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State of the Bangladesh Economy in FY2024-25

Navigating Expectations in Turbulent Times

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Contents

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The CPD IRBD 2025 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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SECTION I. INTRODUCTION

The economy of Bangladesh has been facing considerable challenges over the last couple of years which have weakened the macroeconomic stability. Despite claims of economic growth by the fallen regime under the previous autocratic government, the economic situation continued to be vulnerable. This was evidenced by, inter alia, subdued revenue mobilisation, resulting in a shrinking fiscal space, a high reliance on government borrowing from commercial banks to finance the budget deficit, tightened liquidity in scheduled banks, elevated prices of essential goods, and a deteriorating external sector balance and foreign exchange reserves. Regrettably, the macroeconomic dynamics of the ongoing FY2024-25 (FY2025) show very little signs of improvement.

The interim government, formed on 8 August 2024, following the student-people uprising in July-August 2024 has taken a number of economic measures, including a plethora of reform initiatives, in view of the attendant challenges. However, these initiatives are yet to result in substantive changes to give relief to the people and businesses. Given the multi-dimensionality of ongoing economic challenges, there is a need to undertake measures targeting all sectors and all stakeholders. It is reckoned that the current situation needs to be addressed through a three-pronged approach, taking into cognisance both the immediate and medium-term impacts. These include (i) addressing the day-to-day challenges of common people to give them some respite to recover from economic shocks, (ii) addressing the accumulated challenges over the years, and (iii) undertaking and sustaining reforms to strengthen the macro fundamentals.

It must be recognised that the underlying reason behind the July movement in 2024 was the lack of job opportunities due to low investment. The discriminatory policies of the previous government aggravated the unemployment situation and enhanced inequality. Hence the July movement turned into the establishment of a discrimination-free society through reforms in the existing institutions of the state. Economic policy reform is one of the major steps for reducing inequality and improving inclusivity.

CPD presents the current State of the Bangladesh Economy analysis in view of the above context. The chapters included in this IRBD review present concrete recommendations to reform some of the important sectors of the economy. It is expected that the interim government will undertake a few immediate measures while the future political government will continue the reform measures.

SECTION II. FISCAL REALITIES IN BANGLADESH: CURRENT DYNAMICS AND THE PATH AHEAD

Key findings

- Total revenue collection recorded a marginal 3.7 per cent growth during the July-October period of FY2025, implying that a whopping 45.1 per cent growth will be required during the remainder of FY2025 if the annual target is to be achieved.
- Increase in public expenditure was driven by non-ADP sources during the July-October period of FY2025 – with domestic interest payment being the major driver of the uptick.
- The dependency on high-interest domestic sources (e.g., bank borrowing, savings certificates) for financing the budget deficit increased during the first four months of FY2025.

Key recommendations

- Putting high priority on preventing tax evasion, limiting tax avoidance, and bolstering compliance systems should be an imperative for the interim government to create a more inclusive fiscal base and to reduce revenue leakages.
- The recently started practice of excluding non-productive initiatives from the ADP should be continued.
- Special emphasis should be placed on ADP projects that are nearing completion (particularly those over 85 per cent to be finished by June 2025) since these can quickly contribute to stabilising the economy, attracting private investment, and creating additional jobs.

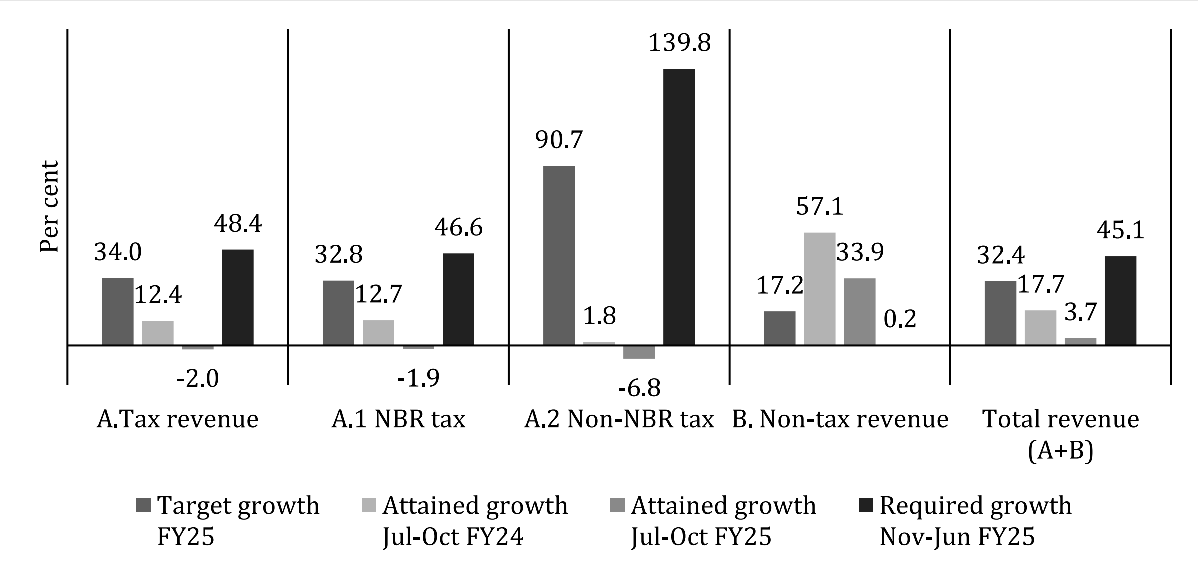
2.1 Context

The ongoing FY2025, by all means, has been an atypical year. This fiscal year will always be marked as the year of mass uprising and the fall of an autocratic regime. As such, the macro-fiscal correlates will have to be assessed in the broader context of changes warranted in the socioeconomic scenario. Taking this into cognisance, the present section examines the current dynamics within the fiscal framework of Bangladesh and suggests some guiding principles for the path ahead.

2.2 Revenue Mobilisation

According to the Ministry of Finance (MoF) data, total revenue collection increased by a marginal 3.7 per cent during the July-October period of FY2025. This exhibits a considerable dip in performance when compared to the corresponding figure of FY2024, where total revenue mobilisation recorded a 17.7 per cent growth (Figure 2.1). The current revenue mobilisation trend indicates that, a whopping 45.1 per cent growth will be required during the remainder of FY2025 if the annual growth target of 32.4 per cent is to be attained. This is a feat that is highly unlikely to be achieved.

Figure 2.1: Revenue mobilisation growth by sources (in per cent)



Source: Author's calculation based on data from MoF (2024, 2025).
Note: NBR = National Board of Revenue.

As can be evinced from Figure 2.1, tax revenue, which constitutes 91.5 per cent of the total targeted revenue, recorded a negative (-) 2.0 per cent growth during July-October of FY2025. Both the subcomponents of tax revenue viz. NBR tax and non-NBR tax attained negative growth during the aforementioned period[1]. Within the components of NBR tax, collection of value added tax (VAT), and supplementary duty (SD) declined substantially while that of import duty also decreased. While the political turmoil during the months of July and August of 2024 have contributed to this, the subsequent slowdown in the implementation of the annual development programme (ADP) has also played a part. The overall growth in revenue mobilisation was driven by non-tax revenue. Within the components of non-tax revenue, government's interest earning was the most significant driver (MoF, 2025).

The underwhelming performance in terms of tax revenue collection has perhaps driven the government to consider upward adjustments in the VAT and SD structure of more than 100 products and services – many of which are consumed by the limited and lower income people. At the same time, the pressure of adhering to the conditionalities set forth by the International Monetary Fund (IMF) as part of its USD 4.7 billion loan cannot be discounted in this regard. After some initial backlash, the VAT and SD hikes in several products have been discarded. However, the decision to impose higher indirect taxes during the time of high inflation, which indiscriminately impacts affluent and less affluent sections of the society, cannot be justified.

2.3 Public Expenditure

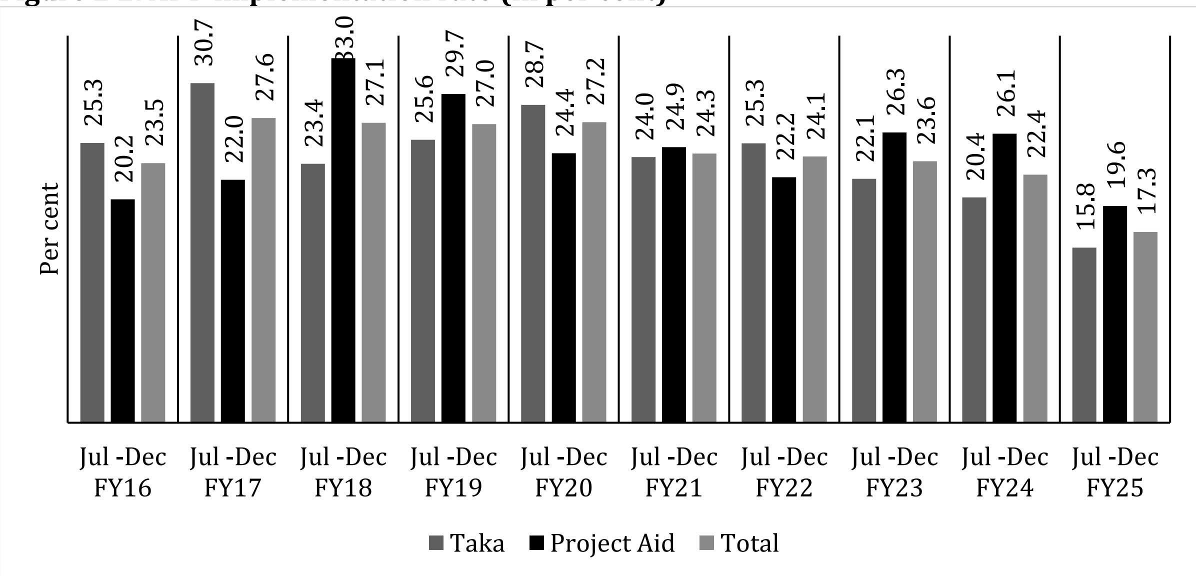
As the MoF data exhibits, overall budget utilisation was 18.1 per cent during the July-October period of FY2025 (MoF, 2025). The corresponding figure for FY2024 was lower – at 16.0 per cent. ADP implementation rate was on the lower side – only 6.1 per cent of the allocated amount was

[1] According to NBR (2024), revenue collected by NBR posted a negative (-) 1.0 per cent growth during July-October of FY2025. This trend deteriorated in the July-November FY2025 period – exhibiting a negative growth of (-) 2.6 per cent (NBR, 2025).

spent during the July-October period of FY2025 (the corresponding figure for FY2024 was 8.9 per cent)[2]. This, perhaps, is owing to the political turmoil during July-August 2024 as well as the subsequent reprioritisation and re-evaluation of development projects. The reshuffling of the administration has also contributed to this phenomenon. However, non-ADP expenditure exhibited an upward trend. During July-October of FY2025, utilisation of the non-ADP budget reached 24.0 per cent while the corresponding figure for FY2024 was 19.8 per cent. This implies that nearly an additional Tk. 30,000 crore was spent to carry out the non-ADP activities of the budget. Within the components of non-ADP expenditure, domestic interest payment was the major driver of the uptick – accounting for nearly 80 per cent of the additional non-ADP expenditure. Expenditure owing to incentives also showed some uptick, with the corresponding share in additional non-ADP expenditure reaching 10.0 per cent. Other sources such as pay and allowances of the government employees might add to this once the proposed dearness allowance comes into effect.

While the MoF provides updates regarding ADP implementation till October FY2025, the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning provides a more up-to-date picture. According to IMED data, the ADP implementation rate against the original budget allocation reached 17.3 per cent during July-December of FY2025 – the lowest in the last ten years (Figure 2.2).

Figure 2.2: ADP implementation rate (in per cent)



Source: Author's calculation based on data from IMED (2020, 2025).

Within the components of ADP, utilisation of both 'Taka' (the part of ADP which is financed by domestic resources), and project aid reached their historical lows during the July-December period of FY2025. While the implementation rate of the former reached 15.8 per cent, for the latter this rate was 19.6 per cent. The corresponding rates for FY2024 were 20.4 per cent and 26.1 per cent, respectively. The slowdown in public investment amidst a downturn in private investment (discussed in detail in Section 5) is a matter of concern from the perspective of achieving a healthy economic growth.

[2] In fact, ADP expenditure declined in absolute terms – from Tk. 23,514 crore during July-October FY2024 to Tk. 16,197 crore during July-October FY2025.

The top ten ministries/divisions which received the highest allocation account for 66.6 per cent of the total ADP allocation for FY2025 (the corresponding figure for FY2024 was 70.2 per cent). Of these ten, the ADP implementation of five was below the average level. These include the Road Transport and Highways Division, Ministry of Primary and Mass Education, Health Services Division, Secondary and Higher Education Division, and Ministry of Water Transport (Table 2.1). Regrettably, the latest available data shows that the trend of poor ADP implementation in the education and health sectors has continued in FY2025. It is also a matter of concern that average ADP implementation rate of government ministries/divisions which reside outside the top ten has almost halved – from 20.5 per cent during July-December FY2024 to 10.3 per cent per cent during July-December FY2025 (Table 2.1).

Table 2.1: ADP implementation situation of top ten ministries/divisions

Ministries/Divisions	FY2024		FY2025	
	Share in total ADP (%)	July-December implementation rate (%)	Share in total ADP (%)	July-December implementation rate (%)
Local Government Division	15.0	30.9	14.2	25.1
Road Transport and Highways Division	12.5	17.0	11.5	16.0
Power Division	11.9	27.8	10.8	32.8
Ministry of Primary and Mass Education	4.1	19.7	5.0	16.6
Ministry of Railway	5.5	32.3	5.0	18.2
Ministry of Science and Technology	4.8	21.0	4.8	29.3
Health Services Division	4.6	15.0	4.2	4.9
Secondary and Higher Education Division	5.0	11.6	4.1	13.5
Ministry of Water Transport	3.5	9.0	3.8	8.8
Ministry of Water Resources	Not included in the top ten		3.1	19.6
Bridges Division	3.3	33.1	Not included in the top ten	
Top ten total	**70.2**	**23.3**	**66.6**	**20.8**
Rest of the agencies	29.8	20.5	33.4	10.3
Grand total	**100.0**	**22.4**	**100.0**	**17.3**

Source: Author's calculation based on data from IMED (2024, 2025).

2.4 Deficit and its Financing

As per the MoF data, budget deficit increased substantially during the July-October period of FY2025. Budget deficit (excluding grants) stood at Tk. 12,886 crore at the end of October FY2025. The corresponding time period of FY2024 had a budget surplus of Tk. 2,978 crore. This is perhaps attributable to marginal increase in revenue collection coupled with substantial increases in non-ADP expenditure.

Government's net borrowing from foreign sources declined further – from (-) Tk. 363 crore during July-October of FY2024 to (-) Tk. 5,668 crore during July-October of FY2025. This happened due to a combination of lower inflow of foreign funds and higher amortisation of existing foreign loans.

Government's net borrowing from the banking system was Tk. 15,651 crore (11.4 per cent of the budgetary target) during July-October of FY2025. On the other hand, Tk. 5,911 crore was borrowed from the banking system during the corresponding period of FY2024. This increase in bank borrowing by the government might limit the availability of funds for the private sector. Government's net borrowing from the non-banking sources increased to Tk. 2,799 crore during July-October of FY2025. On the contrary, the government repaid Tk. 9,326 crore to non-banking sources during the same period of the previous fiscal year. Within the non-banking sources, net sale of National Savings Certificates experienced a sharp rise (95.3 per cent of the budgetary target) coupled with substantial decline in the sale of other instruments (e.g., treasury bills/bonds). Therefore, government total net domestic borrowing (both from banking system and from non-banking sources) stood at Tk. 18,450 crore during July-October of FY2025. On the other hand, the government paid back (net) Tk. 3,415 crore during the same period of the previous fiscal year. Overall, the dependency on domestic sources for financing the budget deficit increased during the first four months of FY2025. Also, this dependency on high-interest rate domestic sources might have adverse implications for the debt servicing liabilities of the coming days.

2.5 The Path Ahead

In view of the discussion so far, five guiding principles have been identified that might be followed while managing the fiscal framework of Bangladesh in the coming days. While the interim government can highlight its strong reform agenda through some immediate measures, it can also lay the groundwork for strategies that might be pursued in the medium-term.

Enhancing fiscal space should not come at the expense of distributive justice.
Any attempt to enhance fiscal space needs to have a two-pronged approach viz. generation of additional resources and reduction of leakages. The fiscal measures in the coming days, including the revised budget for FY2025 and the budget for FY2026, will provide the interim government with the opportunity to concentrate on broadening the tax base, instead of imposing additional burden on existing taxpayers. To this end, improved digitalisation and modernisation of the taxation system can be a useful tool to gather previously untapped resources. Identification and phasing out of ineffective tax incentives through in-depth analysis has also become an exigency. Frontier issues such as taxation of wealth and property, and the growing digital economy should be given due consideration in the coming discourse. To create a more inclusive fiscal base and to reduce the leakages, the interim government should lead by putting high priority on preventing tax evasion, limiting tax avoidance, and bolstering compliance systems. The issue of curbing illicit financial flows must also be prioritised by the government.

Streamlining public expenditure will require a careful balancing game.
While the current austerity measures will need to be continued, both on account of prudent macroeconomic management and as part of IMF conditionalities, it has to be ensured that their impact on social safety net, health and education sectors, agriculture, and small and medium enterprises (SMEs) is minimal. The recently started practice of excluding non-productive initiatives from the ADP will need to be continued. At the same time, the infrastructure heavy formulation of the ADP will need to be re-evaluated so that the sectors dealing with human capital formation receive due attention. Also, the efforts to limit unnecessary and costly public expenditures, such as the purchase of government vehicles and international travels, should be continued. Furthermore, exit strategies will need to be formulated for fiscal incentives tied to exports and remittances. If a market-based exchange rate regime is ultimately adopted, the

resulting depreciation could prove to be enough to adequately balance out current fiscal incentives.

Mobilising and utilising funds from external sources for budget deficit financing will hinge on reforms.

Given the dwindling foreign exchange reserve scenario of Bangladesh, it is essential for the government to prioritise the implementation of all foreign-funded ADP projects. Particularly, special emphasis should be placed on projects that are nearing completion (particularly those over 85 per cent to be finished by June 2025) since these can quickly contribute to stabilising the economy, attracting private investment, and creating additional jobs. Concessional loans from multilateral and bilateral sources can be a vital source of cost-effective financing. However, to avail such funds, rapid improvement in ADP design and implementation capacities of the government agencies has become a requisite. Policy reforms often end up being the determining factor in the case of availing external budget supports (such as those from IMF programmes). While the government needs to adopt a flexible approach in this regard, proper utilisation and accountability of these funds are also equally important.

Safeguarding the interests of vulnerable and disadvantaged groups should be at the forefront of fiscal management agenda.

The economy-wide implications and equity concerns associated with enhancement of fiscal space and streamlining of public expenditure should receive due attention. One of the core pillars of the fiscal management (both in case of revenue and expenditure related measures) in the coming days, should be a focus on supporting the vulnerable and disadvantaged groups. The challenge of continuing high prices of essentials must be addressed by the public expenditure framework. In this regard, specific attention should be given to low and limited-income households, as well as small farmers. It will be essential to make a substantial and targeted investment in social safety net programmes that aim at marginalised groups, including women, youth, and individuals with disabilities.

Achieving good governance and securing political support from the highest levels will be vital.

Bangladesh's political economy landscape offers prospects for meaningful reforms alongside challenges. While relevant stakeholders have often concurred that these reforms are necessary, addressing the related political economy factors can help advance the cause. The government can create a more effective and efficient tax system and foster confidence among taxpayers and the private sector by focusing on good governance in boosting revenue mobilisation efforts. Also, developing strategies that ensure value for public money will be a major factor in sustainable development. Securing political backing from the highest levels and achieving good governance will be essential for driving such initiatives forward.

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SECTION III. ADDRESSING SUPPLY CHAIN CHALLENGES TO REDUCE INFLATION

Key findings

- The point-to-point general CPI inflation rate was higher in rural areas than urban areas for 16 months out of the 21 months between April 2023 and December 2024
- As of December 2024, the average price of sugar was BDT 41 per kilogram in the EU market, BDT 53 per kilogram in the world market, and BDT 97 per kilogram in the US market, but BDT 126 per kilogram in the Bangladesh market.
- As medium Paijam rice flows through the supply chain from farmers to retailers, its price increases by BDT 32 or 97 per cent, indicating the dominance of market intermediaries in the rice market.

Key recommendations

- Monitor markets to limit intermediaries, connect farmers directly to buyers, and regulate hoarding and stockpiling by rice warehouse operators and millers.
- Provision of improved storage facilities and adequate transportation systems are integral to reducing post-harvest loss of agricultural commodities.
- Educate farmers to adapt agricultural best practices, expand the use of existing modern technologies, and improve their negotiation skills to secure fair prices.

3.1 Introduction

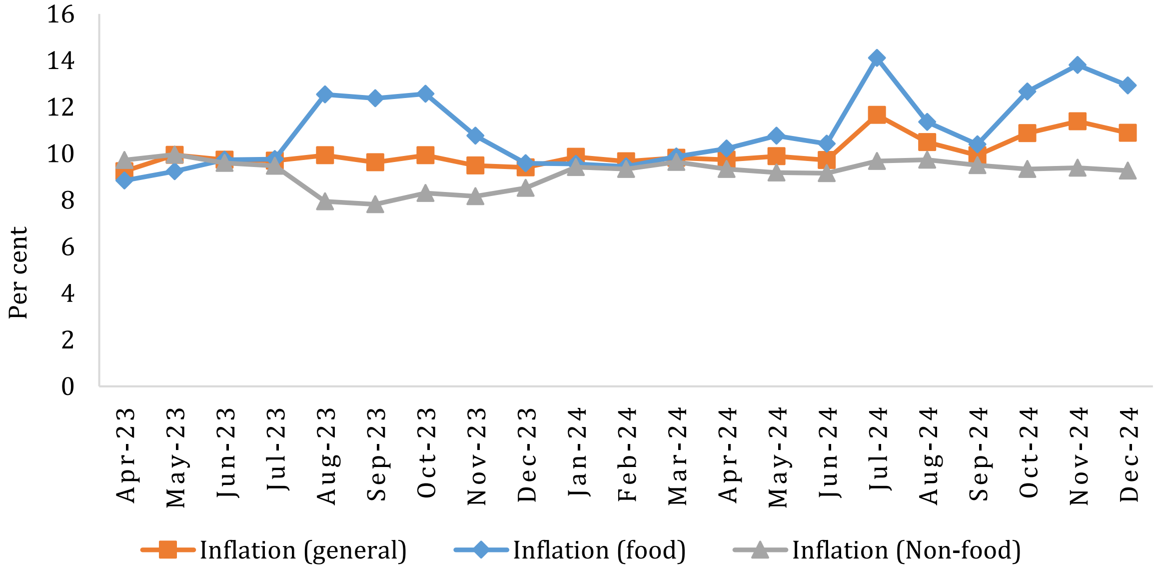
The interim government of Bangladesh inherited a broken economy from the autocratic regime, which was characterised by high prices and high inflation. CPD, in its earlier analysis, has shown how the prices of essential food items have increased from January 2029 to May 2024 (CPD, 2024a). Such price hikes have made it difficult for workers earning a minimum wage to afford the cost of food (Khatun & Saadat, 2023). Faced with the arduous task of controlling inflation, the new interim government resorted to some conventional policies but did not focus on the constraints and governance challenges in the supply chains of essential food items. As a result, prices of most essential food items continue to remain high.

This chapter reviews the recent trends in Bangladesh's inflation, compares the average prices of selected items internationally, analyses the constraints in the supply chains of essential food items in Bangladesh, provides insights from an observational field visit to the rice market, and evaluates the recent policies adopted by the interim government to control inflation. Based on these findings, this chapter proposes concrete policy recommendations for controlling prices and reducing inflation in Bangladesh.

3.2 Changes in the Consumer Price Index (CPI)

Food, non-food, and general point-to-point CPI inflation have been hovering around 10 per cent (Bangladesh Bank, 2024a) since April 2023, the Bangladesh Bureau of Statistics (BBS) introduced a new base and basket for CPI (Figure 3.1). Food inflation reached as high as 14.1 per cent in July 2024 during the revolution (Bangladesh Bank, 2024a). Although food, non-food, and general point-to-point CPI inflation have decreased slightly from November 2024 to December 2024, the trend of high inflation continued.

Figure 3.1: Point-to-point inflation rate (Base Index 2021-22=100)



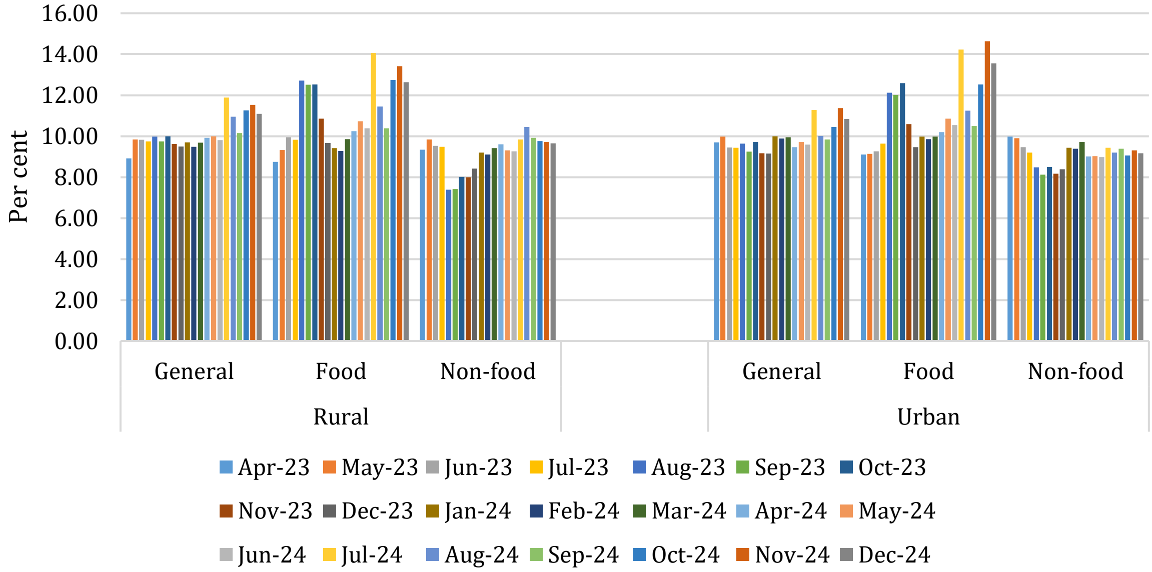
Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2024a).

