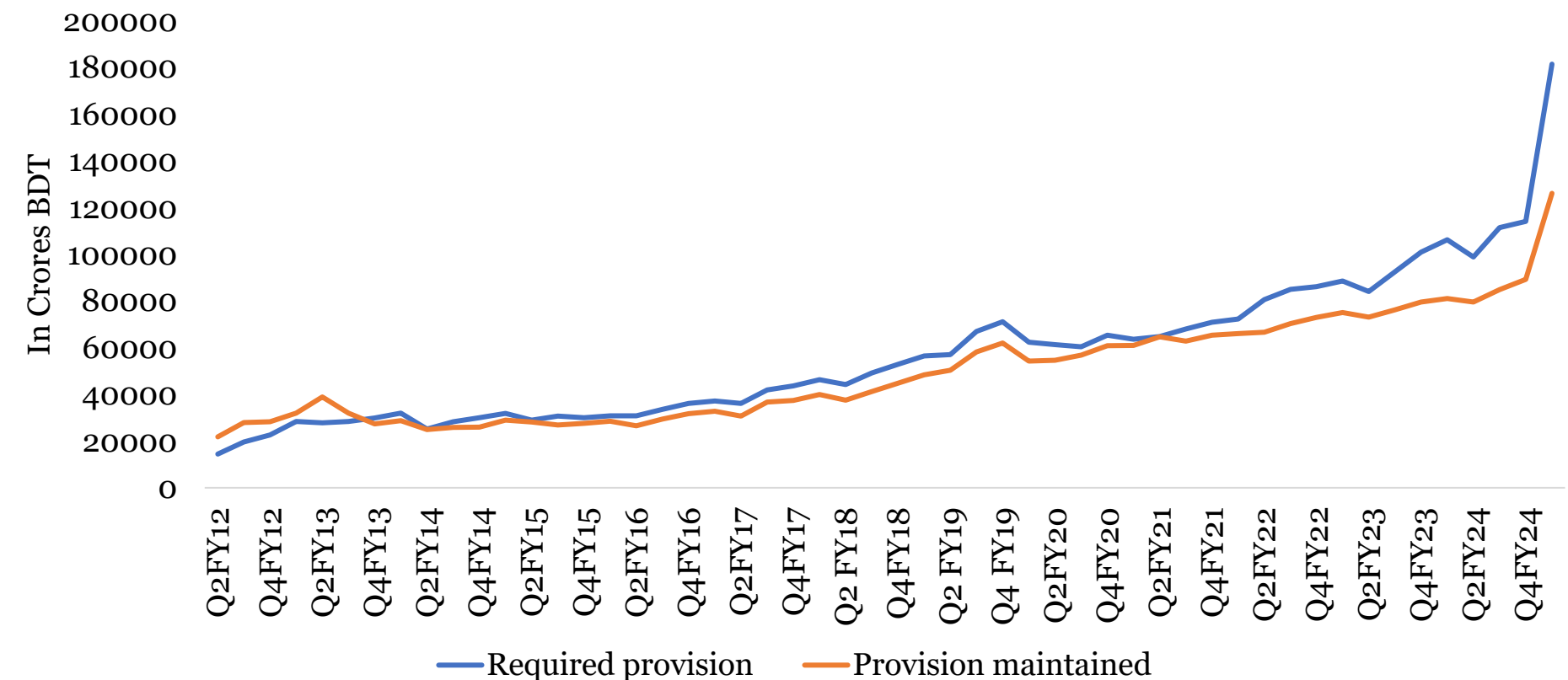
- FCBs have the highest excess liquidity (Figure 8).
- **Excess liquidity of Islami Banks was negative** in August, September and October 2024.
- Gap between the **required and actual provision** has been increasing in the last few years (Figure 9)
- Shortfall in loan loss provisioning:
  - As of September 2024: **BDT 55,378 crores**
  - As of December 2012: **BDT 455 crores**

