Independent Review of IRBD Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2024-25

Third Reading

Dhaka: 27 May 2025

CENTRE FOR POLICY DIALOGUE

www.cpd.org.bd

Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Professor Mustafizur Rahman*, Distinguished Fellow; *Dr Khondaker Golam Moazzem*, Research Director; *Mr Muntaseer Kamal*, Research Fellow; and *Mr Syed Yusuf Saadat*, Research Fellow, CPD.

Other team members include:

Senior Research Associates	
Mr A S M Shamim Alam Shibly	*Mr Tamim Ahmed*
Programme Associates	
Ms Afrin Mahbub	*Ms Preetilata Khondaker Huq*
Ms Anindita Islam	*Mr Md Mehadi Hasan Shamim*
Ms Nuzaira Zareen	*Ms Ayesha Suhaima Rab*
Ms Safrina Kamal	*Mr Khaled Al Faruque*
Mr Md. Imran Nazir	*Ms Tanbin Alam Chowdhury*
Research Intern	
Ms Syeda Safia Zahid	

Mr Muntaseer Kamal was the Coordinator of the CPD IRBD 2025 Team.

Acknowledgements

The CPD IRBD 2025 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD for his guidance and support to the team.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD, in preparing this report. The contribution of the CPD Administration and Finance Division is also highly appreciated. The assistance of *Mr A H M Ashrafuzzaman*, Joint Director, IT, is particularly appreciated.

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

Contents

1. Introduction

Introduction

- As the current fiscal year draws to a close in June 2025, the interim government is set to present the national budget for fiscal year (FY) 2025-26 on 2nd June 2025
- **The underlying objective of the upcoming budget will be to bring stability to the economy, as Bangladesh currently faces multiple challenges**
  - Public finance is strained by limited revenue growth, rising borrowing costs, and high operating expenditures
  - Persistent high inflation has eroded the purchasing power of low-income groups
  - The banking sector struggles with high non-performing loans and weak governance, needing structural reforms and regulatory oversight
  - The external sector shows recovery with strong remittances and exports, but risks persist from external debt and a market-driven exchange rate
  - The capital market underperforms amid administrative delays and low investor confidence
  - The power and energy sector suffers from inefficiencies, inadequate infrastructure investment, and a lack of diversification of energy sources

Introduction (contd.)

- In this context, the Centre for Policy Dialogue (CPD) has prepared this report under its flagship programme titled Independent Review of Bangladesh's Development (IRBD)
  - The report presents an analysis of the economy during the current fiscal year based on the latest available data
  - The IRBD explores a few selected sectors, such as public finance, inflation, banking sector, external sector, capital market and power and energy sector
- These areas **reflect the core vulnerabilities currently confronting the country** and are **essential to address for achieving macroeconomic stability** and **sustainable growth**
- CPD offers a set of recommendations for each sector discussed in this reading of the IRBD

2. Public Finance

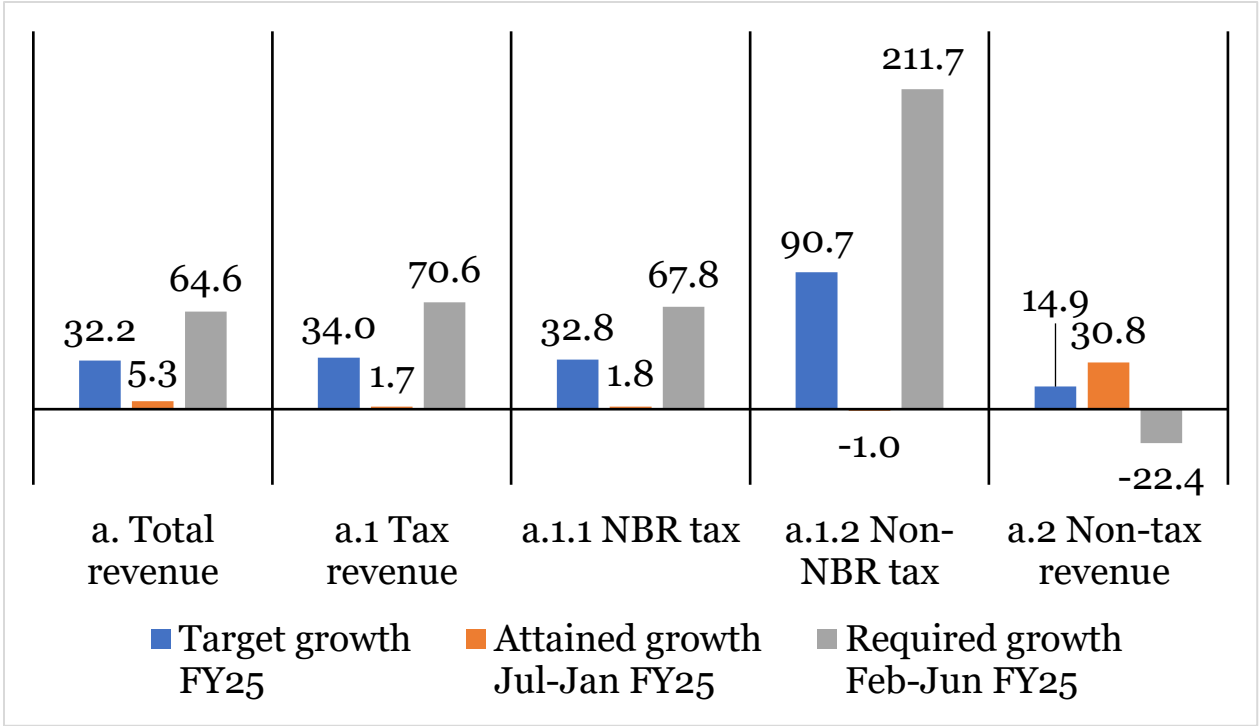
Public Finance

- **Timely availability of fiscal data** continues to be a **major constraining factor** when it comes to the **analysis of the public finance situation**
  - As of May 25, data reported by the MoF is available only until Jan 25
- While **alternative sources** such as NBR, IMED, and Bangladesh Bank can be **more timely**, they **lack the accuracy and congruency** of the MoF data
- **Fragmented reporting** is also an issue since no alternative sources provide a holistic picture of the fiscal scenario, such as the MoF
- The present analyses utilise data from all the aforementioned entities but might be constricted in some instances owing to data limitations

Revenue Mobilisation

- As per **MoF** data, **total revenue collection** posted a **5.3% growth** during **Jul-Jan of FY25**
  - Primarily **driven** by a sharp increase in government **earnings from interest** as well as by enhanced collection of **income tax**
- **Considerable decline** from Jul-Jan of FY24 (13.7%)
- This implies that **a whopping 64.6% growth** will be required during the **remainder of FY25** if the annual target is to be achieved - **a highly unlikely prospect**

Figure: Revenue mobilisation growth by sources (in %)



Source: Author's calculation based on data from MoF (2025)

- Indeed, in Mar 25, CPD projected that the revenue shortfall could reach approximately Tk. 105,000 crore at the end of FY25

Revenue Mobilisation (contd.)

- According to **NBR data**, **tax collected by the** NBR **increased** by a **meagre 2.8%** during **Jul-Mar FY25**
  - The corresponding figure of FY24 was 10.7%
  - The growth achieved can be **attributed primarily** to the **enhanced collection of income tax**
  - The **slowdown in ADP implementation** as well as the **downturn in overall economic activity** have perhaps **contributed to the poor collection of VAT and SD at the local level** despite the high level of inflation and increased VAT and SD rates for nearly 90 items
- Given this, **whether the upcoming IMF conditionalities concerning revenue can be met remains a question**
- The debacle concerning the abolishment of NBR has thankfully settled for the time being, thanks to the press release issued by the MoF on 25 May 2025
  - However, there is no doubt that repetition of such an instance will negatively impact the economy, particularly in the case of revenue mobilisation

Public Expenditure

- As per MoF, **overall budget utilisation**: **34.5%** during **Jul-Jan FY25** (32.4% during Jul-Jan FY24)
- **ADP implementation was on the lower side** – only 18.4% during Jul-Jan FY25 (20.0% during Jul-Jan FY24)
  - Besides the **political turmoil during Jul-Aug 24**, the interim government's **cautious approach** in terms of **project approval and fund disbursement**, and **increased scrutiny of expenditure** allocations may have contributed to the slow implementation of ADP (World Bank, 2025)
- On the contrary, **non-ADP expenditure showed an upward trajectory**. During Jul-Jan FY25, utilisation of non-ADP budget reached 42.5% (corresponding figure for FY24 38.9%)
  - Implies that nearly **an additional Tk. 32,000 cr** was **required** to conduct the non-ADP activities
  - Among the components of non-ADP expenditure, **subsidies and current transfers were the major drivers** of the uptick, accounting for nearly 61% of the additional expenditure
    - **This included increased incentive payments for remittances, food subsidies, and payments to clear arrears to the Bangladesh Power Development Board** (World Bank, 2025)
  - **Expenditure owing to domestic interest payment** also **increased substantially**, with the corresponding share in additional non-ADP expenditure reaching 37.6%

Public Expenditure (contd.)

- The proposal to introduce a **dearness allowance** for government employees by replacing the existing 5% special incentive from FY26 **comes at a curious time**
  - As reported in media, this move **will increase public expenditure by nearly Tk. 7,000 crore**
- While this allowance will provide **some respite to the public servants** during times of high prices of necessities, **apprehensions remain as to whether this move will stoke inflation further**
- There are still **concerns about how much attention the rest of the workforce—especially those working in low-paying private jobs and the informal sector—will receive**
- The timing and nature of this allowance also call into doubt the government's priorities
  - It needs to be observed whether this move was initiated to appease and maintain support from the government employees, particularly those in the bureaucracy

Public Expenditure (contd.)

- According to IMED data, the **ADP implementation rate** against the original budget allocation reached 32.8% during Jul-Apr FY25 – **the lowest in the last ten years**
  - Within the components of ADP, utilisation of both 'Taka' (the part of ADP that is financed by domestic resources), and project aid reached their historical lows (31.1% and 35.6% respectively)
  - Slowdown in ADP implementation has adversely impacted revenue mobilisation and may have negative connotations for the achievement of a healthy economic growth
- **Among the top ten ministries/divisions** receiving the highest allocation, the ADP **implementation of five was below the average** level
  - These include the Road Transport and Highways Division, the Ministry of Railway, the Health Services Division, the Secondary and Higher Education Division, and the Ministry of Water Transport
  - **The trend of poor ADP implementation in education and health sectors continued in FY25**
- The average **ADP implementation rate** of government ministries/divisions which **reside outside the top ten** has **almost halved**—from 42.4% during Jul-Apr FY24 to 21.7% during Jul-Apr FY25

Deficit and its Financing

- As per MoF data, **budget deficit increased substantially** during the Jul-Jan of FY25 (from Tk. 22,244 crore during Jul-Jan FY24 to Tk. 38,393 crore during Jul-Jan FY25)
  - Perhaps attributable to the combination of marginal increase in revenue collection and substantial increases in non-ADP expenditure
- Government's **net foreign borrowing increased marginally** during Jul-Jan FY25
- Government net borrowing from the banking system stood at Tk. 40,786 crore during Jul-Jan FY25 (corresponding figure for FY24: Tk. 23,627 crore)
  - **This increase in bank borrowing by the government may have limited the availability of funds for the private sector**
- Government **net borrowing from non-banking sources increased** by Tk. 1,693 crore during Jul-Jan of FY25
  - Within the non-banking sources, the net sale of NSCs experienced a sharp rise
- Overall, the **dependency on domestic sources** for financing the budget deficit **increased**
  - This dependency on high-interest rate domestic sources **might have adverse implications for the debt servicing liabilities**

The Path Ahead

- The issue of **limited fiscal space** will **persist in the foreseeable future**
  - The **extent** of this will be **determined by** the **capacity to mobilise additional revenue**
  - To this end, the **following should receive due importance**
    - Finding newer avenues (e.g., taxing the growing digital economy and meaningful taxation of wealth and property)
    - Enhancing the efficiency of existing efforts (e.g., analysing the current tax exemptions in-depth with thorough data analysis)
    - Sealing leakages (e.g., curbing illicit financial flows, limiting tax evasion, and tax avoidance)
  - While efforts to mobilise additional revenue will be there, it needs to be taken into cognisance that **some revenue losses will occur owing to** the initiatives taken in view of Bangladesh's upcoming LDC graduation
    - **Hence, a balancing game will need to be played**

The Path Ahead (contd.)

- The latest rounds of discussions with the IMF have shown **how difficult getting budget support** can be
- Receiving **foreign financing through the channel of ADP** is contingent upon the government's **ability to design and implement projects**
  - However, **swift improvement in these areas will be a difficult proposition**
- In this backdrop, the **onus of deficit financing is likely to fall onto bank borrowings**
- However, **careful calibration** will be required **if private sector borrowings are not to be crowded out**, given the commercial banks' liquidity situation and the government's decision not to borrow from the central bank

The Path Ahead (contd.)