July 2024 witnessed a significant rise in general inflation, reaching 11.66 per cent (Bangladesh Bank, 2024a). This was primarily driven by the substantial increase in food inflation, which soared to a record high of 14.10 per cent, the highest in the past fifteen months, from April 2023 to June 2024 (Bangladesh Bank, 2024a). In Bangladesh, food inflation is a major contributor to overall inflation. Food prices have increased due to several factors, including regional pricing differences (CPD, 2023), growing import expenses (Eichengreen, 2024), cartel influence (Saha, 2013), and agricultural product hoarding (CPD, 2023). Non-food inflation stood at 9.68 per cent, slightly higher than in the previous six months of 2024. The soaring inflation can be linked to the revolutionary uprising of July 2024. The mass anti-discriminatory movement led by the students of Bangladesh against the regime of the previous government marked the beginning of a new era. But the month of July 2024 uprising was littered with lockdowns, curfews and internet shutdowns which had an impact on the market. The supply lines of products were affected since roads were blocked, causing prices to increase. Internet shutdowns may have impacted the cost of communication which would increase inflationary pressures.

Another possible reason for the elevated inflation rates could be the disastrous flood in the eastern region of Bangladesh in June 2024 (CPD, 2024b). Massive crop and infrastructural damage could be a major driver of prices in the following month (CPD, 2024b). According to research conducted by CPD, at least BDT 14,421.46 crore was damaged by recent floods in Bangladesh's eastern regions (CPD, 2024b). The agriculture and forestry industry sustained the most damage at BDT 5,169.71 crore or 35.85 per cent of the total loss (CPD, 2024b). With the damage of BDT 4,653.92 crore, or 32.27 per cent of the total loss, the infrastructure sector comes in second, followed by the housing sector with BDT 2,407.31 crore, or 16.69 per cent (CPD, 2024b). The significant damage caused by recent events is likely driving up food prices. Moreover, the cost to replace or repair infrastructure and other non-food essentials diverts funds that would typically go toward stabilising prices. As a result, this event of natural disaster contributed to the rising inflation.

In terms of geographic differences, point-to-point general and food inflation have been increasing in both rural and urban areas of Bangladesh from April 2023 to December 2024 (Figure 3.2) (Bangladesh Bank, 2024a) . However, non-food inflation increased in rural areas and decreased slightly in urban areas of Bangladesh from April 2023 to December 2024 (Bangladesh Bank, 2024a). The point-to-point general CPI inflation rate was higher in rural areas than urban areas for 16 months out of the 21 months between April 2023 and December 2024 (Bangladesh Bank, 2024a). Such an increase in the price level in rural areas is alarming since people in rural areas tend to have lower per capita income and are more vulnerable to shocks than people in urban areas.

Figure 3.2: Point-to-point general, food, and non-food CPI inflation in rural and urban areas of Bangladesh (in per cent) (Base Index 2021-22=100)

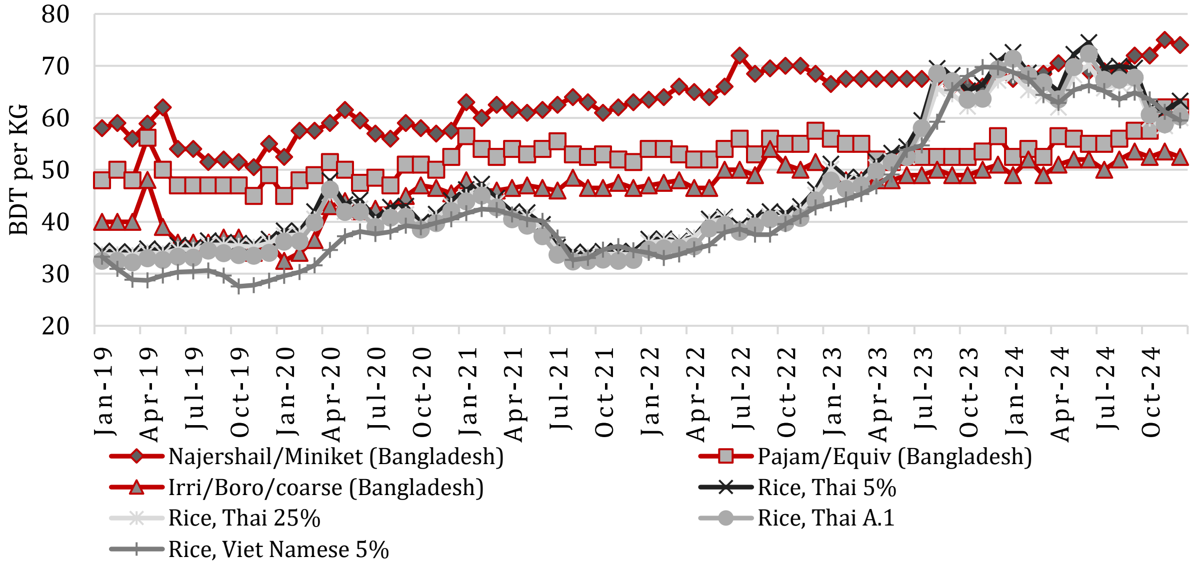


Source: CPD illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS, 2024).

3.3 Trends in the Retail Prices of Essential Food Items

CPD's previous analysis found that the price of common varieties of Bangladeshi rice was much higher than the price of Thai and Vietnamese rice varieties (CPD, 2024c). However, starting from mid-2023, the prices of Thai and Vietnamese rice varieties started rising and became more comparable to the prices of Bangladeshi rice varieties (Figure 3.3).

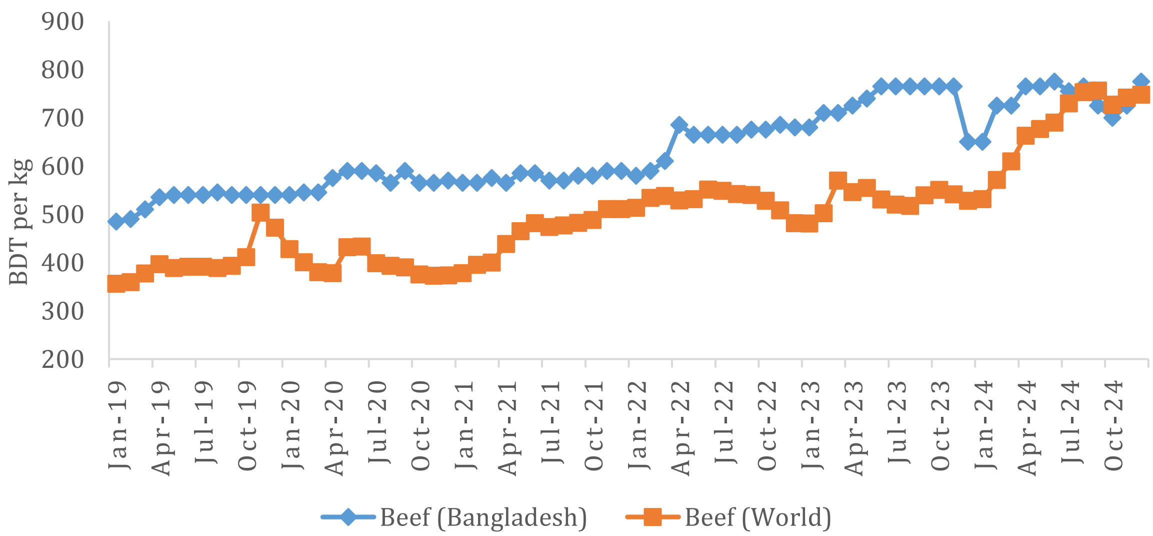
Figure 3.3: Average price of rice in Bangladesh and international markets from January 2019 to December 2024 (BDT per kg)



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024)
Note: The price of rice in Bangladesh shown is the average retail price of rice in Dhaka on the second day of each month.

The average price of beef in Bangladesh has been consistently higher than the average price of beef in the world market from January 2019 to December 2024 (Figure 3.4). However, with the increase in the price of beef in the world market, the price gap has narrowed significantly. As of December 2024, the average price of beef in the world market was BDT 748 per kilogram (World Bank, 2024) and the average price of beef in the Bangladeshi market was BDT 775 per kilogram (TCB, 2024) (Figure 3.4)

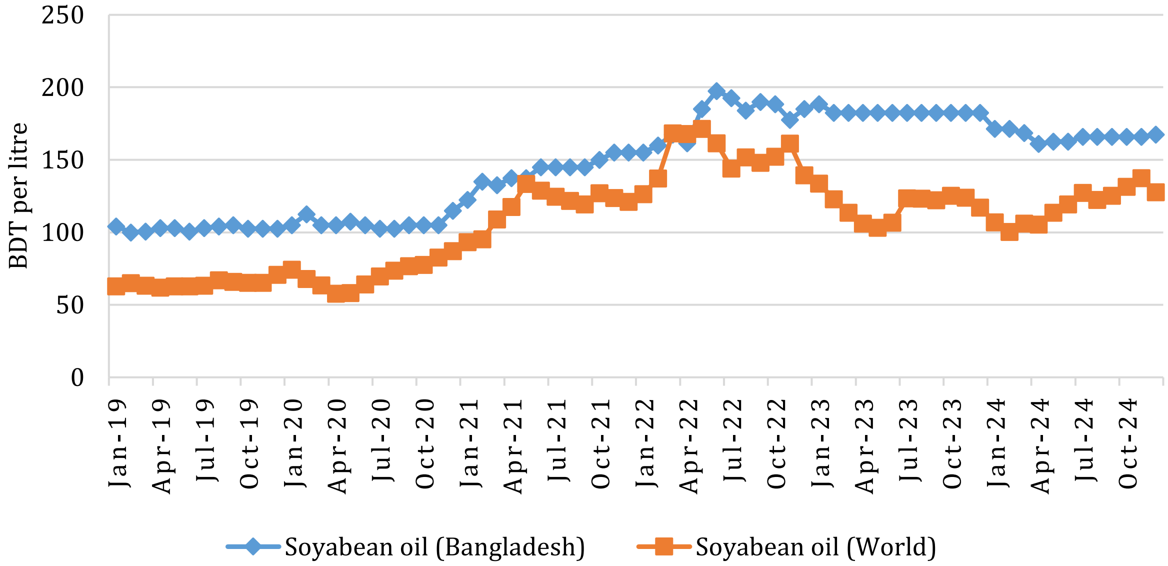
Figure 3.4: Average price of beef in Bangladesh and world market from January 2019 to December 2024 (BDT per kg)



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024)
Note: The price of beef in Bangladesh shown is the average retail price of rice in Dhaka on the second day of each month.

The average price of soyabean oil has been consistently higher in Bangladesh compared to the world market from January 2019 to December 2024 (Figure 3.5). As of December 2024, the average price of soyabean oil in the world market was BDT 128 per litre (World Bank, 2024), whereas the average price of soyabean oil in the Bangladesh market was BDT 168 per litre (TCB, 2024) (Figure 3.5).

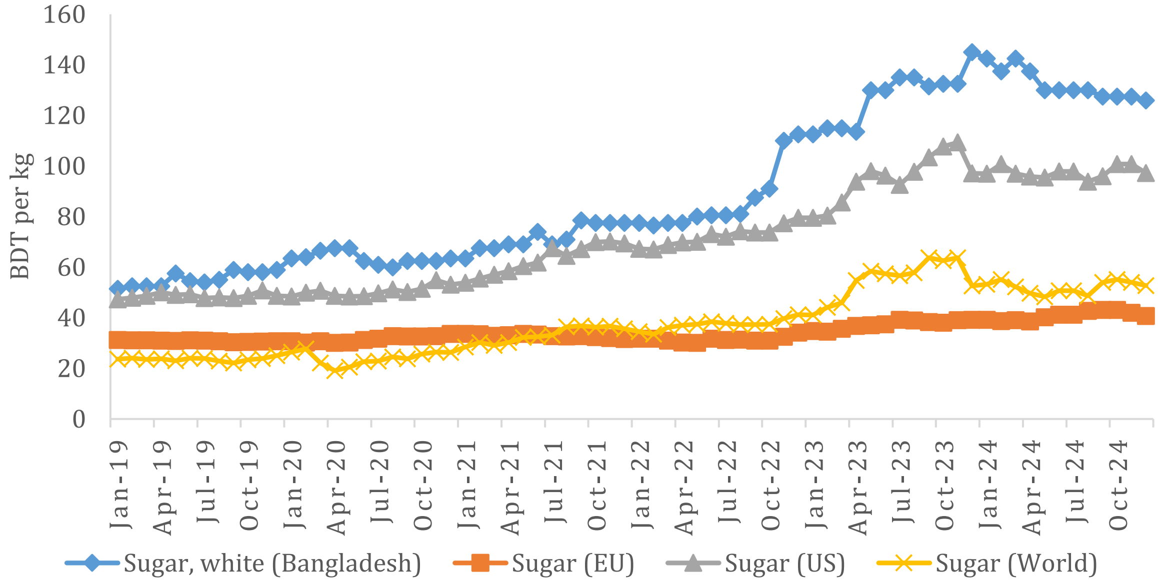
Figure 3.5: Average price of soybean oil in Bangladesh and world market from January 2019 to December 2024 (BDT per litre)



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024)
Note: The price of soyabean oil in Bangladesh shown is the average retail price of rice in Dhaka on the second day of each month.

The average price of sugar has been significantly higher in Bangladesh compared to the average price of sugar in the EU, US, and world markets (Figure 3.6). As of December 2024, the average price of sugar was BDT 41 per kilogram in the EU market, BDT 53 per kilogram in the world market, BDT 97 per kilogram in the US market (World Bank, 2024), but BDT 126 per kilogram in the Bangladesh market (TCB, 2024).

Figure 3.6: Average price of sugar in Bangladesh and international markets from January 2019 to December 2024 (BDT per kg)



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024)
Note: The price of sugar in Bangladesh shown is the average retail price of rice in Dhaka on the second day of each month.

3.4 Supply Chains of Essential Food Items

Constraints in supply chain of onion: The price of onions are largely influenced by commission agents or warehouse operators (aratdars) as retailers source bulk of the onions from them (Mila et al., 2022). In addition, affordability of onions also depends on other factors, such as hoarding practices by market intermediaries as they store onions to sell later at a premium price, unpredictable weather conditions affecting harvest, inefficiency in pest management, which damages the soil, and insufficient storage facilities, resulting in a shortfall of production. (Akter et al., 2023) (Mila et al., 2022). A shortfall in market supply further influences a price hike, especially during the off-season (Akter et al., 2023).

Constraints in the supply chain of potato: Market intermediaries play an integral role in influencing prices. In addition, price fluctuations also occur due to post-harvest loss, resulting in a shortfall in supply. The primary reason for post-harvest loss includes a lack of storage facilities, inadequate packaging systems, inefficient management during loading and unloading, poor transportation, and an absence of sufficient knowledge of agricultural best practices (Akter et al., 2022). A lack of storage facilities causes farmers and traders to sell potatoes at a reduced price throughout the harvest season (Anwar Hossain, 2016). However, lower prices provided to farmers are not reflected in consumer prices in the local market, as potatoes can be extremely expensive in some places during peak and off-season periods (Anwar Hossain, 2016).

Constraints in the supply chain of brinjal: Issues such as pre- and post-harvest loss of brinjal contribute to price fluctuations. Pre- and post-harvest loss primarily occurs due to attacks of diseases and insects, storms or cyclones, hailstorms, lack of quality harvesting, inadequate packaging, during transportation and storage, immature harvesting, wrong dose of pesticide, and unsold products at the field (Uddin et al., 2019). Additionally, five major gaps are also observed in the supply chain including the absence of coordination among the actors, more profit motive, lack of confidence, poor networking, and lack of correct market information (Uddin et al., 2019). Furthermore, farmers experience high input costs, irrigation issues, low yield, pest attacks, poor farming practices, and limited resources. Other issues such as high transport costs, inadequate roads, lack of market information, weak linkages, and insufficient storage further contribute to price fluctuations in the local market (Hoq & Matin, 2018).

Constraints in the supply chain of egg (of broiler chicken): There exist several technical and marketing issues in the supply chain of egg. The technical and economic issues were the lack of capital, high feed costs, unavailable day-old chicks, poor training facilities, insufficient understanding of chicken diets, and insufficient vaccine and medication supplies. Demand volatility, egg price volatility, and a lack of transportation infrastructure were among the marketing issues. Market intermediaries also encounter inadequate transportation and communication systems, inadequate storage facilities, broken eggs, and unfavourable conditions such as floods, strikes, and natural disasters (Omar et al., 2014).

Constraints in supply chain of Rui fish: In the marketing chain for Rui fish, price determination depends on the interaction between warehouse operators (aratdars), wholesalers, and Mahajans who are essentially merchants or middleman and dominate the fish market (Islam & Habib, 2013). In addition, the supply chain of fish also includes market agents known as nikari who act as informers for buyers and earn a commission from fishermen and warehouse operators (aratdars) (Islam & Habib, 2013). Their involvement does not improve market efficiency but rather adds to the elevated costs. Furthermore, fish farmers often lack the ability to negotiate for fare prices (Acharjee et al., 2022) and because there are too many middlemen in the distribution chain, consumers face higher prices, with the majority of the profits go to the middleman (Islam & Habib, 2013). Additionally, the supply chain of fish also suffers from infrastructural limitations including a lack of clean fish landing sites, illiteracy, ignorance of fishermen, a lack of knowledge and the poor financial situation of fishermen, and substandard facilities for cold storage, transportation, and preservation (Islam & Habib, 2013).

Constraints in supply chain of turmeric: Growing turmeric has reportedly become much more expensive in recent years due to rising labour, fertiliser, and seed prices (Begum et al., 2019). A lack of funding, poor agricultural practices, a lack of contemporary varieties, the difficulty of growing on uneven terrain, and transportation issues stand as obstacles to efficient turmeric production (Begum et al., 2019).

Constraints in the supply chain of wheat: Bangladesh's wheat supply chain faces significant challenges stemming from climatic, infrastructural, and systemic issues. The country's short winter season limits wheat cultivation and yields, while rising temperatures are projected to reduce ideal wheat acreage by 51 per cent by 2050 (O'Brien et al., 2004). Climate change is expected to exacerbate these challenges by increasing the frequency of flooding and tropical cyclones, further impacting wheat yields (MoEF, 2008). Farmers primarily rely on informal seed sources (80-85 per cent), which are susceptible to bacterial and fungal contamination due to improper storage, leading to crop diseases and yield losses. The low adoption of high-yielding varieties (HYVs), driven by a lack of awareness about advanced seed selection and region-specific wheat varieties, contributes to suboptimal productivity (Pandit et al., 2008). Additionally, wheat is often grown on marginal lands with poor soil quality and limited irrigation, as high-yield rice and other crops dominate prime agricultural areas (Pandit et al., 2008). Infrastructure gaps, particularly in transportation, hinder the efficient distribution of wheat from surplus areas and import hubs to regions with high demand, increasing costs (Farid et al., 2002). Lastly, the country's heavy dependence on imports and inefficient domestic production adds vulnerabilities to the wheat value chain (Halder & Urey, 2003).

Constraints in the supply chain of lentils: Lentil cultivation in Bangladesh is highly dependent on weather conditions, with production peaking during the winter. However, adverse climatic factors, such as foggy weather, can severely impact crop yields. The crop also faces significant threats from two major diseases: root rot (Sclerotium rolfsii) and leaf rot (Stemphylium blight), as well as insect pest attacks (Hajong et al., 2020). Beyond these biological challenges, lentil farming is constrained by limited awareness of high-yielding lentil varieties (HYVs), a lack of technical knowledge among farmers, and the high costs of labour (Choudhury & Mohiuddin , 2015).

Constraints in the supply chain of sugar: The sugar industry in Bangladesh faces several challenges, including a limited supply of sugarcane to factories and low sugar recovery rates. The reduction in sugarcane cultivation areas, driven by competition from cereals and other short-duration crops, has further exacerbated the gap between local demand and supply, making the country heavily reliant on imported sugar (Rahman et al., 2016). Historically dominated by 15 state-run mills, the industry has transitioned over the past two decades to being controlled by five private companies. Meghna Group of Industries (MGI) and City Group accounted for nearly 70 per cent of the 17 lakh tonnes of raw sugar imported in 2023, while S Alam Group, the third-largest importer, supplied about 20 per cent of the country's sugar demand. Abdul Monem Ltd and Deshbandhu Sugar Mills contributed the remaining imports (Uddin M. , 2018). These five companies collectively operate in an oligopolistic market, meeting over 98 per cent of the country's annual sugar demand of 20 lakh tonnes (Suman, 2024).

Constraints in the supply chain of beef: A significant percentage of live cattle and beef is lost before reaching the intended market, impacting the supply chain and agricultural producers. Losses for producers are estimated at 8 per cent for breeding cattle, 21 per cent for calves, and 2 per cent for fattening cattle (Kok et al., 2021). The primary causes at the production level include high mortality rates due to stillbirths, weak calves, illnesses, and diseases. At the intermediary level, losses account for 15 per cent (Kok et al., 2021). These losses often result from the mortality of fattening cattle caused by diseases, illnesses, or injuries sustained during transportation. These are some external factors that may lead to fluctuations in the supply chain of live cattle and beef, resulting in supply shortages and causing price hikes. This, in turn, may exacerbate the effects of inflation (Kok et al., 2021).

Constraints in the supply chain for garlic: The garlic market in Bangladesh faces significant challenges, with price fluctuations posing risks for both farmers and intermediaries. These price variations are primarily influenced by supply and demand rather than production costs, and the situation is further complicated by poor storage facilities and seasonal variations. Rising consumer prices for garlic suggest inefficiencies within the market, impacting profitability and stability for all stakeholders (Hasan & Khalequzaaman, 2017). Additionally, high transportation costs and limited access to loan facilities further hinder the market's efficiency and sustainability (Hasan & Khalequzaaman, 2017).. Climate change has also emerged as a critical issue, increasing the frequency of extreme weather events that harm crops and livestock. As a thermo-sensitive crop that thrives in cooler climates, garlic cultivation in Bangladesh has become increasingly challenging due to rising temperatures and unpredictable weather patterns associated with climate change (SAC, 2024).

Constraints in the supply chain of ginger: Wholesalers identified poor road conditions, price instability, and a shortage of storage facilities as their main obstacles. Retailers, on the other hand, cited price volatility, poor road infrastructure, and the perishability of ginger as critical issues. Collectively, these constraints hinder the efficiency and profitability of the ginger supply chain in Bangladesh, highlighting the need for targeted interventions to address these challenges (Hasan et al., 2022).

Constraints in the supply chain of soybean oil: Over 4.2 per cent of soybean farmers reported facing unfavourable weather conditions during cultivation (Miah, 2017). In the winter season, oilseeds face significant competition from high-value crops and boro rice, which farmers prefer due to their profitability and food security benefits (Miah, 2017).

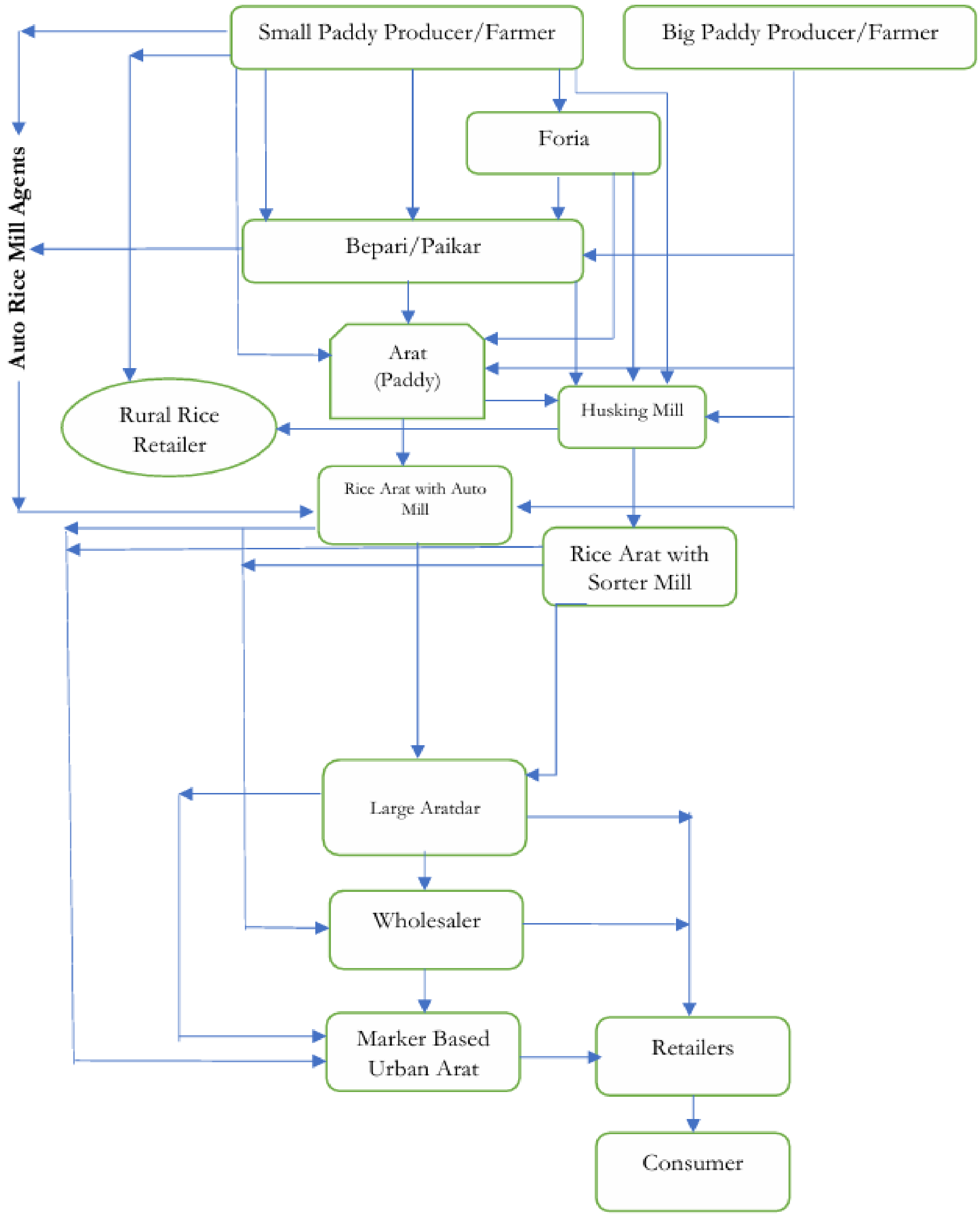
Constraints in the supply chain of palm oil: Bangladesh does not produce palm oil domestically, relying entirely on imports, which makes the supply vulnerable to international market fluctuations and trade policies such as imposition of tariffs or quotas and currency rate fluctuations. The refining industry is dominated by only nine major groups, leading to a highly concentrated market that can limit competition and flexibility. Wholesalers depend heavily on DOTs due to credit options, creating a bottleneck and potential vulnerabilities in the supply chain.