**Figure: Excess Liquidity (as a Share of Total Liquid Assets)**



Source: Major Economic Indicators, Bangladesh Bank

**Figure: Loan Loss Provisioning (in crores BDT)**

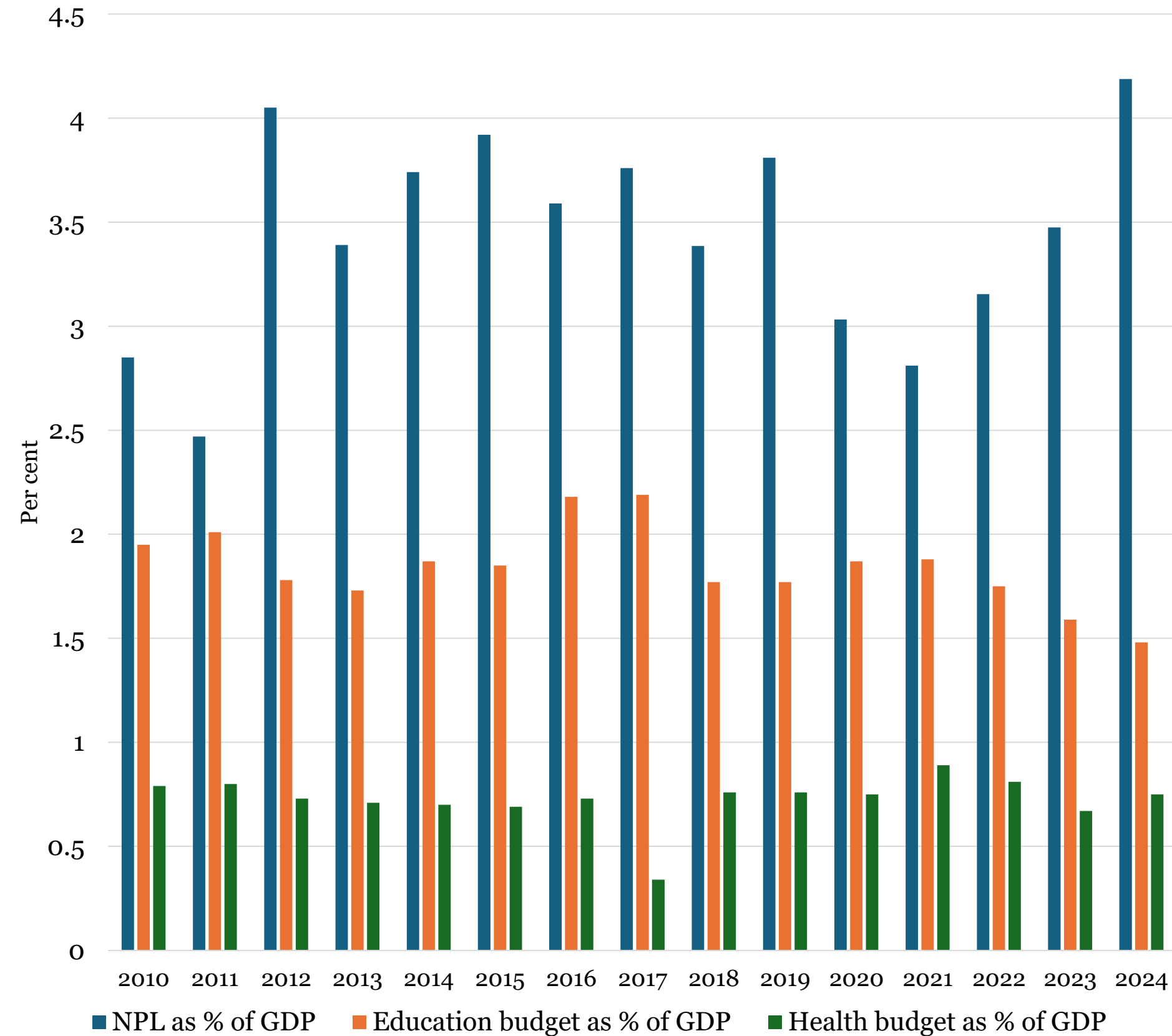


Source: Bangladesh Bank Quarterly

# The Menace of NPL

- NPLs as of September 2024:
  - **BDT 284,977 crores**
- Allocation for Health FY 2024-25:
  - **BDT 41,408 crores**
- Allocation for Education FY 2024-25:
  - **BDT 94,7114 cores**
- NPLs is more than **2 times higher** than the combined allocation for the education and health budget in FY2024.

