



Liquidity Crisis in the Banking Sector: Actions, Implementation, and Solutions: Bangladesh Perspective

Selina Akhter*

Additional Secretary(Retired), Government of Bangladesh, Dhaka ,Bangladesh
E-mail: selinaakhter@gmail.com

Abstract

This research report provides an in-depth analysis of the persistent liquidity crisis within Bangladesh's banking sector. Characterized by a severe shortage of available cash to meet obligations, the crisis threatens financial stability and long-term economic growth. The study identifies the multifaceted causes of the crisis, which are predominantly rooted in systemic governance failures rather than external shocks. Key factors include alarming levels of Non-Performing Loans (NPLs) driven by poor credit governance and willful defaults, a declining trend in deposit growth, significant capital flight, and foreign currency mismanagement. The report assesses the profound impacts of this crisis, including constrained credit flow to productive sectors, erosion of public trust, and heightened systemic risk. It evaluates recent regulatory interventions by Bangladesh Bank, such as the unification of weak banks and the introduction of the Bank Resolution Ordinance 2025. Through analytical review, the report concludes that while these are positive steps, their long-term efficacy depends on rigorous implementation. The study recommends a holistic strategy encompassing stringent governance reforms, aggressive NPL resolution through asset reconstruction companies, monetary and fiscal policy coordination, technological integration for transparency, and confidence-building measures to attract deposits. The findings underscore that a sustainable solution requires unwavering political will to address deep-seated institutional corruption and mismanagement.

Key Words: Liquidity Crisis, Banking Sector, Non-Performing Loans (NPLs), Bangladesh Bank, Governance, Capital Flight, Financial Stability, Bank Resolution, Regulatory Framework, Economic Growth.

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1. INTRODUCTION

The banking sector acts as the circulatory system of a modern economy, facilitating transactions, mobilizing savings, and allocating credit to productive investments. Its stability is, therefore, paramount for sustainable economic development. In recent years, Bangladesh's banking sector, a key driver of the nation's impressive macroeconomic growth, has been grappling with a deepening liquidity crisis. A liquidity crisis in banking arises when financial institutions face a acute shortage of liquid assets (cash or easily convertible securities) to meet their short-term obligations, including customer withdrawals and demand for fresh loans (Cornett et al., 2011). This shortage can trigger a loss of confidence, potentially spiraling into solvency issues and broader financial instability. The banking sector's crisis undermines monetary policy (Alia, 2025). Ali (2025b) described that for micro-banking models, such as Societal Banking (Ali, 2016, 2020, 2025), to achieve their full potential as engines of inclusive growth, the priority must shift from numerical expansion to qualitative institutional strengthening. This governance-centric approach is presented as the critical next step for Bangladesh and comparable economies.

Unlike liquidity crunches triggered by global financial contagion, natural disasters, or pandemics, the crisis in Bangladesh is largely endogenous, stemming from profound structural and governance weaknesses within the financial system itself. The symptoms are evident: banks are increasingly reliant on expensive call money markets, loanable funds are shrinking despite high demand, and inter-bank lending rates exhibit volatility. This constriction of credit affects businesses, stifles investment, and ultimately hampers economic growth.

The persistence of this crisis poses a significant threat to Bangladesh's financial stability and its ambitious development goals. Therefore, a systematic investigation is urgently needed. This research report aims to achieve three primary objectives: first, to identify and analyze the root causes of the liquidity crisis in Bangladesh's banking sector; second, to assess its multifaceted impact on the banking industry and the broader economy; and third, to propose a comprehensive set of actionable and sustainable solutions for policymakers, regulators, and bank management. The study argues that resolving the crisis is not merely a technical financial issue but a critical test of institutional integrity and governance in Bangladesh. The Bangladesh Bank, like any central bank, operates in a complex economic and political environment. Criticisms of its effectiveness often revolve around:

- **Challenges in Controlling Inflation:** Persistent high inflation has been a major concern, though this is influenced by global commodity prices, exchange rate volatility, and fiscal policies beyond the central bank's full control.
- **Banking Sector Governance:** High levels of non-performing loans (NPLs) in the banking sector, often linked to politically influential borrowers, have been a chronic weakness. The BB's regulatory power is sometimes constrained by broader governance structures.
- **Forex Reserve Management & Cyber Heist:** The 2016 cyber heist was a major failure in cyber security and internal controls. While reforms were undertaken, it highlighted systemic vulnerabilities.

