dFin Monthly Banking Newsletter

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Banking | Regulation | Operation | Innovation | Inclusion

Capacity Enhancement for Banking Sector Development

Editor's Note

Regulatory forbearance is a necessary but delicate instrument in banking supervision. Used properly, it gives viable borrowers and fundamentally sound banks breathing space during temporary shocks. It can prevent panic, avoid fire sales, protect employment, and support credit flows when the wider economy is under stress. In that sense, forbearance should not be treated as a bad word. The problem begins when flexibility turns into avoidance.

Bad forbearance hides losses instead of resolving them. Weak loans are renamed as rescheduled loans, capital gaps are treated as transition issues, and reported profits begin to depend more on accounting relief than on real earnings. Banks may continue operating, collecting deposits, and publishing statements, but their core function - allocating credit to productive borrowers - becomes impaired. That is how weak banks quietly become zombie banks.

The risk is not only financial; it is also a governance problem. Zombie banks keep supporting weak or connected borrowers because recognizing default would expose their own fragility. Meanwhile, healthier firms may be deprived of credit. This distorts competition, weakens productivity, and shifts the eventual cost to depositors, taxpayers, honest borrowers, and future growth.

Bangladesh should draw a direct lesson. Forbearance must be temporary, transparent, targeted, and linked to credible repayment capacity. Rescheduled loans require close monitoring, provisioning must reflect real risk, capital restoration plans must be enforceable, and wilful default or connected lending must carry consequences. Forbearance should buy time for recovery, not time for denial. In banking, delayed truth almost always returns with interest.

dFin Editorial Team

Issue Lens: Forbearance, Supervision, and Zombie Banking

Global Key Banking News: News in Brief

1 **Yuan Liquidity Goes Global:** China advanced yuan internationalisation by promoting offshore RMB business in Shanghai and introducing the FIMA RMB Repo tool for foreign central banks and sovereign wealth funds. The move signals a deeper push to develop RMB liquidity, trade settlement, and cross-border payment alternatives. For global banks, this means closer monitoring of currency settlement choices, treasury operations, and correspondent banking exposure. [Reuters, 17 Jun 2026]

2 **Europe Reopens the Regulation Debate:** European banking groups argued that simplifying overlapping prudential rules could unlock more than EUR 2 trillion in lending without weakening stability. The issue sits at the centre of Europe's growth, competitiveness, and banking-union agenda. It means, future regulation may focus less on volume of rules and more on efficiency, consistency, and capital usability. [Reuters, 19 Jun 2026]

3 **ICT Risk Becomes Core Banking Risk:** The Basel Committee published a report on ICT risk management, focusing on non-malicious technology incidents that disrupt critical banking services. It treats system outages, change-management failures, third-party dependence, and resilience testing as supervisory priorities. Banks can no longer park technology risk in the IT department. [BIS/BCBS, 2 Jun 2026]

4 **Agentic AI Moves into Production Banking:** Lloyds Banking Group announced plans to hire 300 technology specialists to scale agentic AI across fraud prevention, customer insights, and internal workflows. The development shows AI shifting from experimental pilots to operating architecture. Banks will need stronger model governance, human oversight, audit trails, staff reskilling, and failure-response plans as automation enters live banking processes. [The Guardian, 20 Jun 2026]

5 **Scam Protection Becomes Supervisory Accountability:** HSBC Australia was ordered to pay A$35 million after admitting failures in scam protection, customer response, and internal controls. The case shows that digital fraud is no longer only a customer-service headache; it is a board-level conduct and operational-risk issue. [Reuters/ASIC, 18 Jun 2026]

Global Implication Dashboard

Capital & Lending	Operational Resilience	Payments & Currency	Conduct & Fraud
Regulators are weighing growth needs against prudential buffers.	ICT failures and AI outages are becoming supervisory concerns.	RMB and digital-currency moves may reshape settlement choices.	Scam protection is moving into board accountability and conduct risk.

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June Issue 2026 | Bangladesh Banking Focus

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Capacity Enhancement for Banking Sector Development

Key Banking News of Bangladesh

1 **Tk 20,000cr Revival Window:** Bangladesh Bank launched a Tk 20,000 crore revolving pre-finance scheme to help revive closed or under-capacity industrial and service-sector enterprises. Eligibility conditions exclude defaulters and firms linked to fraud, money laundering, or fund diversion. The scheme can support production and jobs, but bank screening quality will decide whether it becomes recovery finance or another soft corner for weak borrowers.

2 **Alternative Trade Finance Takes Shape:** BB introduced a framework for alternative trade-finance mechanisms to expand financing options for exporters, importers, and banks. The policy can reduce dependence on conventional instruments and improve flexibility in cross-border business. It also increases the need for stronger documentation, compliance checks, operational capacity, and risk pricing.

3 **Ship Leasing Gets FX Flexibility:** BB allowed domestic shipping companies to remit vessel lease rentals abroad, supporting maritime financing and access to leased international vessels. The move may help trade logistics and shipping-sector modernization. Banks facilitating these payments must manage documentation, foreign exchange exposure, sanctions screening, and proper end-use verification.

4 **Provision Shortfall Signals Balance-Sheet Stress:** The banking sector's provision shortfall reached Tk 2.05 lakh crore at end-March 2026, reflecting pressure from defaulted loans, weak profitability, and fragile capital positions. Under-provisioning can make reported financial strength look better than economic reality. This is precisely how numbers become decorative rather than useful.

5 **NPLs Cross the Danger Line:** Defaulted loans rose to around Tk 5.88-5.89 lakh crore by March 2026, about 32 percent of total outstanding loans according to reported BB data. The scale of asset-quality stress points to weaknesses in credit appraisal, monitoring, recovery discipline, and borrower accountability. Without credible resolution, lending capacity and depositor confidence will remain under pressure.

6 **Paper Profits, Real Questions:** Reports on banks using regulatory deferral facilities to avoid showing full losses revived concerns about transparency and market discipline. Deferral may provide temporary breathing space, but it must be paired with restructuring, capital plans, and disclosure. Otherwise, accounting relief becomes a polite name for postponing the truth.

7 **Zero Tolerance Test for Supervision:** The BB Governor instructed supervisors to take the toughest possible action against banks violating laws and regulations. The signal is important because weak enforcement is one of the fastest ways to turn rules into wall decoration. The real test will be consistency across institutions, ownership types, and borrower influence.

dFin Insight Box

Monthly Focus Topic: Banking-sector resilience now depends on three disciplines: truthful loss recognition, credible recovery of weak loans, and consistent supervision. Policy support is useful when it revives viable borrowers, but dangerous when it hides insolvency. The June developments show why Bangladesh needs targeted refinancing, stronger disclosure, enforceable provisioning, and timely action against wilful default.

Bank Management Priorities for July

1. Verify Asset Quality	2. Tighten Recovery Discipline	3. Strengthen Compliance Culture
Review rescheduled and large exposures against real cash-flow capacity.	Link restructuring to repayment performance, collateral review, and borrower accountability.	Prepare for tougher supervision with evidence-based controls and timely board reporting.

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