3.5 Observational Analysis of the Current Rice Market

The rice supply chain involves multiple actors, including farmers and intermediaries such as small traders (forias), large traders (beparis), warehouse operators or commission agents (aratdars), millers, wholesalers, and retailers. Farmers sell their produce to small traders (forias) or warehouse operators (aratdars), who then supply it to millers or wholesalers. These intermediaries drive up the costs for consumers, with limited competition at the milling stage, allowing anti-competitive practices like collusion and price-fixing (Raihan et al., 2010). For example, in November 2024, farmers sold paddy at BDT 34 per kilogram, but after processing and passing through intermediaries, the retail price of coarse rice reached BDT 53-55 (Ahmed, 2024). CPD's previous study found the existence of at least eight different marketing chains identified during the field survey concerning the production and marketing of rice (Rahman M. et al., 2008).

To understand the causes of high and rising prices of rice and to develop a preliminary notion of main contributors to elevated prices owing to supply chain, CPD undertook an observational field visit to the rice market. The objectives of this visit were to i) understand the supply chain of rice and validate or update the findings from previous studies; ii) assess the chain's efficiency and/ or cost added at each stage of the supply chain; and iii) investigate if any collusion, price fixing, extortion, monopoly power, hoarding, stockpiling, and/or any other causes are responsible for the increase in price for rice. Since this field visit does not constitute a traditional survey, and the data is not intended to be used to conduct statistical inferences about the entire population, the observational field visit employed non-probability sampling. Additionally, the rice market is extremely volatile and contains several varieties. In the interest of time and to make the field visit more efficient, the supply chain for only medium variety of Paijam rice was observed. This is because consumers purchase a medium variety of rice, such as Paijam, the most, as evidenced by BBS assigning greater weight to this variety in the basket of goods used to calculate CPI. Furthermore, TCB has been reporting daily prices of this variety of rice for several years, making it easier to validate the data collected. Thus, surveyors visited Mirpur-11 Bazar in Dhaka to find out the average buying and selling prices per kilogram of Paijam rice. Subsequently, the surveyors retraced the supply chain to the previous market agent who sold the rice to the retailer in Mirpur-11 Bazar. This process was continued until the surveyors reached the farmer who produced the rice in the first place, and at every stage, the surveyors collected the average buying and selling price for each market agent. As such, the results of the field visit are illustrated in Figure 3.7.

Figure 3.7: Supply chain of rice market



Source: Illustration based on an observational field visit.
Note: Based on an exploratory observational field visit. May not represent the national rice market for all varieties of rice.

According to the observational filed visit, the types of market agents involved in the supply chain of rice including farmers, small traders (forias), large traders (beparis), bulk buyers (paikers), warehouse operators (aratdars), millers, wholesalers, and retailers, are consistent with existing literature (Rahman M. et al., 2008). In addition, three local clusters have also been identified where supply chain participants interact to determine the average buying and selling price of Paijam rice. This includes local weekly market (haat), regional hub, and mokam. A local weekly market (haat) is a place where farmers from the local area once or twice a week sell their produce at market prices. Here, paddy is usually sold by small farmers to small-scale local rice sellers, such as small traders (forias), bulk buyers (paikers)s, mill agents, and warehouse operators (aratdars). Similarly, a regional hub is a consortium of warehouse operators (aratdars) and a mokam is particularly operated by large warehouse operators (aratdars). In general, warehouse operators (aratdars) in mokam places the order for the required quantity after checking the prices over the phone and subsequently supply the commodity to wholesalers. Wholesalers also sometimes buy rice from warehouse operators (aratdars) operating in the regional hub. Concurrently, wholesalers and warehouse operators (aratdars) from the regional hub also supply rice to market-based warehouse operators (aratdars) before reaching retailers.

The supply chain of rice is essentially a web of complex networks connecting various types of market agents interacting with each other. Large scale producers or farmers, often store some of their paddy in an attempt to sell them later at a premium price to local large traders (beparis) or bulk buyers (paikers), warehouse operators (aratdars), husking millers, or auto rice mills. Small traders (forias) are the most strategic player in the rice market. Traditionally, they purchase paddies directly from farmers, either from their house or the local weekly market. They may even try to intercept farmers en route to the local weekly market (haat), offering payment before they arrive. However, farmers find it convenient as it reduces their time, labour, and transportation costs. Subsequently, small traders (forias) will supply the paddy to other agents including large traders (beparis) or bulk buyers (paikers), warehouse operators (aratdars), husking mills, or auto rice mills depending on whichever party is offering the highest bid.

In addition to small traders (forias), the rice market also involves other traders such as large traders (beparis) or bulk buyers (paikers) who are slightly larger in operations as opposed to small traders (forias). They purchase paddy from both small and large farmers as well as other small traders (forias) before selling them to millers and warehouse operators (aratdars). On the other hand, warehouse operators (aratdars) have varied roles in the rice market. For instance, a group of warehouse operators (aratdars) locally known as arats who are responsible for managing paddy, work as warehouse operators. These type of warehouse operators (aratdars) buy paddy from small and large farmers, small traders (forias), large traders (beparis) or bulk buyers (paikers) and sell them to mill owners. In other instances, warehouse operators (aratdars) may also own auto rice mills, and these types of arats typically operate in regional hubs. An auto rice mill requires approximately 89,578 kilograms of paddy per day. As such they also employ agents to purchase paddy from various sources including small and large farmers, large traders (beparis) or bulk buyers (paikers), and warehouse operators (aratdars). Auto rice millers play a significant role in rice production and market price. Since they need a substantial amount of paddy for their mills, they typically purchase in bulk. Typically, auto rice millers purchase all the paddy from small farmers in the local weekly market at a lower price (BDT 26.8 per kilogram). In addition, during off-season, the price of paddy increases, and the auto rice millers set the price of rice based on the prevailing market price of paddy at the local weekly market which is BDT 40.2

per kilogram. However, the increased paddy price rarely benefits farmers, as mill owners raise rice prices, referring to higher paddy costs. The cost of processing rice in an auto rice mill is BDT 80 per 37.3 kilograms. In other words, by the time rice is passed onto the next market actor, BDT 2 per kilogram is added to the purchasing price, which determines the total cost. Apart from auto rice millers, husking mills also purchase paddy from small traders (forias), large traders (beparis) or bulk buyers (paikers), warehouse operators (aratdars), or directly from farmers. When the mill purchases paddy, an additional production cost of BDT 2.7 to BDT 3.2 per kilograms is incurred. Generally, a husking miller incorporates both the production cost and their profit margin into the purchase price of the rice before selling it. However, the selling price for husking mills is predominantly determined by rice warehouse operators (aratdars) in the regional hub. As a result, husking mill owners cannot always sell rice at a profit to the Regional Hub Aratdar. Concurrently, rice warehouse operators (aratdars) may also own a sorter mill. Most commonly, after rice gets semi-processed in a husking mill, it is then sent to warehouse operators (aratdars) with either an auto rice miller or a sorter machine. This allows rice to be adequately processed and refined to be sold in markets located in Dhaka. The process of sorting and refining the rice costs an additional BDT 2 per kilogram. Furthermore, separating broken rice affects the rice's overall quality, resulting in price hikes.

Table 3.1: Summary of average buying and average selling prices categorised by type of agent

Type of agent	Location	Average buying price in BDT	Average selling price in BDT	Gross Marketing Margin (GMM) in BDT	Percentage change in buying price	Percentage change in selling price
Producer/farmer (paddy)	Naogaon	27	33	6		
Faria (Paddy)	Naogaon	33	33.5	0.5	22.2	1.5
Bepari/Paiker (Paddy)	Naogaon	33.5	34	0.5	1.5	1.5
Rural Aratdar (Paddy)	Naogaon	34	34.5	0.5	1.5	1.5
Husking Miller	Naogaon	34 (paddy)	48 (rice)	14	0.0	39.1
Miller (Auto rice) *	Naogaon	34.5 (paddy)	48 (rice)	13.5	1.5	0.0
Arotdar (Regional Hub)	Naogaon	48	55	7	39.1	14.6
Urban Aratdar (Mokam)	Mirpur-11 Bazar	55	56	1	14.6	1.8
Wholesaler	Mirpur-11 Bazar	56	58	2	1.8	3.6
Market Based Urban Aratdar	Mirpur-11 Bazar	58	59	1	3.6	1.7
Retailer	Mirpur-11 Bazar	59	65	6	1.7	10.2

Source: Compilation based on an observational field visit

Note: The average buying price for farmers represents the cost of production

Due to the involvement of such varied intermediaries, consumers experience extreme price escalation which reduces their affordability to purchase rice from their local market. When medium Paijam rice as a commodity flows from farmers to retailers, prices increase by BDT 32, accounting for a 97 per cent price increase (Table 3.1). Such price escalation is a testament to the existing volatility and the dominance of market intermediaries in the rice market. In addition, farmers receive 50.8 per cent of the retail price for the produce they sell. It is important to underscore that millers retain the highest margin, accounting for about 14 per cent, in comparison to the other participants in the supply chain for rice highlighting their overbearing dominance of the chain (Table 3.1).

3.6 Measures taken by the Interim Government to Control Inflation

Regarding demand-side measures to reduce inflationary pressures in the economy, the central bank has allowed the lending rate to increase in response to the market and increased the policy rate. A cap of 9 per cent on lending rates was put in place as of April 2020 (Bangladesh Bank, 2024b). The Six-Month Moving Average Rate of Treasury Bill (SMART) crawling peg interest rate regime was implemented by the Bangladesh Bank in July 2023. After a four-year hiatus, the Central Bank resumed its fully market-based interest rate system in May 2024, in accordance with international best practices (Bangladesh Bank, 2024b). After the July revolution, Bangladesh Bank raised the policy rate three times till October 2024 —from 8.5 to 9 per cent in the last week of August (Bangladesh Bank, 2024c), to 9.5 per cent in September 2024 (Bangladesh Bank, 2024d) and finally to 10 per cent in October 2024 (Bangladesh Bank, 2024e). The persistent hikes in the policy rate have primarily sought to mitigate inflation, yet they have rendered bank borrowing more expensive.

The interim government also implemented several notable supply-side measures to ease the burden of high inflation on essential goods. These include pursuing open-market sales of essential goods through the Trading Corporation of Bangladesh and establishing fair price markets inside and outside Dhaka. TCB also took steps to digitise its activities to reduce the irregularities in the TCB card distribution, as there were significant anomalies in the distribution of cards and the choice of dealers during the previous administration (Dhaka Tribune, 2024).

Regrettably, the interim government did not take notable steps to address irregularities, such as extortion, hoarding, or price fixing by cartels, in the supply chains of essential goods. Therefore, the measures taken by the interim government to control inflation have so far failed to reduce the prices of essential goods in the market.

3.7 Conclusions and Policy Recommendations

Conclusions

The authoritarian dictatorship in Bangladesh left behind a dysfunctional economy marked by high prices and inflation, which the interim government had to fix. Despite using some traditional policies, the new interim government tasked with controlling inflation failed to address the limitations and governance issues plaguing the supply chains of vital food items. Consequently, the prices of most essential food items have remained high. Moreover, the prices of several essential food items are still higher in Bangladesh than in international markets. Rising rural inflation has recently become a cause for concern since rural households are less prepared to deal with price hikes. Analysis of the supply chains of several food items reveals an intricate network of intermediaries, some of whom add costs but do not add any value to the final product. As a result, farmers are not getting fair prices for the goods that they are producing, while consumers are paying high prices for the goods that they are buying. Unless the interim government can take bold and urgent steps to address the governance challenges in the supply chains of essential food items, the price level and the inflation rate will be hard to bring down. In view of the findings from this chapter, the following policy recommendations are put forward for the interim government.

Policy Recommendations

Onion Supply Chain

- Expand onion cultivation areas and adopt advanced production technologies to bridge demand-supply gaps.

Potato Supply Chain

- Harvest potatoes at the right maturity stage to minimise post-harvest losses.
- Enhance storage facilities and handling practices to reduce losses.
- Modernise sorting, grading, packaging, and transportation systems to prevent post-harvest losses.

Brinjal Supply Chain

- Adopt agricultural best practices, High-Yielding Varieties (HYV), and modern technology to improve yields.
- Develop training programs for farmers on post-harvest management, storage, packaging, and transportation.

Egg Supply Chain

- Ensure sustainable egg supply through hatcheries, affordable feed, disease diagnostics, veterinary services, price stability, and market information.
- Expand institutional credit and storage facilities for merchants to maintain market availability.

Rui Fish Supply Chain

- Develop storage, refrigerated transport, and market facilities with utilities like water, ice, and drainage.
- Provide financial incentives to fish farmers.
- Minimise intermediaries' role to improve efficiency and reduce costs.
- Limit the influence of warehouse operators (aratdars) and moneylenders (Mahajans).

Turmeric Supply Chain

- Promote better agricultural practices, technical training, and improved transportation for turmeric farmers.
- Rotate land every three years for turmeric cultivation to enhance yields.

Wheat Supply Chain

- Invest in research to develop climate-resilient wheat varieties for short winters and high temperatures.
- Build subsidised seed storage facilities and train farmers in proper seed handling.
- Train farmers on advanced seed selection and region-specific high-yield varieties.
- Enhance soil quality with organic fertilisers and expand irrigation for marginal lands.
- Modernise transportation and rural warehousing to reduce post-harvest losses.
- Provide subsidies and technical support to boost domestic production and reduce imports.

Lentil Supply Chain

- Invest in R&D for high-yield, disease-resistant lentil varieties suitable for Bangladesh's climate.
- Strengthen extension services to train farmers in disease management, irrigation, and optimal planting.

Sugar Supply Chain

- Increase sugarcane output by supporting high-yield, disease-resistant varieties, modern farming, and financial incentives.

- Build buffer stocks and diversify production into ethanol and molasses to improve profitability.
- Enforce strict oversight on oligopolies to prevent price fixing and ensure fair competition.

Beef Supply Chain

- Improve livestock health services, veterinary care, and breeding programs to reduce cattle mortality.
- Provide market linkages and support services to farmers for fair value chain participation.
- Enforce better transport regulations and train handlers to reduce cattle losses during transit.

Garlic Supply Chain

- Stabilise garlic prices with buffer stocks, subsidies, and modern storage facilities.
- Lower transportation costs and provide accessible loan programs for farmers.

Ginger Supply Chain

- Promote low-cost storage technologies and offer farmers loans to build storage facilities.
- Standardise transportation practices to minimise losses and improve efficiency.

Soybean Oil Supply Chain

- Mitigate weather impacts by promoting climate-resilient seeds and intercropping practices.
- Provide subsidies, crop insurance, and tailored advice via agricultural extension services.

Palm Oil Supply Chain

- Support smaller refiners and new entrants to reduce market concentration and increase competition.
- Offer credit facilities to wholesalers to reduce dependency on large traders.

Rice Supply Chain

- Monitor markets to limit intermediaries and connect farmers directly to buyers.
- Regulate hoarding and stockpiling by rice warehouse operators and millers.
- Train farmers in negotiation and provide access to credit and storage to reduce dependency on middlemen.

Bangladesh Competition Commission

- Monitor dominant market players, examine market manipulation, and take corrective measures.
- Enforce a zero-tolerance policy against cartels and collusion.

Competition Act 2012

- Revise the act to address monopolies, add anti-trust clauses, and impose penalties for violations.

Support for Low-Income Households

- Provide direct cash transfers, expand social protection, and support small businesses with stimulus packages.
- Ensure corruption-free distribution of essential commodities via the Open Market System (OMS).

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SECTION IV. EXTERNAL SECTOR PERFORMANCE: WELCOME RELIEF BUT PERSISTENT HEADWINDS AND CONCERNS

Key findings

- Export performance during the first half of FY2025 indicates not only high growth of export earnings, but also correspondingly high growth of domestic value retention, which is a positive development, although export earnings continue to remain volume driven.
- While robust, the very high growth of remittance in the first half of FY2025 could be a one-time phenomenon against the backdrop of the disruption of the informal channels of remittance transfer following the student-citizen movement of the recent past, indicating the need for diversification of overseas markets and upgradation of skills of migrant workers.
- The improvement in the balance of payments scenario towards the end of 2024 is driven primarily by the positive trends in trade and current accounts, rather than on the account of debt-creating financial accounts, which is a positive sign from the vantage point of BoP composition.

Key recommendations

- In view of the emerging global and regional trading scenario, including the uncertainties as regards US trade policy under the new Trump administration, undertake renewed efforts to realise the untapped export potentials in the markets of neighbouring regions of South Asia, East Asia and ASEAN, by pursuing Free Trade Agreements and Comprehensive Economic Partnership Agreements, and through triangulation of investment, transport and trade connectivities.
- Implement the trade facilitation (including green trade facilitation) measures proactively since these are emerging as crucially important elements of Bangladesh's export competitiveness in view of significant erosion of market access preferences because of LDC graduation, and increasing competitive pressure from countries such as Vietnam.
- Pursue in all earnest appropriate measures to implement the *Smooth Transition Strategy* which has been prepared in anticipation of Bangladesh's upcoming LDC graduation, particularly because any request for deferment of graduation is unlikely to succeed, and if it does, it would leave Bangladesh as the only LDC in South Asia other than the war-torn Afghanistan.

Amid the prevailing bleak macroeconomic scenario and the pressure on several fronts, the external sector performance during the first half of FY2025 offers some much needed and welcome relief to the Bangladesh economy. The positive changes are underpinned by the robust performance of most of the attendant correlates that inform the country's external sector outcomes. Exports posted robust growth during the first half of FY2025 as did the earnings from remittance inflows. The slide experienced by the forex reserves was halted, and the exchange rate of BDT against major currencies stabilised, although some volatility in the reserve position continues to persist. Improved trade and current account balance, as also the overall balance of payments situation, allowed going for some de-restriction of import activities. To what extent the positive trends will continue over the second half of FY2025 is, however, uncertain, particularly because some of the headwinds are becoming gradually discernible. The following sections elaborate on some of the pertinent issues in view of the above.

4.1 External Trade Scenario

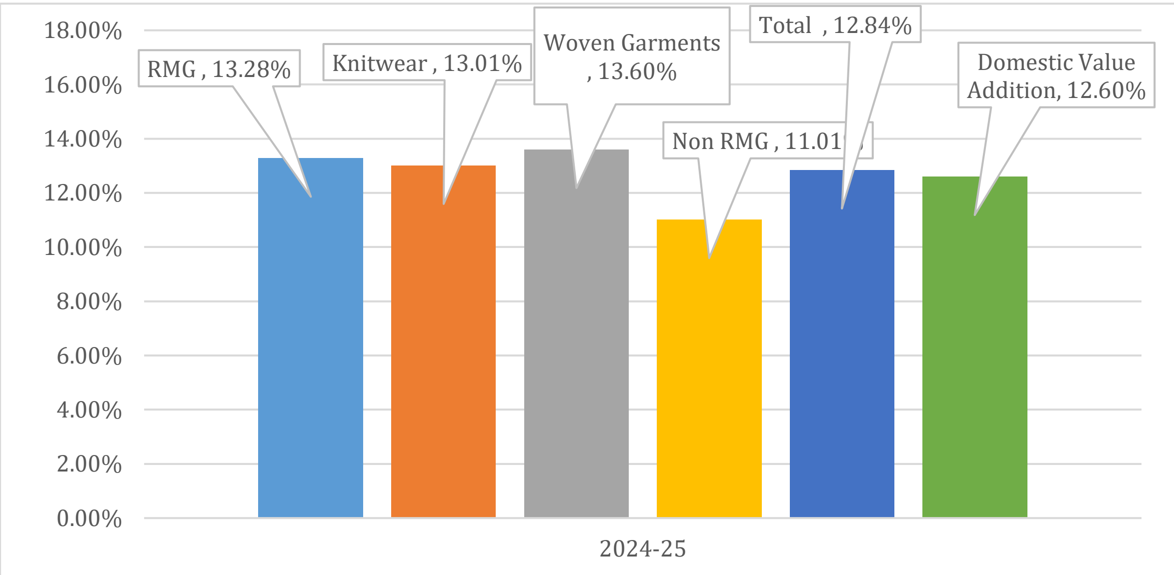
Robust Export Performance, But Mostly Volume-Driven

Against the backdrop of muted performance of the corresponding period of the previous year, Bangladesh's export sector experienced an impressive growth rate of 12.8 per cent during the first half of FY2025. However, the double-digit growth needs to be taken with a grain of salt since it was achieved on the relatively lower base of (-) 9.5 per cent over the first half of FY2024.

One distinctive feature of the export performance in the first half of FY2025 was that both RMG (13.3 per cent) and non-RMG (11.0 per cent) sectors recorded impressive growth. Within the RMG, while knitwear continued to exhibit robust performance (13.0 per cent growth), the wovenwear was also able to catch up with similarly high growth (13.6 per cent). As noted, the non-RMG sector also performed well, overall, with some of the non-RMG traditional export sectors registering impressive growth.

What is encouraging to note is that, in spite of the significant disruptions in production in the first quarter (July-September) of the FY2025, consequent to the student-citizens uprising and workers' unrest, export sector was able to demonstrate remarkable resilience and to pick up quickly, and major brands and buyers continued to stay with, and procure from, Bangladesh.

Figure 4.1: Export Growth of Bangladesh in FY2025 over FY2024 (July-December)



Source: Based on EPB.

Estimating value addition is important from the perspective of arriving at an understanding about net domestic forex retention from export activities and capturing the possible implications for the country's forex reserves situation. Our estimates indicate that domestic value addition from export was about USD 15.0 billion during the first half of FY2025 as against USD 13.2 billion for the corresponding period of FY 2024, posting a high growth of 12.6 per cent. This robust performance owed to the high growth of knitwear exports (for which the value addition is considered to be about 60 per cent of corresponding global exports, as against the wovenwear where this is taken to be about 50 per cent), and also of non-RMG exports (for which the average value addition is estimated to be about 85 per cent). The fall in the cotton price was to the advantage of exporters (this was USD 1.79/ kg in July-December of FY2025, compared to USD 2.07/kg in FY2024 and USD2.48/kg in FY2023 for corresponding periods). However, as would be seen below, exporters did not benefit in the form of higher apparels prices.

Table 4.1: Factors Driving Bangladesh's RMG Exports to the EU and the USA Markets

Markets	% Change in price	% Change in volume	% Change in value
EU Market (July-Oct)	-0.46 %	+10.65 %	+10.14 %
US Market (July-Nov)	-4.06 %	+16.25 %	+11.54 %

Source: Based on EUSTAT and USITC Database.

With regard to the drivers of the export growth in the key markets of the EU and the USA, as Table 4.1 indicates, this was primarily on account of the high growth in volume (10.6 per cent in the EU and 16.2 per cent in the USA), rather than that of price which witnessed negative growth rate (-.05 per cent and -4.0 per cent respectively). This, however, depicts the overall trend as regards the imports by both the EU and the USA since the performance pattern was the same for all major sourcing countries such as Vietnam, and, to some extent, China as well. The significant fall in cotton price, by 13.3 per cent between July-December period of FY2024 and FY2025, noted above, could be one reason for the above. On the other hand, this also underscores the stranglehold the brands and buyers have on the buy-driven global value chain of apparels whereby they are strongly positioned to pass on the lower price of inputs and intermediates in the form of lower prices to producers and exporters of apparels in Bangladesh and other countries.

While exports of jute and jute goods, and leather continued to struggle (-8.1 per cent and -11.6 per cent growth respectively), exports of leather and sports footwear posted very high growth of 30-45 per cent.

An analysis of export composition evinces that intra-RMG diversification continues to remain limited. Structural changes favouring the growing segment of the global RMG market- man-made and synthetic fibre-based apparels items- are yet not visible. To note, three-fourths of Bangladesh's RMG exports are cotton-based, while more than three-fourths (and growing) of the global apparel market is non-cotton-based. There is a need to restructure export incentives in place to encourage investment in, and export of, man-made fibre-based apparel items. This would also help to raise the share of domestic value retention in total exports of Bangladesh which at present hovers around 60.0 per cent.

Indeed, both export concentration and market concentration persist. For example, the country's export share in the growing markets of South Asia, East Asia, and ASEAN came down in the first half of FY2025 compared to the matched figure for FY2024 (the share came down to 11.8 per cent from 12.7 per cent). Addressing the attendant challenges is particularly important also in anticipation of Bangladesh's upcoming graduation from the Least Developed Country (LDC) status. Taking a cue from Vietnam, Bangladesh should aggressively pursue Free Trade

Agreements (FTAs) and Comprehensive Economic Partnership Agreements (CEPAs) with countries of the region. A dedicated *Trade Negotiating Cell* needs to be set up, and the country's offensive and defensive interests identified. Forward-looking trade strategies will need to be formulated and proactively pursued. Domestic tariff rates and regulatory policies will have to be adjusted in view of this in anticipation of Bangladesh's future as a non-LDC developing country. Initiatives targeting the various trade-related measures, at the border and behind the border, must be put into action, and adequate preparation must be taken in anticipation of changing market access regime beyond the border.