Figure : Loan loss provisioning (in crores BDT)



Source: Major Economic Indicators

# Barriers for Improving the Banking Sector Governance

Institutional	Regulatory	Legal	Data and Informational
Bank directors, CEOs and senior officials placed and controlled by the government	Dual regulation by the Financial Institutions Division and the Central Bank	Amendments to the Banking Companies Act to favour vested interests	Limited access to timely data
Loans sanctioned on political grounds	Lack of independence of the Central Bank	Weaknesses in the Financial Loan Court Act	Apprehensions regarding the quality of data
Rescheduling of loans despite poor record of repayment	Privileges given to defaulters by the Central Bank	Loopholes in the Bankruptcy Act	Absence of disaggregated data
Writing off loans to reduce tax burdens and clean balance sheets	Bank licences given arbitrarily to crony capitalists	Delays in the judicial process and a long backlog of cases	Low reflection on the use of data in decision-making and policy measures
Weak internal control and compliance risk management of banks	Recapitalisation of banks by the government	Insufficient number of judges dealing with loan cases	Lack of transparency about the use of data in the decision-making process
The inability of some banks to comply with BASEL III requirements	Quasi-monopolistic power of a few bank oligarchs	The lenient legal stance against wilful defaulters and corrupt bank officials	False information, forged documents and fake companies are used to obtain loans



# Broad Recommendations

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**Institutional**  
Commercial banks  
need to be  
strengthened



**Regulatory**  
Independence of  
Bangladesh Bank  
should be upheld



**Legal**  
A conducive legal  
and judicial  
environment should  
be created



**Data**  
Integrity and  
availability of timely  
data should be  
ensured

# INSTITUTIONAL: Commercial Banks Need to be Strengthened



## Short term measures

- Ensure proper **loan sanctioning** (Guidelines on Internal Credit Rating Systems for Banks)
- Enforce **single borrower exposure limit** for commercial borrowing
- Stop **repeated** rescheduling and write-offs
- Appoint **administrators** for troubled banks
- Replace **management and boards** of poorly performing banks
- **Depoliticise** bank boards
- Limit **tenure of the board of directors** in banks (Banking Company Act)
- Mandate **approvals for appointment and promotion** of senior management
- **Postpone digital banks** until existing banking problems are resolved



## Medium term measures

- Strengthen **internal control and compliance** of commercial banks
- Shutdown **banks on life-support**



## Long term measures

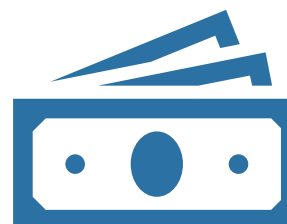
- Prohibit weak bank board directors from joining bank boards after merger
- Modernise banking systems
- Strengthen IT and e-KYC

# REGULATORY: The Independence of the Bangladesh Bank Should be Upheld



## Short term measures

- Uphold the autonomy of the Central Bank (Central Bank Amendment Act 2003)
- End bailouts of banks through recapitalisation
- Stop issuance of new bank licenses
- Prevent majority ownership
- Strengthen the Bangladesh Financial Intelligence Unit (FID) by hiring a new team
- Recruit a strong team for BFIU
- Close down FID
- Hold former governors accountable for their misdeeds
- Publish the investigation report on the Bangladesh Bank heist



## Medium term measure

Formulate exit policy for troubled banks



## Long term measure

Prevent government officials from becoming governor of the Bangladesh Bank

# **LEGAL:** A Conducive Legal and Judicial Environment Should be Created



## **Short term measures**

- Establish additional specialised courts and tribunals
- Amend the Bankruptcy Act 1997
- Amend the Banking Company Amendment Act 2013
- Reinstate group default regulations
- Freeze accounts and liquidate assets of wilful defaulters
- Block transactions of wilful defaulters
- Promote media trial – publish politically connected large wilful defaulters
- Implement harsher penalties for wilful defaulters
- Remove legal loopholes – e.g court stay order
- Recover stolen assets



## **Medium term measure**

Increase the number of judges to ensure speedy disposal of loan default cases



## **Long term measure**

Pursue Alternative Dispute Resolution

# **DATA TRANSPARENCY: Integrity and Availability of Timely Data Should be Ensured**

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**Short term  
measures**

- Publish reports and data
- Disclose compliance with BASEL III
- Improve loan classification
- Implement risk management



**Medium  
term  
measure**

Protect consumer data

# THANK YOU



Generating Knowledge, Giving Voice  
**Challenging Injustice**



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