- The **public expenditure framework** will need **to address the persistently high prices of necessities**
- It needs to be ensured that **the low and limited income, vulnerable and disadvantaged groups are supported** through **both revenue and expenditure centric fiscal measures**
- In case of ADP, the **cautious approach in terms of project approval** and **fund disbursement**, and **increased scrutiny of expenditure allocations** need to be continued
- It needs to be ensured that the **current austerity measures**, be them part of prudent macroeconomic management or IMF conditionalities, **have minimal impact on the social safety net, the health and education sectors, agriculture, and SMEs**
- The **central focus of public expenditure management** in the coming days needs to be the **enhancement of value for money**, given the limited fiscal space

3. Inflation Easing, But High Prices Persist

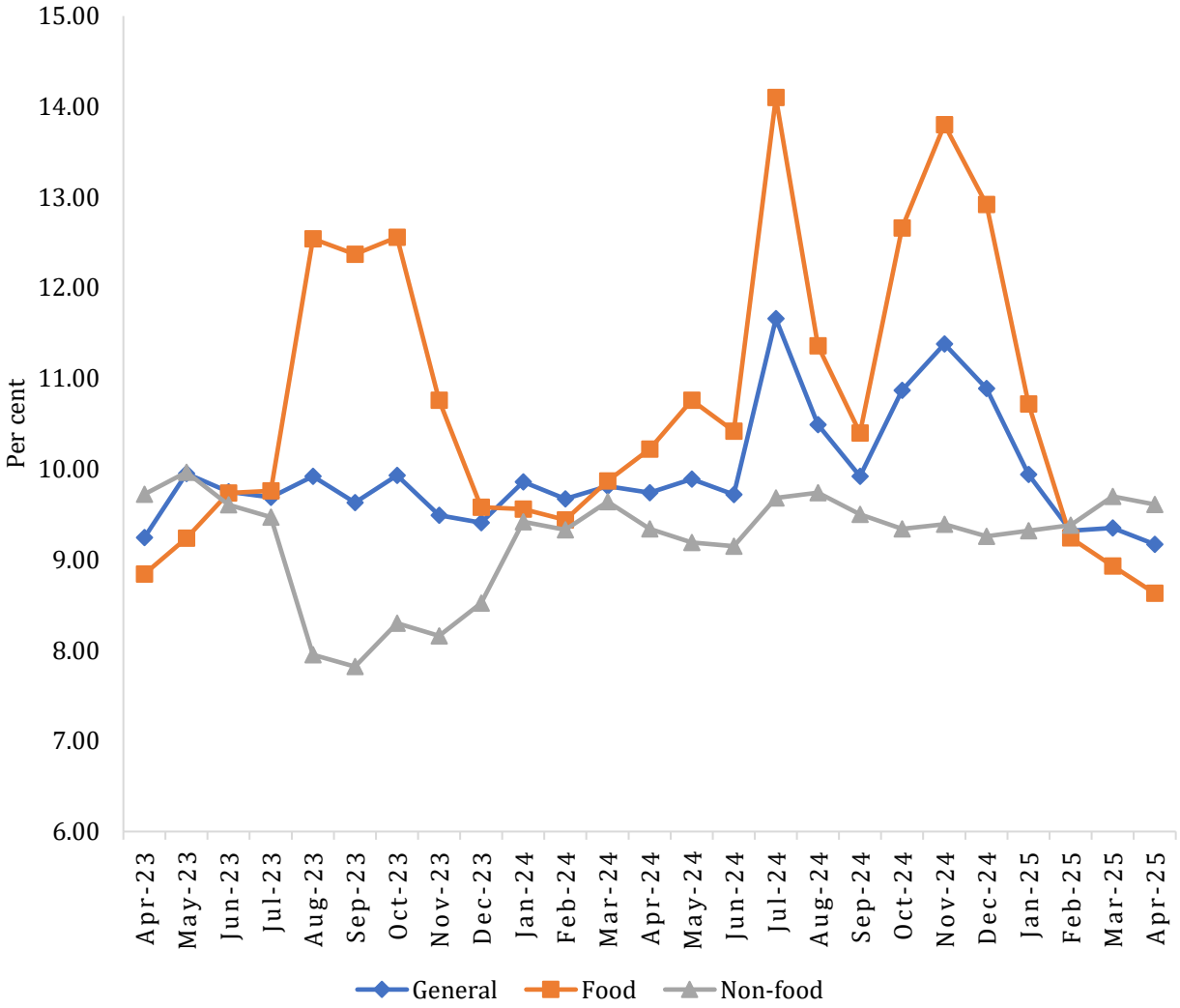
Inflation: A Pressing Macroeconomic Challenge

- The interim government inherited a fragile economy marked by high inflation and soaring prices.
- Persistent price pressures continue despite recent moderation.
- Inflation largely driven by surging food price.
- Monopolies and cartels in food supply chains exploit weak governance.
- Structural bottlenecks and rising import, fuel, and currency costs intensify inflationary pressures.
- While supply-side factors are primary, demand-side effects are also contributing.
- Tackling inflation is now central to economic recovery and stability efforts.

Persistent Inflation Signals Deeper Structural Issues

- From Apr 2023–Apr 2025, general inflation stayed above 9%.
- Food inflation was the main driver—fueled by floods, cartels, and weak governance.
- Non-food inflation remained high and stable at 9–10%.
- Modest easing by early 2025, but price pressures remain entrenched.
- Urgent need for supply-side reforms and protection for vulnerable groups.

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

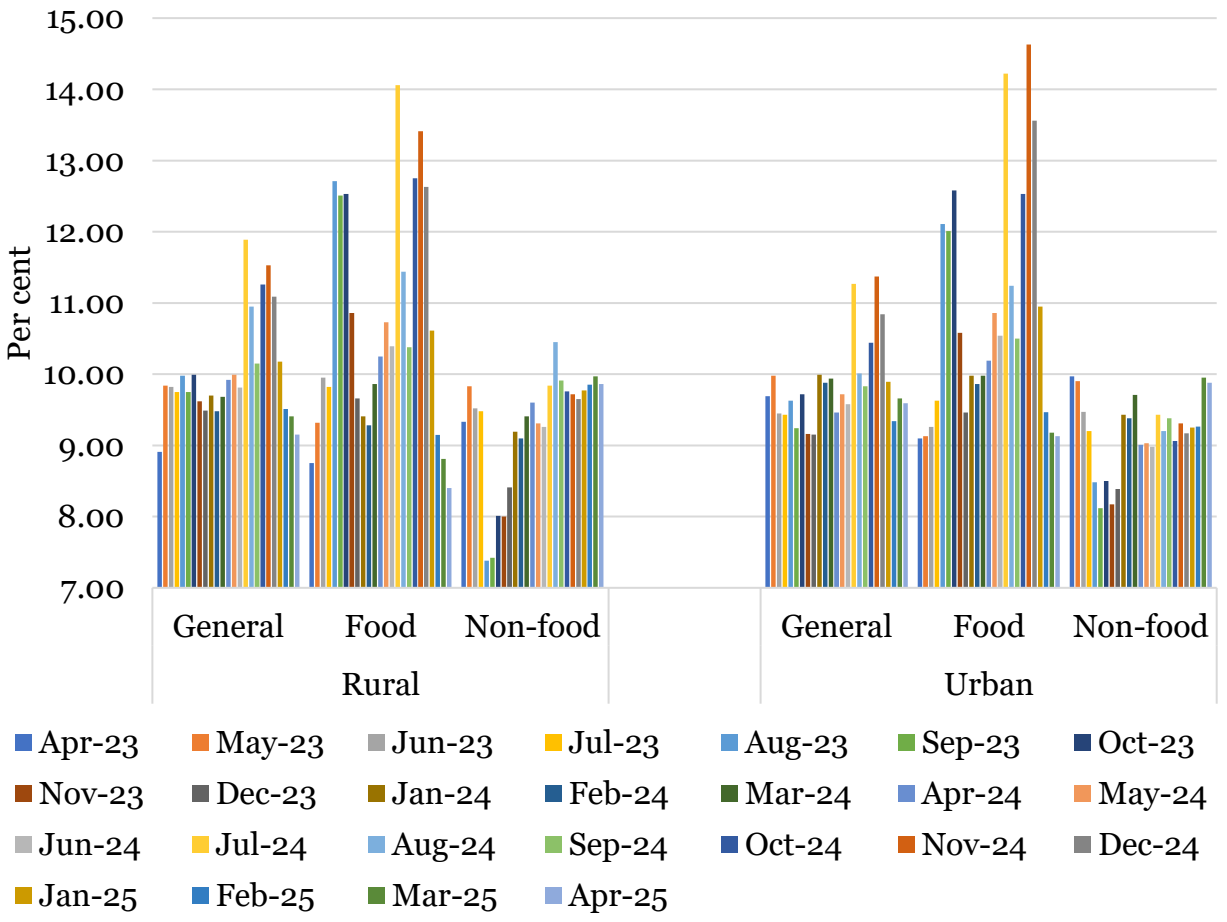


Source: CPD illustration based on data from Bangladesh Bank

Rural Inflation Outpaces Urban

- From Apr 2023 to Apr 2025, inflation rose in both rural and urban areas.
- Rural CPI was higher than urban in 18 of 25 months.
- Alarming trend, as rural households are more vulnerable and have lower incomes.

Figure: 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)

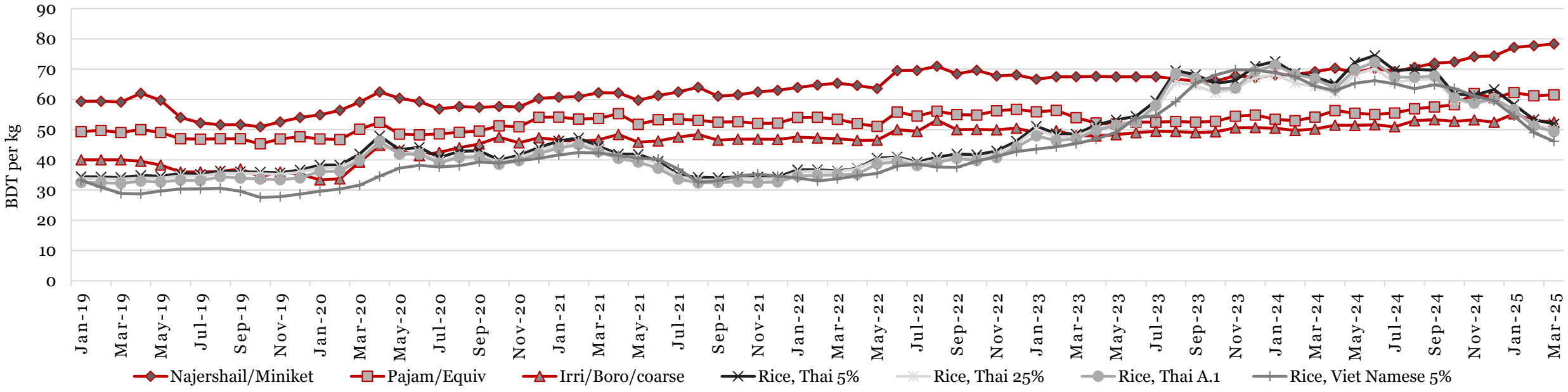


Source: CPD illustration based on data from Bangladesh Bank

Average Price of Rice

Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Has increased since 2019; there has been a slight drop in January 2020 and a sharp rise since mid-2024 due to Aman crop damage.	Relatively stable, though affected by global supply chain issues. Prices of Thai and Vietnamese rice have been falling in recent months.	Floods disrupted Aman cultivation; high dollar rate made imports expensive; limited actual imports despite large-scale approval of imports	Increased cost-push inflation, reduced consumer purchasing power, and increased food insecurity.	Maintain buffer stocks; release stocks during price hikes or supply shocks; improve flood-resilient agriculture.

Figure: Average price of rice in Bangladesh and international markets from January 2019 to March 2025 (BDT per kg)

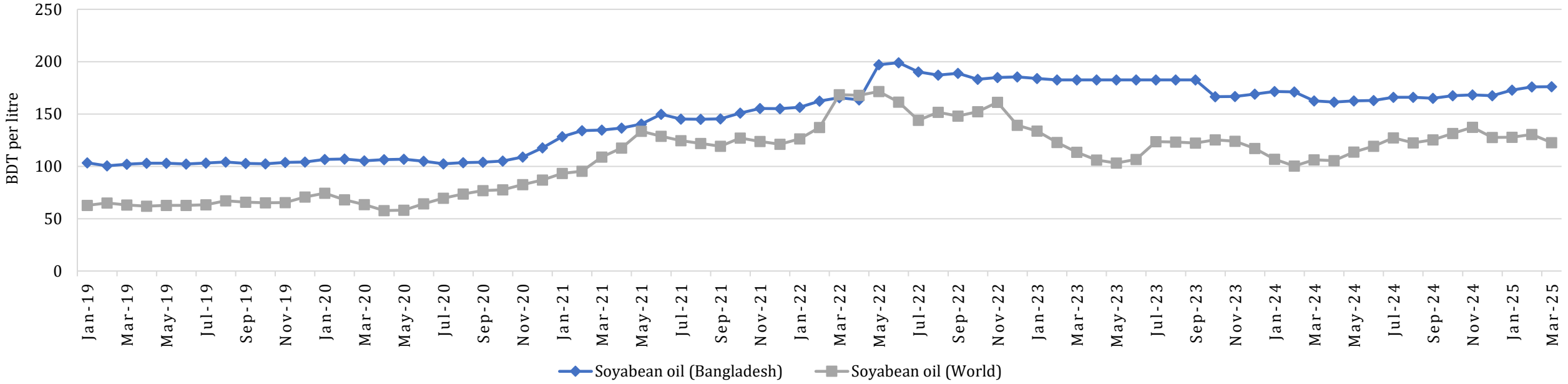


Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) and World Bank

Average Price of Edible Oil

Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Has risen since 2019; there has been a sharp spike during 2022–2023; it remained high in 2024–2025.	Soybean oil prices have been below BDT 150 per litre in international markets since December 2022.	High import dependency, forex reserve depletion, global supply constraints, and currency depreciation.	Further cost-push inflation reduces the standard of living; it places a disproportionate burden on low-income groups.	Streamline customs and import logistics; improve transparency in the edible oil market.

Figure: Average price of soyabean oil in Bangladesh and international markets from January 2019 to March 2025 (BDT per litre)

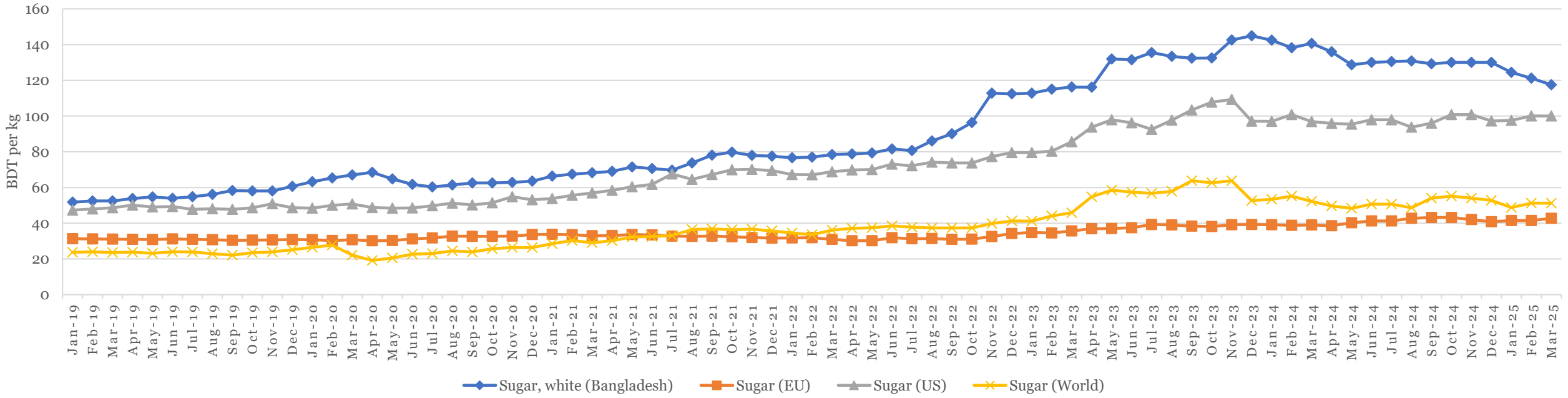


Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) and World Bank

Average Price of Sugar

Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Sharp increase in 2023; remained high through 2025.	Since December 2023, the price of sugar in the US market has been hovering at around BDT 100 per kg, whereas in the EU and world markets it was lower than BDT 60 per kg. .	Oligopolistic domestic market, reduced global supply, rising import costs, weak regulatory oversight.	Inflationary pressures, possible price fixing, and impacts on food manufacturers and consumers.	Monitor and regulate oligopolies; resume state-run mills; allow TCB to purchase in bulk and act as price buffer.