Recent initiatives of the Bangladesh Investment Development Authority (BIDA) to attract export-oriented Foreign Direct Investment (FDI) to targeted sectors are timely, and need to be vigorously pursued. The proposed measures by BIDA include prioritising the setting up of selected Special Economic Zones (initially five SEZs and in ten years an additional ten) and identification of sectors that will be prioritised (19 sectors) in policies. The policies will need to be implemented by making available all the investment-related services as stipulated in the *One Stop Service Act of 2018.*

Proactive implementation of the *Smooth Transition Strategy* in view of LDC graduation is critically important if the current robust export performance is to be sustained in future, and the challenges of LDC graduation are to be adequately addressed. The discourse and proposal as regards deferment of LDC graduation (beyond 2026) and the possibility of availing of the Generalised System of Preferences *(GSP) plus* facility should not dissuade Bangladesh from doing the needful towards sustainable graduation. This is for a number of reasons. Firstly, as the CDP report (2021) indicates that Bangladesh is comfortably situated in view of all the three graduation thresholds and, as such, it will be a hard sell to argue for any deferment. Secondly, accessing the *GSP plus* preferential market access will be difficult (Bangladesh's export share of RMG to the EU at present is above the ceiling proposed in the *GSP Plus* Scheme). Thirdly, the rules of origin for RMG in the *GSP Plus* proposed are onerous: two-stage conversion instead of one stage under the existing Everything But Arms (EBA) scheme. Fourthly, compliance requirements as regards labour, environment, CO_2 emission and other standards are expected to become much more stringent once the new EU-GSP Scheme comes into effect in 2027. The task before Bangladesh will be to take all necessary initiatives and measures in view of the country's graduation timeline of November 26, 2026.

Better and more efficient trade facilitation measures will be critically important in raising the export and trade competitiveness of Bangladesh. These included implementation of the recently formulated National Logistics Policy (2024), Paperless Trade Policy, Single Window System and cross-border Digital Commerce Policy (2024), and introduction of green trade facilitation measures. Putting in place the above will raise Bangladesh's trade competitiveness and bring down trade-related costs and improve the business environment significantly.

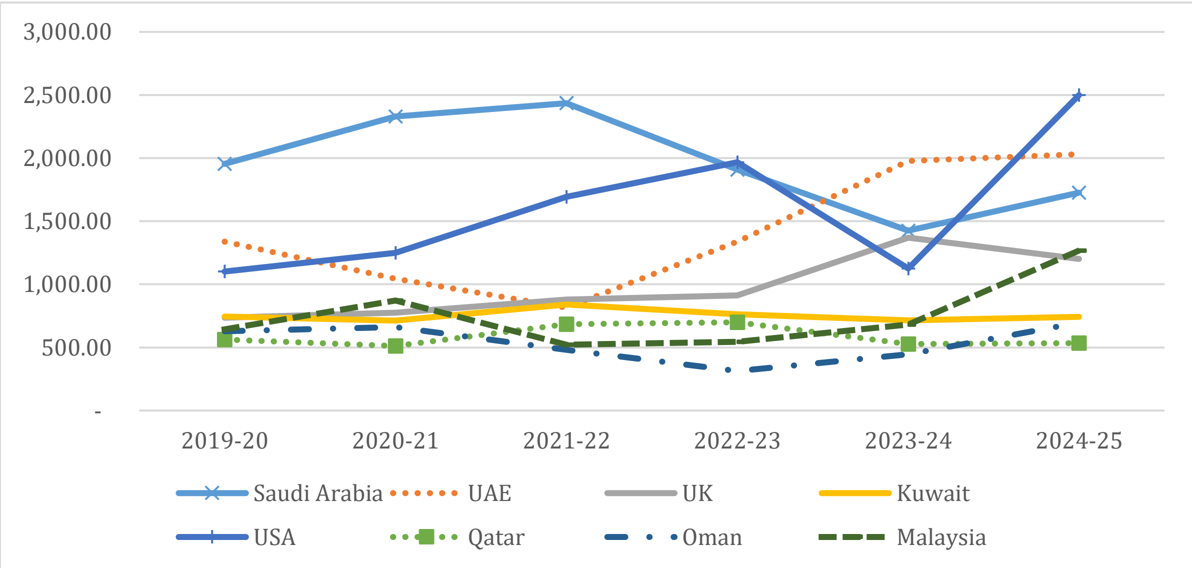
Imports Gain from Price Effect

The encouraging growth of exports, together with the robust inflow of remittances helped to stall the fall in the forex reserves experienced since June 2024, and stabilise it at about USD 26.0 billion in more recent months. This facilitated the withdrawal of some of the restrictions on imports put in place earlier. This led to a rise of 2.0 per cent in imports during the July-October of FY2025 period compared to the corresponding period of FY2024 (when imports were -20.6 per cent lower when compared to the matched period of FY2023). However, the import structure indicates that the growth was mainly because of the growth of imports of raw cotton (15.4 per cent) and textiles and articles thereof (26.8 per cent), while import of key production-related intermediaries (e.g., crude petroleum; -46.7 per cent) and capital goods (e.g., capital machinery: -25.1 per cent) remained in the negative. L/C opening (-0.5 per cent) and L/C settlement (-1.0 per cent) were in negative terrain for the period between July-November, FY2025. However, to note, the two indicators were deep in the negative during the previous two corresponding periods (-12.3 per cent and -26.8 per cent for the same period of FY2024 against FY2023). The slide downward, thus, has been arrested. In view of the fall in prices of major commodities in the global market (e.g., fuel cotton, etc.), imports in terms of volume were able to post a positive trend. Accordingly, the data on import L/C opening, and L/C settlement should be treated with some caution, and leave room for interpretation.

Encouraging Remittance Inflow but Composition Merits Closer Look

As was noted, the high growth of remittance inflow has contributed to restraining the slide in the availability of foreign exchange in Bangladesh. The year 2024 saw the highest amount of remittance flow to the country USD 26.89 billion, which was 22.7 per cent higher than 2023. If the period under review (July-December of FY2025) is considered, the growth in remittance flow was 27.6 per cent against the matched period of FY2024.

Figure 4.2: Remittance Inflow from Selected Countries Amounting to (More Than USD 500 Million)



Source: Based on Bangladesh Bank.

Over the past four years (between 2021 and 2024), about 4 million people have left Bangladesh for overseas jobs, mostly in the Middle-East countries. It was pointed out in the previous IRBDs that this was not reflected in the amount and origins of remittance inflows to Bangladesh. Remittance inflow figures for 2021, 2022, and 2023 were USD 22.0 billion, USD 21.3 billion, and USD 21.9 billion respectively despite the fact that about three million people had left the country for overseas jobs over the corresponding period. The other disquieting development was the structure of the inflow- there was a significant shift from Saudi Arabia to the UAE, for example. This is clearly discernible from Figure 4.2.

The fall in remittances from Saudi Arabia (more than 50 per cent of migrant workers left for the country), and the parallel rise in the remittances from the UAE, allude to the suspicion about a shift towards informal channels in recent past years. This calls for more indepth investigation. In this connection, one may recall the report of the White Paper Committee 2024 which was set up by the Interim Government. The report noted that Dubai has emerged as a major hub of the money laundered from Bangladesh in the recent past. A number of underlying factors were identified in this connection: Dubai real-estate regulations (dedicated areas earmarked for foreign buyers and not asking about the source of money); investment policies (attracting foreign investors without undertaking due diligence); easy ways for people to set up shell companies and aggregators purchasing foreign currency from remitters by paying a premium; distribution of ill-gotten money among remittance-receiving households in Bangladesh by using various mobile financial platforms; employing firms and agents specialised in handling laundered money; hiding the sources through multilayered transactions and setting up shell companies in tax havens.

It is hoped that the Task Force set up by the Bangladesh Bank for *Recovery of Stolen Assets*, with support from the re-energised Bangladesh Financial Intelligence Unit (BFIU) and a rejuvenated Anti-Corruption Commission (ACC), will go deeper into the attendant issues, undertake forensic investigation and identify the key players involved in the laundering of money and will lodge criminal cases to bring the perpetrators to justice. Efforts must be pursued in all earnest to bring back the stolen money to where it truly belongs (filing cases in Bangladesh; establishing paper trail to the ultimate beneficiary abroad; filing cases in overseas jurisdiction; getting court verdicts to sequester, freeze and seize assets and return the recovered money to Bangladesh). To facilitate this process, Bangladesh should become a full member of the Financial Action Task Force (FATF), and Global Forum (GF) on Transparency and Exchange of Information for Tax Purposes.

Balance of Payment Scenario

Table 4.2: BoP Scenario as the End of November 2023 and 2024

(Values in USD Million)

Correlate	July-November 2023	July-November 2024
Trade balance	-9,856	-7,881
Services	-1,424	-1,972
Primary Income	-1,645	-1,702
Secondary income	8,986	11,329
Of which: remittances inflows	8,808	11,137
Current Account Balance	-3,939	-226
Financial account	-811	-581
Errors and Omissions	-207	-1,834
Overall Balance	-4,898	-2,473

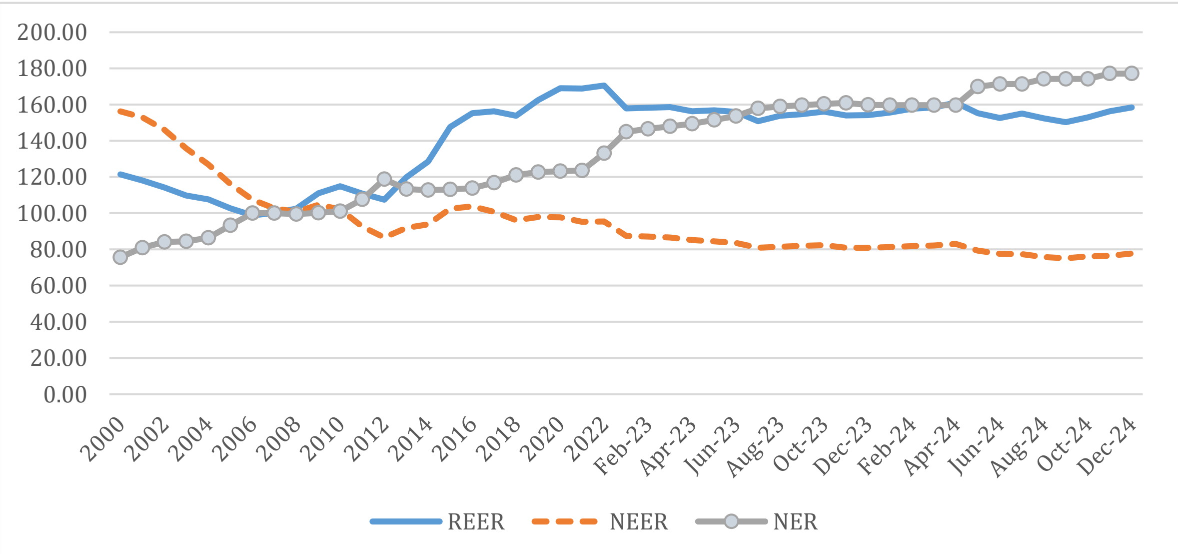
Source: Bangladesh Bank.

The robust performance of exports and remittances contributed to an overall improvement in the balance of payments situation towards the end of December 2024. While this is still not comfortable, the trend is, however, encouraging when compared with the corresponding period of FY2024. As was noted, large inflow of export and remittance earnings have helped to stall the slide downwards in the forex reserves situation, and contributed to stabilisation of, to a certain degree, the exchange rate of BDT. The improvement is primarily on account of the significant reduction in the trade account deficit, and to a larger extent, to the declining current account deficit. The improvement in Bop is not primarily because of the debt-creating financial account balance (to note, in the July-November period of FY2022, this was USD 4,599 million; underpinned by medium- and long-term loans worth USD 3,013 million). This compositional shift is a positive trend. However, the dismal performance in terms of FDI and portfolio flows remains a nagging concern.

There are a number of issues which, however, will need to be kept in the perspective in view of the likely BoP scenario over the near-term future: (a) with increasing de-restriction of imports, import payments are expected to go up; consequently, the trade balance could come under further pressure. Sustaining current robust export performance will be critically important in view of this; (b) maintaining the ongoing high growth of remittances will not be easy. It could be that the rise in remittance flow is because of the evident disruption of hundi/hawala and other informal channels of illicit financial flows in the aftermath of the August uprising. This could as well be a one-time phenomenon; (c) while the fall in reserves has been halted, the demands of higher imports and growing debt servicing liabilities could accentuate the pressure on forex reserves (the grace periods- when only interests have to be made- as regards a number of megaprojects are coming to an end; when the repayment period will commence, both interest and principal amount will need to be paid). Fourthly, true, the BDT, in view of the higher availability of the foreign currency in the country, has somewhat stabilised (for example, at about BDT 120-121 vis-a-vis USD). However, if forex demand on account of import and debt servicing payments goes up, BDT could slide further under an open market regime. This would then likely have implications in the form of imported inflation.

Exchange Rate Movement and Stabilisation of BDT

Figure 4.3: Movement of REER, NEER, and NER of BDT



Source: Based on Bangladesh Bank and bruegel (2025).

After the sharp decline of almost 40 per cent over the last three years, the value of the BDT appears to be stabilizing in recent months. As Figure 3 indicates, the BDT exchange rate against USD appears to be at the equilibrium level, as of now. As is known, at present the Bangladesh Bank is pursuing a crawling peg policy (within a limited range). However, a move towards a fully market-based exchange rate regime is anticipated over the near-term future. The exchange rate movement will need to be closely monitored. At the same time, the Bangladesh Bank may consider gradually phasing out (or withdrawing) the additional money being given to remitters to incentivise remittance flow and discourage sending money through informal channels (at 2.5 per cent). In 2024, against the remittance flow of USD 26.88 billion, about USD 0.67 billion was paid to remitters as incentives (equivalent to more than 8,000 crore taka at the current exchange rate of USD 1=BDT 120). Given the revenue situation, the prevailing policy in this regard ought to be carefully weighed, and if justified, changed. Maintaining the exchange rate stability and holding comfortable forex reserves are the twin challenges that the central bank will have to deal with in the near-term future.

4.2 Concluding Remarks

The performance of the external sector during the July-December 2024 period transmits some hopeful messages. However, headwinds in the form of the global trading environment (likely US trade policy changes under the Trump administration), demand-side pressure on forex against the backdrop of import and investment pick-up, the growing pressure of Public and Publicly Guaranteed (PPG) debt servicing, and the challenges of implementing the smooth and sustainable LDC graduation strategy should keep policymakers alert and on their toes. The external sector situation and BoP scenario in June 2025 will hinge on how policymakers are able to deal with these emergent challenges, and take advantage of the drivers and accelerators of external sector performance. How the key external sector correlates evolve in the coming months of FY2025 will hinge critically on this. In the context of LDC graduation, the smart way to go forward would be to implement the *Smooth Transition Strategy* in all earnest and take the needed initiatives to transform the economy from one of preference-driven competitiveness to skills and productivity-driven competitiveness.

The discourse about deferment of graduation should not dissuade Bangladesh from taking the needed measures. It is also to be noted that, in the end, the issue of requesting a deferment of Bangladesh's LDC graduation is a *political call*. Whether Bangladesh will be comfortable to remain an LDC beyond 2026, with the war-torn Afghanistan, being the only other LDC in the region, demands careful strategic and political consideration.

Efforts to bring back the laundered money from abroad must be pursued in all earnest. Measures need to be geared to undertaking energetic initiatives concerning prosecution, investigation, collaboration with relevant global initiatives and platforms, and filing of criminal/ civil cases in foreign jurisdictions to recover the stolen assets and the evaded taxes.

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SECTION V. DISARRAY IN PRIVATE INVESTMENT

Key findings

- Private investment is experiencing major disarray during the tenure of interim government which was started in the previous regime.
- SMEs are facing higher average interest rates, making their financial burden disproportionately high.
- Key operational challenges currently being faced by the businesses including high interest rate, policy instability, foreign currency instability; higher inflation; complexities in opening LCs; increased price of gas and electricity; interruption in the availability of gas and electricity; increase of VAT; frequent road and highway blockages; deterioration of law enforcement situation; and decreased consumer confidence.

Key recommendations

- Prioritise immediate improvements in the law-and-order situation to ensure businesses can operate safely without the threat of extortion.
- Explore further reductions in fuel prices using a market-based pricing model, with the potential to lower costs by BDT 10-15 per litre as suggested by CPD.
- Design a subsidised credit facility with lower interest rates to support SMEs.

5.1 Context

Private investment is experiencing major disarray during the tenure of interim government which was started in the previous regime. Bangladesh did not manage to raise its investment levels to match those of its peer developing countries during previous regime. Over the past decade, investment levels in Bangladesh have remained stagnant, consistently ranging between 30 and 32 per cent of GDP (Table 5.1). Private investment has similarly remained limited, fluctuating between 22 and 24 per cent of GDP, while Foreign Direct Investment (FDI) has persistently accounted for less than 1 per cent of GDP (Table 5.1). Private investment contracted steadily during the fiscal years 2023 and 2024, whereas FDI has been in continuous decline since FY2018.

Table 5.1: Level of investment in Bangladesh (% of GDP)

Fiscal Year	Total investment	Private investment	Public Investment	FDI (net inflow)
2016	30.24	23.70	6.54	0.88
2017	30.95	23.66	7.29	0.62
2018	31.82	24.94	6.88	0.75
2019	32.21	25.25	6.96	0.54
2020	31.31	24.02	7.29	0.41
2021	31.02	23.70	7.32	0.41
2022	32.05	24.52	7.53	036
2023	30.95	24.18	6.77	0.32
2024[a]	30.98	23.51	7.47	N/A

Source: BBS & World Development Indicators.

Note: [a] Provisional; N/A = Not Available

Bangladesh's weak performance in attracting higher investment is mainly due to long-standing issues like an unfriendly business environment, complex bureaucracy, weak institutions, and unpredictable policies (Raihan, et al 2023). However, the recent years' fall in private investment and FDI reflects the country's more recent struggle in maintaining macroeconomic stability particularly in the area of exchange rate management.

The new interim government replaced the previous administration on 8 August 2024, commencing its tenure nearly at the start of a new fiscal year. To boost the country image and improve business environment, it has added new positions in the cabinet (such as special envoy to the chief advisor) and replaced leadership of important business-related organisations such as BIDA. This transition of power brought both new hopes and potential risks in terms of investment generation. In its first six months, a number of reform measures have been undertaken by the new government. However, it remains uncertain whether these new initiatives will be sufficient, effective, and aligned with the latest investment trends and challenges.

Against this backdrop, this section attempts to examine the most recent state of investment in Bangladesh's economy, with a focus on identifying newly emerged opportunities and risks and assessing the initiatives undertaken by the interim government.

5.2 State of Private Investment during H1 of FY2025

a) Investment

A major challenge in evaluating the most recent investment trends in Bangladesh is the lack of monthly investment-related data. However, proxy indicators can provide a useful basis for estimating and understanding investment performance.

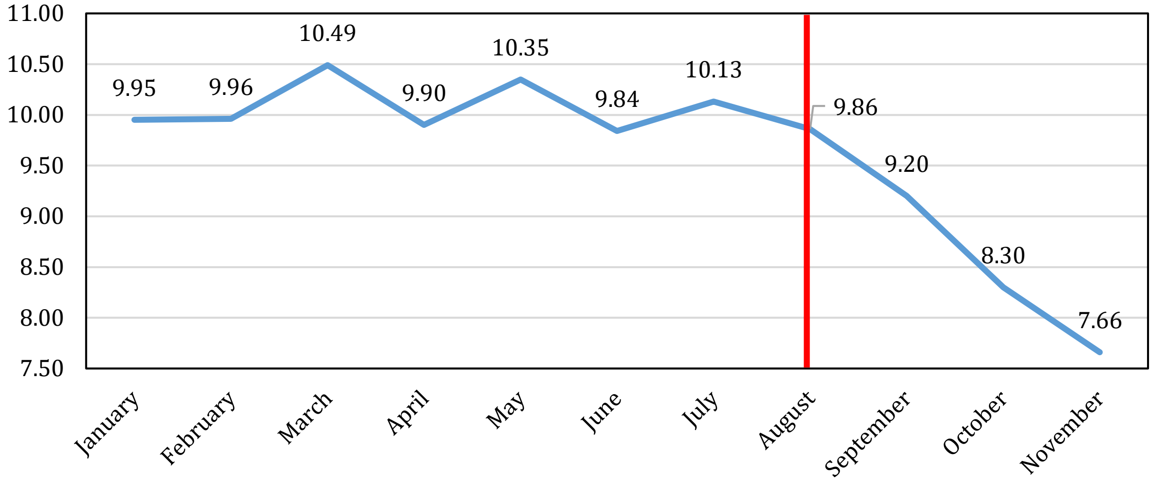
Private sector credit growth can provide an indication of the investment climate in a country. The most recent data on private sector credit growth shows higher growth in FY2025 (as of November), with a 9.0 per cent increase compared to that of FY2024; for the same period (July-November) the growth was 9.9 per cent in the case of FY2024 vis FY2023 (Table 5.2). However, when examining monthly data, it can be observed that following the interim government took over of August 2024, there was a sharp decline in credit growth during the subsequent three months, September, October, and November (Figure 5.1).

Table 5.2: Private Sector Credit Growth in FY2025 vis a vis FY2024 (BDT in Crore)

FY 23 (July-November)	Change from FY 23 to FY 24 (%)	FY 24 (July-November)	FY 25(July-November)	Change from FY 24 to FY 25 (%)
6,890,320	9.9	7,569,017	8,251,389	9.0

Source: Bangladesh Bank.

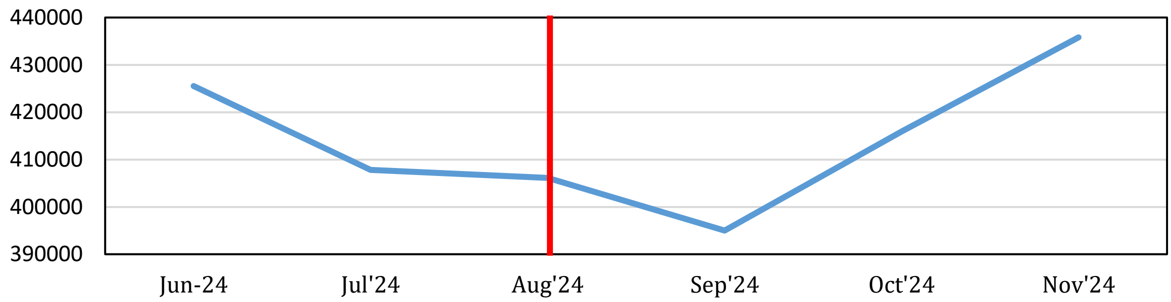
Figure 5.1: Month on month change in private sector credit growth during 2024 (%)



Source: Bangladesh Bank.
Note: The red straight line indicates the month when the interim government took over the earlier government

From the investment's point of view, this could indicate that businesses either lacked the confidence to invest by securing credit amid uncertainty or found it more costly and difficult to obtain financing, which hindered their ability to invest through borrowing. Consequently, it can be inferred that Bangladesh is likely experienced a decline in private sector investment during these months. However, it is important to note that the rise in interest rates, embargo on disbursements for certain banks, liquidity crisis of Banks, and limited scope of laundering of banks money during this period may have also played a key role in the drop in private sector credit growth. In fact, liquidity data of Bangladesh Bank confirms a decline in banking sector's lending capacity in most of the recent months. After maintaining a downward trend till September 2024, the total liquidity size started to improve (Figure 5.2).

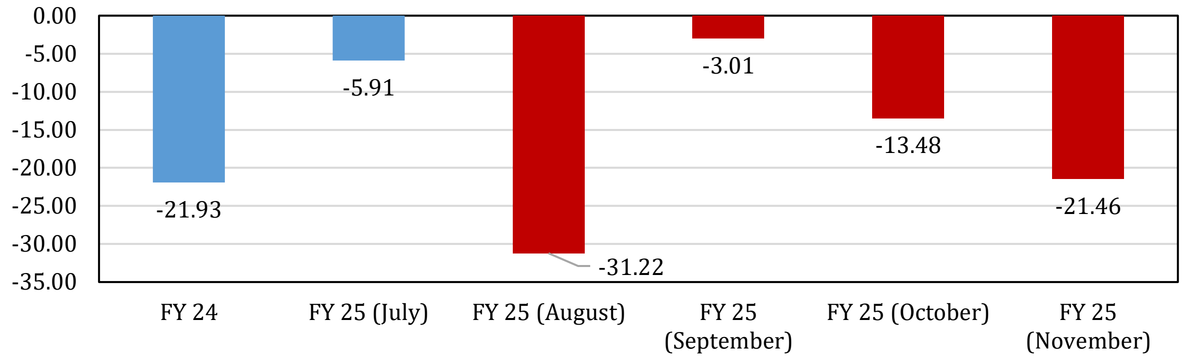
Figure 5.2: Liquidity situation of Bangladesh's Banking Sector in BDT core (Private + State owned Banks) *



Source: Bangladesh Bank.
Note: The red line indicates the month when the interim government took over the earlier government; *specialised and foreign banks are not included

Import of capital goods: Another proxy indicator that can indirectly reflect the investment scenario is the import of capital goods. In all four months following the interim government's assumption of power, there was a continuous significant decline in the import of capital goods compared to the previous fiscal year (Figure 5.3). Notably, in August of FY2025, the import of capital goods dropped by a significant 31.2 per cent (Figure 5.3). This suggests poor investment performance in the early phase of the current fiscal year. However, this negative trend in import growth cannot be solely attributed to the current government regime or the ongoing fiscal year. In fact, overall imports of capital goods decreased by 22 per cent in FY2024 compared to the previous fiscal year (in case of July–Nov of FY2024, there was a 15. 7 per cent decrease compared to July-Nov of FY2023).

