

Bangladesh Economy in FY2024–25

*Interim Review of
Macroeconomic Performance*

Prepared under CPD's programme on



Bangladesh Economy in FY2024–25

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Macroeconomic Performance*

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Acronyms

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADP	Annual Development Programme
AIMS	Aid Information Management System
AIT	Advance Income Tax
APCF	Asia-Pacific Climate Finance Fund
ASEAN	Association of Southeast Asian Nations
AT	Additional Tax
ATS	Advanced Technology Scenario
BAU	Business as Usual
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCBL	Bangladesh Commerce Bank Ltd
BDT	Bangladeshi Taka
BEPZA	Bangladesh Export Processing Zones Authority
BFIU	Bangladesh Financial Intelligence Unit
BIBM	Bangladesh Institute of Bank Management
BILS	Bangladesh Institute of Labor Studies
BLA	Bangladesh Labour Act
BMET	Bureau of Manpower, Employment and Training
BoP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BRI	Belt and Road Initiative
BRTA	Bangladesh Road Transport Authority
CD	Customs Duty
CIF	Cost, Insurance, and Freight
CIFs	Climate Investment Funds
CIID	Customs Intelligence and Investigation Directorate
CIT	Corporate Income Tax
CO ₂	Carbon Dioxide
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
CRAFT	Climate Resilience and Adaptation Finance and Technology Transfer Facility for South Asia
CRM	Credit Risk Management
CRMUs	Compliance Risk Management Units
CTF	Clean Technology Fund
DAM	Department of Agricultural Marketing
DAP	Detailed Area Plan
DIFE	Department of Inspection for Factories and Establishments
DLS	Department of Livestock Services
DoL	Department of Labour
DPs	Development partners

EBA	Everything But Arms
EFDs	Electronic Fiscal Devices
ENDS	Electronic nicotine delivery systems
EPB	Export Promotion Bureau
EPR	Extended Producer Responsibility
EPS	Environment Protection Surcharge
EPZs	Export Processing Zones
ERD	Economics Relations Division
ERS	Economic Research Service
ESMAP	Energy Sector Management Assistance Program
EU	European Union
EVs	Electric Vehicles
FCTC	Framework Convention on Tobacco Control
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
FID	Financial Institutions Division
FY	Fiscal Year
G2G	Government-to-Government
GCF	Green Climate Fund
GDP	Gross Domestic Product
GED	General Economics Division
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GoB	Government of Bangladesh
GSP	Generalised Scheme of Preferences
GTF	Green Transformation Fund
HS	Harmonised System
IDA	International Development Association
IDCOL	Infrastructure Development Company Limited
IEPMP	Integrated Energy and Power Master Plan
IFF	Illicit Financial Flows
IIP	Index of Industrial Production
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IPPs	Independent Power Producers
IRBD	Independent Review of Bangladesh's Development
IRC	Interest Rate Corridor
ITFC	Islamic Trade Finance Corporations
ITUC	International Trade Union Confederation
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LED	Light-emitting Diodes
LFS	Labour Force Survey
LNG	Liquefied Natural Gas
MEPs	Members of the European Parliament
MLTRS	Medium-and Long-Term Revenue Strategy
MOA	Ministry of Agriculture
MoEFCC	Ministry of Environment, Forest and Climate Change
MoF	Ministry of Finance
MoP	Ministry of Planning

MoPEMR	Ministry of Power, Energy, and Mineral Resources
MPS	Monetary Policy Statement
MT	Metric Tonnes
MTDMS	Medium Term Debt Management Strategy
MTMPS	Medium-Term Macroeconomic Policy Statement
MTOE	Million Tonnes Of Oil Equivalent
MW	Megawatt
NAP	National Action Plan
NBR	National Board of Revenue
NDB	New Development Bank
NDC	Nationally Determined Contribution
NDF	Nordic Development Fund
NEET	Not Entering Education, Employment Or Training
NEM	Net Energy Metering
NGOs	Non-Government Organisations
NPLs	Non-Performing Loans
NSC	National Savings Certificate
NSDP	National Summary Data Page
NTCC	National Tobacco Control Cell
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
OMS	Open Market Sale
OSH	Occupational Safety and Health
OSSA	One Stop Service Act
PCBs	Private Commercial Banks
PFM	Public Financial Management
PIT	Personal Income Tax
PPE	Personal Protection Equipment
PPP	Public Private Partnerships
PSMP	Power System Master Plan
QLFS	Quarterly Labour Force Survey
RD	Regulatory Duty
REPP	Renewable Energy Performance Platform
RMG	Readymade Garment
RRPs	Recommended Retail Prices
SCBs	State-Owned Commercial Banks
SD	Supplementary Duty
SDG	Sustainable Development Goal
SIP	Solar Irrigation Pump
SMART	Six-month Moving Average Rate of Treasury bills
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprise
SREDA	Sustainable and Renewable Energy Development Authority
SRO	Statutory Regulatory Order
SSB	Sugar-Sweetened Beverages
TAF	The Asian Foundation
TCB	Trading Corporation of Bangladesh
TICFA	Trade and Investment Cooperation and Facilitation
TPC	Transfer Pricing Cell
TRIPS	The Facilities Under The Trade-Related Aspects Of Intellectual Property Rights
TTI	Total Tax Incidence
TWh	Terawatt-hours
UN	United Nations
UNDP	United Nations Development Programme

UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFCCC	United Nations Framework Convention on Climate Change
UNGPs	United Nations Guiding Principles on Business and Human Rights
USD	United States Dollar
VAT	Value-added Tax
WHO	World Health Organization
WRI	Wage Rate Index
WTO	World Trade Organization
WWA	Worker Welfare Associations

Chapter 1

State of the Bangladesh Economy in FY2024–25 *(Third Reading)*

EXECUTIVE SUMMARY

Bangladesh's economy in FY2024-25 stands at a critical juncture, confronting deep-seated domestic weaknesses amid a challenging global environment. The interim government faces the dual challenge of stabilising macroeconomic conditions while implementing reforms to sustain growth. Revenue growth remains modest, casting doubt on achieving annual targets without an exceptional acceleration in the latter part of the fiscal year. The fiscal deficit is widening, with growing reliance on high-cost domestic borrowing that will increase future debt servicing pressures. Development expenditure execution is slow, delaying key infrastructure and social projects needed for long-term progress. Public expenditure is dominated by subsidies, transfers, and interest payments, limiting space for productive investment. Efforts to strengthen revenue administration, such as reorganising the National Board of Revenue into separate policy and management divisions, are positive but face internal resistance and uneven implementation.

Inflation has surged to its highest level in over a decade, well above the government's target. Price pressures are driven by both supply-side and demand-side factors, including currency depreciation, global commodity price volatility, domestic market distortions, and expansive monetary measures in recent years. Food inflation has been more pronounced in urban areas, while rural households face sharper non-food inflation. This disparity calls for targeted interventions rather than uniform policy measures. The government's projection of bringing inflation down significantly in the next two years appears overly optimistic without more forceful policy adjustments.

The banking sector, particularly state-owned commercial banks, faces acute stress. Capital adequacy in these institutions has deteriorated, and non-performing loans have reached unprecedented levels. These trends highlight chronic governance problems such as political interference, weak internal controls, and inadequate regulatory enforcement. The cost of bad loans now exceeds combined public allocations for critical sectors such as education and health, directly undermining social development. Regulatory reforms, including stricter provisioning and the adoption of expected credit loss methodologies, are steps forward but will remain insufficient unless governance failures and political influence are decisively addressed.

The external sector has shown some resilience, supported by steady remittance inflows and export growth. The ready-made garment sector, especially knitwear, has been a key driver. Exchange rate stability in recent months has provided some predictability for trade. However, import growth, particularly of capital machinery, remains subdued, signalling weak sentiment of investment. Export performance is still volume-driven with limited value addition, leaving the sector vulnerable to shifts in global demand and competition. Potential external risks include trade tensions with major markets and non-tariff barriers from neighbouring countries.

Domestic gas production has been declining, increasing dependence on costly LNG imports and straining the finances of the energy sector. Power generation capacity is not translating into reliable supply due to fuel shortages and inefficient distribution networks. These constraints are pushing industries to operate below capacity, raising production costs and eroding competitiveness. High transmission losses, poor inter-agency coordination, and non-transparent pricing continue to plague the sector, requiring comprehensive reform rather than incremental fixes.

Capital market performance remains weak, with no significant new listings and slow progress on reform measures. Administrative delays within the Bangladesh Securities and Exchange Commission have discouraged investor confidence, underscoring the need for streamlined procedures and stronger investor protection. Addressing the current challenges demands bold and coordinated

reforms. Fiscal measures should focus on broadening the tax base, enhancing collection efficiency, and rationalising expenditure to create room for productive investment, alongside strengthening transparency and accountability in public financial management. Monetary policy must maintain a tighter stance to curb inflation while ensuring adequate credit to productive sectors, and the practice of directly financing fiscal deficits should be phased out.