Figure: Average price of sugar in Bangladesh and international markets from January 2019 to March 2025 (BDT per kg)

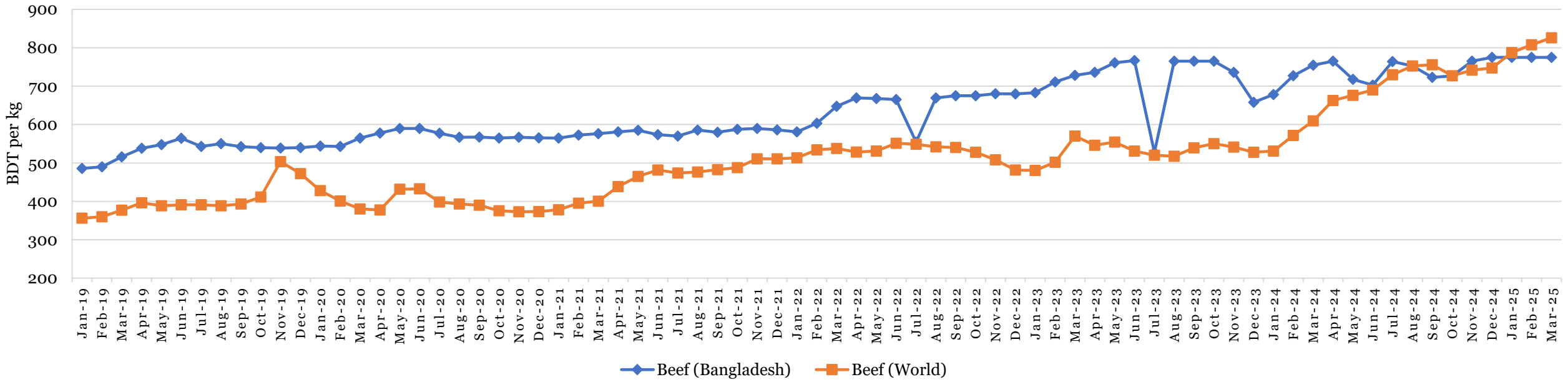


Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) and World Bank

Average Price of Beef

Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Increase from around BDT 550 per kg in 2019 to BDT 750–850 per kg in 2025.	World prices of beef have been higher than Bangladeshi prices since January 2025.	Increased feed and fodder costs; seasonal demand spikes (e.g., Ramadan, Eid); high transport costs; feed import affected by dollar rate.	Higher household food expenditure, pressure on middle-income consumers, and occasional supply shortages.	Provide tax incentives to feed producers; improve cattle healthcare; subsidise transport/logistics; promote local cattle rearing.

Figure: Average price of beef in Bangladesh and international markets from January 2019 to March 2025 (BDT per kg)



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) and World Bank

Money Supply and Inflation

"Inflation is always and everywhere a monetary phenomenon."

- Milton Friedman (1968)

- In FY2023, an unaccounted BDT 70,000 crore was printed for quantitative easing, absent from official Bangladesh Bank data.

- A Vector Autoregression (VAR) model was used to analyse the relationships among Consumer Price Index (CPI), money supply (M2), interest rate, and GDP.

- Monthly data from Bangladesh Bank spanning 1974–2024 was used for the analysis.

Granger Causality Test: Money Supply & Inflation

- A Granger Causality Test shows that past values of money supply help predict future inflation.
- The results validate the quantity theory of money, which states that increasing the money supply will increase inflationary pressures.

Table: Results of Granger causality Wald tests

Null Hypothesis	Probability	Decision
M2 does not Granger-cause CPI	0.06	M2 Granger-causes CPI general

Source: Author's calculation using data from Bangladesh Bank

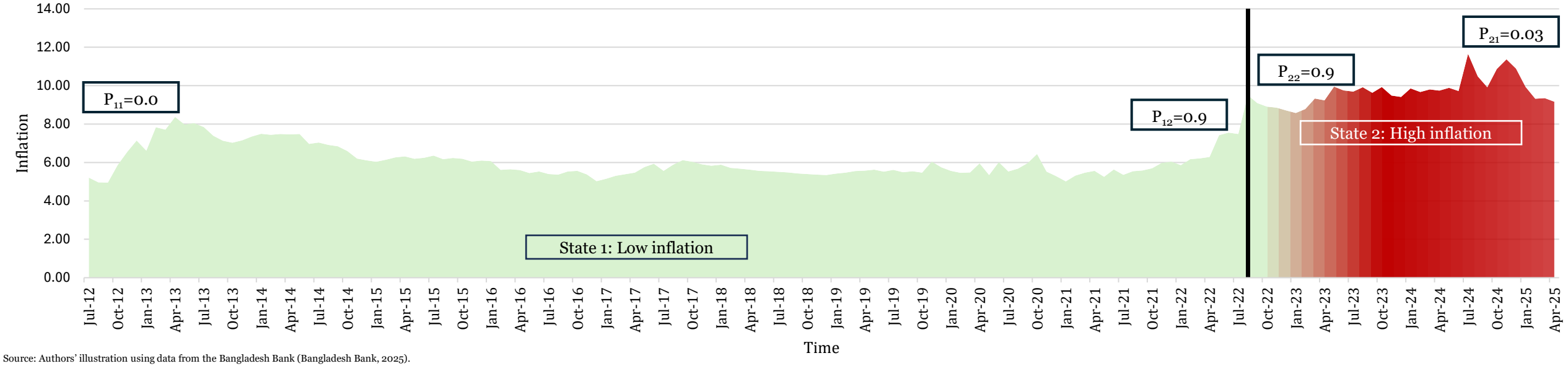
Policy Rate Hikes

- Following the July 2024 Revolution, the Bangladesh Bank raised the repo rate from 8.5% to 10%, signalling a more contractionary monetary stance.
- A Markov Switching Dynamic Regression (MS-DR) model was used to assess how inflation behaves under different regimes (high vs. low inflation).
- The model incorporates key variables: repo rate and Industrial Production Index (IPI) as a proxy for industrial output.
- Analysis is based on monthly data from July 2022 to February 2025, covering both pre- and post-policy change periods.
- The approach helps capture shifts in inflation behaviour under evolving policy conditions.

Impact of Policy Rate Hike on Inflation

- The model shows that despite changes in the policy rate, the probability of remaining in a state of high inflation (shown in red) is very high (P_{22}=0.9) if the economy is already in a state of high inflation.
- Hence, **changing policy rates alone cannot tame inflation**; price stickiness and delayed responses limit the impact of interest rate hikes.
- Structural issues drive inflation — weak output, unstable forex reserves, currency pressures, and market cartels require broader reforms.

Figure: Results of Markov-Switching Dynamic Regression Model



Source: Authors' illustration using data from the Bangladesh Bank (Bangladesh Bank, 2025).
Note: i) The bar indicates the switch to high inflation state; iii) Period July 2012 to July 22, indicated by green shaded area indicates low inflation state, period August 2022 to January 2025 indicated by red shaded area indicates high inflation zone; iii) P11 means the probability of persisting in State 1 given that the economy started in State 1, P12 means the probability of transitioning to State 2 given economy is in State 1, P21 means the probability of transitioning to State 1 given the economy is in State 2, P22 means the probability of persisting in State 2 given economy started in State 2.

Conclusions

- Persistently high inflation has hit low-income households hardest—rural areas face higher non-food inflation with stagnant incomes, while urban areas struggle with sharper food price hikes.
- Between 2019 and 2025, prices of essentials like rice, oil, sugar, and beef surged above global levels, driven by domestic inefficiencies and external shocks, requiring urgent reforms in supply chains and market oversight.
- Granger causality tests confirm that rising money supply significantly drives inflation; relying on money printing risks sustaining high inflation levels.
- Markov Switching Dynamic Regression (MS-DR) model shows inflation persistence, indicating that policy rates alone are insufficient for reducing inflation.

Policy Recommendations

- Maintain buffer stocks of key food items and release during shocks to stabilise prices.
- Invest in climate-resilient crops like wheat to reduce weather-related production risks.
- Support local wheat farming with subsidies and training to cut import dependency.
- Streamline food imports and resolve supply bottlenecks to prevent shortages and price hikes.
- Boost meat production through better veterinary services and feed miller incentives.
- Reduce sugar tax and break the oligopoly to lower consumer prices.
- Strengthen market oversight to detect manipulation and ensure fair pricing.

Policy Recommendations

- Revise competition laws with stronger antitrust rules and penalties.
- Expand social protection via cash transfers and food aid for low-income groups.
- Control the money supply to match real output and limit inflation.
- Implement structural reforms like boosting output and dismantling cartels.
- Set inflation targets with independent forecasts and transparent policies.
- Extend social support through direct aid to help households manage rising costs.

4. Fixing the Fault Lines: Restoring Integrity to the Banking Sector

Overview of the Banking Sector

- Following the July 2024 uprising, Bangladesh Bank launched reform efforts under new leadership to stabilise the struggling banking sector.
- The sector suffers from persistent inefficiencies, poor governance, and declining performance across key indicators.
- During the tenure of the past autocratic government, politically motivated appointments and influence over bank licensing have weakened regulatory integrity and accountability.
- Deficiencies in banking laws and judicial delays have enabled loan defaulters and hindered enforcement actions.
- Long-term, politically backed reforms are essential to restore transparency, reduce NPLs, and ensure financial sector resilience.

Capital Adequacy Crisis

❑Capital Adequacy Ratios Far Below Required Thresholds

- ➢ State-Owned and Specialised Banks have reported negative Capital-to-Risk Weighted Asset (CRWA) ratios, violating Basel III standards and exposing systemic risk.

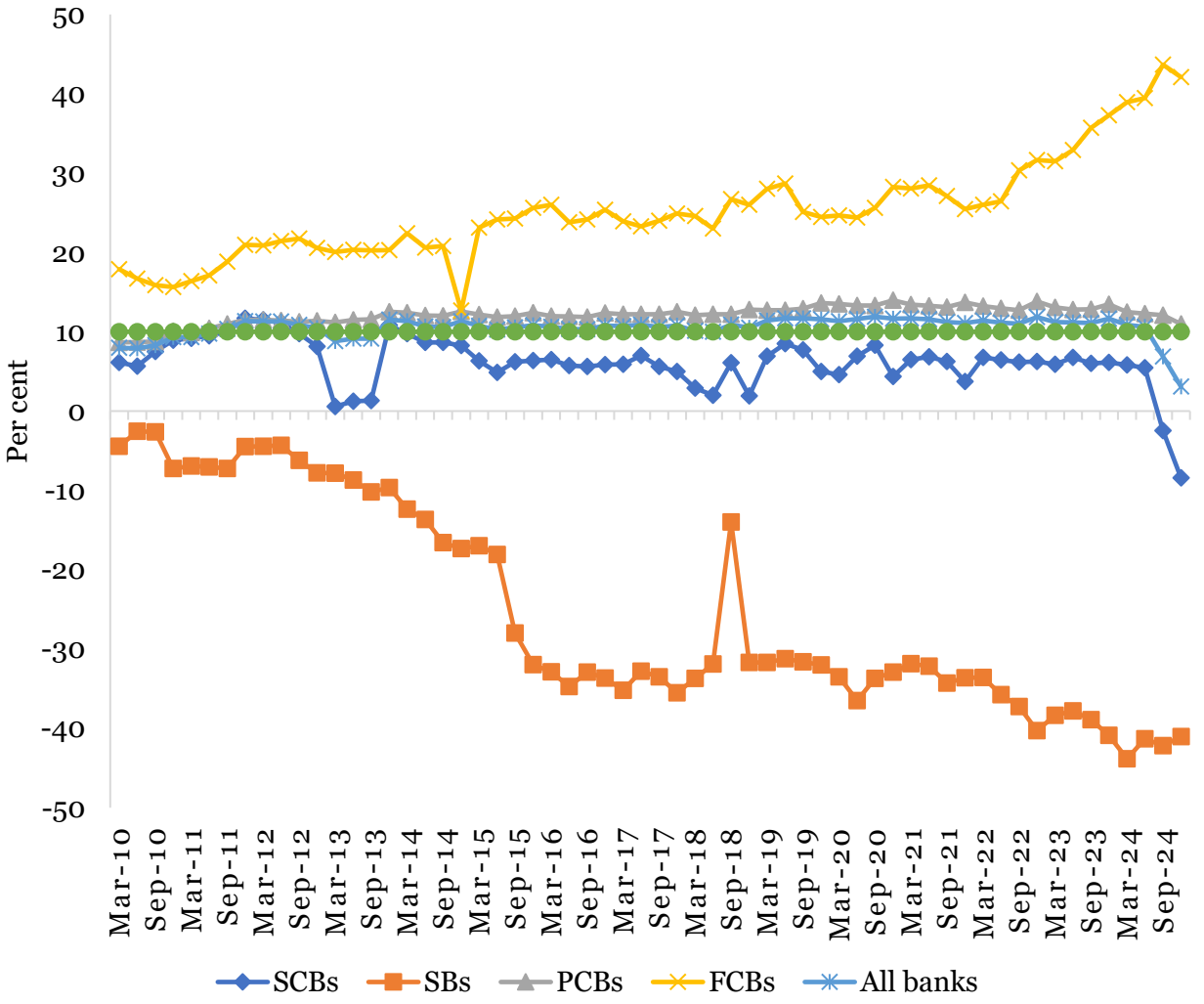
❑Sharp Decline in Sector-Wide Capital Adequacy

- ➢ The overall CRWA dropped from 6.86 to 3.08 between September and December 2024, driven largely by steep declines in SCBs' capital buffers.

❑Data Manipulation Concerns Under the Past Regime

- ➢ Consistent reporting of the 10% lower bound in prior years raises suspicions of data concealment to mask deeper banking vulnerabilities.

Figure: CRWA Ratios by Type of Banks (in per cent)



Source: CPD illustration based on data from the Bangladesh Bank

Worsening Asset Quality

❑Sharp Surge in Non-Performing Loans (NPLs)

- NPLs skyrocketed from BDT 1,206.57 billion in Q2 FY2023 to BDT 3,457.65 billion in Q2 FY2025—an almost threefold increase in just two years.