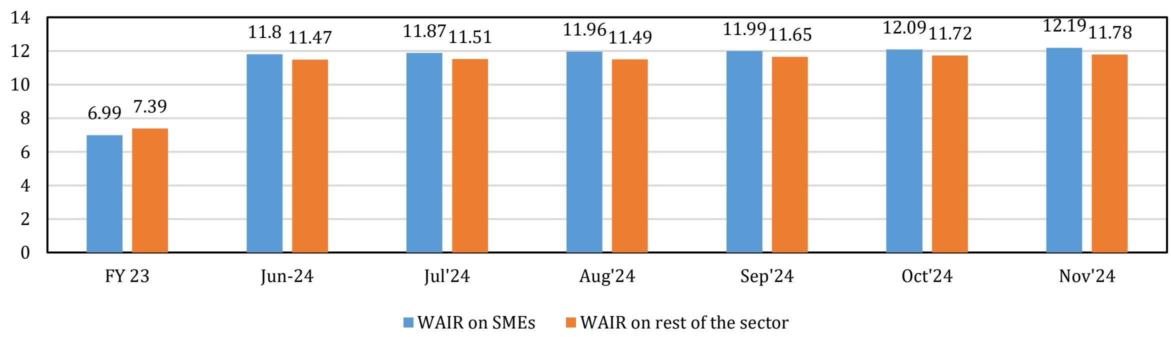
Figure 5.3: Changes in import of capital goods compared to previous fiscal year (%)



Source: Bangladesh Bank.
Note: The red boxes indicate the months when the interim government took over the earlier government

The increasing negative trend in the import of capital goods can likely be attributed to several past and a few new factors. Firstly, the rise in the dollar price has led to higher import costs, secondly, the ongoing foreign reserve crisis has made it difficult for companies to open new letters of credit (LCs), further restricting their ability to import these goods. Thirdly, the decline in consumer confidence, and consequently their purchasing demand, is evident. A recent survey by SHWAPNO Super Shop in Bangladesh revealed that the consumer confidence index stood at 32.5 in early October 2024, significantly below the benchmark value of 50. This decline in consumer demand due to higher prices has put pressure on businesses. Along with these persisting challenges, the new uncertainty created over political stability and increasing financing costs in view of the increasing rate of interest have further deteriorated situation in these months.

Figure 5.4: Weighted Average Interest Rate (WAIR) for SMEs and other than SMEs sector (%)



Source: Bangladesh Bank.

Financing SMEs: At a time when the rising financing costs affect the entire business sector, small and medium-sized enterprises (SMEs) are likely bearing a disproportionately greater impact. Data from Bangladesh Bank indicates that the average interest rate for SMEs is notably higher than that of other sectors in the ongoing fiscal year, meaning that, on a relative scale, SMEs cost of financing has increased more significantly (Figure 5.4). Data on the level of loan disbursements to Cottage, Micro, Small, and Medium Enterprises (CMSMEs) for the latest fiscal year is not available. However, the available data of Bangladesh Bank indicates that loans disbursed to Cottage, Micro, Small, and Medium Enterprises (CMSMEs) declined by 13.10 per cent year-on-year during the April-June quarter of FY2024 compared to the same period in the previous year. Given the deterioration of the overall business investment scenario in the beginning of FY2025, the CMSMEs, which was already experiencing negative growth in receiving of loan in FY2024, are likely to go through an even tougher situation presently.

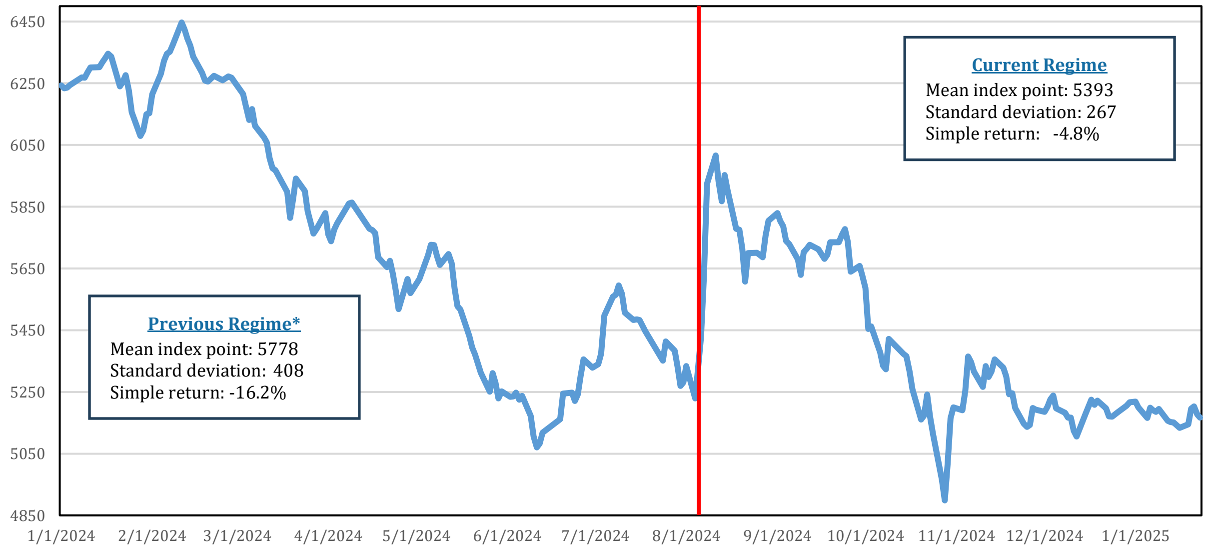
Table 5.3: Foreign direct investment(net)* (USD in million)

FY	FDI	FY	FDI	Change
FY2023	1697	FY2024	1649	2.9
FY2024 (July)	126	FY2025 (July)	141	11.9
FY2024 (August)	125	FY2025 (August)	142	13.6
FY2024 (September)	102	FY2025 (September)	17	-83.3
FY2024 (October)	131	FY2025 (October)	88	-32.8
FY2024 (November)	130	FY2025 (November)	-211	-262.3

Source: Bangladesh Bank.
Note: The red boxes indicate the months when the interim government took over the earlier government;
* FDI is calculated on a net basis by deducting disinvestment, repayments of loans & loss.

FDI Inflow: The net FDI data reflects a trend similar to other investment-related scenarios. While there was a 2.9 per cent increase in net FDI during FY2024 compared to FY2023, the most recent months of FY2025 show a significant decline in net FDI compared to FY2024 (Table 5.3). Furthermore, if only net inflows are considered, FDI actually declined in FY2024 as well. According to Bangladesh Bank data, net FDI inflow decreased by 8.8 per cent in FY2024 compared that in FY2023.

Figure 5.5: Comparison of DSEX index values

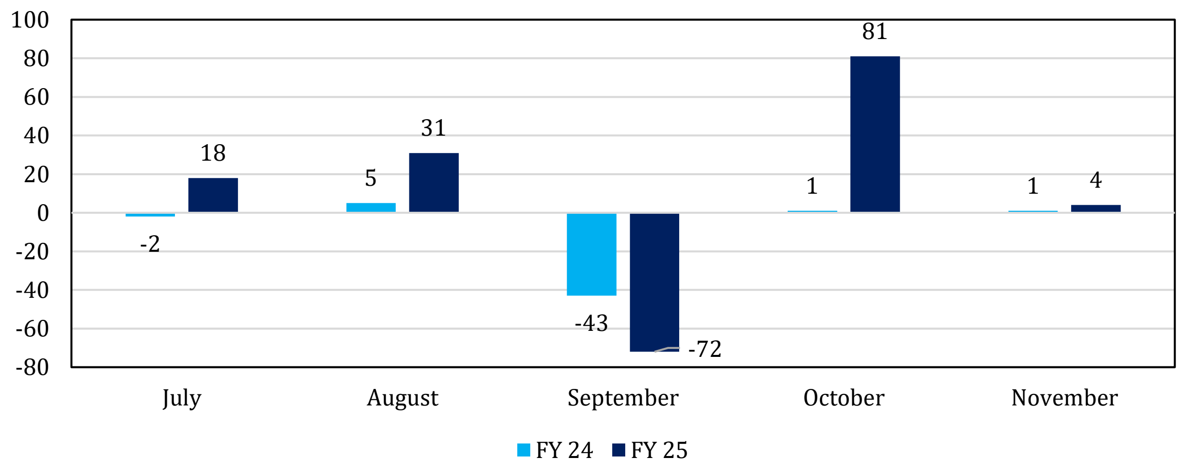


Source: DSE.

Investment in the capital market: The performance of the capital market during the first six months of the interim government remains somewhat similar, if not improved, compared to the last six months of the previous government. Although there was a significant spike in the market index initially when the government took overpower, a downward trend can be observed over time. Specifically, the mean DSX index point decreased to 5,393, compared to DSX index value of 5,778 under the previous government (last six months) (Figure 5.5). However, in terms of market stability, the market under the current government has performed relatively well—the standard deviation of the index reduced from 408 to 267. Despite the return from the market remains negative during both the previous and current governments, there has been an improvement under the current government, with returns shifting from negative 16.2 per cent to negative 4.8 per cent (Figure 9.1).

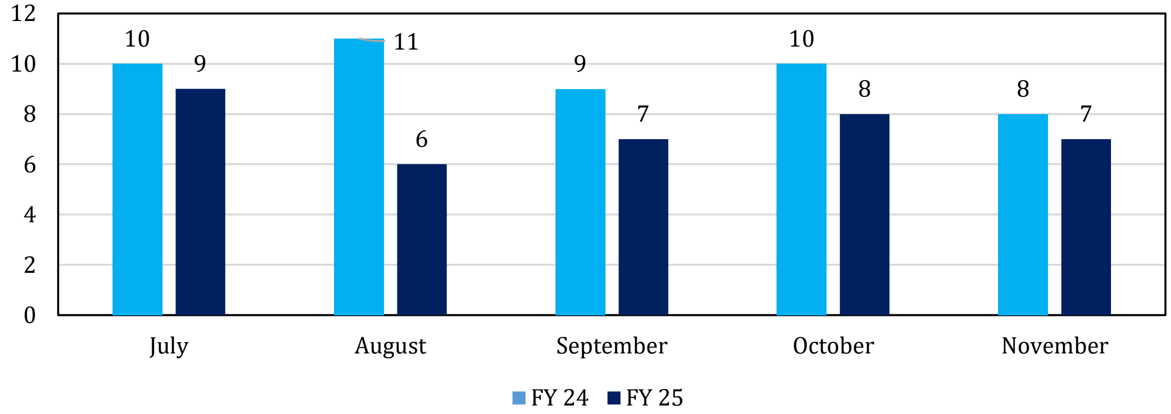
Since the interim government has replaced the previous administration, only an Initial Public Offering (IPO) of BDT 5,000 crore has been issued in the primary market. Although the capital market has yet to show significant performance improvements, net portfolio investment (investment in financial assets) has remained higher in recent months compared to the previous fiscal year (Figure 5.6). Notably, in September of FY2025, net portfolio investment reached a staggering USD 81 million—the highest recorded during this period (Figure 5.6). However, despite this substantial investment, share prices did not show notable increases during that month or in subsequent months. This is likely because much of the investment was directed toward purchasing other financial assets, such as bonds, rather than stocks in the capital market.

Figure 5.6: Portfolio investment (net) in the current and previous fiscal year (million USD)



Source: Bangladesh Bank.

Figure 5.7: Portfolio investment (net) by NRBs* in the current and previous fiscal year (million USD)



Source: Bangladesh Bank.
Note: *Non-Resident Bangladeshi

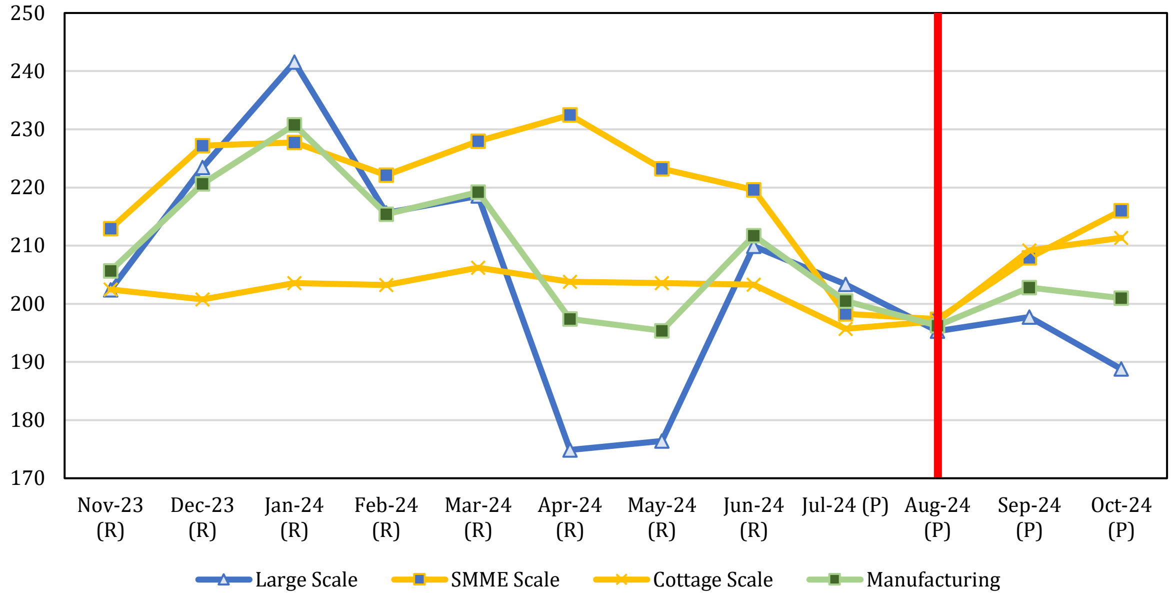
When examining portfolio investments by foreigners (non-resident Bangladeshi), a contrasting trend emerges. While the amount of portfolio investment has remained relatively consistent, ranging between USD 6 to USD 9 million during the initial months of the current fiscal year, a month-on-month decline is evident compared to the corresponding months of the previous fiscal year (Figure 5.7). Although the differences in amounts are not substantial, the downward trend could signal a gradual erosion of foreign investors' confidence in Bangladesh's financial markets.

5.3 Production and Employment Scenario

Amid the ongoing economic crisis in Bangladesh, it is crucial for businesses to maintain their current level of sales, export and production. The monthly Industrial Production Index (IPI), published by the Bangladesh Bureau of Statistics (BBS), provides insights into the overall production scenario, shows a similar trend to the investments.

While there were initial peaks in early of 2024, most scales—particularly Large Scale and Manufacturing—have experienced significant declines by mid-year (Figure 5.8). Although there is some recovery observed in the later months, the overall performance remains subdued, highlighting ongoing challenges in the industrial sector. It is important to note that the ongoing closure of factories, including 60 RMG factories such as those of Beximco and Keya Cosmetics, could hinder the recovery trend and further exacerbate the crisis in the upcoming months.

Figure 5.8: Index of Industrial Production (IIP) of all manufacturing enterprises of Large, SMME & Cottage Scale (Base Year: 2015-16=100)



Source: BBS.
Note: The red straight line indicates the month when the interim government took over the earlier government

Along with businesses, the unemployment scenario appears to have declined in recent months. The data from BBS suggests that the rate of unemployment, which was 4.07 per cent in the (July-Sep) period of 2023, increased to 4.49 per cent in the same period of 2024 (Table 5.3). The increase in the unemployment during this period occurred for both male and female workers (Table 5.3).

Table 5.3: Rate of unemployment in Bangladesh (in %) *

Group	(July to Sep) 2023	(July to Sep) 2024
Male	3.46	3.81
Female	6.15	7.16
Total	4.07	4.49

Source: BBS.
Note: *As per 19 ICLS

On the other hand, wage index published by BBS for across industries exhibits a relatively slow upward trend since the new government assumed office. In fact, wage growth in the manufacturing sector has remained lower compared to the agriculture and service sectors under both the previous and current regimes.

5.4 Ongoing Challenges for Businesses

The business sector of Bangladesh was already going through difficulties during the previous regime. The transition of government has introduced new challenges for businesses while intensifying many existing ones. The following table summarises major challenges that are still relevant for businesses:

Table 5.4: Major structural and operational challenges for Bangladeshi businesses

Structural Challenges	Operational challenges
Corruption	High tax rates
Inefficient government bureaucracy	Policy instability
Limited access to financing	Foreign currency instability
Inadequate infrastructure	Higher inflation
Poor work ethic in the labour force	Higher interest rate
Inadequate educated labour force	Complexities in opening Letters of Credit (LCs)
Complexity of tax regulations	Increased price of gas and electricity
Climate change	Interruption in the availability of gas and electricity
Crime and theft	Increase of VAT
Insufficient capacity to innovate	Frequent road and highway blockages
Government instability	Deterioration of law enforcement situation
Poor public health	Decreased consumer confidence

Source: Moazzem and Chowdhury (2024); scanning of newspapers.

While the most of structural challenges needs long term initiatives to be addressed, the government can focus on the operational challenges which can be addressed in the short term and bring immediate good outcomes. It is worth noting that numerous enterprises owned by individuals closely allied with the previous government were found to have acquired substantial loans through illegal means, which remain unpaid. Given the significant debt these companies carry, it is economically unviable to continue their operations in an attempt to recover the loaned funds. However, shutting down these enterprises would result in thousands of workers losing their jobs. Under the circumstance, the government must without delay intervene especially for the sake of workers.

5.5 Initiatives Undertaken by the Interim Government

Although it has only been around six months since the interim government assumed power—arguably too short a time to enact drastic changes—several immediate measures have been introduced to lessen the burden on businesses and attract investments. The following table summarises the key initiatives undertaken by the interim government that could affect the businesses and investment:

Table 5.5: Major initiatives undertaken by the government for businesses

Area	Initiative
Exchange rate management	USD rate adjusted upward to align with market demand and supply; interbank foreign exchange transaction limit increased from 1 per cent to 2.5 per cent to improve liquidity.
Foreign reserves	Government stopped selling USD from reserves to maintain stability, opting to purchase USD from the local market instead.
Energy prices	Under the automatic fuel pricing formula, diesel and kerosene prices reduced by BDT 1.25/litre; petrol and octane prices reduced by BDT 6.00/litre.
Reform of vulnerable banks	Boards of directors in vulnerable banks replaced with independent directors. Accounts of potential money launderers and loan defaulters frozen, and new loan issuance temporarily banned to prevent mismanagement.

Area	Initiative
Credit support to banks	Liquidity crisis addressed through Bangladesh Bank acting as guarantor; direct cash support provided by the central bank in some cases via money printing.
Inflation control	Central bank raised interest rates and adopted a contractionary monetary policy; government announced plans to reduce spending, with a revised budget for FY2025 expected by February 2025.
Foreign investment	Interim government putting effort to strengthened partnerships with international entities. EIB announced plans to double funding for Bangladesh, increasing its portfolio to €2 billion.
Reform of banking sector	Six-member task force created to reform the banking sector.
Reform commission	Commissions formed for reforms in: police, judiciary, public administration, the constitution, anti-corruption, health, mass media, labour rights and women's affairs, and local government.
Import duties	NBR reduced/withdrew duties on rice, onions, and potatoes. Daily commodities can now be imported without an LC or LC margin, and borrowing limits for companies importing food, daily commodities, and fertilisers have been lifted.
NBR reform initiatives	Advisory committee formed to reform the NBR and a task force to review the NBR Income Tax Act 2023.
Electricity pricing	Clause allowing electricity price increases by executive order cancelled.
Trade association reform	Interim government dissolved FBCCI and BGMEA board and appointed administrators. Change in leadership in BKMEA, and BASIS
Semi-conductor sector	The government has decided to establish a task force on the semiconductor sector to collaborate with BIDA in developing a comprehensive roadmap for sectoral growth. The initiative will prioritise enhancing testing, assembly, and scaling up chip design capabilities.

Source: Scanning of newspapers.

5.6 Recommendations for the Interim Government

In view of the current situation, the following recommendations can be considered by the interim government:

Operational

a) Prioritise immediate improvements in the law-and-order situation to ensure businesses can operate safely without the threat of extortion;
b) Offer long-term, fixed exchange rate guarantees specifically for potential foreign investors;
c) Design a subsidised credit facility with lower interest rates to support SMEs;
d) Expand the coverage of the social safety net programme to provide better protection to the ongoing deteriorating employment situation;
e) Explore further reductions in fuel prices using a market-based pricing model, with the potential to lower costs by BDT 10-15 per litre as suggested by CPD in its recent study;
f) Ensure a better supply of gas for industry by first track gas exploration in the country;
g) Enhance awareness of BIDA's one-stop service among stakeholders to improve accessibility;
h) Quickly hold the elections for the trade bodies that are being managed by administrators in order to better raise the voice to government and international community;
i) Avoid increasing VAT on goods without first strengthening monitoring mechanisms and digitisation of the process.

j) Address the anomalies in the primary and secondary markets

Structural

a) Set up a Better Business Forum (BBF) comprising representatives of government, business and other stakeholders and ensure businesses are notified of policy changes well in advance.
b) For revenue generation focus should be more on tax justice perspective, increasing dependency on direct tax and property tax.

Reference

Moazzem, K. G., & Chowdhury J. S., (2024) Interim Government Should Form Regulatory Reforms Commission to Uplift Country's Business Competitiveness. Available at: https://cpd.org.bd/interim-government-should-form-regulatory-reforms-commission-to-uplift-countrys-business-competitiveness/

SECTION VI. LOW PRODUCTION AND HIGH-COST SPIRAL OF RICE AND WHEAT

Key findings

- Aman production has decreased in the first half of FY2025 and has created a shortage in rice supply
- Wheat imports during the first half of FY2025 are almost half of last year, which further destabilised the cereal market
- The procurement is far behind the targeted amount – to date, only 37.8 per cent of rice has been procured (3.78 lakh mt)

Key recommendations

- Given the rise in demand for non-household consumption, particularly animal feed and industrial use, a proper estimation of annual rice demand is highly required
- The government may explore long-term contracts with Middle Eastern countries to import fertiliser, which would reduce fertiliser costs
- The procurement process needs to be revised and made transparent, open and accessible to all

6.1 State of Crop Sector during H1 of FY2025

6.1.1 Production of Rice and Wheat

Crop production, especially rice and wheat, has increased at a steady state over the last several years (Table 6.1). During the first half of FY2025, Aman was produced and harvested; however, no official data is available. The Ministry of Agriculture (MoA) has set a target of 22.6 million m tons of Boro production for FY2025, which is 7 per cent higher than the production of the last year (21.1 million tons). According to DAE, cultivation of Aman rice might miss the targeted acreage area due to consecutive floods during August 2024 over 23 districts during August 2024 (91 per cent cultivated till September, 2024). According to a newspaper report, Aman production is likely to be 1.3 million tons less than the targeted amount of 17.8. Given the shortages of Aman production and higher paddy/rice prices in the market, boro cultivation is likely to be at a higher acreage of land (targeted land: 50.70 lakh acre). According to BBS (2023), per capita rice consumption is declining in Bangladesh – from 367.2 grams in 2016 to 328.9 grams in 2022. However, growing pressure on the availability of rice in the market, even in normal production years, indicates that the use of rice at non-household levels, such as industrial raw materials, feed, etc., has been increasing. Hence, a detailed estimate of rice consumption at household and non-household levels is highly important to provide a better projection for the stakeholders on market demand for rice.

Table 6.1: Rice and wheat production (lakh metric tons)

Fiscal Year	Aus	Aman	Boro	Total Rice	Wheat	Total Rice+ Wheat	% Change
FY2019	28	141	196	365	10.2	375.2	
FY2020	28	142	196	366	10.3	376.3	0.3
FY2021	33	144	199	376	10.9	386.8	2.8
FY2022	30	150	202	382	10.9	392.9	1.6

Fiscal Year	Aus	Aman	Boro	Total Rice	Wheat	Total Rice+ Wheat	% Change
FY2023	29	154	208	391	11.7	402.7	2.5
FY2024	30	167	211	408	11.7	419.7	4.2
FY2025		**165(p)**	**226 (t)**		**12.1**		

Source: Author's analysis based on FPMU (2024).
Note: t stands for targeted amount; p stands for provisional

6.1.2 Import of Rice and Wheat

Given the shortages of production, the import of rice has significantly increased during FY2025. During the first half of FY2025, a total of 2.8 lakh m tons of rice has been imported- mostly by the private sector. Given the unstable rice market, the government has planned to import as much as 7 lakh m. ton, which would be the highest since FY2018. Despite the demand for wheat, as a close substitute for rice, imports during the first half of FY2025 are almost half of last year, which further destabilised the cereal market. The dearth in the availability of rice as well as wheat has directly affected the rice prices at the retail level, with fine rice prices rising by 14 per cent, medium rice prices by 17 per cent, and coarse rice prices by 7 per cent compared to the previous year (27 January 2024 to 27 January 2025).

Table 6. 2: Import of food grain in FY2024 and FY2025 (lakh metric tons)

Timeline	Foodgrain	Public	Private	Total
1 Jul'24 - 15 Jan'25	Rice	0.8	2.1	2.8
	Wheat	3.1	30.8	33.9
	Total	**3.9**	**32.8**	**36.7**
1 Jul'23 - Jun'24	Rice	0.0	0.0	0.0
	Wheat	7.8	58.4	66.3
	Total	**7.8**	**58.4**	**66.3**

Source: Author's analysis based on FPMU (2024).

6.1.3 Procurement of Rice and Wheat

The government has set a target for the procurement of Aman paddy, parboiled rice, and Atap rice, which amounted to 10 lakh m ton (Table 6.3). This target is significantly higher than the procurement of Aman rice in FY2024 (6.6 lakh m ton). To achieve the target, the government has increased the prices of all types of rice by about 7-10 per cent per kg. Despite that, the procurement is far behind the targeted amount – to date, only 37.8 per cent of rice has been procured (3.78 lakh m ton). Procurement is relatively better in case of parboiled and Atap rice (55 per cent); but it is significantly lower in case of Aman paddy (only 4.3 per cent). Despite the rise in procurement price, farmers and millers seemed to find the government-offered price (Tk.33-Tk.47) less competitive compared to the harvest market price, particularly in the case of Aman paddy (Tk.34.4 per kg).[3] One of the major reasons for low procurement is the standards set for procured rice, such as the level of moisture content, the share of broken rice, etc., which farmers find difficult to comply with. These are found to be the reasons for selling rice at the open

[3] Aman paddy is sold in early January 2025 in rural areas at a price of Tk.1200-Tk.1350 per maund.

market.[4] The cost of transporting rice to warehouses without assurances from the official that it will be purchased could raise both costs and risks for the farmers. Such conditionalities favour rice millers because they have the necessary facilities to comply with procurement conditions.