- **Political Economy Constraints:** The central bank's operational autonomy can be limited, affecting its ability to make purely technocratic decisions.

Saying the BB has it is fair to say it has faced severe challenges and limited success in some critical areas due to a mix of internal capacity issues and external political-economic pressures.

A search committee for Deputy Governor(s) headed by Dr. Qazi Kholiquzzaman Ahmad, a left wing and wrong philosophical economist and civil society figure during the previous regime of Government did destabilize the economy through use of misuse of excessive power.

- **Purpose of Search Committees:** Such committees are formed to recommend candidates based on merit, expertise, and integrity, aiming to insulate the process from purely political appointments.
- **The Core Issue You Raise:** You suggest that a recommended/appointed candidate was "not at all good." These points to a potential breakdown in the system. Possible scenarios include:
 - I. The search committee's recommendation was overruled by higher political authority.
 - II. The committee's judgment in that specific instance might have been flawed or influenced.
 - III. The candidate's performance post-appointment did not meet expectations, which is different from their qualifications at the time of appointment.
- **Systemic Problem:** This highlights a chronic issue in Bangladesh's public administration: the gap between formal "merit-based" selection processes and the reality of appointments often influenced by political loyalty, connections, or other considerations. When a technically recommended candidate underperforms, it damages the credibility of both the institution (BB) and the esteemed individuals (like Dr. Qazi) involved in the search process. **No, capital outflow has not decreased. It has continued at a significant pace and is a primary driver of the ongoing economic crisis.** What we are seeing is not a normal "section of people" moving money, but a **systemic flight of capital** due to a profound crisis of confidence.

1.1. The Evidence of Continued Outflow (Last ~17 Months: ~Late 2024 to Present)

The outflows are reflected in multiple, interconnected indicators:

- I. **Foreign Exchange Reserve Drain:** This is the most glaring evidence.
 - Bangladesh Bank's (BB) gross reserves have fallen from over **\$48 billion in August 2021** to around **\$20-21 billion (gross) as of early 2024**.
 - The more critical **Net Reserve** figure (after accounting for short-term liabilities) is estimated by the IMF to be significantly lower, potentially in the **\$15-16 billion range**. This steep, consistent decline over 17+ months is fundamentally caused by the central bank selling dollars to meet a massive imbalance between outflow (high) and inflow (low).



- II. **Mechanisms of the Outflow:** The "capital outflow" isn't just cash in suitcases; it's happening through formal and informal channels:
- **Trade Mis-invoicing:** Over-invoicing imports (to send more money abroad) and under-invoicing exports (to keep foreign earnings overseas).
 - **Service Account & Foreign Education:** Huge increases in outward remittances for "studies," "medical costs," and "software services" – categories that are difficult to audit and are classic channels for capital flight.
 - **Slow Repatriation of Export Proceeds:** Exporters are legally allowed to keep earnings abroad for a period, but delays in bringing money back have increased dramatically, effectively becoming a form of capital flight.
 - **Informal Hundi System:** The wide gap between the official exchange rate and the informal market rate has made the illegal *hundi* system flourish for remittances and imports, bypassing the banking channel entirely and draining the formal supply of USD.
- III. **Monetary Policy Consequence:** To try to stem the outflow and curb inflation, BB has been forced to maintain a **tight monetary policy** (high interest rates) for an extended period. This is a direct policy response to the pressure from continued outflows and currency depreciation.

1.2. A Defining Economic Challenge

Capital outflow has been the dominant feature of Bangladesh's external sector for the last 17 months, not a decreasing phenomenon. It is the core reason for the reserve depletion, the severe USD shortage, and the pressure on the exchange rate.