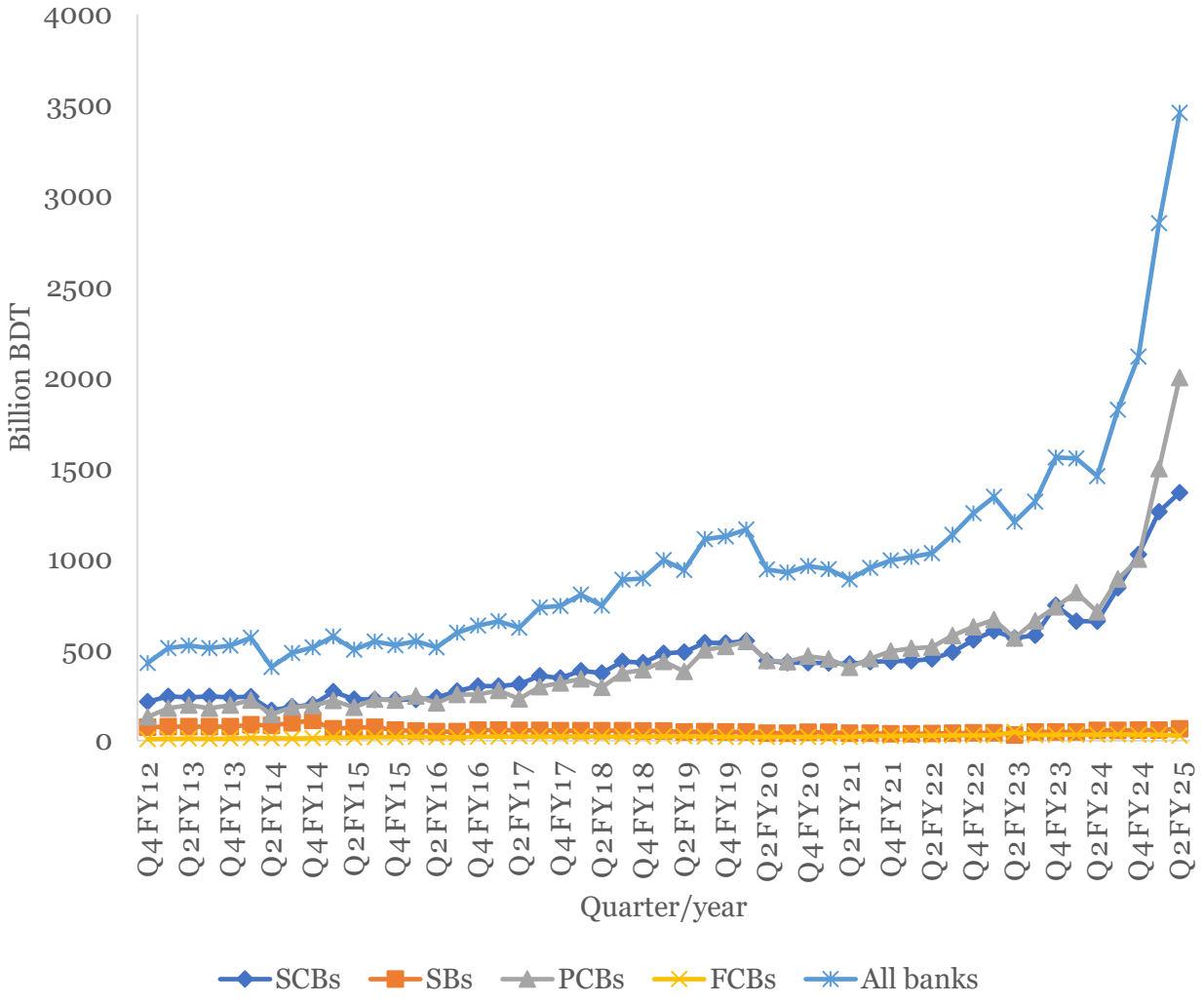
❑Systemic Credit Risk Across Bank Portfolios

- The alarming growth in Sub-Standard, Doubtful, and Bad/Loss loans reflects deteriorating asset quality and rising credit risk.

❑Delayed Data Transparency Exposed Sector Weaknesses

- Post-2024 regime change revealed hidden NPL figures, highlighting how previous reporting masked the sector's true vulnerability.

Figure: Total Classified Loan (in billion BDT)

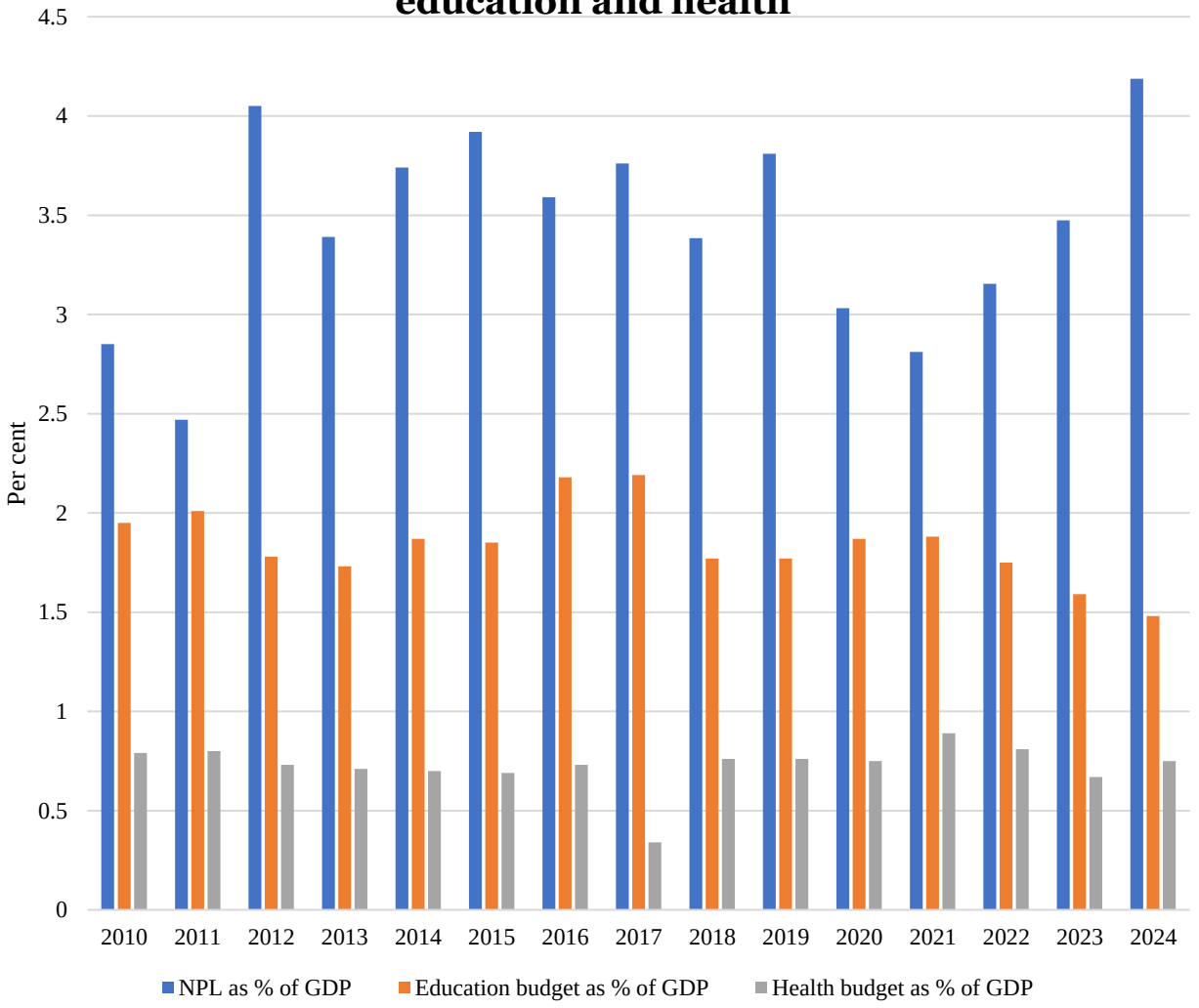


Source: CPD illustration based on data from the Bangladesh Bank

Opportunity Cost of NPLs

- **NPLs Severely Restrict Funding for Key Sectors**
  - Large volumes of capital are locked in non-performing loans, limiting funds available for vital social sectors.
- **NPLs Exceed Critical Budget Allocations.**
  - In 2024, total NPLs were nearly 4 times the education budget and over 8 times the health budget.
- **Resource Misallocation Undermines Development.**
  - The growing NPL crisis diverts crucial resources away from education and healthcare, exacerbating social challenges.

Figure: NPL 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.

Loan Loss Provisioning

❑Provisioning Gap Widens Sharply Since FY2021

- While required provisions rose from BDT 144.5 billion (FY2012) to BDT 2155.1 billion (FY2025), banks have consistently failed to meet these targets—indicating escalating credit risk.

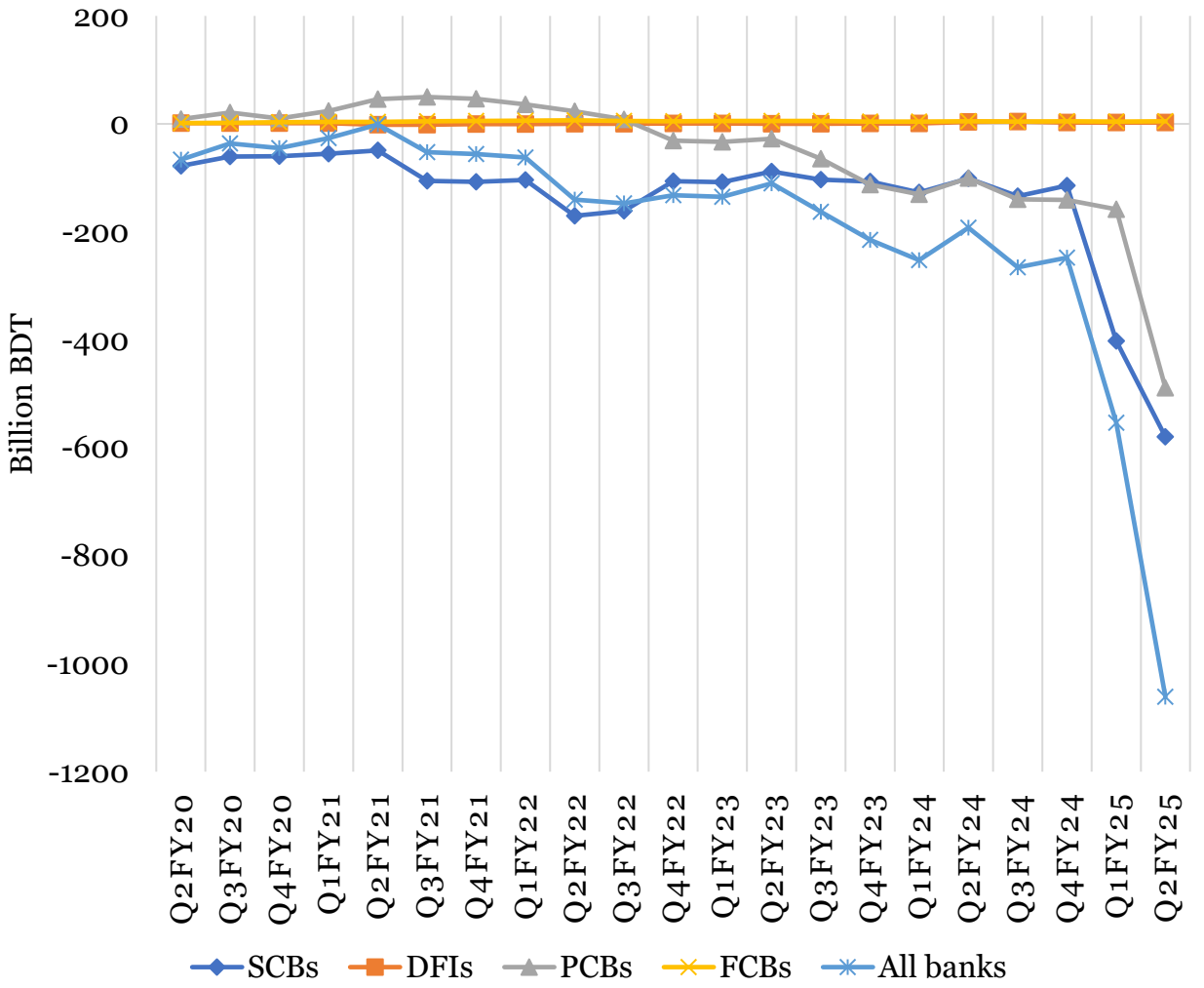
❑Record Provisioning Shortfall by FY2025

- The shortfall reached BDT -1061.3 billion in Q2 FY2025, with SCBs and PCBs being the main contributors—showing systemic under-protection against loan defaults.

❑Sharp Deterioration Post-Regime Change

- Since the July 2024 regime change, provisioning shortfalls for SCBs and PCBs have worsened markedly, reflecting previously masked vulnerabilities in the sector.

Figure: Shortfall in Loan Loss Provisioning (In billion BDT)



Source: CPD illustration based on data from the Bangladesh Bank

Barriers to Improving Banking Sector Governance

Institutional

- Appointments of bank directors, often based on political connections
- Loans sanctioned on political grounds
- Rescheduling of loans despite poor record of repayment
- Writing off loans to reduce tax burden and clean balance sheets of banks
- Weak internal control and compliance risk management of banks
- Inability of some banks to comply with BASEL III requirements

Regulatory

- Lack of independence of the Central Bank
- Dual regulation by the Financial Institutions Division and the Central Bank
- Flexibilities given to defaulters by the Central Bank
- Bank licenses given arbitrarily to crony capitalists
- Recapitalisation of banks by the government
- Quasi-monopolistic power of few bank oligarchs

Legal

- Amendments of Banking Company Act to favour vested interests
- Weaknesses in Financial Loan Court Act
- Loopholes in Bankruptcy Act
- Delays in judicial process and long backlog of cases
- Insufficient number of judges dealing with loan cases
- Lenient legal stance against willful defaulters

Data and information-related

- Limited access to timely data
- Apprehensions regarding quality of data
- Absence of disaggregated data
- Low reflection of data use in decision-making and policy measures
- Lack of transparency about use of data in decision-making process
- False information, forged documents and fake companies used for obtaining loans

Challenges in Private Sector Credit Growth

❑Private Credit Growth Continues to Undershoot Targets

- ➢ Since FY2022, private sector credit growth has consistently lagged behind projections, reflecting sluggish investment demand.