Table 6. 3: Aman procurement targets and achievements during FY2025 (till date)

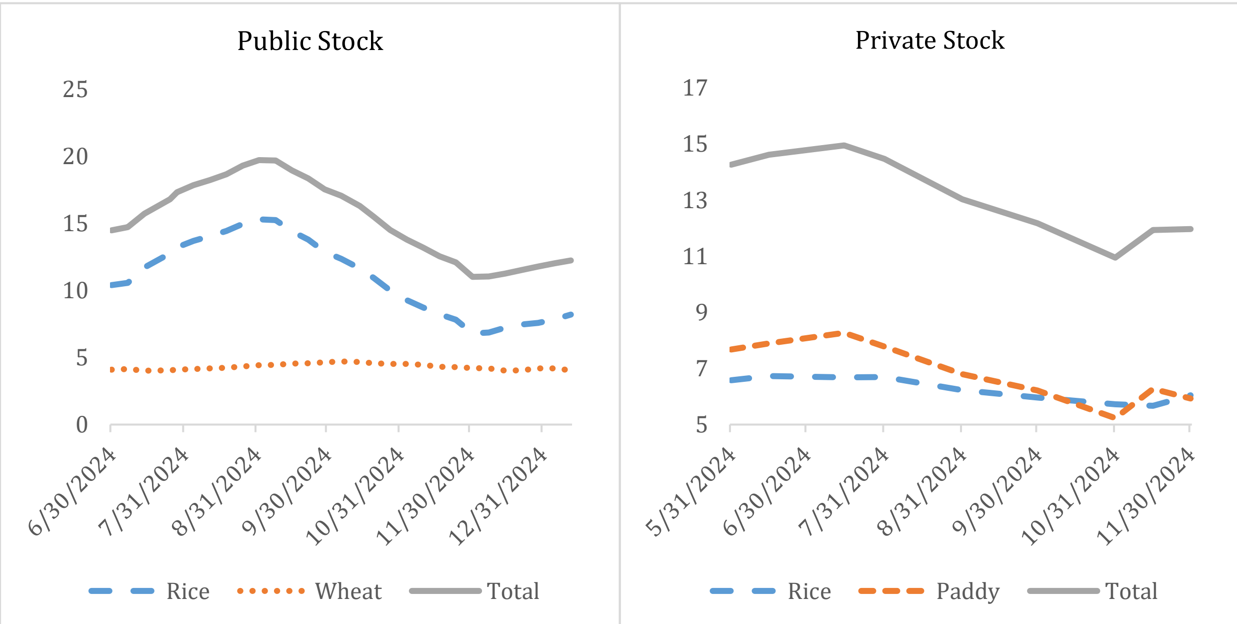
Aman Rice Types	Prices (Tk/kg)	Targets (tons)	Progress		Timeline
			Tons	Share	
Paddy	33	350,000	15204	4.30%	17 Nov - Feb 28
Parboiled Rice	47	550,000	307066	55.80%	
Atap Rice	46	100,000	55426	55.40%	17 Nov - 10 Mar
Total Aman		**1,000,000**	**377,696**	**37.8%**	

Source: FPMU (2024) and author's compilation from national dailies (2025).

6.1.4 Public Stock of Rice and Wheat

Public food stock of rice and wheat is considered as a major indicator of domestic availability of food in a certain period, which provides signals for market price, requirement of import and increasing production in the following season etc. Figure 1 shows that both public and private stocks of rice and wheat gradually declined in recent months and reached their bottom in October-November 2024. Public food stock on 1 December 2024 was only 11 lakh m. ton, while private stock reached 10.95 lakh m. ton on 31 October 2024. Such a decline in food stock is mainly attributed to a fall in the stock of rice, while the stock of wheat remained steady state over time. A lower level of food stock is partly associated with – (a) a lower level of aus production harvested in July 2024 (7 per cent lower than the average); and (b) a moderate level of procurement of boro rice where procurement ended in August 2024.

Figure 6.1: Public stock of rice and wheat and private stock of rice and paddy in Lakh metric tons (lakh m. tons)



Source: Author's illustration based on FPMU (2025).

[4] The condition for procurement of Aman rice states that the paddy must have a moisture content below 14 per cent to be procured.

6.1.5 Public Food Distribution System (PFDS)

In the first half of FY2025, PFDS is lower compared to the same period in FY2024 (Table 6.4). A lower food stock forced the government to reduce the food distribution. As of December 2024, the total public stock of foodgrains stands at around 11.78 lakh metric tons. From July to December 2024, a total of 12.43 lakh metric tons of rice and 3.05 lakh metric tons of wheat were distributed through the PFDS channel. In January 2025, the stock decelerated to 12.2 lakh m. a ton, of which rice is only 8.2 lakh tons.

Table 6.4: Public stock and public food distribution by the government in lakh metric ton

Months	Public Stock (Cumulative)		Public Food Distribution Situation (Cumulative)	
	Rice	Wheat	Rice	Wheat
Jul-24	13.23	4.1	0.86	0.80
Aug-24	14.98	4.34	1.73	1
Sep-24	12.9	4.64	4.95	1.45
Oct-24	9.99	4.52	8.35	2.08
Nov-24	7.83	4.28	11.1	2.57
Dec-24	7.58	4.2	12.43	3.05
Jan-25	8.2	4.05		

Source: Author's illustration based on FPMU (2025).

The public food distribution system (PFDS) comprises two broad sectors: sales and non-sales (relief). Relief activities such as Food for Work and VGD programmes have seen a reduction in PFDS allocations (Table 6.5). While rice distribution has increased, there has been a significant decline in the distribution of wheat. However, the PFDS was observed at its peak from September to October to support the flood-affected people in 23 districts (FPMU, 2025).

Table 6.5:PFDS comparison in the first half of FY2024 & FY2025 (in Metric Tons)

Types	Sub-sectors	1 Jul'24 - 9 Jan'25			1 Jul'23 - 11 Jan'24		
		Rice	Wheat	Total	Rice	Wheat	Total
Financial Sector	EP	123545	79434	202979	123800	79167	202967
	OP	5121	765	5886	7449	1310	8759
	LE	0	10464	10464	0	10605	10605
	OMS	408642	216540	625182	394343	195127	589470
	Food Friendly Programme	444080	0	444080	440452	0	440452
	4th class govt personnel	0	0	0	0	0	0
	Freedom Fighter	0	0	0	0	0	0
	Garments	0	0	0	0	0	0
	Others	0	0	0	300	0	300
	Sub-total	***981388***	***307203***	***1288591***	***966344***	***286209***	***1252553***
Relief Type Sectors	Food for Work	5	63	68	31711	33729	65440
	TR	1	0	1	0	8	8
	VGF	24055	1157	25212	23848	875	24723
	VGD/VWB	186774	0	186774	187227	0	187227
	School Feeding	0	0	0	0	0	0

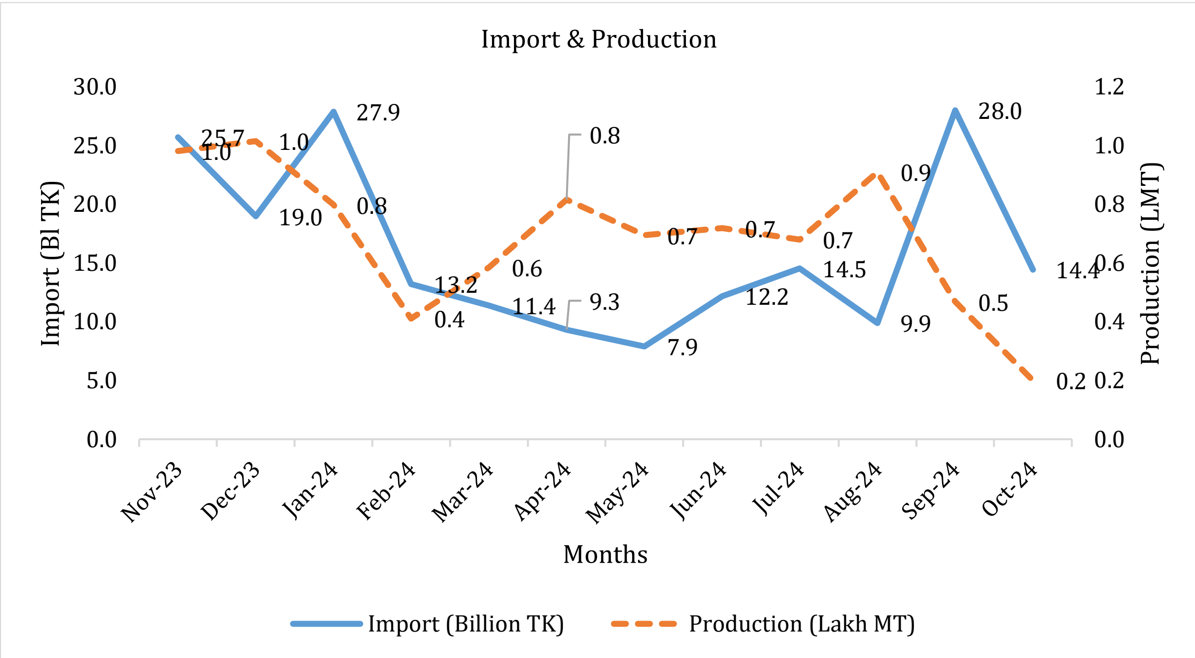
Types	Sub-sectors	1 Jul'24 - 9 Jan'25			1 Jul'23 - 11 Jan'24		
		Rice	Wheat	Total	Rice	Wheat	Total
	GR	45953	0	45953	40233	0	40233
	Others	17311	11350	28661	29548	14558	44106
	Sub-total	***274099***	***12570***	***286669***	***312567***	***49170***	***361737***
	PFDS (Total)	**1255487**	**319773**	**1575260**	**1278911**	**335379**	**1614290**

Source: Author's illustration based on FPMU (2025).

6.1.6 Supply of Fertilisers

Domestic production of fertiliser has been increasingly facing challenges. Fertiliser production has been declining over the years - from 11.4 lakh MT in FY2010 to 6.6 lakh MT in FY2024. During October 2024, production was lowered to as low as 0.2 lakh m. ton, which was 1.0 lakh m ton a year before (November 2023) (Figure 6.2). The sluggish trend in fertiliser production has forced the government to import of fertiliser. However, the domestic supply of fertiliser has not been stable in recent months. However, fertiliser imports have also decreased. The fertiliser stock for the Boro season 2025 is about 20.8 lakh m. ton (Table 6.6), which is significantly lower than the previous year (28.7 lakh m. ton). Failure to allocate a sufficient amount of dollars for the import of fertiliser, higher import costs and delays in import payments for fertiliser forced them to import less than the requirement. Because of the limited availability of fertiliser, farmers report about Tk.2-11 higher price than the official price for one kilogram of urea and non-urea fertiliser during this season.

Figure 6. 2: Production and import of fertiliser



Source: Author's compilation from Bangladesh Bank (2024) and CEIC (2024).

Table 6. 6: Fertiliser Stock for upcoming Boro Season (Jan-Mar 2025)

Fertiliser Type	Stock (Lakh Metric Tons)
Urea	11.0
Triple Super Phosphate (TSP)	2.4
Di-Ammonium Phosphate (DAP)	4.8
Muriate of Potash (MoP)	2.6
Total	**20.8**

Source: Author's analysis from National Dailies (2025)

6.1.7 Production Cost

Over the years, the cost of rice production has increased. The rising production cost is associated with higher costs of fertiliser, pesticides, seeds, irrigation, land rent, labour, machine-based farming, etc. A part of the escalated costs is associated with imported inputs where devalued taka against USD increased the import cost.

It is not clear how much the farmers can accommodate the higher production cost during the sales in the harvest seasons. It is reported that farmers received Tk.1250-1320 per maund of paddy during the Aman season in November-December 2024, which is higher than the harvest season price of the earlier year. This indicates that farmers could partly accommodate the higher production cost through the rising harvest price. However, a higher retail price of rice, as evident in November 2024 - January 2025, indicates that most of the margin in the rice supply chain is accrued by the distributing agents. A similar statement can be found in Table 6.7, where the farmer's margin is lower than that of wholesalers and retailers.

Table 6. 7: National average market price of Rice and Wheat

Product name	2019	2020	2021	2022	2023
	Received by farmers (tk/kg)				
Boro (coarse)	17.3	24.3	24.6	27.9	27.9
Boro (medium)	19.8	26.9	27.9	31.3	30.3
	Received by wholesalers (tk/kg)				
Rice (coarse)	27.5	35.6	41.1	42.5	44.3
Rice (medium)	34.9	40.8	48.3	51.4	52.7
Rice(fine)	45.4	51.9	56.7	62.9	64.3
	Received by retailers (tk/kg)				
Rice (coarse)	30	55	43	45	47
Rice (medium)	37	43	51	54	56
Rice(fine)	48	48	60	66	68
	Wheat (tk/kg)				
Farmer's end	23	24	29	45	44
Wholesalers	25	25	27	37	45
Retailers	27	28	30	39	48

Source: Author's illustration based on DAM (2024).

6.2 Initiatives Undertaken by the Interim Government

The interim government has undertaken a number of measures to increase the production of rice and wheat as well as to stabilise the supply of fertiliser, etc. First, the government has tried to maintain fertiliser stock to avoid shortages until January 2025. It has tried to maintain supply in the pipeline to meet the requirement in boro seasons till April 2025. Second, the interim government has focused on streamlining fertiliser subsidies to increase efficiency and reduce wastage. A digital distribution system is being developed to ensure transparency and effective subsidy management on fertiliser distribution. This initiative is expected to save Tk2,500-3,000 crore annually. Third, the government plans to invest in modern storage and transportation infrastructure to better handle fertiliser. Real-time tracking and monitoring systems are also being introduced to ensure timely distribution of fertiliser. However, the government needs to take measures to improve production and reduce the production cost of rice and wheat.

6.3 Reform Measures in the Supply of Rice and Wheat

First, given the rise in demand for non-household consumption, particularly animal feed and industrial use, a proper estimation of annual rice demand is highly required. Such an estimation will consider not only the household-level consumption of rice as reported in HIES conducted by BBS; it needs to conduct a special survey targeting non-household consumption of rice and wheat. Second, the production cost of rice needs to be reduced with a special focus on the reduced price of imported raw materials such as fertiliser and pesticides. Given the gas supply shortage, it would be difficult to supply domestic natural gas to the fertiliser factories as per their requirements. The government may explore long-term contracts with Middle Eastern countries to import fertiliser, which would reduce fertiliser costs. The leakages in subsidies for fertiliser and other inputs need to be reduced. It is important to monitor how the recently introduced digit tracking of fertiliser distribution system works to ensure efficiency in fertiliser distribution.

Third, lowering inflation in rural areas would help reduce the cost of labour in rice and wheat production. Special efforts should be made to lower food inflation in rural areas. Increased mechanisation in major farming activities, including sowing, transplanting, and harvesting, along with using day labourers, could help reduce production costs.

Fourth, the domestic procurement of rice and wheat needs special attention. The government should effectively utilise the special committee to monitor food supply and food prices to provide early warnings on domestic food stock in the public and private sectors and necessary initiatives to be undertaken on an urgent basis. A permanent commission to be led by a renowned agriculture economist could be set up to monitor and suggest concerned ministries on food production, import and market price-related issues.

Fifth, the procurement system, including setting procurement prices, needs to be done more efficiently. A specialised commission, as mentioned above, could do that work efficiently. The conditions for procurement indirectly facilitate large farmers and millers and discourage small-scale rice producers from selling their rice to the public channels. The procurement process needs to be revised and made transparent, open and accessible to all.

Sixth, a special effort should be made to increase foreign exchange reserves, which would slow down the devaluation of the taka against the USD. A better reserve would facilitate importers of fertiliser to supply the required amount of fertiliser during the season.

SECTION VII. THE CRISIS IN THE POWER AND ENERGY SECTOR: ENTRAPPED IN A "VICIOUS CYCLE"

Key findings

- The spiral effect caused by the ever-rising debt has entrapped the sector into a vicious cycle which most likely will not be ending in near future
- Initiative such as approval of LNG import from USA and spot markets have raised concerns regarding government's intention to actually reduce import cost and enhance domestic resources and renewable energy
- The fact that there is still a barrier in the disclosure of the PPA and other public agreement of the power plants shows that the interim government is not doing enough to keep up with their commitments

Key recommendations

- A specific two-year plan with the agenda to end this cycle in which the whole sector has been entrapped needs to be identified
- The government should deprioritise importing LNG and should focus on exploration of domestic natural gas
- All documents and reports related to public procurement, especially power plants, should be accessible to public as these are not confidential documents by law.

7.1 Background

Bangladesh has entered a new political phase with the starting of the operation of an interim government on 8th August 2024. As major reforms are needed in key economic sectors specially power and energy sector; it is expected that the new government will work on the priority areas of reform the sector within their timeline and help facilitate the energy transition in the country. Significant commitments regarding the energy transition in Bangladesh were made in the initial stage of the interim government.

It is to be noted that, despite making progress in ensuring access to grid electricity across the country, through considerable public and private investment in generation, transmission, and distribution, the sector entered a phase of huge financial loss, public debt, and fiscal burden. Thereby the earlier government faced major fiscal pressure passed on to the new regime and this regime tried to ease those burden. The fiscal and financial stress caused by the power and energy sector is considered as one the most important factors for current macroeconomic challenges. This regime had to handle the unaccountable old institutional setup, lack of transparency, faulty policies, wastage of resources and huge financial burden to the users of electricity and energy.

The Head of the Interim Government Professor Yunus's vision of creating a world of three zeros that includes one zero which is in line with energy transition in the country; "*Zero net carbon emission*". The advisor in charge of the power and energy sector had long experience working as a top bureaucrat on the power and energy sector. The country's solar- home system (SHS) was introduced during his tenure although the system did not work properly due to faulty maintenance strategy. Overall, it is expected that the interim government will work in line with ensuring energy transition although addressing the current fiscal and financial challenges.

7.2 State of the Power and Energy Sector during H1 of FY2025

a. Overall sectoral changes

During the first half of FY2025 the installed power generation capacity has somewhat reduced mainly due to phase out of some of the fossil fuel-based power plants. No further extension of the fossil fuel based rental and quick rental power plants have been observed during the last six months. All the scheduled power plants were phased out as per the timeline. These power plants are mostly oil based which explains the reduction of fuel oil share in the energy mix. In addition to that, the share of fuel oil has reduced by 2 per cent as the demand have been lower than usual due to the seasonal variation and expensive fuel oil were avoided to lower the cost of electricity generation. Otherwise, the fuel mix remains same as the previous regime mostly dominated by the gas or LNG (43 per cent of the total share). The share of the renewable- based power generation is still insignificant (4 per cent).

Table 7. 1: Overall changes in the power and energy sector

Indicator	Status in 1 August 2024	Status in 15 January 2025
Installed capacity (MW, on-grid and off- grid)	31,520 MW	31,144 MW
Fuel mix		
Natural gas	43%	43%
Furnace oil	23%	21%
Diesel	2%	2%
Coal	19%	21%
Hydro	1%	1%
On- grid solar & wind	2%	3%
Electricity import	10%	9%
Total Transmission Line (circuit km)	15,636 Circuit km	16,060 Circuit km
Total Distribution Line (km)	6,43,000 km	6,48,725 km
Share of RE (MW)	3%	4%

Source: BPDB and SREDA.

Considerable rise in transmission and distribution lines is observed during the last 5-6 months. Despite the progress, the transmission and distribution lines are behind the required speed especially considering the stabilising grid to accelerate renewable energy. Unfortunately, the progress of renewable energy integration has not seen much improvement in the last 6 months. In fact, delays in commercial date of operation of those power plants are still prevailing in case of the renewable energy power plants. The decision to cancellation of LoI cancellation of the 35 solar power plants have put the renewable energy transition in the backseat.

Table 7. 2: State of Gas and LNG supply

	Status in 1 August 2024	Status in 15 January 2025
Total gas supply (mmcfd)	3239.3	2801.3
Share of domestic gas (mmcfd)	2634 (77%)	1,935.2 (69%)
Share of imported LNG (mmcfd)	605.3 (23%)	866.1 (31%)

Source: Petrobangla daily gas data.

The table 7.2 demonstrates the state of the total gas consumption in two different time point. A small decrease in the total gas supply mainly due to the supply shortage can be observed. However, a steeper decrease in the domestic gas supply can be noticed which leaded to sharp increase in the share of imported LNG supply to meet the domestic gas demand.

b. Institutional changes

The current interim government has been working on institutional reformation of the power and energy sector from the day it took power. Immediately after taking over the power, the interim government announced that Bangladesh Energy Regulatory Commission (BERC) will determine the prices of fuel oil, gas and electricity through public hearings, not by the government. However, the fuel oil price is still being set by the government which does not even reflect the international market price. Furthermore, significant initiative has yet to be taken by the interim government to reform Sustainable and Renewable Energy Authority (SREDA). On a brighter note, the chief advisor has instructed to incorporate a separate renewable energy cell within the organigram of all the government institution in the power and energy sector. This is a praise worthy initiative that can actually help the institutions to become more sensitised on energy transition in the country are mostly related with operational issues. However, this initiative needs to be followed through by more actions and pro- renewable energy decisions at the ministry and department levels. The activities taken against the commitments under the institutional reform banner has not demonstrate much significant progress.

c. Operational changes

The initiatives taken and activities carried out are mostly related with the operational issues. These include, opening tenders under Public Procurement Act and Public Procurement Rules, LNG import, gas exploration, review of controversial PPAs, and floating tenders for new power plants. After discussion and negotiation during the previous regime, the interim government of Bangladesh has signed a trilateral agreement with India and Nepal to import 40 megawatts of electricity from Nepal is hydropower plants which will be imported for five months during June to November.

There is a plan to drill a total of 35 gas wells across the country by 2025 for which three key projects have been approved. The projects are procurement and installation of a 60 mmscfd capacity process plant for the Bhola north gas field, drilling of Rashidpur-11 (exploratory) well project and 2D seismic survey over exploration blocks 7 and 9. A total of 10 wells are supposed to be explored using rented rigs, while the remaining 26 will be awarded through open bidding. However, so far, the drilling of only one well has begun, and the survey process for another well has started. The pace of work raises question regarding completion of the necessary well during the remaining 5 months after the fiscal year. Interim Government approved resuming spot LNG imports after seven months, 58 authorising nearly two dozen firms to supply LNG and enhance competition. Recently BIDA chairman signed approval of LNG import from USA. Such initiatives have raised concerns regarding government's intention to reduce import cost and enhance domestic resources and renewable energy. Progress have been made regarding the expedite of renewable energy through floating tenders for solar power plants a total of 12 power plants, with a total capacity of 323 MW to be installed. However, the court's ban on coal imports has been suspended, which could hinder the government's renewable energy goals.

d. Legal/ policy changes made during the last 6 months

In the first 6 months, the current government is largely active in reforming the legal issues of the power and energy sector. *First*, the finalisation of the repealing the quick enhancement of power and energy act 2010 is a remarkable stepping stone towards the fair, and competitive procure process. *Second*, the government has made a committee to review some power purchase agreements signed during the earlier regime. *Third*, discussion is ongoing regarding how to renegotiate the power purchase agreement with India's Adani Power in order to significantly reduce electricity prices unless the court ultimately orders the cancellation of the agreement. *Fourth*, the High Court has ordered the formation of a high-powered inquiry committee comprising international energy and legal experts to provide a detailed report on the power purchase agreement with India's Adani Group.

Fifth, the current government has also decided to review and revisit the Integrated Energy and Power Master Plan (IEPMP) and reevaluating the Renewable Energy Policy, 2025 to align with sustainable development goals. *Sixth*, along with these policy reformations a restoration action comes soon from the interim government to reinstate the fiscal package for renewable energy-based power plants to attract potential investors. Renewable energy investors would enjoy tax breaks until 2030 on the income derived from power generation. The interim government is set to offer a 10- year tax exemption for electricity generation from renewable energy sources. Additionally, a 5 per cent advance VAT on imported materials for renewable power generation will be waived based on certification from the Power Division. Overall, the initiatives to make an impact in the policy and legal domain of the sector is much appreciated compared to the previous domains. With that being said, more firm determination is required to achieve the commitments of legal reformation.

The most unfortunate issue is that even after openly declaring that all the Power Purchase Agreements (PPA) will be made public, the PPA and other agreements are still not been disclosed for public consumption. This shows lack of transparency under the interim government. In fact in recent times, CPD has applied for the power purchase agreement, project proforma, fuel supply agreement and implementation agreement of some power plants under RTI for research purposes. However, CPD's application was refused by showcasing the reasons of national security, integrity, sovereignty, hinder relationship with foreign states, and international organisations and others. Table 7.3 details out the status and reasoning of the rejection.

Table 7. 3: CPD's Application at the RTI of the MoPEMR

<table>
<tr><th></th><th></th><th>Date</th><th>Details</th></tr>
<tr><td rowspan="5">The information requested for 28 power plants:
• Power Purchase Agreement
• Project Proforma
• Implementation Agreement
• Energy Supply Agreement</td><td>1st Application</td><td>11/12/2024</td><td rowspan="2">Suggested to Reapply</td></tr>
<tr><td>Response</td><td>17/12/2024</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td>2nd Application</td><td>19/12/2024</td><td rowspan="2">Denied providing information by showing the following reasons:
The requested information will
• Endanger Bangladesh's security, integrity, sovereignty</td></tr>
<tr><td>Response</td><td>31/12/2024</td></tr>
</table>

		Date	Details
			• Hinder relationship with foreign states, international and regional organisation or alliance • Breach Copyright • Divulge secret technical and scientific research information
	Appeal	7/01/2025	In the Hearing, the following reasonings were presented on CPD's behalf • The requested documents are administrative, commercial and developmental in nature, with no direct link to national security and sovereignty. • The documents pertain to domestic power and energy projects and do not inherently involve sensitive foreign policy issues. • The requested documents are not copyrighted. Even if are, sharing those documents for transparency and research does not constitute copyright infringement, as it is not for commercial purpose but for public accountability • The documents requested are legal and administrative, not scientific and technical
	Hearing	22/01/2025	
	Response of Hearing	27/01/2025	Declined the appeal

Source: CPD Power and Energy Studies.

7.3 The Vicious Cycle of Debt in the Power and Energy Sector

Bangladesh's energy sector is facing severe financial strain, the earlier regime is solely responsible for this. This has spiralled from individual public institutions to the National Revenue Board (NBR). These state-owned entities are under significant pressure, struggling to meet financial obligations while ensuring an uninterrupted supply of electricity and gas. This mounting debt poses a serious threat to the stability of the country's energy infrastructure, jeopardizing essential services. While BPDB and Petrobangla face much higher arrears, the state-owned Bangladesh Petroleum Corporation (BPC), responsible for importing and supplying fuel oil, is in a relatively better financial position. Despite some accumulated dues, BPC has managed to maintain a more stable financial standing compared to BPDB and Petrobangla. Table 7.4 demonstrates the financial situation of the public authorities. It is clear from the table that the financial situation of BPDB specially will hardly support it to clear its debt or loans because BPDB itself is in red. The situation is same for Petrobangla as well. Only BPC is in a better off position as it has been increasing the fuel oil price constantly.