The "section of people" involved includes businesses hedging risk, wealthy individuals preserving wealth, and ordinary citizens seeking better value for remittances – all responding rationally to the economic signals of inflation, currency depreciation, and instability. Until the fundamental drivers of confidence are addressed – through a credible, market-aligned exchange rate, decisive banking reforms, and sustained political stability – these pressures will continue. The IMF program is an attempt to impose the discipline needed to start reversing this cycle, but the process is painful and slow.

2. LITERATURE REVIEW

The concept of a bank liquidity crisis is well-explored in global financial literature. Diamond and Dybvig (1983), in their seminal work, model bank runs, demonstrating how banks, which transform illiquid assets into liquid liabilities, are inherently vulnerable to sudden demands for withdrawals. This theoretical foundation explains how a loss of depositor confidence can become self-fulfilling. In the context of emerging economies, the causes of liquidity stress are often linked to macroeconomic mismanagement, weak legal frameworks, and connected lending (Caprio & Honohan, 1999). The author argues that to address the challenges of global integration, banks in Bangladesh must adopt a formalized corporate planning strategy. This strategy constitutes a systematic, long-term framework aimed at enhancing total quality management. The primary

goals are to improve operational and managerial efficiency, align bank products with customer needs, and ensure timely service delivery. Ultimately, this approach is posited to increase customer satisfaction, profitability, and the bank's public image. Furthermore, the author contends that effective corporate planning can motivate personnel, improve client communication, and equip local banks to operate competitively in the global economy of the twenty-first century (Ali, 2003). SME banking in Bangladesh, specifically by banks like Pubali and Sonali, facilitates entrepreneurship and reduces poverty through enhanced access to finance and support for exports (Ali, Wanaslip, & Almajali, 2025).

Research specific to South Asia and Bangladesh highlights additional dimensions. Rahman and Islam (2018) identified poor corporate governance, political interference in lending decisions, and weak regulatory enforcement as key factors exacerbating Non-Performing Loans (NPLs) in Bangladesh, which directly impair liquidity. Chowdhury and Islam (2020) emphasized the "default culture," where influential borrowers willfully avoid repayment with impunity, as a unique and crippling feature of the Bangladeshi context. This erodes the asset quality of banks, turning performing loans into illiquid, non-performing assets.

The link between liquidity and solvency is blurred in a prolonged crisis. Borio (2014) of the Bank for International Settlements (BIS) notes that persistent liquidity shortages can reveal underlying insolvency problems, as assets may be overvalued or irrecoverable. This is highly relevant to Bangladesh, where the true extent of NPLs is often debated, with analysts suggesting figures significantly higher than official statistics due to ever greening and relaxed rescheduling policies (Bhuyan & Chowdhury, 2022).

On the policy front, literature on bank resolution and crisis management has evolved post the 2008 Global Financial Crisis. The Financial Stability Board (FSB) principles stress the importance of having a credible recovery and resolution framework to manage failing banks without taxpayer bailouts (FSB, 2014). Bangladesh's recent steps, such as the Bank Resolution Ordinance, can be evaluated against these international standards.