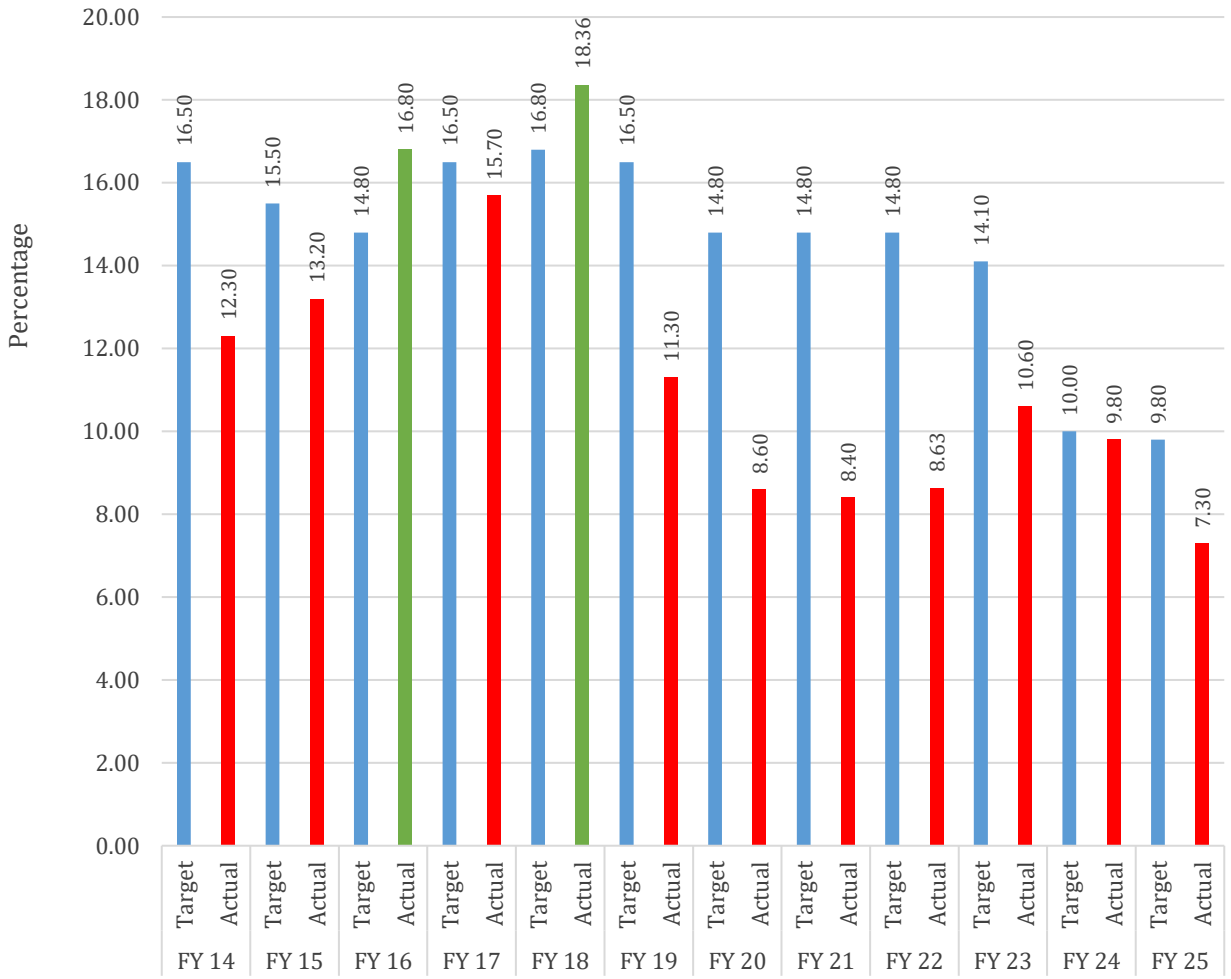
❑Weak Investor Confidence Undermines Economic Recovery

- ➢ Persistent shortfalls in credit growth signal limited private sector appetite for expansion amid economic uncertainty.

❑Need for Calibrated Policy Coordination

- ➢ Bangladesh Bank must align monetary and fiscal strategies to stabilise inflation while encouraging private sector growth.

Figure: Slowdown of private-sector credit growth



Source: CPD illustration based on data from the Bangladesh Bank

Key Recent Banking Sector Reforms

❑Adoption of Expected Credit Loss (ECL) & IFRS 9 Standards

- ➢ Shift from incurred loss to forward-looking provisioning to improve risk management.
- ➢ Phased implementation (2025–2027) with training, pilot testing, and full rollout.

❑Tighter Regulations on Loans & Dividends

- ➢ Reduced grace periods for overdue loans to curb defaults.
- ➢ Dividend restrictions for banks with high NPLs (>10%) or capital shortfalls.

❑Enhanced Governance & Oversight

- ➢ Stricter approval for bank director appointments to curb favouritism.
- ➢ Mandatory banking certification (JAIBB/AIBB) for promotions to enhance professionalism.
- ➢ Audits by international firms (e.g., EY, KPMG) for transparency.

❑Monetary & Crisis Management Reforms

- ➢ Market-based interest/exchange rates to combat inflation and boost forex reserves.
- ➢ Bank Resolution Ordinance 2025: Allows central bank intervention in failing banks, including asset transfers, temporary administration, and a new Resolution Fund.

Conclusions

- **Structural weaknesses remain unresolved** — persistent issues like poor governance, crony lending, and weak oversight
- **Capital shortfalls and rising NPLs** — alarming deterioration in financial health, especially in state-owned banks
- **Reform efforts show intent but fall short** — new regulations are promising but not fully enforced
- **Bank Resolution Ordinance offers tools** — empowers Bangladesh Bank to intervene in failing banks
- **Political interference is a major barrier** — dual oversight and legal loopholes weaken regulation
- **Institutional and legal reforms are urgent** — transparency, asset recovery, and judicial efficiency must improve
- **Bold political action is critical** — half-measures won't work; systemic overhaul is needed for lasting stability.

Policy recommendations: Strengthening Commercial Banks

❑Short-term Measures

- ➢ Enforce proper loan sanctioning and internal credit risk ratings
- ➢ Strictly apply single borrower exposure limits
- ➢ End repeated loan rescheduling and write-offs
- ➢ Appoint administrators to non-compliant banks under BASEL III
- ➢ Replace underperforming management and boards with qualified professionals
- ➢ Depoliticise board appointments and shorten board tenure
- ➢ Require central bank approval for senior management hires/promotions
- ➢ Postpone and cancel licenses for digital banks until sector is stabilised

❑Medium-term Measures

- ➢ Revamp internal control, compliance, and audit systems
- ➢ Enforce the Bank Resolution Ordinance; shut down unsustainable banks

❑Long-term Measures

- ➢ Ban directors of weak banks from joining merged institutions
- ➢ Modernise core banking systems for digital integration
- ➢ Strengthen IT infrastructure, e-KYC, and payment system security

Policy recommendations: Upholding Bangladesh Bank's Independence

❑Short-term Measures

- Protect the central bank's autonomy per the Bangladesh Bank Amendment Bill 2003
- Stop recapitalisation bailouts using public funds for mismanaged banks
- Halt new bank licenses issued for political reasons without economic justification
- Ban majority ownership of multiple banks by a single individual/group
- Recruit a strong, new team for Bangladesh Financial Intelligence Unit (BFIU) to combat illicit finance
- Close Ministry of Finance's Financial Institutions Division (FID) to end dual regulation; transfer functions to Bangladesh Bank
- Hold former governors accountable for past sector weaknesses
- Publish the CID investigation report on the Bangladesh Bank heist promptly

❑Medium-term Measures

- Implement Bank Resolution Ordinance 2025 fully to wind up troubled banks transparently and reduce political influence

❑Long-term Measures

- Prohibit current/former government officials from serving as governor or deputy governors of the Bangladesh Bank in the future

Policy recommendations: Creating a Conducive Legal & Judicial Environment

❑ Short-term Measures

- Establish specialised courts and tribunals, including virtual hearings, to speed up case resolution
- Amend the Bankruptcy Act to cover corporate and cross-border bankruptcy per UNCITRAL guidelines
- Amend Banking Company Act to limit board members from one family and restrict director tenure to 3 years (max 2 terms)
- Reinstate group default regulation to block new loans if one company in a group defaults
- Freeze accounts and liquidate assets of willful defaulters and their immediate family; temporarily nationalise their businesses
- Block willful defaulters' transactions internationally via Visa, Mastercard, Amex, and SWIFT networks
- Publicly disclose politically connected willful defaulters to encourage media scrutiny
- Introduce harsher penalties for court order violations, including asset confiscation and fines for baseless appeals
- Close legal loopholes that allow defaulters to delay cases through adjournments and stay orders
- Launch all-out efforts to recover stolen assets with national and international support

❑ Medium-term Measures

- Increase judges handling Financial Loan Court and Bankruptcy Act cases to reduce backlog and expedite justice

❑ Long-term Measures

- Promote Alternative Dispute Resolution (ADR) to recover NPLs through out-of-court settlements

Policy recommendations: Ensuring Data Integrity & Timely Data Availability

❑Short-term Measures

- ➢Regularly publish and publicly share reports and data on individual banks and financial institutions
- ➢Mandate timely disclosure of BASEL III compliance by all commercial banks
- ➢Classify loans based on international standards (e.g., IMF Financial Soundness Indicators)
- ➢Implement comprehensive risk management policies to detect fraud, forgery, fake companies, and other malpractices

❑Medium-term Measures

- ➢Enact and enforce robust data protection laws to secure consumer data and regulate data sharing

5. External Sector Challenges: Transitioning From Fragile Comfort to Sustained Recovery

External Sector Performance: Overall Balance Sheet

Over the recent past, key external sector correlates have demonstrated robust performance. However, concerns remain as Bangladesh embarks upon the FY26 journey

- *The Tailwinds*
  - Robust remittance growth
  - Impressive export earnings
  - Improving current account balance
  - Encouraging Balance of Payment scenario
  - Rising forex reserves and exchange rate stability

- *The Headwinds*
  - Rising import demand and increasing debt-servicing obligations could put pressure on forex reserves
  - Moving from currency-pegging system to market-driven exchange rate system could make exchange rate management challenging
  - Worrisome global trading scenario: LDC graduation; Trump RTs; Indian NTBs; US imposition of tax on remittance outflows
  - Navigating the looming uncertainties will call for steady hands in managing the external sector in FY26

Export Sector Performance: Impressive, but Nagging Persistence of Old Challenges

- Overall export growth during the first ten months of FY25 was 9.8% which was impressive
- Compositional change of the RMG favouring knit-RMG is welcome development
- Since domestic value addition of knit-RMG is significantly higher than woven-RMG, this had positive implications:
  - Higher net export (Column 4: Higher domestic value addition)
  - Larger part of incremental exports coming from more-value adding knit-RMG exports (Column 5) augurs well for forex reserves

Table: Export Growth of Bangladesh in FY25 over FY24 (July-April)

(*Million USD*)

Products	FY24 (Jul-Apr)	FY25 (Jul-Apr)	% change in FY25 (Jul-Apr) over FY24 (Jul-Apr)	Net Export Earnings (July-Apr)	Contribution to Incremental Export
RMG	29,672.0	32,640.1	10.0	18,179.0	82.5 %
Knitwear	15,764.5	17,457.2	10.7	11,347.0	47.1%
Woven Garments	13,907.5	15,182.9	9.2	6,832.0	35.4%
Non-RMG	69,36.4	7,568.0	9.1	6,054.0	17.5%
Total	36,608.4	40,208.2	9.8	24,233.0	100.0%

Source: EPB (2025).

Note: Value additions for Net Export has been estimated by using the following coefficients- knit-RMG: 0.65; Woven-RMG: 0.45; Others: 0.80

Export Sector Performance: Impressive, but Nagging Persistence of Old Challenges

Table: Factors Driving RMG Growth of Bangladesh and Selected Competitors in EU and US Markets (July-March, FY25)

Market	Change in Prices (%)			Change in Volume (%)			Change in Earnings Value (%)		
	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam
EU Market	+2.0	+3.4	+1.4	+19.1	+15.0	+16.1	+21.5	+16.3	+15.6
US Market	-3.2	-2.7	-0.9	+17.0	+10.2	+13.8	+13.3	+7.2	+12.8

Source: EPB (2025).

- However, export earnings continue to be volume-driven rather than value-driven
- Navigating the challenges will call for:
  - Productivity growth and export and market diversification
  - Shift to upmarket segment of the demand curve
  - Competitive backward and forward linkages towards strengthened regional and global integration
  - Coherence between Trade Policy and Investment Policy

Import Performance: Investment-Oriented Import Demand Is Yet to Pick Up

- Import structure transmits mixed signals
- Imports are picking up:
  - However, this could increase pressure on forex reserves over the near-term via higher import payment demand
  - Continuing low import payments, L/C opening and L/C closing for capital machineries is indicative of slow uptake of investment demands
  - This is corroborated by subdued growth of private sector credit uptake

Table: Import Performance (% growth during July-March of FY25 over FY24)

Items	Actual Import	L/C Opening	L/C Closing
Consumer Goods (including food grains)	25.7	4.9	3.5
Intermediate Goods	6.8	1.8	6.8
Capital Machineries	-23.6	-26.0	-28.7
Total	6.4	4.8	5.3
Back to Back L/Cs	-	13.4	21.1

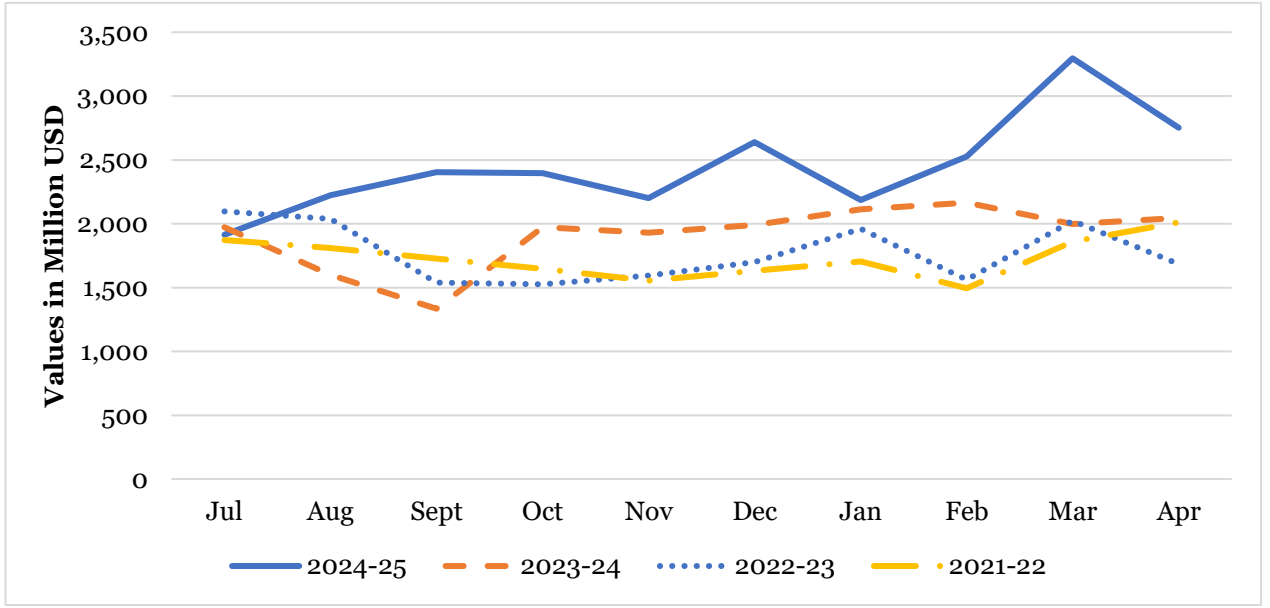
Source: Estimated from Bangladesh Bank (2025).