In the banking sector, reforms must enforce strict governance standards, depoliticise operations, recover assets from wilful defaulters, and strictly apply single borrower exposure limits. Export strategy should move up the value chain in garments, diversify products and markets, improve productivity, and strengthen backwards linkages. The energy sector requires accelerated domestic exploration, expanded renewable energy investment, reformed pricing mechanisms, and stronger regulatory institutions. The capital market should benefit from faster regulatory approvals, encouragement for listings, and robust investor safeguards to restore confidence.

Bangladesh's FY2024-25 economic outlook combines external resilience with significant domestic vulnerabilities. Fiscal weakness, high inflation, banking instability, and energy shortages are major risks to sustained growth. Although reform measures have been initiated, implementation is slow and faces resistance from entrenched interests. Achieving stability and long-term progress will require strong political will, institutional strengthening, and coherent policy execution. Failure to act decisively could prolong instability and erode hard-earned development gains, while timely reforms could place Bangladesh on a more secure and inclusive growth path.

1.1 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 (NPLs) 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.

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, the banking sector, the external sector, the capital market and the power and energy sector. These areas reflect the core vulnerabilities the country is confronting 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.

1.2 PUBLIC FINANCE

Key Findings

- Total revenue collection recorded a 5.3 per cent growth during the July-January period of FY2025, implying that a whopping 64.6 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-January period of FY2025—with subsidies and current transfers, and domestic interest payment being the major drivers of the uptick.
- The dependency on high-interest domestic sources for financing the budget deficit increased during the first seven months of FY2025.

Key Recommendations

- In the area of mobilising additional revenue, prioritise finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages. should all receive due importance.
- Careful calibration in the area of deficit financing will be required if private sector borrowings are not to be crowded out.
- The central focus of public expenditure management in the coming days should be the enhancement of value for money, given the limited fiscal space.

The issue of the timely availability of fiscal data continues to be a major constraining factor when it comes to the analysis of the public finance situation in Bangladesh. As of May 2025, data reported by the Ministry of Finance (MoF) is available only until January 2025. While alternative sources such as the National Board of Revenue (NBR), Implementation Monitoring and Evaluation Division

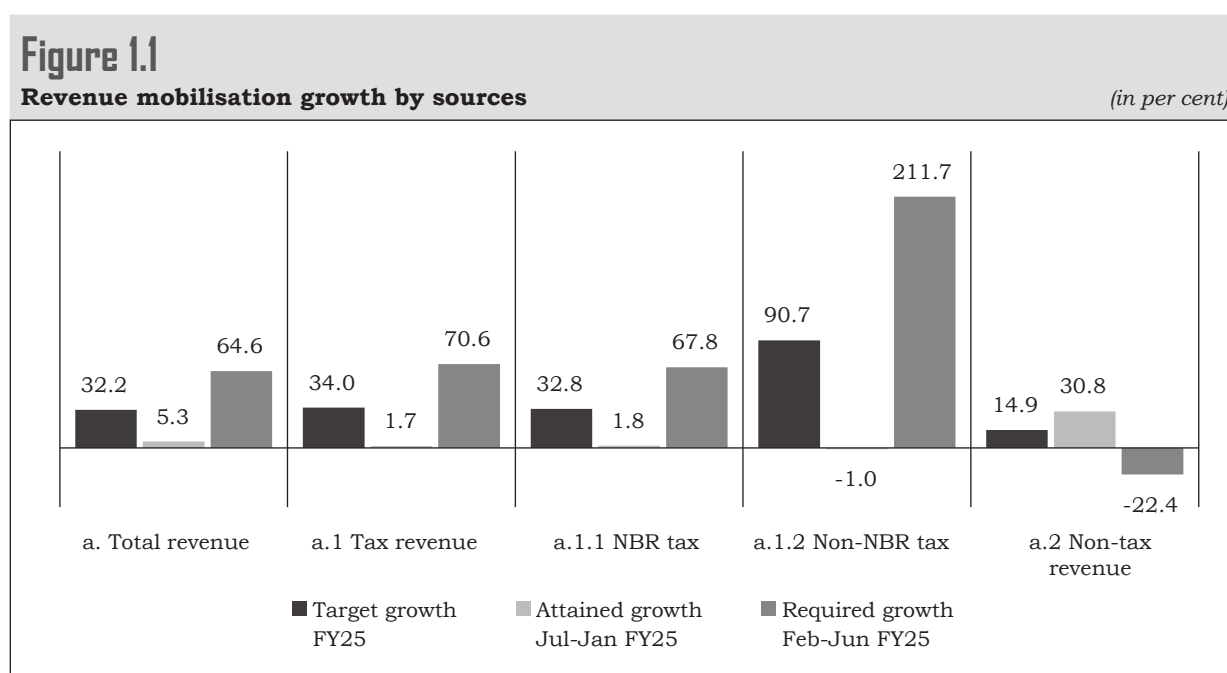
(IMED), and Bangladesh Bank can be timelier, they lack the accuracy and congruency of the MoF data. Fragmented reporting is also an issue, as no alternative sources provide a holistic picture of the fiscal scenario, which the MoF does. The present analyses utilise data from all the aforementioned entities but may be somewhat constricted in some instances owing to data limitations.

1.2.1 Revenue mobilisation

As reported by the MoF, total revenue collection posted a 5.3 per cent growth during the July-January period of FY2025. This is a considerable decline from the corresponding figure of FY2024 (13.7 per cent). This implies that a whopping 64.6 per cent growth will be required during the remainder of FY2025, if the annual target for revenue mobilisation is to be achieved (Figure 1.1). Without a doubt, this is a highly unlikely prospect. Indeed, in March 2025, CPD projected that the revenue shortfall could reach approximately BDT 105,000 crore at the end of FY2025 (CPD, 2025). The growth in revenue mobilisation during the July-January FY2025 period was primarily driven by a sharp increase in government earnings from interest as well as by enhanced collection of income tax.

According to the NBR data, tax collected by the NBR increased by a meagre 2.8 per cent during the July-March period of FY2025 (NBR, 2025), whereas the corresponding figure of FY2024 was 10.7 per cent. The growth achieved so far in FY2025 can be attributed primarily to the enhanced collection of income tax. The slowdown in the implementation of the Annual Development Programme (ADP) as well as the downturn in overall economic activity have perhaps contributed to the poor collection of value added tax (VAT) and supplementary duty (SD) at the local level despite the high level of inflation and increased VAT and SD rates for nearly 90 items. Given the present context, whether the upcoming International Monetary Fund (IMF) conditionalities concerning revenue can be met remains a question.

The debacle concerning the abolishment of the 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



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

repetition of such an instance will negatively impact the economy, particularly in the case of revenue mobilisation.

1.2.2 Public expenditure

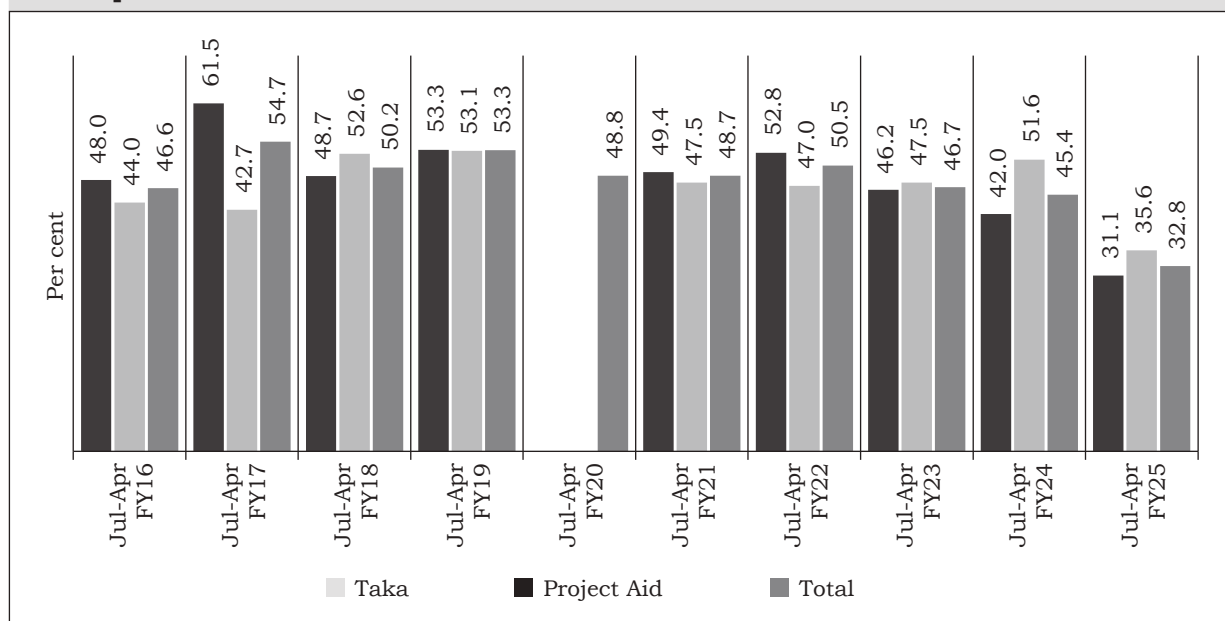
As MoF data shows, overall utilisation of the budget stood at 34.5 per cent during the July-January period of FY2025 (MoF, 2025). The corresponding figure for FY2024 was lower—at 32.4 per cent. ADP implementation was also on the lower side—only 18.4 per cent financial progress was achieved during the first seven months of FY2025 (the corresponding figure for FY2024 was 20.0 per cent). Besides the political turmoil during July-August 2024, 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 July-January of FY2025, utilisation of the non-ADP budget reached 42.5 per cent whilst the corresponding figure for the previous fiscal year was 38.9 per cent. This implies that nearly an additional BDT 32,000 crore was required to conduct the non-ADP activities of the budget. Among the components of non-ADP expenditure, subsidies and current transfers were the major drivers of the uptick, accounting for nearly 61 per cent of the additional non-ADP expenditure. As the World Bank (2025) reported, this included increased incentive payments for remittances, food subsidies, and payments to clear arrears to the Bangladesh Power Development Board (BPDB). Expenditure owing to domestic interest payment also increased substantially, with the corresponding share in additional non-ADP expenditure reaching 37.6 per cent.