Table 7. 4: Financial situation of public authority (Crore taka)

	BPDB	PetroBangla	BPC
Net loss/ profit for the Year	-8,764	-14,555	3841
Subsidy from Government	38,289	39,535	0
Loan or Payment Due	29,400	8664	0

Source: BPDB, BPC and Petrobangla Annual Report.

Bangladesh Power Development Board (BPDB)

The energy sector in Bangladesh is under significant strain due to a mounting financial crisis, with the Bangladesh Power Development Board (BPDB) particularly facing unprecedented pressure from outstanding dues. As of November 2024, the BPDB's debt has soared to over BDT 40,000 crore, with more than BDT 19,000 crore of this owed for gas bills for power plants. Furthermore, an additional BDT 21,000 crore is owed to both government and private power plants, and these debts are putting pressure on power plants that depend on imported fuel. If left unresolved, these power plants may struggle to continue production due to the inability to import necessary fuel.

A large portion of the BPDB's outstanding debt is owed to power plants, particularly to Adani's power plant in Jharkhand, India. The BPDB owes Adani's plant approximately USD 845 million dollars (8,400 crore taka), making it the single largest outstanding debt in the power sector. The Adani plant, which is currently operating at only half of its capacity due to low demand, has raised a dispute with the BPDB regarding its coal bill. According to BPDB, Adani has submitted bills based on higher coal prices, while the BPDB has been accounting for them at market prices, resulting in a standoff.

If these debts are not settled soon, Bangladesh could face severe power shortages. At present Adani is supplying only half of the total agreed capacity. The BPDB's plea for an urgent fund of Tk 80 billion from the government underscores the gravity of the situation. The funds are needed to maintain an uninterrupted power supply across the country, but the ongoing issue of outstanding debts makes this goal increasingly difficult to achieve.

Bangladesh Petroleum Corporation (BPC)

Bangladesh Petroleum Corporation was financially struggling during 2024. To come out of the crisis, BPC adopted the market-based pricing system and raised the dual oil price. Despite these efforts, BPC continues to face financial pressures, with foreign suppliers still owing the corporation USD 346 million at the beginning of September. By early October, BPC's arrears had dropped to USD 110 million, indicating some improvement in its financial standing.

In contrast to its previous financial struggles, during which BPC's outstanding dues had reached nearly USD 50 million under the previous government, the corporation is now in a relatively better position. However, by January 15, 2025, BPC had accumulated USD 80 million in outstanding dues, with its annual demand exceeding USD 4.2 billion.

Figure 7. 1: The outstanding debt and financial crisis within the Power and Energy Sector

BPDB: 21,000 crore taka is owed to both government and private power plants. The BPDB owes Adani's plant approximately USD 845 million (8,400 crore taka)

IPP: The Independent Power Producers (IPPs) and public sector power plants owe a cumulative amount of Tk195 billion to Petrobangla until mid-November for their consumption of natural gas to generate electricity

Petrobangla: Combined with the USD 722 million (around Tk 8,664 crore) owed to foreign companies for natural gas and LNG imports

- Have an outstanding debt of USD 222.55 million (around Tk 2,670 crore) for gas supplied from the Bibiana gas field, operated by Chevron Bangladesh
- Owes USD 499.54 million (around Tk 5,994 crore) to six foreign companies for LNG purchases from the spot market

National Board of Revenue (NBR): Petrobangla has outstanding tax payable of Tk 35,862 crore to NBR

Source: Authors' representation from newspapers.

Bangladesh Oil, Gas and Mineral Corporation (Petrobangla)

Petrobangla, the state-run Bangladesh Oil, Gas and Mineral Corporation, is facing severe financial strain due to substantial outstanding dues that have accumulated across various sectors. This has placed significant pressure on both Petrobangla and its subsidiary entities, which are struggling to meet their financial obligations. The corporation's financial challenges are further exacerbated by unpaid taxes and VAT, putting its liquidity position in a precarious state.

As of 26 August 2024, Petrobangla had an outstanding debt of USD 222.55 million (around Tk2,670 crore) for gas supplied from the Bibiana gas field, operated by Chevron Bangladesh. Additionally, Petrobangla owes USD 499.54 million (around Tk 5,994 crore) to six foreign companies for LNG purchases from the spot market between April and August 2024. Combined with the USD 722 million (around Tk8,664 crore) owed to foreign companies for natural gas and LNG imports, Petrobangla is facing a significant financial burden.

In response to these challenges, the Energy and Mineral Resources Division (EMRD) has sought a Tk 5.0 billion subsidy from the Ministry of Finance to pay the outstanding gas bills. However, Petrobangla continues to face liquidity issues that hinder its ability to meet its tax and VAT obligations in a timely manner.

To alleviate some of the financial strain, the government has intervened in Petrobangla's foreign debt management. By early September 2024, Petrobangla's total outstanding debt had been reduced to USD 400 million, down from USD 515 million. This reduction was made possible through swift government action, but challenges remain, particularly concerning further payments for gas supplies from Chevron and Tullow, as well as LNG imports.

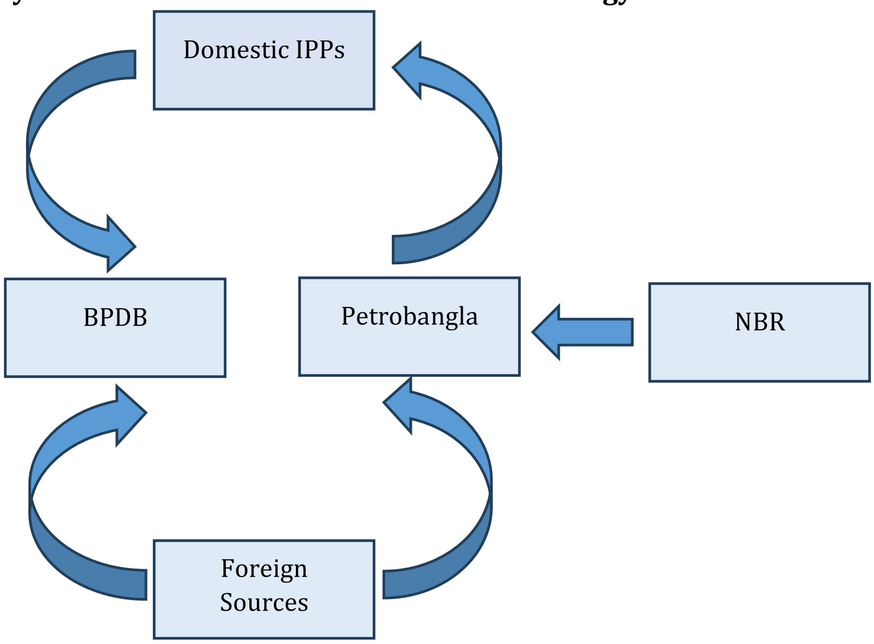
National Board of Revenue (NBR)

One of the most concerning aspects of Petrobangla's financial struggles is its failure to pay taxes and VAT to the National Board of Revenue (NBR). By mid-November 2024, Petrobangla's unpaid taxes and VAT amounted to around Tk 350 billion, further jeopardizing the corporation's financial stability. The corporation's mounting tax liabilities reflect a dire liquidity situation, which is preventing Petrobangla from fulfilling its obligations to the NBR.

On the revenue front, the National Board of Revenue (NBR) has sent a letter to the Ministry of Finance requesting the collection of outstanding revenue of Tk 35,862 crore from Petrobangla. In response, the Ministry has decided to offer Petrobangla an interest-free loan over three fiscal years to assist in repaying these obligations. These loans will amount to Tk 5,000 crore in the fiscal year 2023-24, Tk 5,000 crore in 2024-25, and Tk 3,278 crore in 2025-26.

Petrobangla's growing debt is further complicated by its failure to meet its capacity charge liabilities to Independent Power Producers (IPPs) and rental power plants. The government's liabilities on account of these charges were recorded at Tk 25.17 billion in December 2023, rising sharply to Tk 46.47 billion by June 2024, reflecting a nearly 85 per cent increase in just six months. These rising debts are another indication of the significant financial strain Petrobangla is under.

Figure 7. 2: The Vicious Cycle of Debt and Dues of the Power and Energy Sector



Source: Authors' illustration.

7.4 Recommendation

In order to make a way out of the vicious cycle of debt of the public authorities a short to medium term crash plan is required. A specific 2-year plan with the agenda to end this cycle in which the whole sector has been entrapped needs to be identified.

a. Recommendations for the public authorities to come out of the financial crisis

BPDB needs to come out of its debt: BPDB has been in red for consecutive years mainly due to the high power generation cost from the IPPs, rental and quick rental power plants. The loss is so high that the huge subsidy is failing to cover those and will not be able to cover the loss even in future. BPDB needs to reduce its operating cost by not purchasing electricity at unreasonably high rates. Instead, it needs to generate more electricity from its own power plants or public power plants which are mostly gas-based power plants. BPDB needs to phase out the inefficient and old fossil fuel power plants as these power plants require more fuel to run to generate a small amount of electricity. BPDB should negotiate with the power plants to stop capacity payment and replace it with the *'No Electricity, No Pay'* clause, including the Adani Power Plant. A competitive energy price procured for power generation would reduce BPDB's expenses for energy. A plan needs to be made to repay the money of bonds and it's interest that have been used so far by the Ministry of Power, Energy and Mineral Resources for immediate repayment of the debt.

BERC should be responsible to ensure the fair pricing of the electricity and fuels: As the government has restraint the BERC's institutional power by book and by law, now it is time to actually enable BERC the power that it is supposed to have so that the institution can stay true to its designated role. BERC's role is much-needed as the sector is fighting to end the debt spiral. BERC as an authority can investigate the power plants and other energy companies regarding the financial auditing and reporting. A firm stand from BERC's end can help these institute prevent from inflating the generation cost or import cost through thorough assessment and even public hearings. In line with that, BERC must also work towards setting a fair price so that the debt burden can't be passed upon the consumers.

Petrobangla should shift its priority from LNG import to domestic gas exploration: The target set of drilling 36 wells by 2025 will not be possible unless the priority is shifted from LNG import to domestic gas exploration. As the progress on the onshore gas exploration by rented rigs are very disappointing, BAPEX should focus in exploring the other 9 gas wells instead of seeking ways to import LNG. In case of open bidding, the terms of references and the conditionalities of those tenders need to be reviewed and revised accordingly. More well workover projects should be undertaken to ensure the daily gas requirement (2,000mmcf/d) is mostly met with the local gas rather than approving more LNG import agreements from international market at spot purchase and long-term agreements. Such initiatives will help reduce the pressure of the import bills of LNG import from spot market and long-term contracts.

Ensuring transparency and accountability of financial accounts of the public authorities: The actual financial state of the public authorities needs to be transparently revealed to the public to ensure accountability. The financial data of BPDB, BPC, RPGCL, and PetroBangla should regularly be updated on the respective websites with audit reports. In fact, the financial accounts of the public authorities specially BPDB, BPC and PetroBangla must be reassessed. The non- transparent public accounts and mismatch regarding the financial accounts within the different public documents have raised the credibility question of the financial reporting. The accounts of BPDB, BPC and PetroBangla must be reassessed by the big four international audit firms to find out the actual scenario of their loss profit.

b. Other related recommendations

Renegotiating the cancelled LOIs to ensure fair tariff rates: The government should reconsider and renegotiate the cancelled LOIs of the solar power plants and try to come up with a solution that will help assure the investors that their time and money have not been wasted. Only if the unfair and non- competitive tariff was the issues, the government can discuss and negotiate the matter with the power producers. Even the board and management of the LOIs could be reshuffled making those efficient and competent.

Prioritising the identification and assessment of renewable energy resources such as solar, wind, and hydro across different regions of Bangladesh: The initiative should include feasibility studies, potential site identification, and resource mapping. Transparency in these assessments is critical to attract both local and international investments. A thorough satellite mapping can be carried out by the government to help the country understand the best locations for installing solar panels. In fact, this could facilitate private consumers and government offices in realising the extent to which they should consider solar panel installation.

Disclosure of procurement contracts and data of the power plants: The fact that there is still a barrier in the disclosure of the PPA and other public agreement of the power plants shows that the interim government is not doing enough to keep up with their commitments. All the documents and reports related to public procurement, especially power plants, should be openly accessible as these are not confidential documents by law. The data must be updated and published on the respective website regularly.

No further discussion on domestic coal extraction should be brought up and reconsider the decision to withdraw the coal importation ban: The former government in different policy documents and different platforms mentioned extracting coal from domestic coal mines. The interim government must immediately put a hold on the discussion and initiative as it will only put the energy transition of Bangladesh backtrack. Rather it should have a firm commitment to stop such agenda and look for ways to phase out existing coal-based power plants. Also, the decision to withdraw any ban on the coal import from international market must also be reconsidered.

Deprioritise importing LNG: The government should deprioritise importing LNG and should put focus on exploration of domestic natural gas. In this context, recent signing of a deal with USA on supply of LNG would further weaken domestic exploration of gas. The government may welcome USA based companies to submit their proposals for exploration of gas in the off-shore fields.

SECTION VIII. AGENDA FOR BANKING SECTOR REFORM

Key findings

- The Capital-to-Risk Weighted Asset ratio (CRWA) has declined in recent months. The overall CRWA declined from 10.64 per cent in June 2024 to 6.86 per cent in September 2024.
- High NPLs have impacted asset quality and the liquidity situation in banks. The total amount of NPLs reached BDT 2,84,977 crores in September 2024, accounting for nearly 17 per cent of the total outstanding loans of the country.
- The size of NPLs as of September 2024 is 2.7 times higher than the combined allocation for the education and health budget in FY2024.

Key recommendations

- Concrete measures such as improving loan sanctioning practices, enforcing single borrower exposure limits, stopping repeated loan rescheduling, strengthening internal controls and developing an exit policy for troubled banks should be initiated by the Bangladesh Bank.
- Bank accounts of wilful defaulters and their immediate family members should be immediately frozen. Their assets should be liquidated, and their businesses should be nationalised temporarily.
- Given the strong vested interest groups, an all-out effort should be taken and continued backed by political commitments from the highest level, to sustain banking reforms.

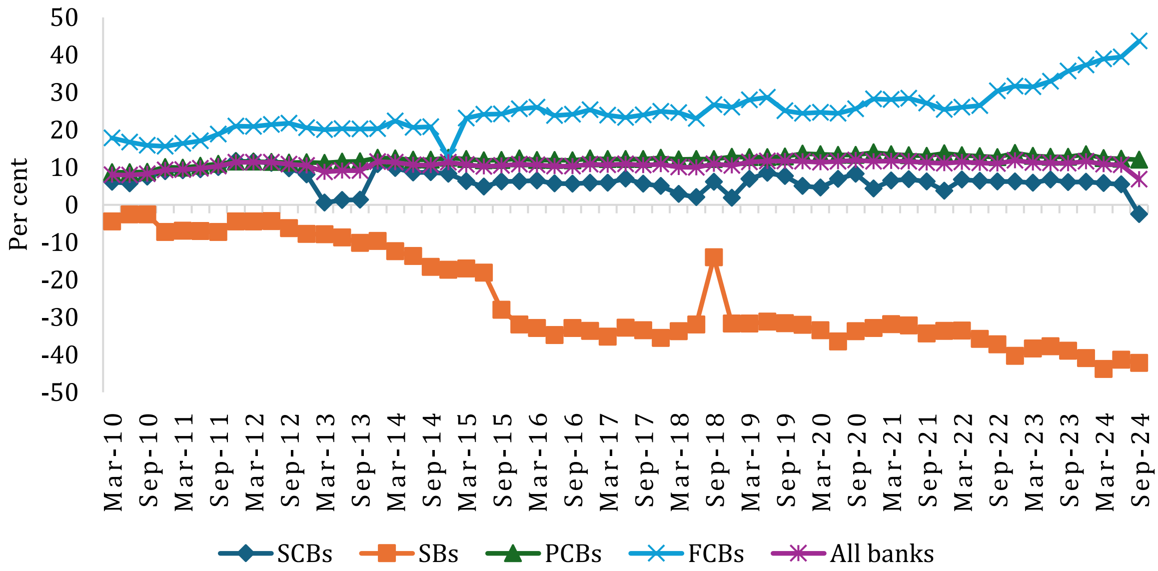
8.1 Introduction

The Bangladesh Bank has initiated several measures, following the formation of the interim government on 8th August 2025, to streamline the banking sector which has been grappling with various challenges for several years. Despite the existence of 62 scheduled banks in 2025 (CPD, 2024a), the performance of the banking sector remained unsatisfactory when the standard performance indicators are considered. The initiatives taken by the new governor of the Bangladesh Bank are expected to demonstrate some immediate results. The central bank is posed with the challenge to safeguard the depositors' interest while facilitating the businesses in a situation when non-performing loans (NPLs) have piled up due to the overall lack of governance in the banking sector (CPD, 2024a). Therefore, the reforms initiated by the Bangladesh Bank must continue in the coming years in order to have a sustained effect.

8.2 Brief Overview of the Performance of the Banking Sector

The Capital-to-Risk Weighted Asset ratio (CRWA) has declined in recent months. The overall CRWA declined from 10.64 per cent in June 2024 to 6.86 per cent in September 2024 (Bangladesh Bank, 2024a). This indicates that the ability of banks to absorb unexpected shocks has declined. According to the Bangladesh Bank's guidelines, banks are required to have a lower bound of 10 per cent of total capital to risk-weighted assets (or minimum total capital plus a capital conservation buffer of 12.5 per cent) by 2019, in line with the BASEL III (Bangladesh Bank, 2014). The specialised banks (SBs) and the state-owned commercial banks (SCBs) have contributed to this capital erosion and high exposure to high-risk assets (Bangladesh Bank, 2024a) (Figure 8.1).

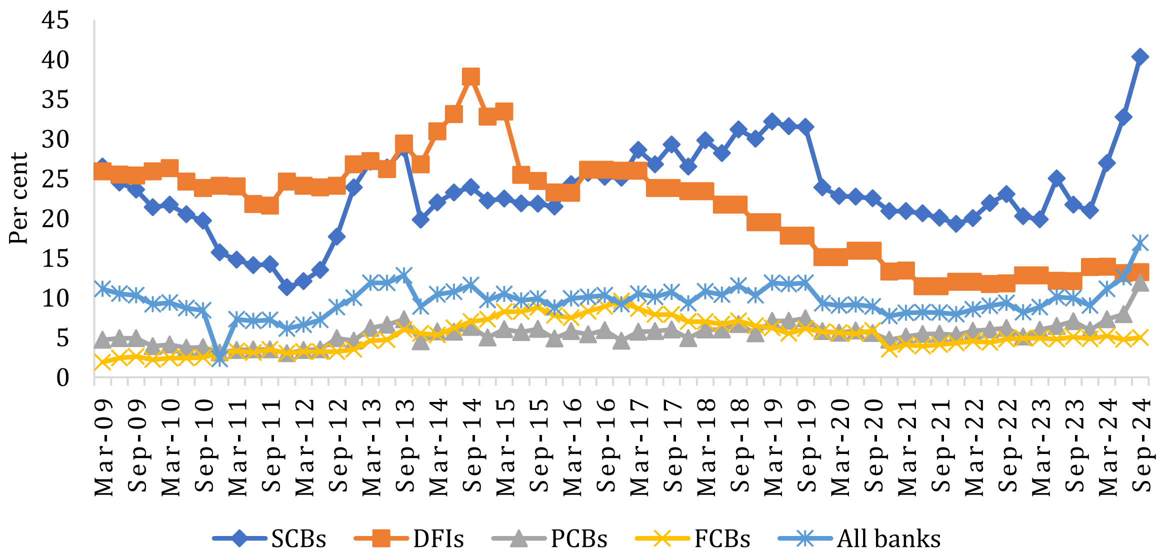
Figure 8.1: CRWA ratios by type of banks (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2024a).

High NPLs have impacted asset quality and the liquidity situation in banks. The total amount of NPLs reached BDT 2,84,977 crores in September 2024, accounting for nearly 17 per cent of the total outstanding loans of the country (Bangladesh Bank, 2024a). SCBs had the highest NPL rate with 40.35 per cent of their total disbursed loans, while private commercial banks (PCBs) had an NPL ratio of 11.88 per cent and SBs reported NPLs of 13.21 per cent of their total disbursed loans (Bangladesh Bank, 2024a). The share of NPLs was lowest at 4.99 per cent of their total disbursed loans in foreign commercial banks (FCBs) (Bangladesh Bank, 2024a) (Figure 8.2).

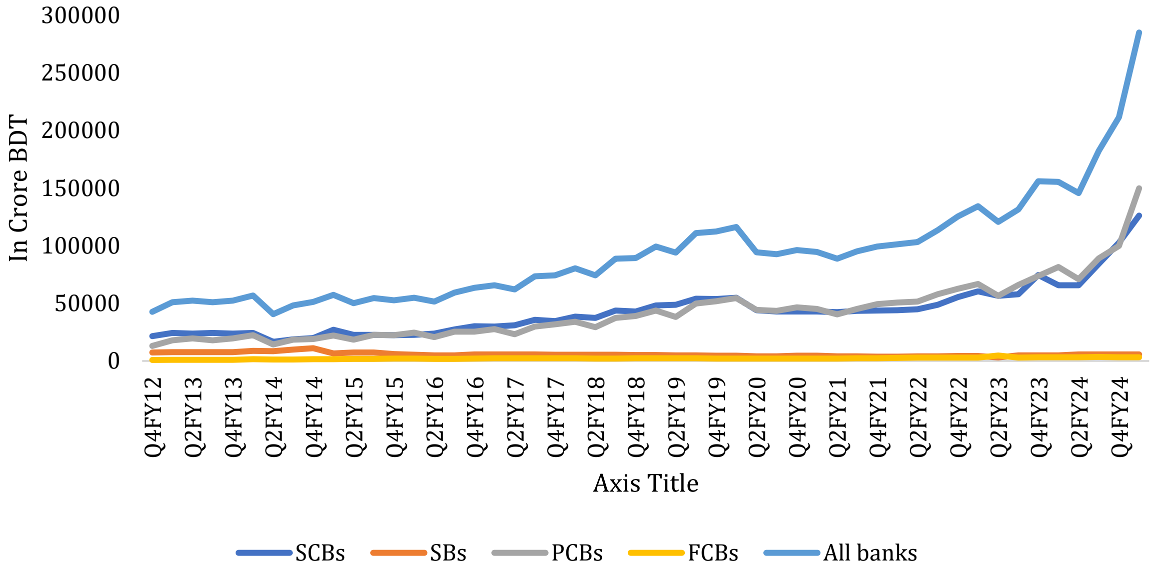
Figure 8.2: Gross NPL ratios by bank type (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2024a).

NPLs refer to loans that are either in default or on the verge of default (Bangladesh Bank, 2017). Loans which are Sub-Standard (SS), Doubtful (DF) and Bad/Loss (B/L) are considered classified loans. Subsequently, these are treated as NPLs (Bangladesh Bank, 2024b). The total amount of classified loans of all banks increased by more than six times during Q42012–Q12025. In Q42012, total classified loans were BDT 42,725 crores which rose to BDT 2,84,977 crores in Q1FY2025 (Bangladesh Bank, 2024a) (Figure 8.3).

Figure 8.3: Total classified loans (in crores of BDT)

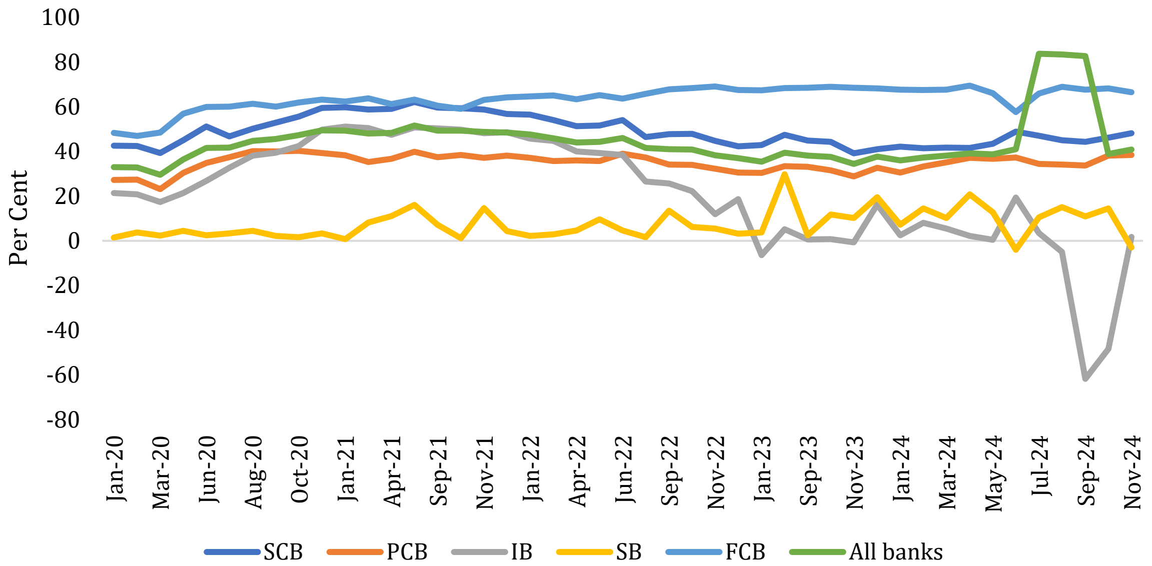


Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2024a).

The volume of NPLs would rise further if other types of bad loans were counted in the NPL estimation such as rescheduled and restructured loans, outstanding written-off loans, loans in special mention accounts, and loans under court stay order. For instance, the Bangladesh Bank's Financial Stability Report 2023 indicates that as of December 2023, the outstanding balance of written-off loans was BDT 53,612 crore, and the total outstanding rescheduled loans was BDT 91,221 crore (Bangladesh Bank, 2024c). Moreover, according to the Bangladesh Bank's roadmap to reduce classified loans, BDT 178,000 crore was tied up in 72,543 cases in Money Loan Court as of February 2024 (Bangladesh Bank, 2024d).