- On the other hand, high growth of B/B L/C opening (last row: primarily for raw materials and intermediates for export-oriented RMG Sector) is indicative of continuing high growth of apparels over the coming months
- Some selective restrictions on imports may be necessary till the time forex reserves reach comfortable levels

Robust Remittance Inflows: The Proven Saviour

- Consistently robust remittance flows have replenished the forex reserves:
  - Additional USD 5.42 billion in remittance earnings in the first ten months of FY25
  - Remittances are non-debt creating foreign exchange earnings; accordingly, the 28.3% growth in remittance flows is a most welcome performance
  - High remittance flows helped maintain BDT's exchange rate stability
- However, potentials not exhausted: about 4.1 million people have left for overseas jobs over the last four years, but remittance flows are yet to match those numbers

Figure: Remittance Inflows: FY22 to FY25 (July-April)



Source: Bangladesh Bank (2025).

- The dismantled hundi-hawla channels should not be allowed to resurrect: need to attack remittance inflows through informal channels both from the demand side (e.g. hundi-hawla operators abroad) and from the supply side (e.g. illicit outflows through money laundering)
- The government is likely to pay about BDT 9880 crore taka as incentives on remittances in FY26. There is a need to rethink now that the BDT has been made market-driven (gradually reducing the incentives from the current 2.5% to 1%-could save about BDT 6000 crore in FY26)

Balance of Payment Scenario: Significant Improvement

- Significant improvement in the overall BoP scenario
- Deficit in overall balance reduced by USD 3.6 billion:
  - Underpinned by robust inflow of remittances, and encouraging export earnings, against the backdrop of subdued import demand
- The underlying drivers of BoP improvement are welcome- this is mainly thanks to non-debt creating forex earnings (remittances)

Table: BoP Position and Structure of Change (July-March Period of FY24 vs FY25)

(*Million USD*)

Correlate	FY24 (Jul-Mar)	FY25 (Jul-Mar)	Change
Trade balance	-15755	-15431	↓ 324
Services	-2843	-3881	↑ 1038
Primary income	-3216	-3485	↑ 269
Secondary income	17416	22138	↑ 4722
Of which: Workers' remittances inflows	17074	21784	↑4710
Current Account Balance	-4398	-659	↓ 3739
Financial account	901	1307	↑406
Errors and omissions	-1547	-1982	↑435
Overall Balance	-4757	-1068	↑ 3680

Source: Bangladesh Bank (2025).

- However, speedy foreign credit disbursement will be needed to improve Financial Account Balance.
- BOP could come under pressure if imports pick up and current slowdown in foreign credit disbursement persists

Forex reserves: Encouraging Trends, but Pressure Likely to Rise

Table: Import equivalent of foreign exchange reserves in months

Indicator	April 30, 2025		
	Foreign Exchange Reserves	BPM-6 Reserves	Net International Reserves
Foreign exchange reserves (USD bln)	27.4	22.0	16.1
Months equivalent of imports	6.3	5.1	3.7

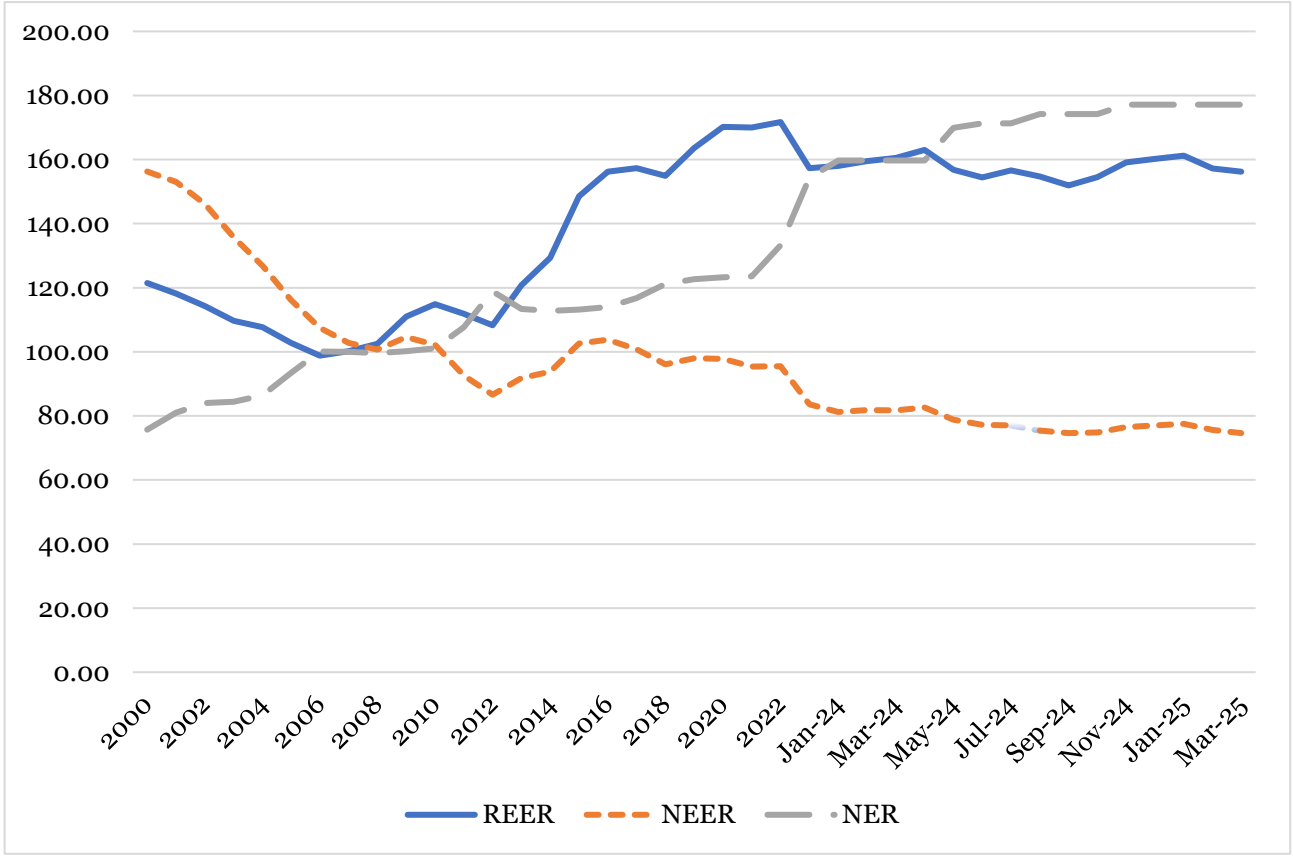
Source: Estimated from Bangladesh Bank.

- The downward slide in forex reserves has been halted
- Forex reserves as per BM-6 is equivalent to 5.1 months' import; in view of Net International Reserves this is equivalent to 3.7 months' imports. This is higher than the critical threshold of 3 months' imports
- The reserves are set to rise in near-future, but contingent on continuing good performance of remittances and exports, and import demand not picking up at fast pace
- Global Commodity prices are gradually on the decline which should help Bangladesh to maintain the current trend of rising forex reserves

Exchange rate: Nearing stability, but entering into challenging terrain

- The movement of REER and NEER indicates that exchange rate is at present near-equilibrium:
  - However, the introduction of market-determined exchange rate system will call for careful monitoring of movement of exchange rate of the BDT vis-à-vis major currencies, particularly the USD
  - Increasing foreign debt service payment is likely to put pressure on forex reserves and consequently exchange rate of BDT
  - Global commodity price movements will need to be closely monitored.
  - The USD 0.5 billion stabilisation fund at the disposal of Bangladesh Bank will need to be strategically deployed to maintain exchange rate stability

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



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

The Headwinds

- The emerging bilateral, regional and global trade scenario is not conducive for Bangladesh's robust external sector performance in FY26 and from the perspective of ensuring smooth and sustainable LDC graduation next year

Trump RTs

- Remain engaged with the US in an informed and evidence-based way
- Take advantage of TICFA to negotiate a good deal for Bangladesh
- Address USTR concerns. This is required also to ensure that a conducive environment is there to attract FDI not only from the US but also from other countries (e.g. single window; implementation of the Logistics Policy; IPR enforcement; timely notifications to the WTO about policy changes; tariff rationalisation)
- In negotiating a possible FTA with the US, articulate Bangladesh's offensive and defensive interests in well-crafted manner
- Set up a dedicated *Negotiating Wing* to undertake complex negotiations with the US, Japan and other countries

Trump Tax on Remittance Outflows

- US is currently the single-largest source of remittances for Bangladesh (USD 4.22 bln in first 10 months of FY25)
- At present, the average cost of sending remittance from USA to Bangladesh, according to the World Bank, is 4.4%. If the newly proposed tax of 3.5% is added to this, the sending cost will be 7.9%. This will no doubt have adverse implications for remitters sending money to Bangladesh from the USA. If the current remittance flow from USA is annualised, the sending cost on annual remittance flow of about USD 5.0 billion from the US would be about USD 395 million (or BDT 4,820 crore). By any measure, this is a significantly high amount
- Bangladesh, with other countries, should lobby for a minimum threshold of tax-free remittance outflow from US if such a tax is to be imposed at all by the United States. This will help small remitters, and work against interests of large aggregators in US

The Headwinds

Indian NTBs

- The newly imposed NTBs by India on exports from Bangladesh (e.g. transshipment barriers; port restrictions; restrictions on exports of selected commodities to the N.E States of India) will prove to be harmful for Bangladesh's export interests vis-a-vis India, (as also to other countries in view of transshipment via India)
- Bangladesh should invest in strengthening its airport cargo handling capacity to address transshipment restrictions by India
- On the other hand, India is continuing to extend use of transshipment facilities to Bangladesh via India to trade with Bhutan and Nepal. Nepal is supplying 40 MW hydro-electricity to Bangladesh using Indian energy grid. About 10% of Bangladesh's energy needs are met with electricity originating from India. The under-construction Matarbari deep seaport's viability will increase if traffic is generated from North-East India
- Bangladesh is a major export market of India. A large number of Indian producers, exporters and businesspeople are dependent on Bangladeshi citizens for purchase of services, and Bangladesh market for sale of goods
- India has been offering DF-QF market access to Bangladesh (for almost all goods) since 2011, as part of India's LDC scheme under the SAFTA. Bangladesh's exports have benefitted significantly from this preferential market access. Bangladesh has a keen interest in getting an extension of this facility beyond the graduation timeline as has been offered by the EU, UK and Canada (till 2029) and China (till 2028)
- The mutuality of bilateral interests between the two countries would indicate that it will be of benefit to both countries if respective concerns are addressed through discussions in good faith, and trade-related relations are pursued and strengthened in a win-win manner

6. Capital Market During the Interim Government: Woes Continue

Capital Market During the Interim Government: Woes Continue

6.1 Background

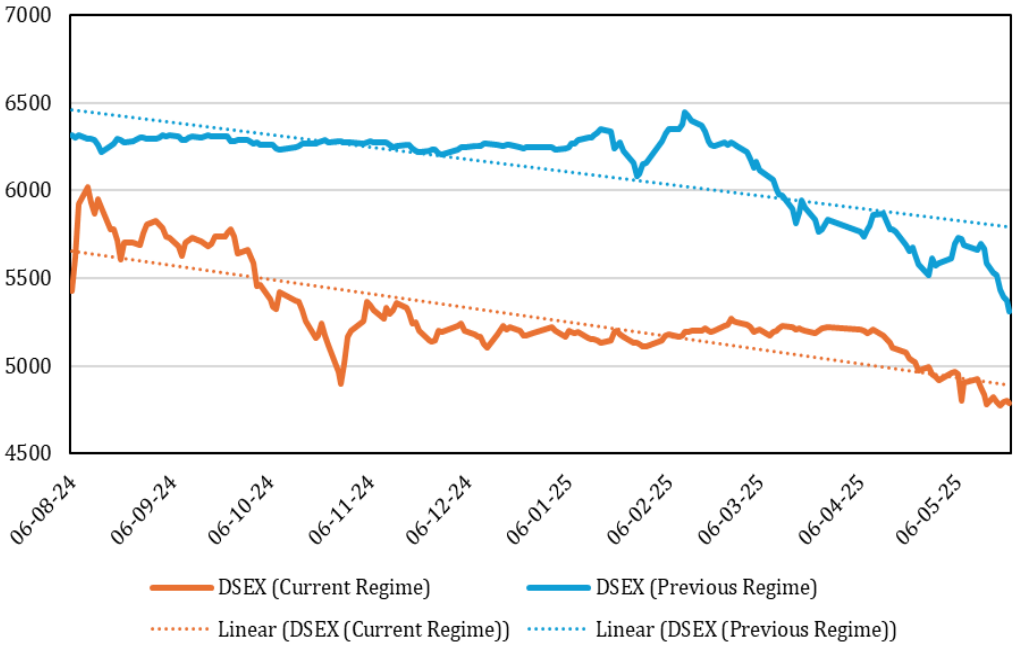
- The capital market in Bangladesh faced **persistent crises throughout the entire tenure of the previous regime**
  - According to estimates by the DSE Brokers Association of Bangladesh (DBA), the real value of the capital market, when adjusted for inflation, has **declined by 37.6% over the past 16 years**
- Following the assumption of power **by the new interim government**, expectations surrounding the capital market reached a significantly higher level
  - In meeting these expectations, the government has **already undertaken several initiatives** including the formation of **a task force to identify necessary actions needed for market reformation**.
  - However, nine months into its tenure, the adequacy, timeliness, and effectiveness of these m**easures have not been assessed**
- Against this backdrop, this section endeavours to analyse the **capital market and its recent performance**
  - The analysis of this section is mainly limited to **discussing a broader level issue**
  - It draws on insights mainly from interviewed stakeholders including **journalists, the depository institution, brokerage houses, and the capital market regulator,** and incorporates **secondary data** wherever necessary

Capital Market During the Interim Government: Woes Continue

6.2 Performance of Capital Market in Recent Months

- The performance of the capital market during the first nine months of the interim **government fell short of expectations**
- However, this might happen for two contradictory reasons: **a) the impact of sectoral measures and b) the impact of market manipulation practices**
- In terms of the market index (DSEX), it **consistently followed a downward trend and never (except for once) reached or approached the 6,000-point mark** (Figure 6.1)
- The **index for the same period under the previous regime also showed a declining trend,** albeit it mostly remained above the 6,000-point level until it plunged to **below 5,500 during the last** two months

Figure: DSEX for first nine months of interim government vis a vis previous government



Source: Based on data from DSE

- Overall, while the capital **market under both regimes experienced downward trends**, the extent of the decline has been more pronounced under the **current interim government for the same period**