The proposal to introduce a dearness allowance for government employees by replacing the existing 5 per cent special incentive from FY2026 (Kashem, 2025) comes at a curious time. As has been reported in the media, this move will entail an increase in public expenditure by nearly BDT 7,000 crore. Whilst 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.

The Ministry of Planning's IMED provides a more up-to-date picture concerning the ADP implementation scenario. According to the IMED data, the ADP implementation rate against the original budget allocation reached 32.8 per cent during July-April of FY2025—the lowest in the last 10 years (Figure 1.2).

Within the components of ADP, utilisation of both 'BDT' (the part of ADP that is financed by domestic resources), and project aid reached their historical lows during the first 10 months of FY2025. Whilst the implementation rate of the former reached 31.1 per cent, for the latter this rate was 35.6 per cent. The corresponding rates for FY2024 were 42.0 per cent and 51.6 per cent, respectively. As mentioned in the previous section, the slowdown in ADP implementation has adversely impacted revenue mobilisation and may have negative connotations for the achievement of a healthy economic growth.

Of the original ADP allocation for FY2025, the top 10 ministries/divisions receiving the highest allocation account for 66.6 per cent of the total (the corresponding figure for FY2024 was 70.2 per cent). Among the 10, 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

Figure 1.2**ADP implementation rate**

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

Note: For the July-April FY2020 period, IMED changed its data reporting format due to the COVID-19 pandemic. Hence, 'Taka' and 'Project aid' components are not available.

Secondary and Higher Education Division, and the Ministry of Water Transport (Table 1.1). As can be seen, the trend of poor ADP implementation in the education and health sectors has continued in FY2025. It is also a matter of concern that the average ADP implementation rate of government ministries/divisions which reside outside the top 10 has almost halved—from 42.4 per cent during July-April FY2024 to 21.7 per cent during the corresponding period of FY2025 (Table 1.1).

Table 1.1**ADP implementation situation of top 10 ministries/divisions**

Ministries/ Divisions	FY2024		FY2025	
	Share in total ADP (%)	July-April implementation rate (%)	Share in total ADP (%)	July-April implementation rate (%)
Local Government Division	15.0	60.0	14.2	52.4
Road Transport and Highways Division	12.5	39.4	11.5	28.3
Power Division	11.9	59.5	10.8	47.2
Ministry of Primary and Mass Education	4.1	39.9	5.0	41.1
Ministry of Railways	5.5	54.6	5.0	25.9
Ministry of Science and Technology	4.8	54.2	4.8	48.4

(Table 1.1 contd)

(Table 1.1 contd)

Ministries/ Divisions	FY2024		FY2025	
	Share in total ADP (%)	July-April implementation rate (%)	Share in total ADP (%)	July-April implementation rate (%)
Health Services Division	4.6	29.1	4.2	7.6
Secondary and Higher Education Division	5.0	20.5	4.1	25.2
Ministry of Water Transport	3.5	23.5	3.8	21.2
Ministry of Water Resources	Not included in the top 10	3.1	60.1	
Bridges Division	3.3	40.2	Not included in the top 10	
Top 10 total	70.2	46.7	66.6	38.3
Rest of the agencies	29.8	42.4	33.4	21.7
Grand total	100.0	45.4	100.0	32.8

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

1.2.3 Deficit and its financing

According to the MoF data, the budget deficit increased substantially during the July-January period of FY2025. Budget deficit (excluding grants) stood at BDT 38,393 crore at the end of January 2025. The corresponding figure for FY2024 was BDT 22,244 crore (MoF, 2025). This is perhaps attributable to the combination of marginal increase in revenue collection and substantial increases in non-ADP expenditure.

Government's net borrowing from foreign sources increased only marginally during the first seven months of FY2025. Although higher inflow of foreign funds was observed, this was offset by the higher amortisation of existing foreign loans.

Government net borrowing from the banking system stood at BDT 40,786 crore (29.7 per cent of the budgetary target) during July-January of FY2025. On the other hand, BDT 23,627 crore was borrowed from the banking system during the corresponding period of FY2024. 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 BDT 1,693 crore during July-January of FY2025. Within the non-banking sources, the net sale of National Savings Certificates (NSCs) experienced a sharp rise. During the July-January period of FY2025, the government sold NSCs worth (net) BDT 4,067 crore. On the contrary, the government repaid (net) BDT 7,310 crore to the people during the same period of the previous fiscal year. Overall, the dependency on domestic sources for financing the budget deficit increased during the first seven 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.

1.2.4 The path ahead

Based on the discussion so far, it becomes evident that 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, finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages should all receive due importance. For instance, as part of finding newer avenues, initiatives such as taxing the growing digital economy and meaningful taxation of wealth and property can be considered. When it comes to enhancing the efficiency of existing efforts, analysing the current tax exemptions in-depth with thorough data analysis has become an urgency. As part of sealing the leakages, curbing illicit financial flows (IFF), limiting tax evasion, and tax avoidance should be high on the government's agenda. Whilst 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 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 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 the area 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 small and medium-sized enterprises (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.

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1.3 INFLATION EASING, BUT HIGH PRICES PERSIST

Key Findings

- A Granger causality test shows that money supply helps predict inflation, indicating that a higher money supply increases inflationary pressures in the economy.
- Markov-Switching model results show a high likelihood ($p_{22}=0.9$) of staying in high inflation, even with policy rate changes.
- A Multi-layer Perceptron forecast indicates that inflation is unlikely to fall to 6.5 per cent next year, if all other factors are held constant.

Key Recommendations

- Control money supply growth to prevent excessive inflationary pressures and align monetary expansion with real economic output.
- Implement structural reforms such as boosting industrial output, stabilising the exchange rate, and dismantling market cartels to complement monetary policy.
- Monitor markets to limit intermediaries, connect farmers directly to buyers, and regulate hoarding and stockpiling by rice warehouse operators and millers.

1.3.1 Introduction

The interim government of Bangladesh inherited a broken economy from the former autocratic regime, characterised by high prices and high inflation. Tackling inflation became the central bank's (Bangladesh Bank) main priority after the July Uprising. Inflation is one of the most important macroeconomic challenges for Bangladesh, with existing supply-side factors like collusion and institutional weaknesses being among the principal causes.

Inflation is a process of continuously rising prices, or equivalently, of a continuously falling value of money (Laidler & Parkin, 1975). Inflationary pressures in an economy can be attributed to two overarching sources: the supply side factors and the demand side factors. Supply-side constraints, such as structural and institutional weaknesses in the production and distribution channels, resulting in large-scale rent-seeking opportunities, contribute to rising consumer prices (Titumir, 2021). In Bangladesh, inflation is mainly driven by increasing food prices, with essential commodities like rice, wheat, and edible oil dominating the overall food inflation. Monopolistic market structures and cartels among producers, particularly in the food supply chains, further add to rising food inflation (Mortaza & Rahman, 2008). In addition, inadequate governance creates opportunities for such collusion to occur. Other supply-side phenomena, such as rising import costs, oil and energy prices, and exchange rates, contribute to the inflationary pressures (Titumir, 2021). Inflationary pressures in Bangladesh, at present, show a slow sign of easing, with the general inflation rate at 9.17 per cent, food inflation at 8.63 per cent, and non-food inflation at 9.61 per cent as of April 2025 (BBS, 2025b).