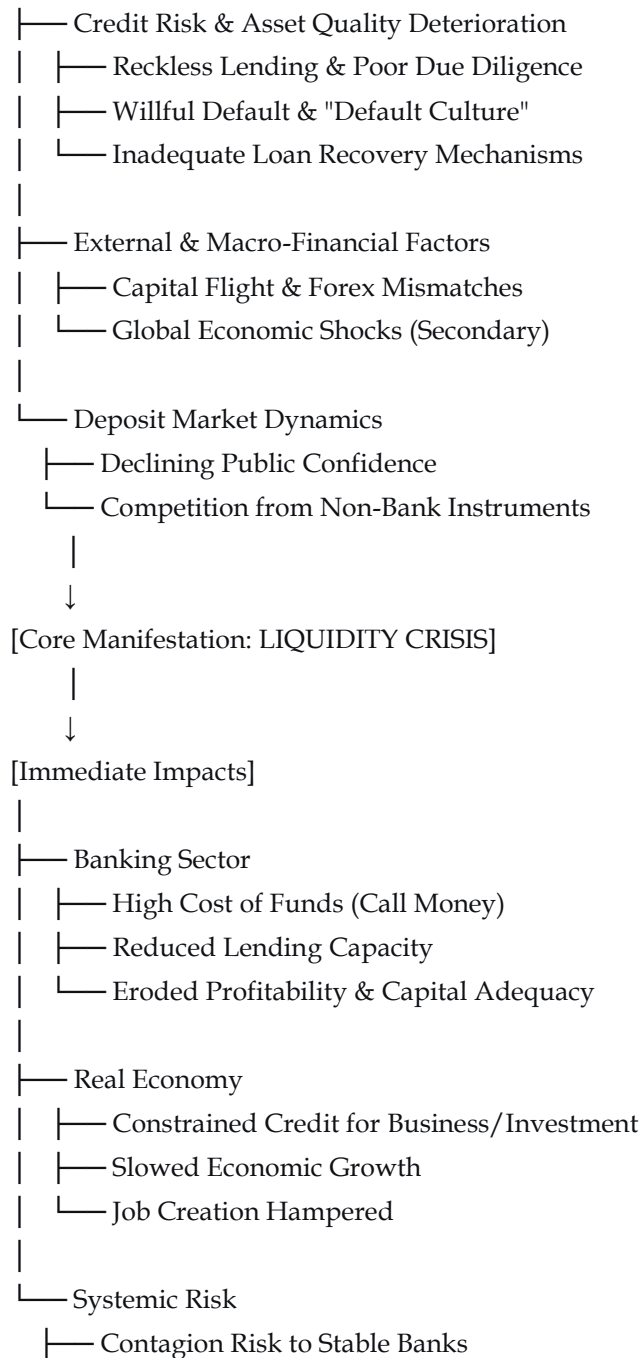
However, a gap exists in the literature regarding a holistic, updated analysis that synthesizes the endogenous causes of Bangladesh's liquidity crisis, evaluates the effectiveness of recent unprecedented interventions like bank unification, and provides an integrated solution framework. This report seeks to fill that gap.

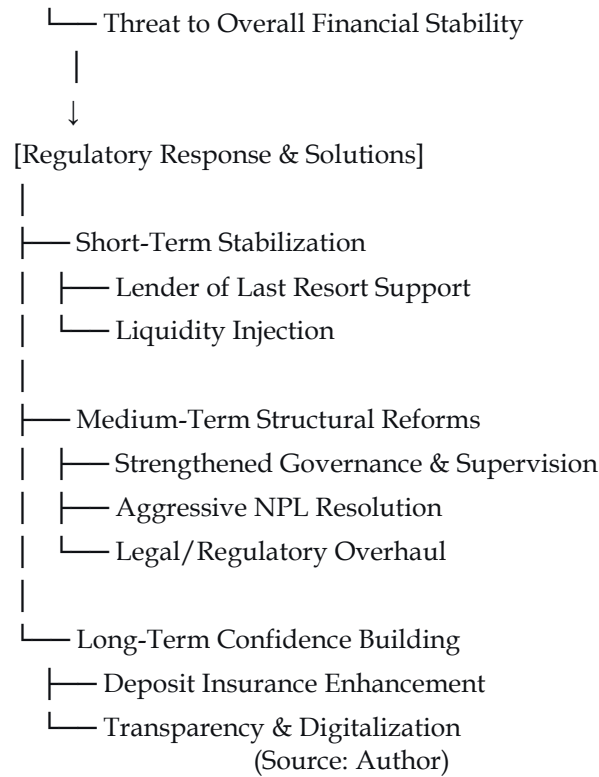
Figure 1: Conceptual Framework of the Liquidity Crisis

Text

[Root Causes]







This framework posits that the primary drivers are institutional and governance-related, which lead to a collapse in asset quality (high NPLs) and a loss of liability-side confidence (slow deposit growth). These twin pressures manifest as a sustained liquidity crisis. The crisis then transmits negative impacts to the banking sector's health and the real economy, elevating systemic risk. Effective solutions must therefore address both the root causes and the symptoms across all levels.