Capital Market During the Interim Government: Woes Continue

6.3 Status of Existing and Emerging Challenges in the Market

- IPOs related

- Despite widespread allegations, the inclusion of **weak IPOs continued during the previous regime**, raising questions about the regulator's transparency.
  - As such, over the past 14 years, **more than two-thirds of companies listed on the stock market were subsequently downgraded**, with many **turning into junk stocks soon after listing** (Habib, 2025).
  - The number of newly listed companies fell sharply to just three in FY24, compared to nine in FY23 and fifteen in both FY22 and FY21 (BSEC, 2025)
- Despite the change in the regime and overtaking of responsibilities by a new interim **government, the IPOs-related challenges still appear to be persistent**
  - Already nine months have passed since the new government took over, yet **no new IPOs have entered the market**
  - In fact, **ongoing political uncertainty has narrowed the scope of new IPO enlistment to a further extent**
  - Although the Investment Corporation of Bangladesh (ICB) recently **identified 38 potential companies from state-run, multinational, and local pharmaceutical sectors for listing in the capital market**, there is **little optimism** until these companies are officially listed (Habib, 2025a)
  - This doubt is based on past experiences, in 2010, the former finance minister gave 26 state-owned companies six months to get listed**, but over the next 14 years, only Bangladesh Submarine Cables PLC successfully entered** the market

Capital Market During the Interim Government: Woes Continue

- The government is preparing to announce a **set of incentive packages to attract quality IPOs** in the upcoming budget
  - These include offering a **10% lower tax for listed companies** (currently its 5%), **lowering the tax on dividends from twice a year to once,** and **revising IPO listing rules to make the listing process easier**
  - However, the **success of these tax incentives is still uncertain**
  - The ongoing political instability **caused by the absence of an elected government continues** to weaken both local and **foreign investor confidence**
- **Many multinational companies (MNCs) remain hesitant** to list on the market, mainly because of the **unfavourable treatment** their listed counterparts have received from the BSEC over the years
  - As a result, **non-listed MNCs feel uncertain about the long-term reliability** of the incentives promised by the BSEC.
- There are **deep-rooted structural challenges** within the business governance culture in Bangladesh that continue to discourage companies from entering the capital market
  - Most **local businesses are family-owned**, **with boards of directors often composed of family members**, where maintaining full control over decision-making is considered essential
- Another major barrier to **attracting quality IPOs is the slow approval process combined with a flawed valuation system**
  - It has been **alleged that significant discrepancies in valuations frequently occur**, particularly under the book-building method

Capital Market During the Interim Government: Woes Continue

- Secondary Market related

- The interim government has begun **taking stronger action against such irregularities**, which were reportedly widespread during the previous regime
  - A total of **12 investigations have already been conducted** by the commission formed under the interim government on suspected market manipulation and other irregularities
  - However, despite commitments to transparency, the **findings from these investigations have not yet been made publicly available**
- There are limitations in the **technological capacity of the regulators' market monitoring,** on the other hand, there is also concern about **whether the existing capacity for market surveillance is being properly utilised**.
  - According to one interviewed stakeholder, **BSEC does have the capacity to detect basic forms of manipulation**, such as **circular trading**.
  - However, in many cases, even **when there are clear signs of irregular activity**, enforcement **actions are not taken accordingly or at best actions are taken after a long delay**
- Many listed companies in Bangladesh **do not follow the rules for sharing accurate information**.
  - Some hide **important details**, while others **delay sharing them**
  - As a result, investors can not **make informed decisions**
  - This **lack of information creates space for manipulation in the market**
  - It has been **alleged that some issuers fail to deliver** declared dividends to **investors, raising serious concerns** about compliance and investor protection

Capital Market During the Interim Government: Woes Continue

- BO Accounts related

- Anomalies **in Beneficiary Owner (BO) accounts have been a longstanding issue** in Bangladesh's capital market
  - One of the **major problems stems from the lack of mandatory documentation required** to open a BO account
  - Unlike bank accounts, which **require a Tax Identification Number (TIN) and National ID (NID)**, BO accounts can often be opened without such verification
- Many retail investors, either **knowingly or unknowingly, provide full trading access to their brokerage houses**
  - In some cases, certain brokerage firms have **reportedly misused this access by conducting trade without proper consent**.
  - Such unauthorised or excessive **trading can artificially influence stock prices** and **contribute to abnormal market fluctuations**
- CDBL does not have the **legal power to take direct punitive action against** the concerned brokerage house
  - This limitation often results **in delays in enforcement and weakens the overall regulatory** response to misconduct in the market
- The continued existence of **paper-based shares in the capital market creates opportunities for fraud and misuse**, often enabled by the negligence or complicity of other stakeholders
  - In several reported **cases, companies have allegedly used fake or non-existent share certificates to secure substantial** loans from banks

Capital Market During the Interim Government: Woes Continue

- Institutional Investors related

- During periods of **market turmoil or collapse**, **institutional investors are expected to play a stabilising** role by maintaining confidence and **providing much-needed liquidity**
  - However, in the context of Bangladesh, **institutional investors** have often fallen short of fulfilling this critical role
- According to insights **from interviewed stakeholders, the role and development of institutional investors in Bangladesh** have received minimal attention from the regulatory commission over the years
  - This neglect **has resulted in a persistent lack of capacity among institutional investors** to fulfill their expected role in the capital market
  - Many institutional **investors continue to operate with limited expertise and inadequate** structural frameworks necessary for informed and strategic investment
  - Instead of being managed by **qualified fund managers, institutional funds are often handled by custodians**, an arrangement widely viewed as inappropriate for active and responsible portfolio management.
  - This practice **undermines the effectiveness and accountability of investment decision-making**
- A key concern is the absence **of a strong legal and regulatory framework governing** the structure and internal functioning of mutual funds
  - Without clear guidelines and **enforcement mechanisms, institutional investors operate without the discipline** and accountability required to support market stability

Capital Market During the Interim Government: Woes Continue

- Financial Reporting Related

- **Problematic financial reporting remains one of the key challenges facing Bangladesh's capital market**
  - The Financial Reporting **Council (FRC), established in 2016 to ensure transparency, accountability, and integrity in financial reporting and auditing practices,** serves as the primary regulatory body overseeing the financial reporting of listed companies
  - Interviewed stakeholders raised **concerns regarding the FRC's legal authority and technical capacity**
  - The **FRC does not have the authority to impose punitive measures when malpractice in financial reporting is identified. Its role remains advisory** and dependent on other enforcement agencies
- Although **the interim government has initiated reform efforts targeting the capital market**, the institutional strengthening or restructuring of key bodies like the FRC appears to have been overlooked
  - **Without a comprehensive, system-wide approach that addresses the challenges faced** by all capital market stakeholders, the desired outcomes of these reforms are unlikely to be achieved

Capital Market During the Interim Government: Woes Continue

6.4 Assessment of Interventions Made by the Interim Government

- In the first nine **months of its assuming power, the interim government has adopted several measures aiming** at improving the health of the country's capital market
  - Immediately after **assuming office, the interim government appointed a new chairman to the Bangladesh** Securities and Exchange Commission (BSEC) **on 18 August 2024, replacing the previous chairman who was accused of failing to regulate the market and allegedly benefiting from illicit** activities
  - In September, **the government also appointed seven independent directors to the boards of DSE and CSE**, following the resignation of all controversial directors accused of corruption during the previous regime
  - With the new **chairman in place, the board began investigating the widespread illegal activities that had occurred** over the past decade, and several punitive actions have already been taken in response

Observations:

- The decision to change the leadership at the Bangladesh Securities and Exchange Commission (BSEC), Dhaka Stock Exchange, and Chittagong Stock Exchange was **a positive step**
  - However, some stakeholders have **expressed concerns that the new leadership, particularly at BSEC, lacks sufficient practical experience in regulating the capital market effectively,** which has deteriorated the operational effectiveness of the commission

Capital Market During the Interim Government: Woes Continue

Observations (Contd.)

- It is appreciable to see that **the new Commission is taking strict measures** against the irregularities that have plagued the market over the past years
  - However, it should be noted that **taking punitive actions against any listed companies** may also affect the market performance as a whole
  - Therefore, it may not be easy to **regain investors' trust by solely focusing on the punishment of wrongdoers**
  - At the same time, adequate incentives must be **provided to the good companies in the market,** so they are encouraged, and a balance remains in the market
- In July, BSEC formed a five-member **expert task force to provide reform recommendations** on mutual funds, IPOs, and margin loans to enhance governance and investor confidence
- In October, the Ministry of **Finance formed a committee to reform the Capital Market Stabilisation Fund (CMSF) following concerns over its misuse**
- To restore investor confidence, **the government allocated BDT 30 billion in low-cost funds to the Investment Corporation of Bangladesh**
- BSEC revised its rules to temporarily allow listed companies to **appoint auditors outside its approved panel under** specific conditions
- A new BSEC rule allows brokers to **retain 75% of interest earned on customer accounts while allocating 25% to** the Investors' Protection Fund

Capital Market During the Interim Government: Woes Continue

Observations (Contd.)

- It can be observed that several **strategic decisions have been taken during the last nine months to** reform the capital market, yet the implementation **process appears to have slowed down due to bureaucratic procedures and administrative complexities of the commission**
  - According to feedback from interviewed stakeholders, **the new leadership is reportedly facing challenges in fully trusting its workforce,** given the legacy of the previous regime
  - This lack of trust has **contributed to a sense of dissatisfaction among staff members**, further complicating the commission's operational effectiveness and delaying the reform process
- One of the biggest challenges **for the interim government is how it can regain the trust of investors**, particularly in the context of prevailing political uncertainty
  - As highlighted in CPD's earlier IRBD report**, investment in the capital market is currently on a declining trend**
  - Rebuilding **investor confidence will therefore require not only regulatory reforms** and market incentives but also a clear and consistent signal of political stability and policy continuity

Capital Market During the Interim Government: Woes Continue

6.5 Recommendations

IPO Related

(1) BSEC should establish a **clear timeline, assign institutional accountability**, and **set up follow-up mechanisms for** the new **enlistment initiative, including the 38 firms identified by ICB**. Conduct periodic reviews to **monitor progress and address implementation challenges**

(2) BSEC should consider requiring certain companies to be listed initially on the **Unlisted Public Company Market (UPCoM) to build a track record before progressing to the main board**

(3) BSEC **should hold regular dialogues with listed multinational companies (MNCs) to understand their concerns, resolve any pending issues, and demonstrate good governance practices**. This will help set a positive example for prospective IPOs, **particularly those involving MNCs**.

(4) BSEC should **expedite the revision of all IPO-related regulations**, including **valuation methodologies**, and ensure **their timely and effective implementation**

(5) BSEC should **engage all political parties to reach a consensus on reform of all IPO-related rules and regulations, ensuring policy predictability and stability** for the capital market's future

Capital Market During the Interim Government: Woes Continue

BO Accounts related

(1) BSEC should make the **inclusion of NID for BO Accounts mandatory** using the current market downturn as an opportunity

(2) BSEC should enforce a full **transition to dematerialised (demat) shares, phasing out all paper-based certificates** to prevent fraud, duplication, and misuse in financial transactions

(3) BSEC should provide **authority to CDDBL to take punitive measures against brokerage houses** in case of any misconduct

(4) BSEC should introduce an **independent third party to be via of transferring dividends** between investors and issuers

(5) Introduce stricter penalties for **brokerages found guilty of unauthorised trading**, including suspension or revocation of licenses

Capital Market During the Interim Government: Woes Continue

Secondary Market Related

(1) BSEC must increase transparency by publicly disclosing the **results of all 12 investigations carried** out

(2) While taking action against market **irregularities, BSEC should also provide incentives and recognition** for well-governed, compliant companies to maintain investor confidence

(3) BSEC should introduce **an Investor Protection Fund** to safeguard retail investors from losses due to fraud or manipulation

(4) BSEC should encourage corporate **governance ratings and establishing whistleblower** protection mechanisms to improve compliance and market integrity

(5) MoF should increase the budget for BSEC to invest in a **surveillance system to make it automated,** also increase their effective and quick communication with other relevant agencies

(6) The BSEC should accelerate **its administrative** decision-making process and ensure the timely submission and implementation of the task force's forthcoming recommendations

Capital Market During the Interim Government: Woes Continue

Institutional investors related

(1) BSEC should draft and implement **a Mutual Fund Code of Governance and ensure its quick implementation**

(2)BSEC should create a formal platform for regular engagement between the Bangladesh Securities and Exchange Commission (BSEC) and institutional investors to discuss challenges, policy reforms, and market development initiatives.

(3) BSEC should introduce **regulatory incentives for institutional investors that adopt long-term investment horizons**, such as **reduced transaction fees or tax benefits** for holding investments beyond a minimum period.

(4) BSEC should collaborate **with local universities and training institutes to develop certification and continuous education programme aimed at ensuring the employment of certified professional fund managers** who uphold clear fiduciary responsibilities.

(5) Given the ongoing situation of the market, **BSEC could consider addressing the issue of negative equity with a pragmatic approach so that it does not create additional** pressure on the already stressed capital market

Capital Market During the Interim Government: Woes Continue

Financial Reporting Related

(1) MoF should empower the **Financial Reporting Council (FRC)** with the authority to take action against cases of financial misreporting

(2) MoF should allocate fund and **let FRC invest in building its institutional capacity by recruiting qualified** professionals, providing regular training on international accounting and auditing standards, and adopting advanced technological tools for monitoring and analysis

(3) BSEC should accelerate mandatory adoption **of IFRS for listed companies and strengthen monitoring to ensure compliance**

7. Power and Energy Crisis in Bangladesh: Gas, Electricity, and Transportation Sectors

Background

- Bangladesh is currently facing one of the most disruptive energy crises in recent months
  - Extended **load shedding, acute gas shortages, and high fuel price hikes** have severely impacted daily life and economic activity across the country
  - According to the national dailies, the **industrial production has slowed, transport services have been disrupted, and businesses**—especially small and medium enterprises have reported financial losses and operational downtime
- This crisis has exposed systemic weaknesses in Bangladesh's energy system, including its heavy dependence on imported fuels, ageing grid infrastructure, and inadequate investment in domestic energy production and renewables.
- As demand continues to rise driven by urbanisation, industrial expansion, and agricultural mechanisation the country's limited and inefficient energy supply has struggled to keep up.
- This report analyses the current power and energy crisis in Bangladesh with a focus on **natural gas, electricity, and transportation fuels such as diesel and petrol**.
  - Drawing from secondary data, in-depth interviews and sector-specific trends, it identifies the scale of the **supply-demand gap, pricing trends, and its impact** across key user groups: households, industries, and the transport sector.