Even though supply-side factors can largely explain inflationary pressures in Bangladesh, demand-side influences might also be present, further compounding these effects. Bangladesh's current inflationary trends are comparable to those experienced in 2007, 2008 and 2011, when rising food prices also led to inflation (Bhattacharya et al., 2011). In response to these recurring patterns, Bangladesh Bank has taken a contractionary monetary policy approach for the second half (H2) of the Fiscal Year (FY) 2025, to fight chronically rising inflation (Bangladesh Bank, 2025b). This

includes abolishing the lending rate cap and keeping the policy rate at 10 per cent (Bangladesh Bank, 2025b). Bangladesh Bank has already ceased interbank foreign exchange sales to promote exchange rate stability, thereby ceasing its intervention in the exchange market (Bangladesh Bank, 2025b). On the supply side, the government increased open market sales and made it easier to import fertilisers needed to support agricultural output (Bangladesh Bank, 2025b). The central bank also eliminated import taxes and adjusted letter of credit (LC) margins on necessities (Bangladesh Bank, 2025b). Despite high inflation of 11.66 per cent in July 2024 (BBS, 2025b), these recent policies have produced results that ease inflation, dropping it to 9.17 per cent in April 2025 (BBS, 2025a).

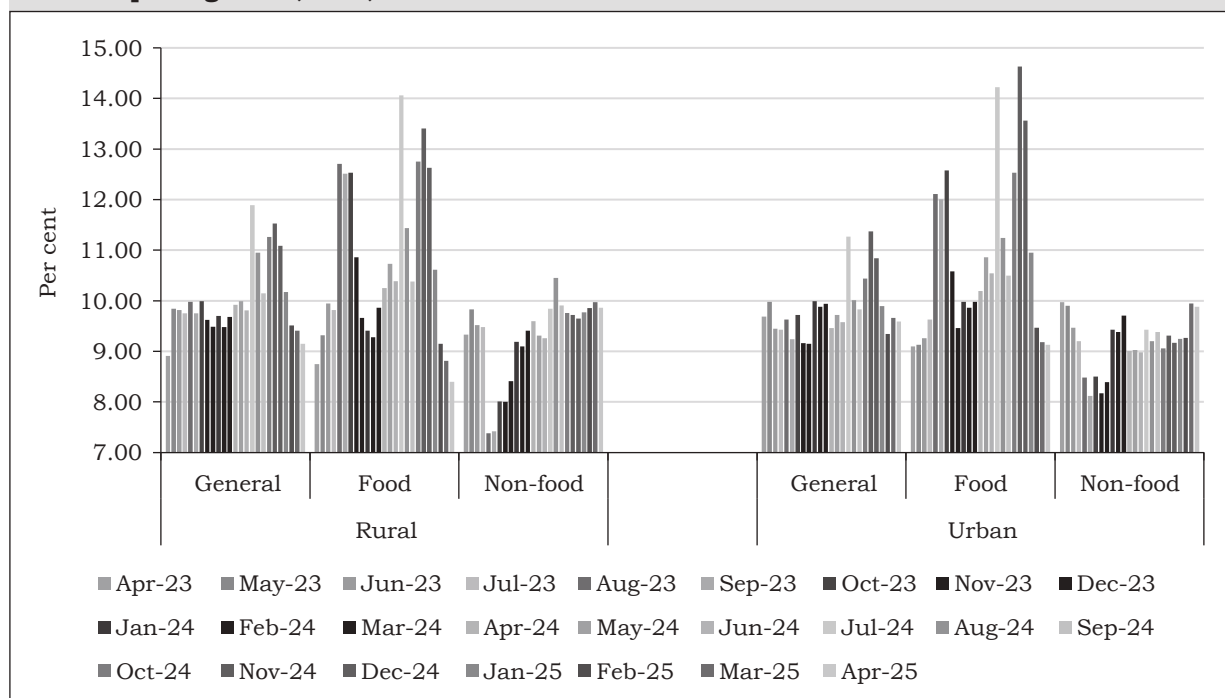
This chapter presents a comprehensive analysis of inflation dynamics through 9 structured sections. It begins by examining the major trends in inflation to provide historical and contextual insights. Next, it discusses the average prices of essential food items to highlight the impact of inflation on household consumption. It further outlines the measures to control inflation, including monetary and fiscal interventions. This is followed by an assessment concerning the impact of increasing the money supply on inflation, followed by evaluating the influence of the policy rate on inflationary pressures. Finally, the chapter presents forecasts of future inflation trends before concluding with key findings and policy recommendations to enhance the effectiveness of inflation management strategies.

1.3.2 Major trends in inflation

Headline inflation and its food and non-food components have remained persistently high for an extended period in Bangladesh in recent years. Agricultural stockpiling (CPD, 2023), cartel influence (Saha, 2013), rising import costs (Eichengreen, 2024), and regional pricing disparities (CPD, 2023) are important contributors. These inflationary pressures have manifested across different regions of the country, with distinct patterns emerging between rural and urban areas.

Between April 2023 and April 2025, inflation remained constantly high across both rural and urban Bangladesh, with notable differences in intensity and composition (Figure 1.3). On average, rural areas experienced higher general and non-food inflation than urban areas, whilst urban areas faced slightly higher food inflation (BBS, 2025c). Rural general inflation averaged 10.91 per cent, driven by food inflation at 11.64 per cent and non-food inflation at 10.09 per cent (BBS, 2025c). In contrast, urban general inflation averaged 10.71 per cent, with food inflation at 11.77 per cent and non-food inflation at 9.98 per cent (BBS, 2025c). For 18 of the 25 months in this period, general inflation was higher in rural areas, underscoring the greater burden on rural households, who are typically more vulnerable due to lower incomes and weaker access to social safety nets. These dynamics highlight the need for geographically targeted policy responses to mitigate the uneven impact of inflation across regions.

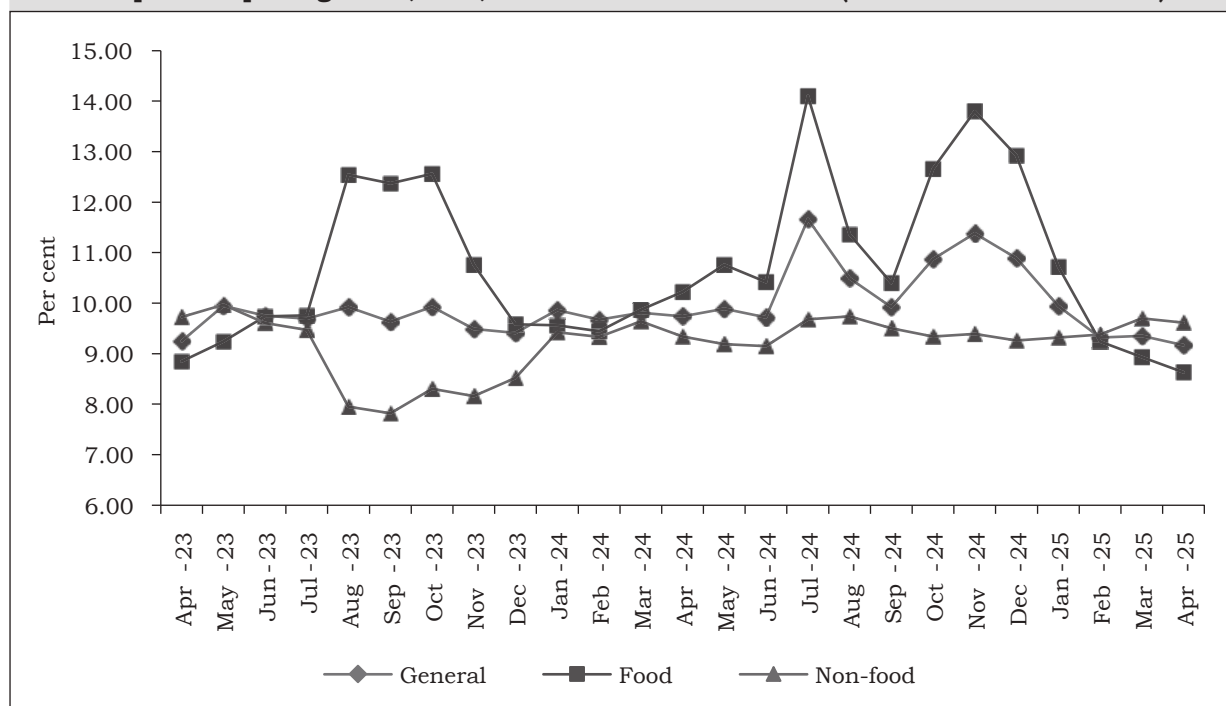
Previous research has also found that the average monthly non-food expenditure in rural areas increased by 8.6 per cent from September 2022 to February 2023, compared to a 3.1 per cent rise in urban areas, further highlighting that non-food inflation was more prominent in rural regions (Raihan et al., 2023). Research also indicated that average monthly household incomes did not significantly increase to cope with inflation. Furthermore, incomes decreased in rural areas while rising in urban areas (Raihan et al., 2023). Given that rural households generally have lower income levels, the combination of stagnant or declining income and relatively higher inflation, particularly in general and non-food categories, has significantly impacted the livelihoods of low-income households, especially in rural areas.

Figure 1.3**Point-to-point general, food, and non-food CPI inflation in rural and urban areas**

Source: CPD's illustration based on data from the Bangladesh Bureau of Statistics, (BBS, 2025c).