4. PRESENT STUDY: METHODOLOGY AND CONTEXT

This study employs a qualitative and descriptive analysis based on secondary data. Data has been collected from a range of credible sources including Bangladesh Bank (BB) annual reports, financial stability reports, scheduled bank statistics, and policy circulars. Additionally, analyses from international financial institutions (IMF, World Bank), research papers, and reputable national news portals providing investigative reports and expert commentary have been synthesized. The time frame focuses on the period from 2020 to 2025, capturing the intensification of the crisis and the latest policy responses.

Contextual Background: Bangladesh's banking sector comprises state-owned commercial banks (SCBs), private commercial banks (PCBs), foreign commercial banks (FCBs), and specialized banks. The proliferation of PCBs, many of which have been allegedly acquired by business groups

for "looting" rather than banking, is a critical part of the crisis narrative. The official NPL ratio has hovered at near-double digits for years, but independent estimates, considering written-off and rescheduled loans, suggest a stressed asset ratio exceeding 20%. The period saw a decline in the deposit growth rate from an average of 13-14% to single digits, while credit growth also slowed, indicating a liquidity squeeze.

5. ANALYSIS OF THE FINDINGS

5.1. Identifying the Major Causes of the Liquidity Crisis

The analysis confirms that the crisis is multi-causal, with deep interconnections:

- **Excessive and Poor-Quality Lending:** The most direct cause. Banks, driven by profit motives or influenced by powerful directors, approved loans beyond prudent limits, often to parties without strong collateral or viable business plans. This has resulted in a massive stock of bad loans that do not generate cash flow for the bank.
- **Governance and Regulatory Failure:** Bangladesh Bank's inspection and supervision have been criticized as inadequate and, at times, compromised. Political pressure often prevents strict action against defaulters, many of whom are politically connected. Weak governance within bank board's allows for insider lending and a lack of proper risk management.
- **Capital Flight and Forex Mismanagement:** The illicit outflow of approximately USD 1.7 billion annually, as per BB data, directly drains foreign currency reserves and domestic capital. Borrowing in dollars for local currency lending creates mismatches, and failure to hedge exposes banks to exchange rate volatility.
- **The "Default Culture":** A societal and institutional malaise where large, influential borrowers willfully avoid repayment with a sense of impunity. Legal proceedings are slow and often ineffective, making recovery a daunting task.
- **Deposit Growth Stagnation:** Public confidence has been shaken by repeated banking scandals. Savers are increasingly turning to alternative instruments like savings certificates (offering high, government-backed returns), National Savings Certificates (NSCs), and the stock market, diverting funds away from the banking system.

5.2. Assessing the Impact

The impacts are severe and multi-layered:

- **On the Banking Sector:** Banks face rising costs of funds as they borrow from the inter-bank call money market at high rates to meet shortfalls. Profitability is squeezed as income from loans stagnates due to NPLs while interest expenses rise. Capital adequacy is undermined as provisions against bad loans eat into capital.
- **On the Real Economy:** The primary function of financial intermediation is broken. Viable Small and Medium Enterprises (SMEs) and productive industries struggle to access

credit, hampering business expansion, innovation, and job creation. This ultimately acts as a drag on GDP growth.

- **Systemic Risk:** The crisis creates contagion risk. The failure or extreme weakness of a few banks can spill over to others through the inter-bank market and loss of general confidence, threatening the entire financial system.

5.3. Evaluation of Actions Taken

Recent actions by Bangladesh Bank and the government represent a significant shift in approach:

- **Unification of Banks:** The forced merger of five weak private banks (Exim, SIBL, Global Islami, First Security Islamic Bank, Union Bank) into a single entity is a radical step. It aims to consolidate losses, manage risks centrally, and protect depositors of the failing institutions. Its success hinges on meticulous integration, cleansing of balance sheets, and preventing the recurrence of bad practices.
- **Bank Resolution Ordinance 2025:** This is a crucial legal tool, potentially aligning Bangladesh with international best practices (like the FDIC in the USA). It provides a framework for resolving troubled banks *before* they become insolvent, including mechanisms for bail-in (where shareholders and unsecured creditors bear losses) and facilitated mergers. Its effectiveness will depend on its depoliticized and transparent implementation.
- **Other Measures:** Continued efforts to streamline loan rescheduling (though this risks ever greening), strictures on banks' internal controls, and attempts to stabilize the foreign exchange market are ongoing.