Maintaining a sufficient amount of liquid assets is essential to face unexpected financial shocks. Hence, the liquidity position of various banks is crucial in understanding their financial stability and overall performance. In Bangladesh, liquid assets are usually in the form of cash, balances with the Bangladesh Bank and unencumbered approved securities such as Treasury Bills (T-Bills) and Treasury Bonds (T-Bonds) (Bangladesh Bank, 2024e). Figure 8.4 presents the patterns of excess liquidity of the various bank categories as a share of their total liquid assets. FCBs have the highest excess liquidity (as a share of total liquid assets). In the case of Islami Banks (IBs), whose excess liquidity was negative in August, September, and October 2024 implying that these banks have even failed to maintain the minimum required liquid asset levels as mandated by the Bangladesh Bank. Although excess liquidity is generally perceived as a positive indicator, research also indicates that this phenomenon can give banking authorities a false sense of safety and entice them to make riskier investments (Kato & Tsuruga, 2016) (Acharya & Naqvi, 2012) (Ahmad, Ahmad , & Shaharuddin, 2022).

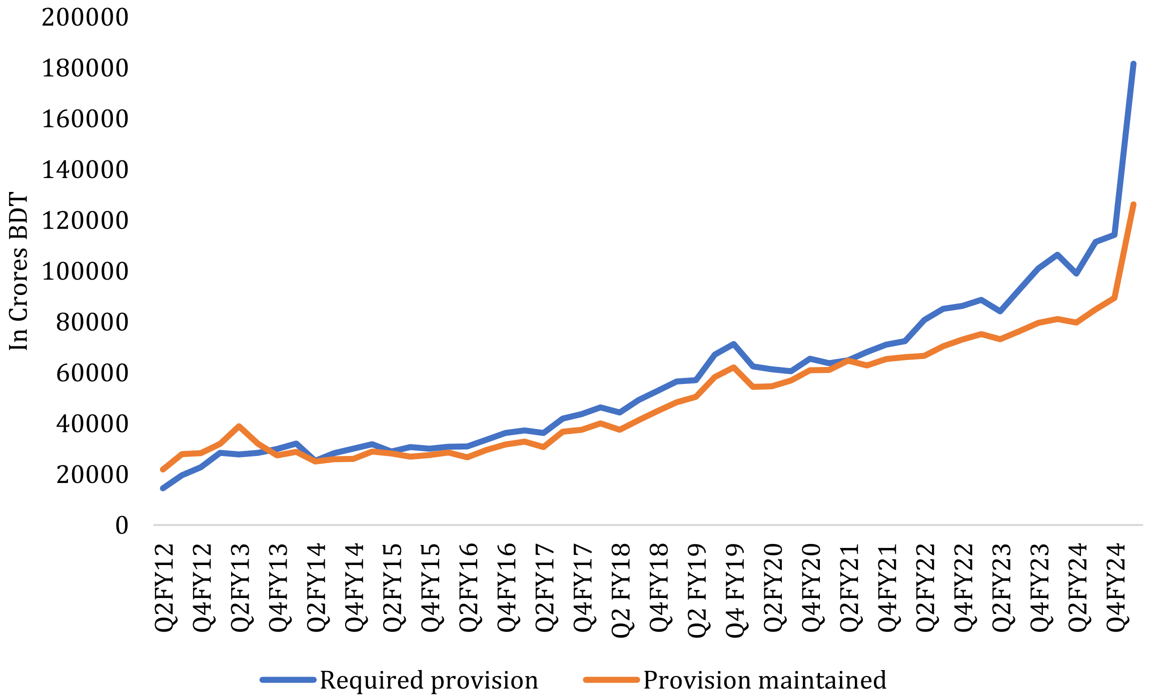
Figure 8.4: Excess liquidity (as a share of total liquid assets)



Source: Major Economic Indicators (Bangladesh Bank, 2024e).

Central banks establish provisioning requirements to protect banks from the potential risk of their loans turning into bad debts. The gap between the required and actual provision maintained by banks has been increasing during the last few years (Figure 8.5). These indicators remained relatively close until Q2FY2021, after which a significant divergence emerged as the maintained provisions increasingly fell short of the required levels. The shortfall in loan loss provisioning in Q1FY2025 was BDT 55,378 crores, compared to an excess in loan loss provision of BDT 455 crores in Q2FY2012 (Bangladesh Bank, 2024a).

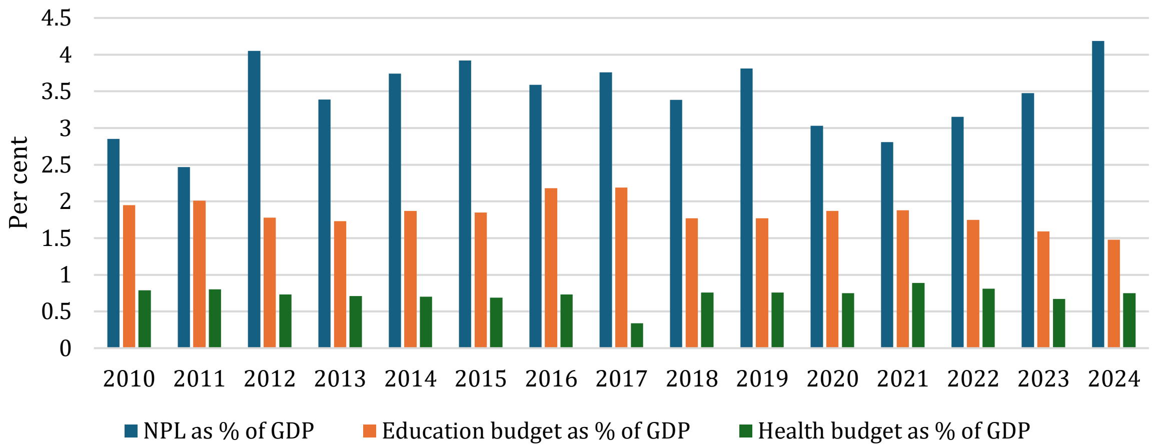
Figure 8.5: Loan loss provisioning (in crores BDT)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2024a).

The opportunity cost of NPLs is high and limits resource allocation for other sectors. Resource allocation to critical sectors of the economy is constrained due to high NPLs. As an indication, the total NPLs as of September 2024 exceeds the allocation for education and health in the national budget of FY2024. The size of NPLs is 2.7 times higher than the combined allocation for education and health budget in FY2024. On the other hand, the size of NPLs as a percentage of GDP was 5.65 per cent, in FY2024. To compare, the share of education budget in GDP was 1.48 per cent and the share of health budget in GDP was 0.75 per cent in FY2024 (Figure 8.6).

Figure 8.6: NPLs compared to GDP and budget allocations for education and health



Source: Bangladesh Bureau of Statistics (BBS), Bangladesh Bank Annual Report (various years), Budget documents (various years), Ministry of Finance.
Note: NPL data is for calendar years; all other data are for fiscal years.

8.3 Barriers for Improving the Banking Sector Governance

The weakening of the banking sector in Bangladesh has happened over the years due to weak governance in various aspects, which broadly fall into the categories of institutional, regulatory, legal and data-related.

A weak institutional framework has led to poor performance of several banks. Board members of banks, particularly of SCBs, were selected based on political connections and loyalty lack rather than competence and experience. The Ministry of Finance was controlling the boards and top management of SCBs, bypassing the Bangladesh Bank. Weak internal control departments in SCBs and several PCBs did not have any accountability which resulted in significant losses through financial scams and irregularities. These banks suffer from weak credit risk assessment, monitoring systems, disclosure practices and independent audits for financial statements and loan portfolios. Additionally, there is a lack of skilled human resources in SCBs, which limits their ability to address emerging challenges related to risk management and compliance.

The independence of the Bangladesh Bank has been weakened by political interference and dual regulatory structures. Despite implementing robust macroprudential measures to control systemic risks, reduce NPLs, and maintain liquidity, governance and financial stability remain compromised. The establishment of the Financial Institutions Division (FID) under the Ministry of Finance in 2010 created a conflicting regulatory authority and undermined the autonomy of the Bangladesh Bank. Political considerations dominated over economic rationale in issuing licenses for new banks. Political influence was exerted to recapitalise SCBs burdened by NPLs as these suffer from poor performance and lack fiscal discipline. Governance further deteriorated through the control of Islami Bank (The Economist, 2017), and other PCBs (The Daily Star, 2017), and unresolved issues such as the Bangladesh Bank heist. Institutional independence of the central bank and public trust in the banking system were weakened due to the political appointment of the Bangladesh Bank's governor. This violated the provision in the Bangladesh Bank (Amendment) Act, 2003, which states, 'No person shall hold office as Governor or Deputy Governor who is a member of the Legislature or a Local Government or who is employed in any capacity in the public service of Bangladesh'. However, the previous government disregarded this clause and appointed a career bureaucrat as the Central Bank governor (Bangladesh Bank, 2025).

The legal framework for addressing NPLs in Bangladesh, governed by the Money Loan Court Act 2003 and the Bankruptcy Act 1997, has become ineffective. Loan defaulters exploit legal loopholes to delay proceedings. Banks face challenges in repossessing and selling collateral due to legal complexities. Meanwhile defaulters frequently secure stay orders, delaying justice further. The overburdened Money Loan Court struggles with backlogs of cases. As of February 2024, BDT 1,78,277 crore is stuck in 72,543 cases (Bangladesh Bank, 2024d). Insufficient judges, systemic flaws, and an outdated Bankruptcy Act exacerbate the issue. Amendments to the Banking Company Act that favour the crony capitalists have weakened governance. NPLs have also increased due to lenient legal actions against wilful defaulters. For instance, BRPD Circular No. 07, issued on April 3, 2024, revoked the group default clause, making companies within a business group eligible for new loans until the parent company is classified as a wilful defaulter.

The absence of timely and accurate data has undermined transparency in the banking sector and provided a shield to wilful defaulters. Bank-specific information on capital adequacy, asset quality, management efficiency, profitability, and liquidity has not been published since 2018. Many poorly managed banks, as evident from their websites, have repeatedly failed to meet the mandatory disclosure requirements under BASEL III. Additionally, loan classification standards have been altered frequently and arbitrarily (CPD, 2024b).

8.4 Some Measures to Solve Ongoing Challenges

A bank resolution-type asset management company (AMC) can help reduce NPLs. During the previous government, the MoF proposed the Bangladesh Asset Management Company (BAMCO) Act 2020, which aimed to establish a state-owned AMC under the Ministry of Finance. However, this raised concerns regarding the governance, efficiency, and transparency of a state-owned AMC.

An AMC plays an important role in addressing NPLs by extracting them from the banking system to optimise recovery (Cerruti & Neyens, 2016). AMCs can be of two types: *bank-resolution-type* and *asset-purchasing-type*. Bank-resolution-type AMCs take over NPLs and shut down failing banks, while asset-purchasing-type AMCs purchase NPLs at a discount using government-backed bonds and allow troubled banks to continue operating. However, the government's initial equity in AMCs is often treated as a sunk cost that is rarely recovered.

For Bangladesh, bank-resolution-type AMCs are deemed more suitable, as they pose a lower financial burden and can enhance banking sector efficiency by closing failed banks. Conversely, asset-purchasing-type AMCs may create a dual financial strain due to establishment costs and bond repayments, particularly in the absence of a developed bond market.

Overall, to ensure success, AMCs must operate with strict transparency, regularly publishing performance data, and adhere to a sunset clause dictating their closure once objectives are met. Effective implementation of AMCs could reduce the NPL burden and help in bringing stability in the banking sector.

The merger of weak banks with strong banks is another option for improving the health of banks. Many banks depend on liquidity support from the Bangladesh Bank as their capital has depleted. However, continued support risks worsening inflation, as the Bangladesh Bank often prints money to inject capital into the weak banks. On the other hand, closer of weak banks will result in social costs like depositor losses and unemployment. Earlier in December 2023, the Bangladesh Bank published the Prompt Corrective Action (PCA) Framework that included the issue of bank mergers the Bangladesh Bank (Bangladesh Bank, 2023). The road map for merger announced by the Bangladesh Bank in February 2024 was an abrupt attempt as it lacked transparency in the process. The actual health of the weak banks was unknown in the absence of a rigorous and impartial audit. Without consultations, forced mergers risk penalising successful banks by saddling them with weaker banks' liabilities. The merger attempt was on hold following concerns raised by experts and bank officials.

Operational challenges, such as integrating IT systems, maintaining data security, reconciling organisational cultures and improving efficiency of employees must be addressed for successful mergers and establishing customers confidence.

While mergers can reduce NPLs and improve efficiency, the process requires careful planning, transparency, and a focus on structural reforms. Without addressing core governance and accountability issues, mergers may only offer temporary relief. A strategic, well-prepared approach is essential for sustainable improvement in Bangladesh's banking sector.

Another challenging task of the Bangladesh Bank is to recover stolen assets taken out of the country by the members and allies of the previous fallen regime. Recovering stolen assets is a complex and lengthy process that involves international cooperation and legal mechanisms to trace, freeze, and repatriate funds siphoned off by corrupt regimes.

However, the successful cases in countries like Nigeria, the Philippines, and Peru highlight the potential of determined efforts. Nigeria recovered over USD 700 million stolen by General Sani Abacha through collaborations with the USA and Switzerland (Pieth, 2008) (Scher, 2005). Similarly, the Philippines reclaimed more than USD 1 billion linked to Ferdinand Marcos from Swiss bank accounts after prolonged legal battles (Pieth, 2008). Peru retrieved millions stolen by Vladimiro Montesinos with international support (Pieth, 2008).

The United Nations' Stolen Asset Recovery (StAR) initiative emphasises global cooperation to prevent illicit fund transfers and recover assets. Key international frameworks, such as the UN Convention Against Corruption (UNCAC), ratified by Bangladesh in 2007, underline the need for comprehensive domestic laws (United Nations Office on Drugs and Crime, 2004). Bangladesh has adopted measures like the Mutual Legal Assistance (MLA) Act and National Integrity Strategy, but political interference has hampered enforcement (Asia/Pacific Group on Money Laundering, 2016). The Anti-Corruption Commission (ACC) has often failed to hold offenders accountable, enabling large-scale asset theft.

Effective asset recovery relies on gathering accurate evidence, close collaboration among law enforcement, prosecutors and investigating magistrates, and securing international cooperation. MLA requests are essential for evidence collection, asset tracing, and enforcement of orders in foreign jurisdictions. Understanding varying legal frameworks is crucial to successfully securing and confiscating assets. StAR guidelines emphasise reliable intelligence and efficient legal procedures to achieve convictions, confiscation, and restitution (Brun, Gray, Scott, & Stephenson, 2011). While asset recovery remains arduous, these global efforts provide a useful roadmap for Bangladesh to strengthen fight against corruption and reclaim stolen money.

8.5 Specific Recommendations

Several reform measures have been initiated since August 2024 to improve the health of the banking sector which several more are to be initiated. The most important one is the formation of various Task Forces and Committees by the Bangladesh Bank. Besides, some specific measures include the dissolving of the boards of several PCBs and replacing with new directors, the implementation of the Expected Credit Loss (ECL) methodology-based provisioning system for banks from 01 April 2025, gradual reduction of ‘grace periods’ for unpaid instalments on fixed-term loans from 6 months to 3 months (Bangladesh Bank, 2024f), and updated guidelines on stress testing by the Financial Stability Department (FSD) (Bangladesh Bank, 2024g). A comprehensive list of reform agenda to be implemented during short, medium and long terms is presented below to address the challenges of the banking sector in Bangladesh.

8.5.1 Strengthening of commercial banks

Short term measures

- ***Ensure proper loan sanctioning:*** Loans should be sanctioned based on the Central Bank’s “Guidelines on Internal Credit Risk Rating System for Banks”, and all large loans above a certain threshold should require approval from the senior management and board of commercial bank as well as approval from the Central Bank.
- ***Enforce single borrower exposure:*** The single borrower exposure limit for commercial banks should be strictly enforced.
- ***Stop rescheduling and write-offs***: Repeated rescheduling and write-offs of NPLs should be stopped permanently, and the Bangladesh Bank should penalise commercial banks if there is any non-compliance with regulations for rescheduling.
- ***Appoint administrators for troubled banks***: The Bangladesh Bank should appoint firm administrators to oversee the operation of troubled banks which cannot comply with BASEL III requirements.

- ***Replace management and boards***: Banks performing poorly should have their management and board of directors replaced with competent people.
- ***Depoliticise bank boards***: The appointment of board members of commercial banks should be depoliticised and based only on qualifications and experiences.
- ***Limit tenure of the board of directors in banks:*** The tenure of board members of commercial banks should be shortened from 12 consecutive years to six consecutive years, and the minimum time between the end of one tenure and the start of the next tenure should be increased from three years to six years.
- ***Mandate approvals for appointment and promotion***: Appointment and/or promotion of senior management positions up to two tiers below the rank of CEO or Managing Director (MD) of commercial banks should require approval from the Bangladesh Bank.
- ***Postpone digital banks***: The establishment of digital banks must be postponed until the existing problems in the banking sector are resolved effectively. Licenses awarded to digital banks should be cancelled, and the license fees should be returned to the applicants.

Medium-term measures

- ***Strengthen internal control and compliance***: Internal Control and Compliance Departments of commercial banks should be revitalised, and effective internal audits should be ensured.
- ***Shutdown banks kept on life-support***: Banks on the verge of collapse should be allowed to shut down.

Long term measures

- ***Prohibit weak bank board directors from joining bank boards after merger***: Board members of weak banks should not be allowed to sit on the board of the strong banks after the merger.
- ***Modernise banking systems***: Core banking systems should be modernised to ensure Application Programming Interface (API) compatibility for seamless integration with digital platforms.
- ***Strengthen IT and e-KYC***: IT infrastructure and e-KYC systems must be strengthened, and security concerns related to payment system interoperability must be addressed.

8.5.2 Upholding Bangladesh bank's autonomy

Short term measures

- ***Uphold the autonomy of the central bank***: The autonomy of the Central Bank should be upheld in line with the Bangladesh Bank Amendment Bill 2003.
- ***End bailout of banks through recapitalisation:*** Recapitalisation of poorly governed commercial banks with public money should be stopped.
- ***Stop issuance of new bank licenses***: No more licenses for new banks should be given on political grounds without a pragmatic assessment of the need for the economy.

- ***Prevent majority ownership***: A single individual or group of individuals should not be allowed to obtain majority ownership of more than one commercial bank.
- ***Recruit a strong team for BFIU***: The Bangladesh Financial Intelligence Unit should be strengthened by hiring a completely new team to prevent illicit financial outflows and stop previously laundered money from entering the country to destabilise the new interim government or create anarchy.
- ***Close down FID***: In order to remove dual regulation and stop political influence the MoF's FID should be shut down. The functions of the FID can be performed by the Bangladesh Bank.
- ***Hold former governors accountable for their misdeeds:*** Three former governors of the Bangladesh Bank who weakened the banking sector's stability in the past 15 years should be held accountable for their failures.
- ***Publish investigation report on the Bangladesh Bank heist***: The CID report on the Bangladesh Bank heist should be completed soon and published.

Medium-term measures

- ***Formulate exit policy for troubled banks***: An exit policy for troubled banks should be formulated to protect depositors' money in those banks.

Long term measures

- ***Prevent government officials from becoming governor of the Bangladesh Bank***: In line with the Bangladesh Bank (Amendment) Act, 2003, the governor and any deputy governors should not be any current or former government official.

8.5.3 Improving the legal and judicial environment

Short term measures

- ***Establish specialised courts and tribunals***: Additional specialised courts and tribunals, with provisions for virtual hearings, should be established to expedite case resolution and deal with complex or high-value cases.
- ***Amend the Bankruptcy Act***: The Bankruptcy Act should be amended to include corporate bankruptcy and cross-border bankruptcy following the United Nations Commission on International Trade Law (UNCITRAL) on Cross-Border Insolvency.
- ***Amend the Banking Company Act***: The Banking Company Act should be amended so that there is only one member from one family on the board of directors, and the tenure of each director should be limited to 3 years, with each director being allowed to serve a maximum of two terms in their entire lifetime.
- ***Re-instate group default regulation***: If one company in a group of industries defaults on loan repayment, companies in the same group of industries should not be allowed to take new loans.
- ***Freeze accounts and liquidate assets of wilful defaulters***: Bank accounts of wilful defaulters and their immediate family members should be immediately frozen. Their own

and their immediate family members' assets should be liquidated, and their businesses should be nationalised temporarily.

- ***Block transactions of wilful defaulters***: Information on wilful defaulters should be shared with Visa, Mastercard, American Express, and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network so that those companies block their transactions in other countries.
- ***Promote media trial***: The list of politically connected large borrowers who are wilful defaulters should be disclosed publicly so that they may be put on a media trial.
- ***Introduce harsher penalties***: To enhance discipline, harsher penalties for disobedience of court orders should be implemented, such as instant asset confiscation, bank account freeze, and fines for baseless appeals.
- ***Remove legal loopholes***: Legal loopholes, such as numerous adjournments, abuse of stay orders, or baseless counterclaims, that let defaulters prolong proceedings must be found and fixed.
- ***Recover stolen assets***: All-out legal efforts with the support of national and international partners and stakeholders must be made to recover and repatriate stolen assets.

Medium-term measures

- ***Increase the number of judges***: The number of judges dealing with the Financial Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce the backlog.

Long term measures

- ***Pursue Alternative Dispute Resolution***: Efforts should be made to recover NPLs through out-of-court procedures such as Alternative Dispute Resolution.

8.5.4 Ensuring integrity and availability of timely data

Short term measures

- ***Publish reports and data***: Reports and data on individual banks and financial institutions should be published regularly and made publicly available.
- ***Disclose compliance with BASEL III***: All commercial banks should be obliged to make their mandatory disclosures under BASEL III in a timely fashion.
- ***Improve loan classification***: Loans should be classified according to international standards, such as those outlined by the IMF's Financial Soundness Indicators guide.
- ***Implement risk management***: A comprehensive risk management policy should be implemented in all commercial banks to detect and deter fraud, forgery, fake companies, false identities, and other malpractices.

Medium-term measures

- ***Protect consumer data***: Comprehensive data protection laws must be enacted and enforced to secure customer data and regulate data-sharing practices.

8.6 Conclusions

The mismanagement of SCBs and several PCBs, coupled with widespread malpractices and corruption, has significantly contributed to the weakening of the banking sector. The situation has been exacerbated by the inertia of the policymakers to address the problems of the sector. Loans were frequently granted based on political affiliations rather than objective credit risk assessments. In many cases, borrowers' creditworthiness was overlooked in favour of their political influence, leading to a perception that strong political connections were sufficient to secure large loans. Therefore, the reform measures should be expedited and sustained for years to come. However, political commitment is the prerequisite of undertaking the huge task of reforming a sector where stakeholders have become powerful. Hence, only through sustained and politically committed efforts the banking sector can achieve its full potential and contribute to the economic development of Bangladesh.

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SECTION IX. CONCLUSIONS

Bangladesh economy has come under significant challenges during the past few years. Among several problems, weak revenue generation leading to a constrained fiscal space, heavy reliance on bank borrowing to meet budget deficits, tight liquidity in banks, high prices of essential commodities, low investment and declining foreign reserves have affected the macroeconomic stability. Following the July mass uprising in 2024 the interim government has been tasked with addressing the critical challenges of the economy. Addressing these multifaceted challenges requires a comprehensive approach— balancing short-term relief for the public, tackling long-standing issues, and implementing sustained reforms to strengthen economic fundamentals.

The fiscal landscape remains complex with limited revenue generation capacity of the government and over reliance on discriminatory indirect taxes. The implementation of the ADP has been low due to the political turmoil during the first two months of FY2025 and reprioritisation of projects. The improvement in the fiscal framework requires a careful management and reforms to support a sustainable development of the country.

Soaring food prices, particularly in essential commodities, have exacerbated inflationary pressures. Factors driving high inflation include disparities in regional pricing, reliance on imports, dominance of cartels, influence of middlemen, and stockpiling. Supply chain inefficiencies such as hoarding, commission agents' dominance, inadequate agricultural practices, high input costs, and erratic weather further hike the price. Specific commodities like onions, potatoes, and brinjal suffer post-harvest losses, while in the rice sector, dominance by warehouse operators and millers distorts pricing due to which both farmers and consumers face difficulties.

The positive trends of the external sector during the first half of FY2025, driven by robust export growth, and strong remittance inflows are encouraging. Reduced trade and current account deficits have helped to improve the balance of payment situation. Despite high remittance growth, subdued capital goods imports reflect low investment. Private investment remains weak which is reflected through declining credit growth, FDI, and SME financing challenges. Market and product diversification for exports, FDI promotion, and structural reforms are critical for sustainable growth amid global uncertainties, and Bangladesh's imminent LDC graduation in 2026.

The crop sector, especially rice and wheat, struggled during the first half of FY2025 due to floods in 23 districts. The reduction in Aman rice production impacted rice procurement, imports, and public food distribution. Though rice was imported to fill up the gap, wheat imports declined. Addressing instability in the rice market requires accurate demand estimation, improved procurement, reduced input costs, and better coordination among various ministries through a permanent agricultural monitoring commission.

The power and energy sector in Bangladesh faces a deepening crisis marked by unsustainable debt and slow renewable energy progress. Despite some reforms by the interim government, such as open tenders for solar plants and extended tax holidays for renewable producers, challenges persist. Transparency in public procurement remains inadequate, and the cancellation of letter of intent for 37 solar power plants has stalled renewable energy integration. The financial burden on public authorities such as BPDB and Petrobangla has created a debt spiral. Addressing this requires a concrete two-year plan to break the cycle and ensure long-term sustainability of the sector.

The banking sector in Bangladesh faces systemic challenges, including poor governance, inefficiencies, and weak regulatory frameworks. Political interventions at various levels including appointments in SCBs and licensing decisions have undermined the performance of the sector. Weak internal controls, ineffective risk management, and inadequate legal frameworks exacerbate NPLs, while defaulters exploit legal loopholes and delays in the judicial system. Banking Company Act has often been amended favouring vested interest groups. Implementation of comprehensive reforms through short, medium and long-term measures is critical to restore stability and efficiency of the banking sector. However, these reforms must be backed by political commitment from the highest level.

In view of the ongoing economic situation, a coordinated approach is needed to overcome the multifaceted challenges, stabilise the economy, protect the vulnerable, low- and limited-income households. Looking ahead, to address Bangladesh's economic challenges in the coming months, the interim government must adopt a balanced and effective strategy that addresses immediate crises and initiates medium to long-term reforms to be carried out by the politically elected government.