To address these challenges, many households have adopted a range of strategies, including altering food consumption habits, cutting back on non-food expenditure, using savings, borrowing money, relying on aid, selling assets and durable goods, working overtime, taking on secondary employments, discontinuing children's education, involving children in paid work, and even migrating (Raihan et al., 2023). However, these coping mechanisms often have adverse effects, such as diminished quality of life, increased indebtedness, and reduced educational opportunities for children (Raihan et al., 2023). Moreover, undernutrition remains a serious issue in Bangladesh, particularly among rural populations and the poorest urban families (Anik et al., 2021). High levels of inflation, especially food inflation, further exacerbate this problem by depriving many low-income households, both rural and urban, of access to adequate nutrition.

From April 2023 to April 2025, Bangladesh experienced persistently high inflation, with general inflation consistently around or above 9 per cent (Figure 1.4) (Bangladesh Bank, 2025c). Food inflation was the main driver, likely due to supply disruptions from severe floods and structural issues like cartels and weak market governance. Non-food inflation remained relatively stable but elevated, hovering around 9 to 10 per cent throughout the period (Bangladesh Bank, 2025c). Although inflation began to ease slightly by early 2025, the overall trend reflects entrenched price pressures, highlighting the need for stronger policy measures to address supply-side constraints and protect vulnerable households.

Figure 1.4**National point-to-point general, food, and non-food inflation rate (Base Index 2021-22=100)**

Source: CPD's illustration based on data from the Bangladesh Bank (Bangladesh Bank, 2025a) and Monthly Economic Trends (Bangladesh Bank, 2025c).

1.3.3 Trends in average food prices

This section analyses the trends in the daily average prices of essential food items in Dhaka, Bangladesh, including rice, wheat, edible oil, sugar, and meat, from 2019 to 2025, highlighting the interplay between domestic and international factors contributing to food inflation. The prices of key staple items have risen significantly due to multiple factors, including the depreciation of the Bangladeshi Taka (BDT) against the US Dollar, which has made imported goods more expensive (Mavis, 2023), global supply chain disruptions, such as the Red Sea crisis (Barua, 2023), climate-induced crop damage (CPD, 2025), and the presence of oligopolistic market structures (Brokers, 2023). Whilst locally produced items such as beef and poultry have remained relatively stable due to Bangladesh's self-sufficiency, prices of rice, wheat and other imported commodities have surged due to currency fluctuations and shifts in global supply and demand. These price increases have exacerbated existing inflationary pressures in the Bangladeshi economy, intensifying food insecurity, reducing consumer purchasing power and worsening poverty levels. To address these challenges, policy recommendations include strengthening national buffer stocks, boosting domestic production of essential commodities, diversifying import sources and improving regulatory oversight to stabilise prices and ease inflationary pressures. A detailed summary of these price trends and contributing factors is presented in Table 1.2, providing a clear overview of the inflationary dynamics affecting essential food items in Bangladesh from 2019 to 2025.

Price of rice

The average daily price of rice in Dhaka has steadily risen from 1 January 2019 to 17 May 2025, with a slight decline observed in January 2020 for Miniket, Pijam, and coarse rice varieties (Figure 1.5). Since 2020, the price increase has continued, with Miniket showing the highest growth, followed by Pijam and coarse rice.

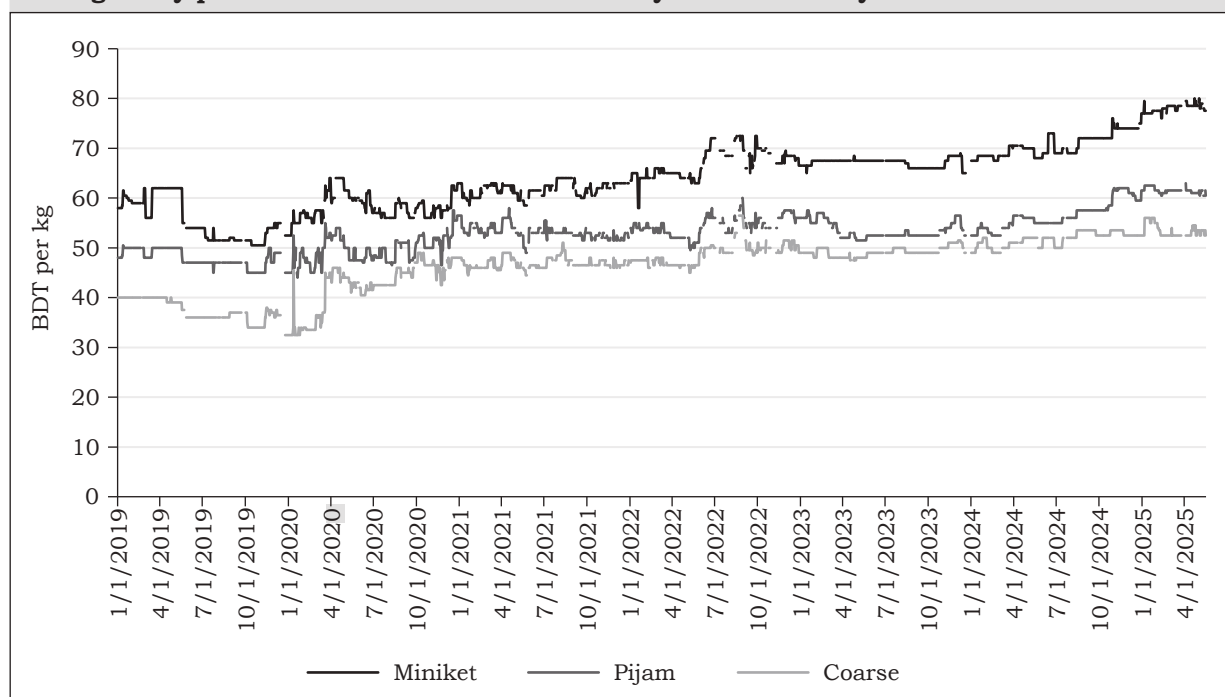
Retail prices of rice have been rising consistently since August 2024, when floods disrupted Aman paddy cultivation in the northeastern swathe of the country (Sukanta, 2025). The interim government approved large-scale private-equity rice imports to address the surge in prices. However, as of the first week of March 2025, the private sector had imported only 2.63 lakh tonnes of rice against the approved 16.75 lakh tonnes of rice imports, which accounts for just 17 per cent of the permitted volume, according to the Ministry of Food (Halder, 2025a). Furthermore, importers reported that importing rice has become unprofitable due to the high dollar exchange rate. The elevated exchange rate requires a higher amount of BDT to procure rice from international markets, reducing profitability and discouraging further imports (Sukanta, 2025).

Such price hikes are likely to strain the already affected Bangladeshi economy, which is currently grappling with high inflation rates. These increases may further exacerbate cost-push inflation, where rising production costs lead to higher prices for goods and services, ultimately forcing consumers to allocate a larger portion of their income towards essential expenditures (Raihan, 2025).

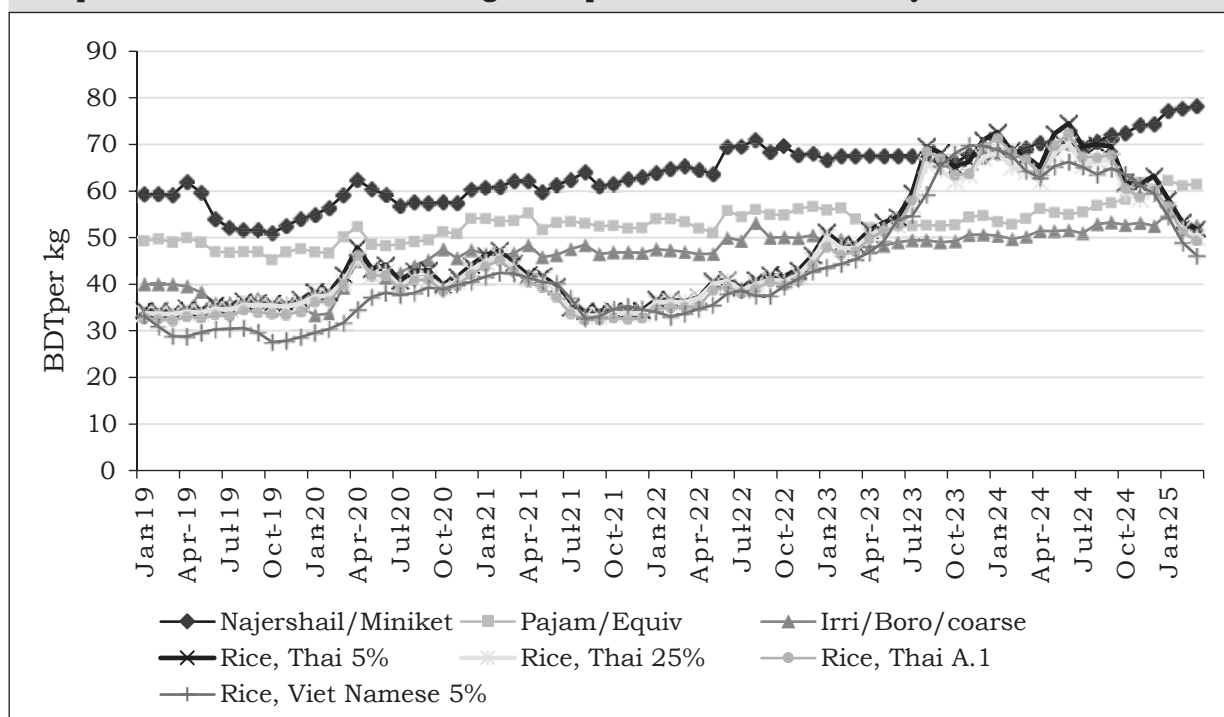
The Trading Corporation of Bangladesh (TCB) plays a critical role in stabilising market prices and ensuring the availability of essential commodities during periods of price volatility or supply disruptions (Raihan, 2025). They may maintain buffer stocks of essential goods, including rice.