Table 1: Snapshot of Key Crisis Indicators (2023-2024)

Indicator	2023	2024 (Est.)	Implication
NPL Ratio (% of total loans)	9.2% (Official)	~10.1%	Understates true stress; recovery rate remains low (~45%).
Total NPL Stock (BDT Billion)	1,352	~1,550	Represents frozen capital that could otherwise fund loans.
Deposit Growth Rate (%)	8.5%	9.0%	Below historical averages, indicating confidence deficit.
Credit Growth Rate (%)	10.2%	9.7%	Slowing growth reflects banks' constrained lending capacity.
Call Money Rate (Avg, %)	7.5%	8.5%+	High and volatile, signaling persistent inter-bank liquidity stress.

(Source: Author)

6. DISCUSSION

The findings reveal a crisis of Bangladesh's own making, rooted in a capture of financial institutions by vested interests and a concomitant failure of the regulatory state. The discussion centers on three paradoxes.

First, the **paradox of growth amidst fragility**: Bangladesh's real economy has shown resilience and growth, yet its financial sector is increasingly fragile. This disconnect suggests the growth is being financed through alternative channels or is facing a future constraint if the banking sector does not mend.

Second, the **paradox of intervention**: While the unification and resolution ordinance are bold and necessary, they are reactive measures addressing symptoms that have festered for years due to regulatory forbearance. This raises questions about whether the political and regulatory will exists to prevent such situations from arising again. Will the owners and promoters responsible for the misappropriation of funds face legal consequences, or will the cost be socialized?

Third, the **paradox of confidence**: Restoring depositor confidence is essential for liquidity, but it requires demonstrable action against corruption and improved transparency—steps that may confront powerful political and business elites. The government's high-rate borrowing through NSCs, while fiscally lucrative, ironically competes with banks for deposits, exacerbating the liquidity crunch.

The analysis suggests that the recent policy actions, if implemented with sincerity and shielded from influence, can be a turning point ("Year of Turning Back," as mentioned). The rise in remittances and forex reserves provides a temporary buffer, but it does not solve the structural liquidity problem rooted in bad assets and weak governance.

6.1. A Pragmatic Assessment of Failure

The perceived failure of Bangladesh Bank (BB) is not an accident but the predictable result of a broken system. It is a failure of **design, governance, and political will**.

- **The Autonomy Myth**: BB operates with de jure independence but de facto political captivity. Its key levers—interest rates, major regulatory actions, and senior appointments—are routinely overridden or influenced by the Ministry of Finance and powerful political actors. The bank is set up to fail, tasked with maintaining stability without being given the authority to do so.
- **The Appointment Charade**: The case of Dr. Qazi Kholiquzzaman Ahmad's search committee is a classic example of a **fig-leaf process**. Expert committees are formed to lend legitimacy, but their recommendations are often ignored in favor of politically expedient or loyalist candidates. This results in leadership that prioritizes patronage over prudential regulation, directly enabling the NPL crisis and governance meltdown in state-owned and private banks.
- **Tangible Failures (The Scorecard)**:
 - **Inflation Control**: Persistent failure to anchor inflation, eroding real incomes and stability.

- *Banking Sector Clean-Up:* Inability to curb reckless lending and ever greening of loans, especially in state-owned banks. NPL ratios remain catastrophically high due to a lack of enforcement against powerful borrowers.
- *Forex & Crisis Management:* The 2016 cyber heist exposed profound operational incompetence. Ongoing volatility in the forex market and reserve pressures highlight reactive, not proactive, management.
- *Credibility:* The market's perception of BB as a credible inflation fighter and independent regulator has been severely damaged.