Natural Gas Crisis – Supply, Demand & Exploration

- Natural gas powers over 50% of electricity and is vital for industry, fertiliser, and domestic use
- **Total production fell from 883 BCF (FY20) to 745 BCF (FY24)**, while distribution remained steady, widening the production-distribution gap from 123.35 BCF → 229 BCF
- LNG share rose from 7.3% in FY20 to 25% in FY25 (Jan)
- **LNG cost rose from USD 1,175 million to USD 2,800+ million**, worsening Petrobangla's financial position
- Out of 34 wells targeted in FY25, only 8 were explored by October 2024

Table: Yearly Gas Production and Share Summary (Unit: MMCF – Million Cubic Feet)

Unit	Indicators	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 (Up to Jan)
MMCM – Million Cubic Metre	Total production (National + IOC)	24,992.85	25,173.64	23,783.10	22,645.61	21,074.58	16,640.82
	Δ (%) in production		0.7	-5.5	-4.8	-6.9	-21.0
	Gas Distributed	28,485.69	29008.952	28667.925	27383.277	27553.154	16007.179
	Δ (%) in distribution		1.8	-1.2	-4.5	0.6	-41.9
	Production-Distribution Gap	-3,492.84	-3,835.31	-4,884.82	-4,737.66	-6,478.58	633.65
In BCF	Production	882.61	889.00	839.89	799.72	744.24	587.67
	Distribution	1005.96	1024.44	1012.40	967.03	973.03	565.29
	Production-Distribution Gap	-123.35	-135.44	-172.51	-167.31	-228.79	22.38

Gas Use, Price Impact & Future Demand

- **National gas use** peaked at 1,042 BCF (FY19) → **dropped to 916 BCF** (FY24)
- **Power and industry are top users**; **domestic use declined** from 158 BCF (FY18) to 100 BCF (FY24)
- Future demand projected to rise from 1447.23 BCF (FY25) → 1738.13 (FY28)
- **Gas price hiked from BDT 30 → BDT 40–42 for industry** & captive power; power kept at BDT 14

Table: Sector-wise consumption trend

Year	Power	Industry	Captive	Fertiliser	Commercial	Domestic	CNG	Tea Estate	Total
FY13	329	136	134	60	9	90	40	1	798
FY14	333	138	136	61	9	91	41	1	809
FY15	355	148	150	54	9	118	43	1	877
FY16	400	156	161	53	9	141	46	1	967
FY17	404	163	160	49	9	154	47	1	987
FY18	399	167	161	43	8	158	46	1	982
FY19	451	164	158	58	8	159	43	1	1042
FY20	456	156	152	55	7	133	36	1	994
FY21	426	182	169	65	6	134	35	1	1017
FY22	402	191	176	60	6	128	37	1	1001
FY23	389	179	164	50	6	101	42	1	932
FY24	392	168	154	50	5	100	45	1	916

Energy Supply-Demand Gap Analysis

Table 1: Gas prices by sector with % change

Sectors	2024	2025	% Change in Price
Electricity (Govt, IPP, rental plants)	14	14	0
Captive power (Small, commercial power plants)	30	42	40
Large Industries	30	40	33
Medium Industries	30	40	33
Small, cottage, others	30	40	33
Commercial (Hotels, restaurants)	30	40	33

Table 2: Sector-wise gas demand forecast

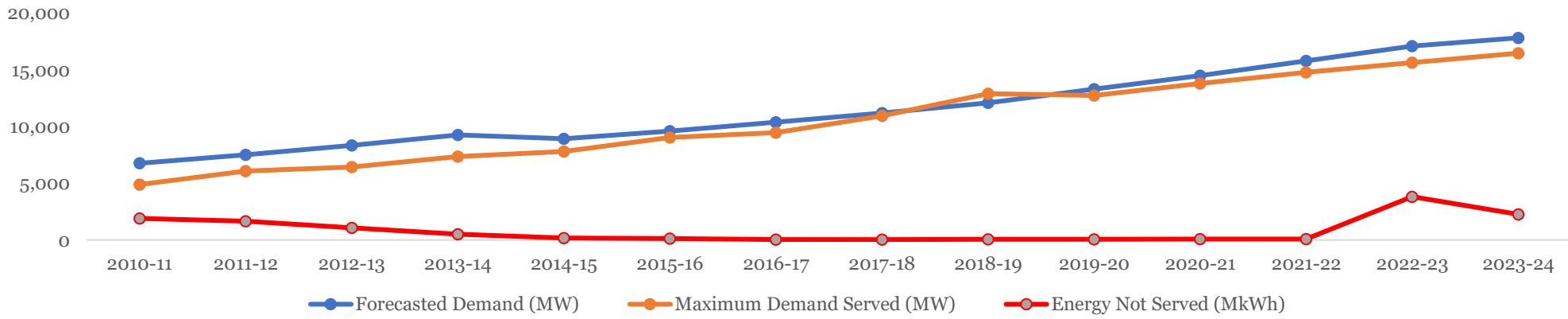
Sector	FY2025	FY2026	FY2027	FY2028	FY2025	FY2026	FY2027	FY2028
	in mmcfd				in BCF			
Power	1,454	1,513	1,601	1,673	530.71	552.25	584.37	610.65
Captive Power	731	762	798	825	266.82	278.13	291.27	301.13
Fertiliser	286	286	366	366	104.39	104.39	133.59	133.59
Industry	976	1,103	1,267	1,399	356.24	402.60	462.46	510.64
Domestic	359	353	344	340	131.04	128.85	125.56	124.10
Commercial & Tea	28	28	28	28	10.22	10.22	10.22	10.22
CNG	131	131	131	131	47.82	47.82	47.82	47.82
Total	**3,965**	**4,176**	**4,535**	**4,762**	1447.23	1524.24	1655.28	1738.13

Energy Supply-Demand Gap Analysis

Bangladesh's Electricity Sector – Capacity vs Reality

- Electricity demand has grown with urbanisation, industrialisation, and agriculture
- Installed capacity rose from 7,264 MW (FY11) to 28,098 MW (FY24)
- Actual peak demand served reached only 16,477 MW, falling short of forecasted 17,830 MW
- **Gap between capacity and delivered power has led to rising "energy not served"**, peaking at 3,818 MkWh in FY23
- Shortages are critical during peak hours and irrigation seasons cause rural load shedding, urban diesel generator dependency, and higher irrigation costs are common
- Despite diversification, 43% generation still gas-based, making it vulnerable to fuel shortages

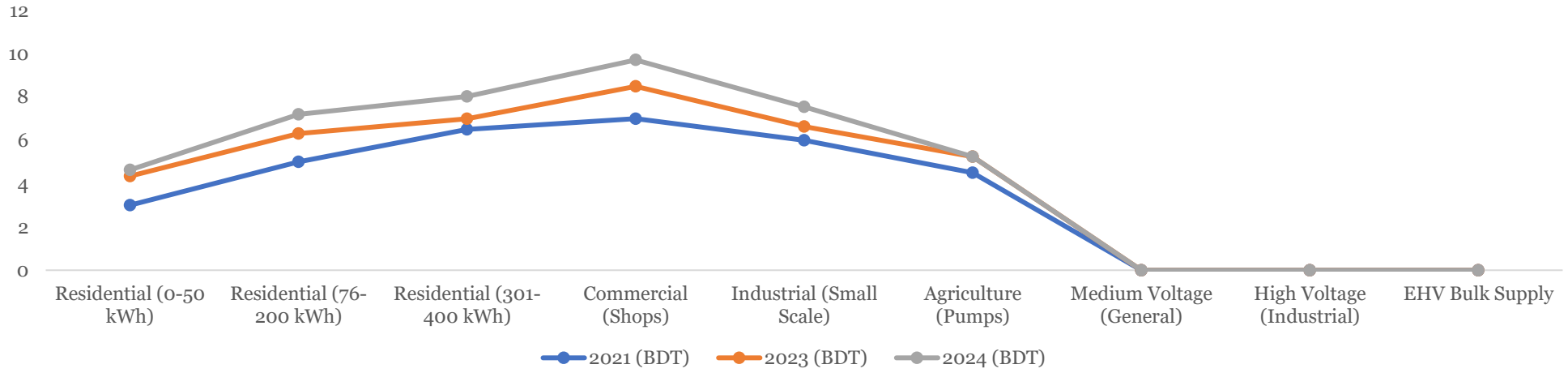
Figure: Electricity Demand, Capacity, and Shortfall (FY10–FY24)



Rising Electricity Tariffs and Financial Strains

- To cover financial losses, electricity tariffs rose significantly (2021–24): Residential (0–50 kWh): ↑13.6%; Shops & small industries: ↑6.5%
- **Consumers are burdened by: Inefficient power purchase agreements; Excess capacity payments to IPPs; and Poor cost recovery by utilities**
- These price hikes hurt low and middle-income households and small businesses, reducing affordability
- BPDB's high subsidy burden and mounting financial stress limit investment in grid upgrades and reliability

Figure: Year-wise Electricity Tariff Changes (2021–2024)



Petroleum Fuels – Rising Prices, Falling Consumption

- **Bangladesh imports 100% of petroleum fuels** (diesel, petrol, octane, kerosene), making it vulnerable to global price shocks.
- **Fuel consumption rose till FY23 but dropped in FY24**: Diesel: ↓14% (from 4.94M to 4.24M tons); Petrol: ↓5.2%, Octane: ↓2.1%, Kerosene: ↓9.7%
- Price volatility remains high despite a supposed automatic pricing formula: Diesel & kerosene fluctuated around BDT 104–108/litre; Petrol: BDT 121–127, Octane: BDT 125–131.
- Sectoral Impacts: **Transport: Reduced fleet, fare hikes, income loss for informal workers**; **Agriculture: Irrigation costs increases** from 20 to 30%; **Industry: Diesel generator use increases energy costs during outages; SMEs hit hard**

Table: Petroleum Consumption Statistics for the last 5 (five) years (M.ton.)

Product	Octane	Petrol	Kerosene	Diesel
FY20	262825	322432	105851	4023409
FY21	303917	378846	101783	4597585
FY22	395602	446647	86117	4850700
FY23	393557	454556	77487	4935483
FY24	385435	430836	70001	4244527
Annual Average (FY20-FY25)	9.3	6.7	-6.8	1.1

Table 2: Domestic Fuel Oil Price Trend (Jun 2024 – May 2025)

Month	Diesel	Octane	Kerosene	Petrol
Jun-24	108	131	108	127
Jul-24	106.8	131	107.8	127
Aug-24	106.8	131	107.8	127
Sep-24	105.5	125	105.5	121
Oct-24	105.5	121	105.5	125
Nov-24	105	121	105	125
Dec-24	105	125	105	121
Jan-25	104	125	104	121
Feb-25	105	126	105	122
Mar-25	105	126	105	122
Apr-25	105	126	105	122
May-25	104	125	104	121

Energy Sector Inefficiencies – A Structural Bottleneck

- **Gas system loss: 12–14%** compared to the international standard of 2%
- Inefficient budget allocation in FY25 to Energy Division accounting BDT 1,087 crore; only 10.4% spent in the first 6 months; BAPEX gets just BDT 1,000 crore per year for exploration
- LNG imports stand at over BDT 160,000 crore from 2017–2023, yet **investor interest in gas exploration remains low**
- **Energy subsidies remain high** where the electricity sector receives BDT 360 billion and the Energy Division receives BDT 200 billion; However, LNG imports alone stand at BDT 60 billion
- Major challenges include Bureaucratic inertia, lack of reform, and import dependency

Sectoral Impacts of the Energy Crisis Based on KIIs

Household Sector

- **Daily 1–4 hours of load shedding** in urban areas; worse in rural areas
  - Disruptions in cooking, studying, digital access, and remote work
  - Gas pressure drops force shift to costly LPG
  - **LPG prices rose from BDT 900 in 2021 to BDT 1,500 in 2025**
  - Monthly cooking energy costs increased by BDT 500–800
- **Family adopts inverters, solar panels, and generators (mostly by wealthier families)**
  - Poorer households have no backups: undercooked meals, traditional fuels
  - Medical equipment use and medicine refrigeration were disrupted
  - Rising food & transport costs reduced spending on education, nutrition, and healthcare

Sectoral Impacts of the Energy Crisis Based on KIIs

Industrial Sector – Large Industry Impacts

- Energy-intensive industries (textiles, garments, cement, ceramics, steel) were severely affected
  - **Gas supply prioritised for power plants which reduced industrial allocation**
  - Factories operate at 40–50% capacity; some shut down
  - Diesel backup is 3–4 times more costly than grid electricity
  - 20–30% production drop in key industrial zones (Gazipur, Narayanganj) (2021–2023)

Industrial Sector – SME Struggles

- **SMEs lack funds for generators, face order cancellations**
  - Shipment delays lead to financial penalties, reputational damage
  - **Declining output** in plastics, agro-processing, and light engineering

Transportation Sector

- Rising fuel prices (diesel, petrol, CNG) have increased transport costs
  - Public transport fares and ride-sharing charges have surged
  - Delivery and logistics businesses face higher operational costs

Policy Recommendations

- ❑Accelerate domestic gas exploration, particularly offshore and reduce dependency on energy imports
- ❑Promote and scale up renewable energy, especially wind and solar
  - ➢ Target 10% of electricity consumption from renewables by 2030
  - ➢ Promote renewable energy adoption on industrial sheds, rooftops, and unused lands in the industrial area
  - ➢ Provide fiscal incentives for renewable energy usage; MoEPMR to monitor implementation and track billing data
- ❑Upgrade grid systems and adopt smart monitoring technology and reduce transmission and distribution losses (currently 12%)
- ❑Promote EV charging infrastructure nationwide for the improvement of the transport sector
- ❑Prioritise uninterrupted energy supply to industries
- ❑Strengthen BERC and inter-agency coordination, ensure integrated energy planning, digitise data, and enhance transparency for effective fuel pricing and crisis response

8. Way Forward

Way Forward

- The government has initiated **several reform measures in recent months**, including the **separation of the NBR** into two departments - the Revenue Policy and Revenue Management - to improve revenue collection and efficiency, alongside **measures aimed at enhancing stock market performance** and **attracting FDI**
- Additionally, steps have been taken to **address the structural weaknesses** in the **banking sector**, aiming to improve governance and resilience
- However, **the success of these initiatives has been limited so far**
  - For example, the NBR reform has faced resistance from within the tax administration, leading to temporary disruptions and necessitating further consultations to address concerns
  - Governance challenges and regulatory bottlenecks continue to undermine investor confidence and impede economic potential.

Way Forward (contd.)

- The government **must move beyond piecemeal measures** and **demonstrate a clear commitment to comprehensive reform**
- In the upcoming fiscal year, **the focus** should be on **strengthening institutions**, **improving governance frameworks**, and **ensuring transparency and accountability in policy implementation**
- **Only with visible and bold reforms can Bangladesh's economy build resilience, attract investment, and sustain inclusive growth in the years ahead**

Independent Review of IRBD Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

Scan the QR code to access the paper, presentation, and policy brief

Thank You

cpd.org.bd

CPDBangladesh

CENTRE FOR POLICY DIALOGUE
https://cpd.org.bd

CPDBangladesh

cpd_bangladesh