Figure 1.5

Average daily price of rice in Dhaka from 1 January 2019 to 17 May 2025



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

Figure 1.6**Comparison of international and Bangladesh prices of rice from January 2019 to March 2025**

Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025) and the World Bank's pink sheet (World Bank, 2025).

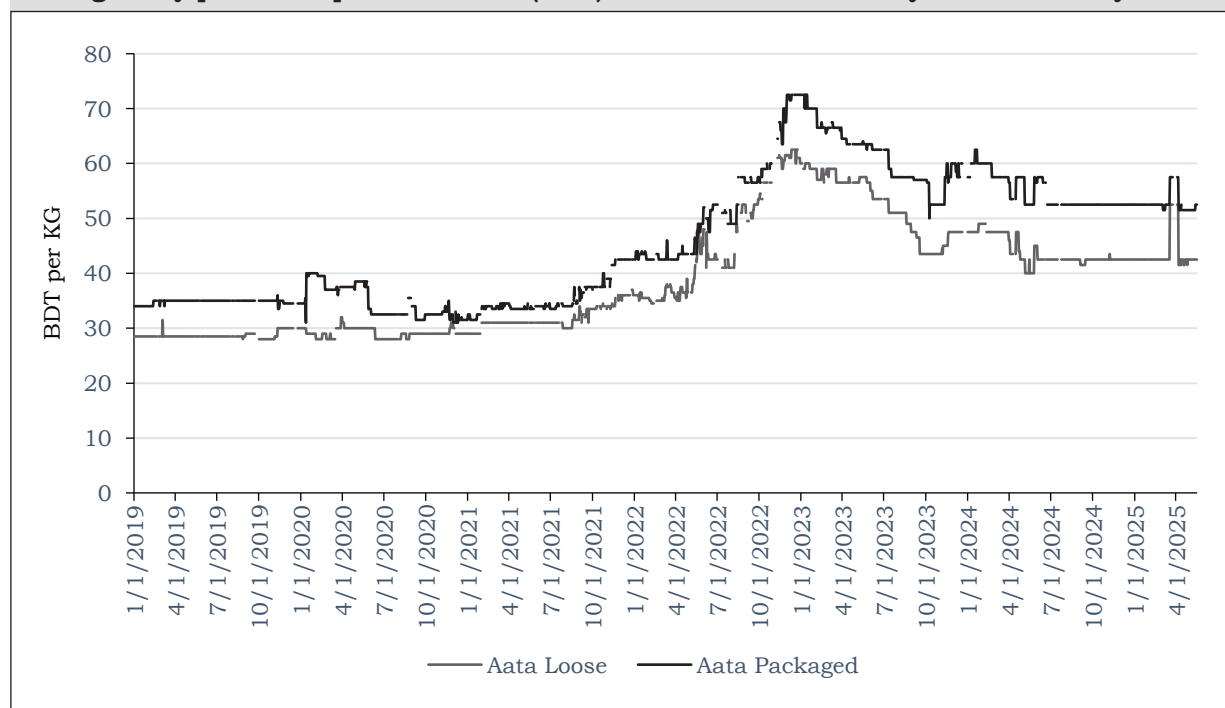
Note: The retail price of the item in Bangladesh is taken from TCB by averaging the daily prices for each month.

These stocks can be released into the market during supply shocks, such as those caused by floods that reduce rice production, to help moderate price fluctuations and reduce further inflationary pressure in the economy.

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 (Figure 1.6) (CPD, 2024). 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 (World Bank, 2025).

Price of unprocessed flour (Aata)

The average daily price of unprocessed flour (Aata) remained relatively stable from 2019 to 2022, followed by a sharp exponential increase in 2023 (Figure 1.7) (TCB, 2025). Prices have remained elevated throughout 2024 and into 2025. Flour prices rose in Dhaka's wholesale and retail markets in 2024, primarily due to a tight supply amid higher global wheat prices, as wheat is the key raw material for flour production (Halder, 2025). Several factors have contributed to this price surge. One major factor is the shortage of US Dollars in Bangladesh's foreign exchange reserves, which has led to the depreciation of the BDT (Mavis, 2023). This depreciation has made imports more expensive for local traders. Another significant reason importers cite is the ongoing Red Sea crisis, a critical shipping route (Barua, 2023). Attacks by Yemen-based Houthi militants have forced many vessels to reroute around the Cape of Good Hope, resulting in additional surcharges and increased shipping costs (Barua, 2023).

Figure 1.7**Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 17 May 2025**

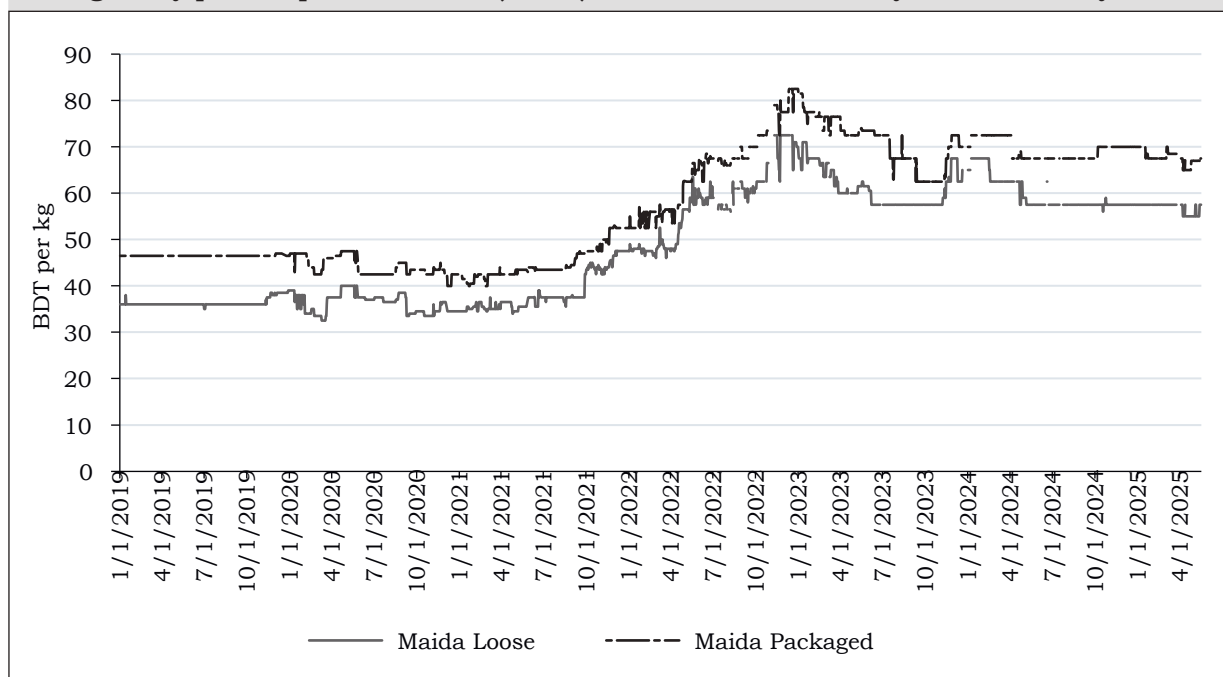
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

The recent price hikes in loose flour will likely spill over into the packaged flour market, resulting in an overall rise in retail prices. This upward pressure on flour costs could intensify cost-push inflation, worsening the country's inflationary trends. These disruptions often trigger periods of acute food inflation, which ultimately lead to high inflation that undermines food security and deepens rural poverty (Rahman et al., 2024) as small-scale farmers struggle to manage rising input costs amid uncertain crop yields and price fluctuations (Raihan, 2025). According to the Integrated Food Security Phase Classification (IPC), approximately 23.3 million people, or 26 per cent of Bangladesh's population, are experiencing high levels of acute food insecurity (IPC, 2024). The government may consider investing in research to develop climate-resilient wheat varieties to reduce supply volatility caused by extreme weather conditions (CPD, 2025).

Price of processed flour (Maida)

The average daily price of processed flour (Maida) has risen since January 2022, with packaged Maida prices peaking above BDT 80 and remaining above BDT 70 as of January 2025 (Figure 1.8) (TCB, 2025). Similarly, the price of loose Maida reached a high of over BDT 70 in 2023 but declined to below BDT 60 by January 2024 (TCB, 2025). One of the primary factors driving these price increases is the depreciation of the Bangladeshi Taka (BDT) against the US Dollar, which has also raised the cost of wheat imports and, consequently, the price of Maida in the local market (Ahmed, 2024).