6.2. The Path Forward: Systemic Fixes, Not Platitudes

Mere "recommendations" are useless without a mechanism for enforcement. The following are non-negotiable, concrete prerequisites for change:

- I. *Legally Shielded Autonomy:* Amend the Bangladesh Bank Act to create a **firewall**. The Governor's term must be fixed and removal require parliamentary approval (not executive whim). The Monetary Policy Committee's decisions must be legally final. This is non-negotiable for credible policy.
- II. *Transparent & Enforced Appointment Protocols:* Publish the criteria, shortlists, and final rationale for all senior BB appointments (Deputy Governor and above). Parliament's relevant committee must hold public confirmation hearings. If a search committee's top candidate is rejected, the government must **publicly justify** why in writing to that committee and parliament. This injects real accountability into the charade.
- III. *Performance Contracts with Teeth:* Deputy Governors and Executive Directors must have clear, published Key Performance Indicators (KPIs)—e.g., reducing NPLs in their supervised banks, meeting inflation corridor targets, improving cyber resilience. Annual performance reviews by an independent committee (including external experts) should be made public. Failure should have consequences.
- IV. *Holistic Reform with BB as the Enforcer, Not the Scapegoat:* The government must sign off on a **time-bound, public-sector banking reform agenda** and grant BB the unambiguous legal power to enforce decisions against *all* borrowers, regardless of political connection. BB cannot be blamed for failures if its hands are tied by the very power structure that created the problem.

The criticism that his public remarks have sometimes created market panic instead of instilling confidence is a serious charge against any central bank chief, whose core mandate includes ensuring financial stability.

Here is a pragmatic breakdown of this criticism, separating the governor's challenging circumstances from his own communication missteps.

6.3. The Core Criticism: "Creating Panic"

Central bank governors are expected to communicate with **extreme precision, foresight, and calm**. Words can move markets. The criticism suggests that Governor Rouf, on certain occasions, has:

- I. Made ad-hoc, off-the-cuff remarks** that were misinterpreted or revealed sensitive internal assessments prematurely.
- II. Signaled policy shifts or concerns** (e.g., about reserves, exchange rates, or bank health) in an unscripted manner, triggering volatility.
- III. Failed to maintain the "constructive ambiguity"** often needed to manage speculative market behavior, instead creating uncertainty.

6.4. Analysis: A Mix of External Crisis and Self-Inflicted Wounds

To assess this fairly, one must consider the context and the individual's actions.

6.4.1. The "Poisoned Chalice" Context:

- [i] Inherited Crises:* Governor Rouf took charge during severe economic headwinds—depleting forex reserves, high inflation, a weakening Taka, and the lingering banking sector NPL crisis.
- [ii] IMF Program & Scrutiny:* The \$4.7 billion IMF loan program brought intense external scrutiny, forcing public disclosure of previously obscured economic data (like net reserves), which itself shook confidence.
- [iii] Political-Economic Constraints:* Like his predecessors, he operates within a system where ultimate policy decisions often reside with the Finance Ministry, limiting his agency.
- [iv] Where the Governor's Communication May Have Failed:* Even within difficult constraints, communication is a core, controllable function of the governor's office. Perceived failures include:
 - [v] Tone & Certainty:* At times, remarks may have sounded more like a technocrat describing problems than a leader projecting control over the situation, inadvertently amplifying fear.
 - [vi] Coordinated Messaging:* A perceived lack of synchronization between BB statements and those from the Finance Ministry creates confusion and speculation about who is in charge.
 - [vii] Reactive vs. Proactive:* Communication may sometimes appear to be reacting to market rumors or crises, rather than proactively shaping the narrative with a clear, consistent story.

6.4.2. The Pragmatic Verdict

The statement that he "failed to perform his duty" by creating panic is a **symptom of a larger failure in institutional credibility and communication strategy**.

- [i] *The Duty of a Central Bank Governor is twofold: (1) Make sound policy decisions, and (2) **Manage expectations** to ensure those decisions are effective. The second duty is as critical as the first. If communication creates unnecessary volatility, it actively undermines the primary goals of monetary and financial stability.*
- [ii] *Therefore, erratic communication that fuels panic is, in itself, a failure in performing a core duty: It suggests a breakdown in the governor's office's strategic communications and crisis management protocol.*

6.5. A Leadership and Institutional Deficit

While previous Governor Rouf and current Governor **Dr. Ahsan H. Mansur**, who took office on August 13, 2024 face an extraordinarily difficult economic situation, a significant part of modern central banking is theater of confidence. His remarks, whether intentional or not, are judged by their market impact.