Furthermore, Bangladesh's heavy reliance on wheat imports has made it vulnerable to global supply disruptions, particularly due to the Russia-Ukraine conflict. This war significantly impacted wheat prices, as Bangladesh sources much of its wheat from the Black Sea region (AL-amin et al.,

Figure 1.8**Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 17 May 2025**

Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

2022). Between 2022 and 2023, the fastest-growing sources of wheat imports for Bangladesh were Ukraine (USD 106 million), Romania (USD 96 million), and Brazil (USD 50.7 million) (OEC, n.d.).

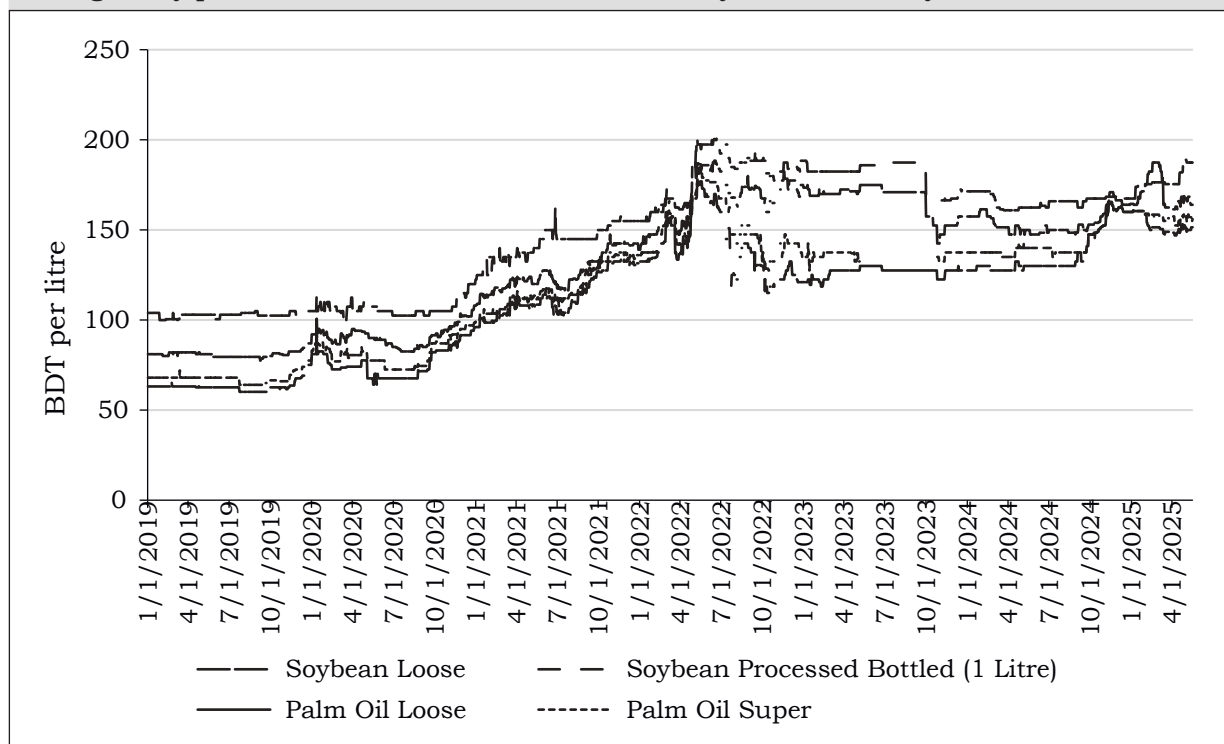
Such a hike in flour prices may worsen the already existing food inflation levels in the Bangladeshi economy, increase food insecurity, raise social tensions and strain the government's budget (Brokers, 2023). To mitigate the impact of high Maida import costs, the government could implement strategic measures such as establishing buffer stocks of Maida. By purchasing and storing Maida during periods of stable prices, the government can release these reserves into the market when prices surge, helping to stabilise supply and reduce inflationary pressure.

Additionally, to lessen dependency on imports in the long term, the government could provide targeted subsidies and technical support to farmers and millers. This would help boost domestic wheat production and processing capacity, strengthen food security, and reduce vulnerability to global price shocks.

Price of edible oil (soybean and palm oil)

The average daily price of edible oil in Dhaka has steadily risen since January 2019, with a particularly sharp increase observed between January 2022 and 2023 (Figure 1.9) (TCB, 2025). This elevated price trend has persisted into 2025 (TCB, 2025). As of December 2024, the average global price of soybean oil stood at BDT 128 per litre (World Bank 2024a) while the average market price in Bangladesh was significantly higher at BDT 168 per litre (TCB, 2024).

Bangladesh is heavily dependent on imports to meet its edible oil demand, sourcing approximately 80 per cent of its palm oil from Indonesia and the remaining 20 per cent from Malaysia as of 2022

Figure 1.9**Average daily price of edible oil in Dhaka from 1 January 2019 to 17 May 2025**

Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

(Siddiqui, 2025). In 2023, the country also imported other vegetable oils primarily from Malaysia (USD 14.1 million), Saudi Arabia (USD 4.25 million), Indonesia (USD 2.39 million), France (USD 334,000), and Germany (USD 291,000) (OEC, 2024).

The rise in edible oil prices can be attributed to several factors. The depletion of Bangladesh's foreign exchange reserves and the depreciation of the BDT against the US Dollar significantly increased the cost of imports (Mavis, 2023). This, in turn, drove up domestic prices. A supply shortage in the global market also contributed to further price hikes (Barua, 2023). According to the World Bank Commodities Price Data, the international price of soybean oil rose from USD 986 per tonne during the April–June period of 2024 to USD 1,079 per tonne in July (World Bank, 2024b).

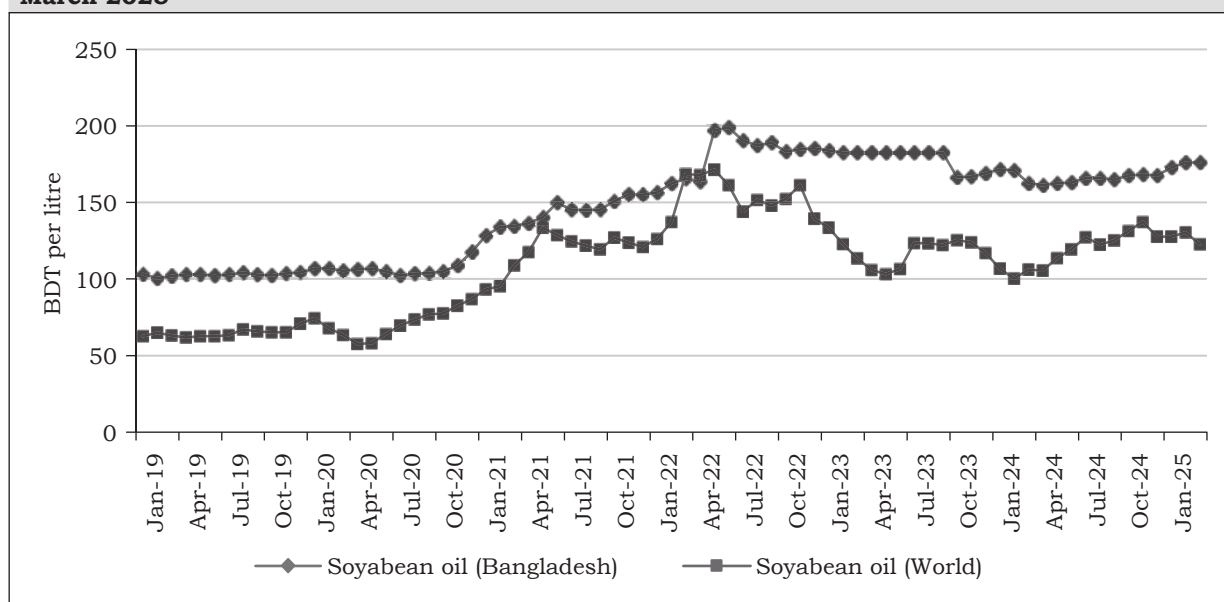
All these factors might contribute more towards inflationary pressure, where the cause of BDT depreciation and the hike in global markets lead to higher prices for imported edible oils. This would further exacerbate cost-push inflation. As consumers contribute a larger share of their disposable income to essential commodities like edible oils, their real purchasing power diminishes, potentially leading to a decline in their standard of living as they are able to afford fewer non-essential goods and services amidst rising prices.

The Ministry of Commerce (MoC) can take the lead in reforming trade and supply chain operations by enhancing import efficiency through streamlined customs procedures and reducing bottlenecks in importing essential commodities, such as food. These reforms would help prevent supply shortages and curb sudden price hikes.

Additionally, the Trading Corporation of Bangladesh (TCB) could play a crucial role by importing edible oil in bulk to serve as a buffer stock. By doing so, the TCB can stabilise market supply during periods of price volatility and conduct subsidised sales to support low- and middle-income households, easing the burden of food inflation.