The recurring theme in Bangladesh's central banking governance—from the search committee failures you mentioned earlier to this criticism—is a **system that does not fully empower or professionalize its key institutions**. However, within that system, the governor retains responsibility for his own communication discipline. Persistent market unease triggered by his comments points to a **leadership deficit in this specific, critical skill**.

Ultimately, restoring calm requires more than careful words; it requires credible, independent, and decisive action. But without careful words, even the right actions can be destabilized. This remains a key test for the current governor's tenure.

7. CONCLUSION

The liquidity crisis in Bangladesh's banking sector is a severe symptom of profound institutional and governance failures. It is not a temporary cash flow problem but a chronic condition resulting from the systematic accumulation of non-performing assets, fostered by a culture of impunity for powerful defaulters and inadequate regulatory oversight. This crisis constricts the lifeblood of the economy—credit—and poses a clear and present danger to financial stability.

The report concludes that while external factors play a role, the primary causes are endogenous: reckless lending, poor governance, capital flight, and a loss of public trust. The impacts are already being felt in the form of higher borrowing costs for businesses, constrained investment, and heightened systemic risk. The recent interventions by Bangladesh Bank, particularly the forced unification of weak banks and the enactment of the Bank Resolution Ordinance 2025, are unprecedented and necessary steps toward stabilization and creating a credible resolution framework. However, they are insufficient alone. The failure is systemic. Using fascist figures like Dr. Qazi Kholiqzaman Ahmad in a process where their misjudgment is ultimately overruled is a symptom of a governance model designed for plausible deniability, not results. It allows politics to benefit from the credibility of experts while ignoring their advice.

Bangladesh Bank will remain a failing institution until the political cost of interfering with it outweighs the benefit. That requires legally enforceable autonomy, transparent and meritocratic appointments, and a political decision to let technocrats manage technical functions. Without this, the cycle of failure will continue, regardless of who chairs the next search committee.

Sustainable recovery requires going beyond firefighting to fundamentally reform the governance ecosystem of the banking sector. The solutions must be as multi-faceted as the causes themselves.

8. IMPLICATIONS

The implications of this crisis and its analysis are significant for various stakeholders:

- [i] **For Policymakers and the Government:** There must be a commitment to depoliticize the banking sector. This involves allowing Bangladesh Bank operational autonomy, reforming state-owned banks, and ensuring the legal system holds willful defaulters accountable, regardless of political affiliation.
- [ii] **For Bangladesh Bank:** It must transition from periodic firefighting to proactive, data-driven, and fearless supervision. Strengthening its inspection capacity, implementing risk-based supervision, and transparently enforcing regulations are critical.
- [iii] **For Bank Management and Boards:** They must prioritize sound banking practices over connected lending. Strengthening credit appraisal, internal audit, and risk management functions is essential for survival.
- [iv] **For the International Community and Investors:** The crisis highlights the governance risks in an otherwise promising economy. Continued engagement should stress institutional reforms as a condition for support and investment.

9. FUTURE RESEARCH WORK

This study opens several avenues for future research:

- [i] **Empirical Studies:** Quantitative research measuring the direct impact of specific governance variables (e.g., board independence, political connection indices) on bank-level liquidity risk in Bangladesh.
- [ii] **Case Study Analysis:** In-depth longitudinal case studies on the process and outcomes of the bank unification initiative and the application of the Bank Resolution Ordinance.
- [iii] **Comparative Analysis:** Comparing Bangladesh's crisis management approach with other countries that faced similar endogenous banking crises (e.g., India's experience with PCA framework and bank mergers).
- [iv] **Digital Finance Impact:** Investigating the potential of mobile financial services (MFS) and fintech to bypass traditional banking constraints and alleviate liquidity issues in the broader financial system.
- [v] **Political Economy Analysis:** A deeper investigation into the political economy of banking sector corruption and capital flight in Bangladesh.

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