Figure 1.10

Comparison of International and Bangladesh prices of soybean oil from January 2019 to March 2025



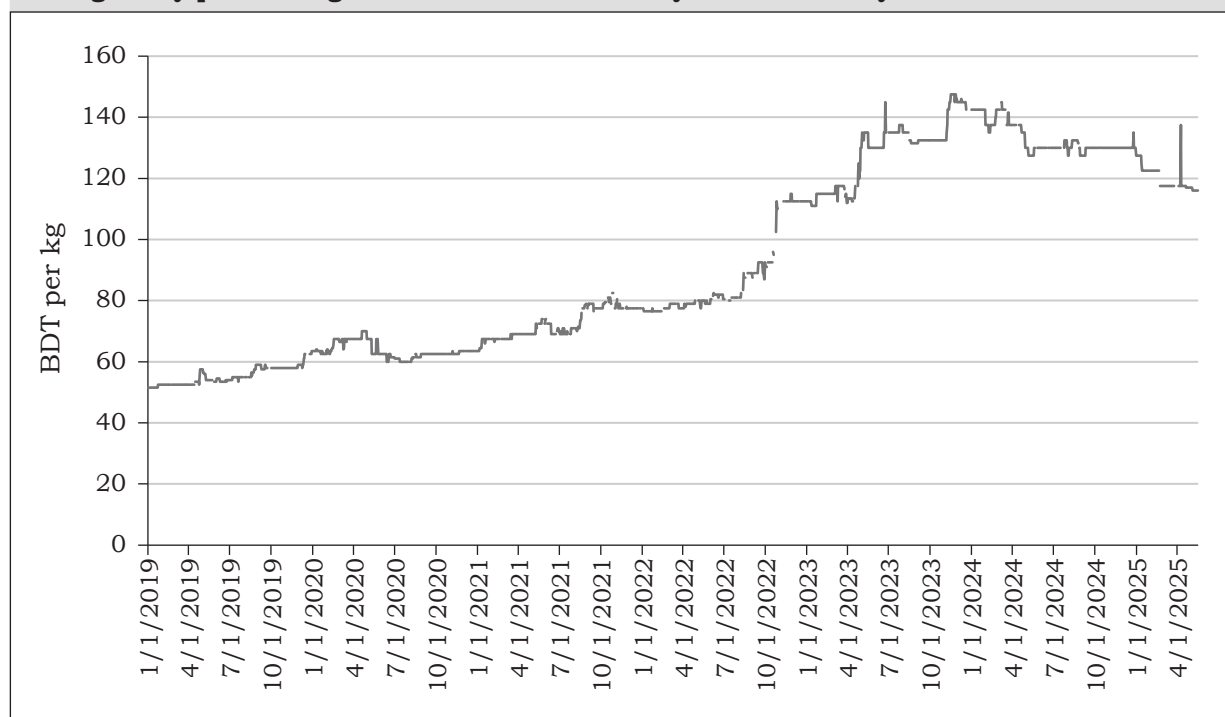
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025) and the World Bank's pink sheet (World Bank, 2025).

Note: The retail price of the item in Bangladesh is taken from TCB by averaging the daily prices for each month.

Additionally, an analysis of national and international price trends shows significant variations between soybean oil prices in Bangladesh and the world market. From January 2019 to December 2024, the average soybean oil price has been consistently higher in Bangladesh compared to the global market (Figure 1.10). For example, in December 2024, the average price of soyabean oil in the world market was BDT 128 per litre (World Bank 2024a) whereas the average price of soyabean oil in the Bangladesh market was BDT 168 per litre (TCB, 2024) (Figure 1.10).

Price of sugar

From January 2023, the average daily price of sugar in Dhaka experienced a sharp increase and has remained high throughout 2025 (Figure 1.11) (TCB, 2025). Domestically, Bangladesh's sugar industry has undergone a structural transformation over the past two decades. Once dominated by 15 state-owned mills, the industry is now largely controlled by five major private companies. Meghna Group of Industries (MGI) and City Group together imported nearly 70 per cent of the 17 lakh tonnes of raw sugar brought into the country in 2023 (Suman, 2024). Meanwhile, S. Alam Group, the third-largest importer, supplied around 20 per cent of national demand, while Abdul Monem Ltd and Deshbandhu Sugar Mills accounted for the remainder in the same year (Suman, 2024). Collectively, these five firms operate within an oligopolistic market structure, meeting over 98 per cent of Bangladesh's annual sugar demand of 20 lakh tonnes (Suman, 2024).

Figure 1.11**Average daily price of sugar in Dhaka from 1 January 2019 to 17 May 2025**

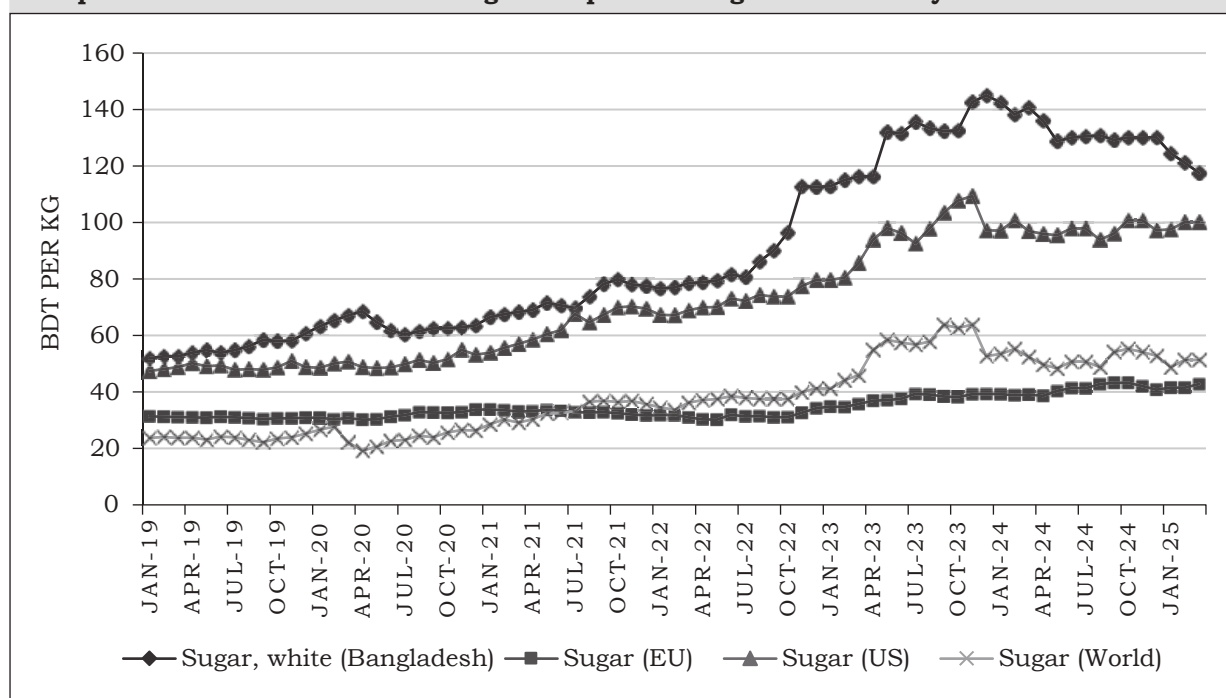
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

Due to the oligopolistic structure of Bangladesh's sugar industry, it is susceptible to collusion, as there is little competition and the suppliers decide prices. This makes the market prone to price hikes, which may exacerbate the inflationary pressure in the economy. Similarly, high prices being paid for imports may lead to rising prices of sugar, which will be passed down to consumers in the form of higher prices, further increasing inflationary pressure in the economy.

On the other hand, an international comparison reveals that the average price of sugar has been significantly higher in Bangladesh than in the EU, the US, and world markets (Figure 1.12). As of March 2025, the average price of sugar was BDT 43 per kilogram in the EU market, BDT 51 per kilogram in the world market, and BDT 100 per kilogram in the US market (World Bank, 2025), but BDT 117.5 per kilogram in the Bangladesh market (TCB, 2025).

The significantly higher sugar prices in Bangladesh compared to global and regional markets highlight the burden placed on fixed-income households, as rising costs of essential commodities directly reduce their purchasing power. Additionally, price disparity between Bangladesh and neighbouring countries like India has also incentivised cross-border smuggling, leading to a decline in demand for locally refined sugar and undermining domestic production and formal trade systems (Parvez, 2024).

To stabilise the market for sugar, the TCB should purchase in bulk and act as a buffer, while the government encourages Bangladeshi suppliers to resume operation of sugar mills and regulates oligopolies (CPD, 2025). The government should also strictly oversee oligopolies to prevent price fixing and ensure fair competition, thus reducing the sudden price changes and easing inflationary pressure in the economy. Furthermore, the current total tax incidence (TTI) on pure sugar (HS

Figure 1.12**Comparison of international and Bangladesh prices of sugar from January 2019 to March 2025**

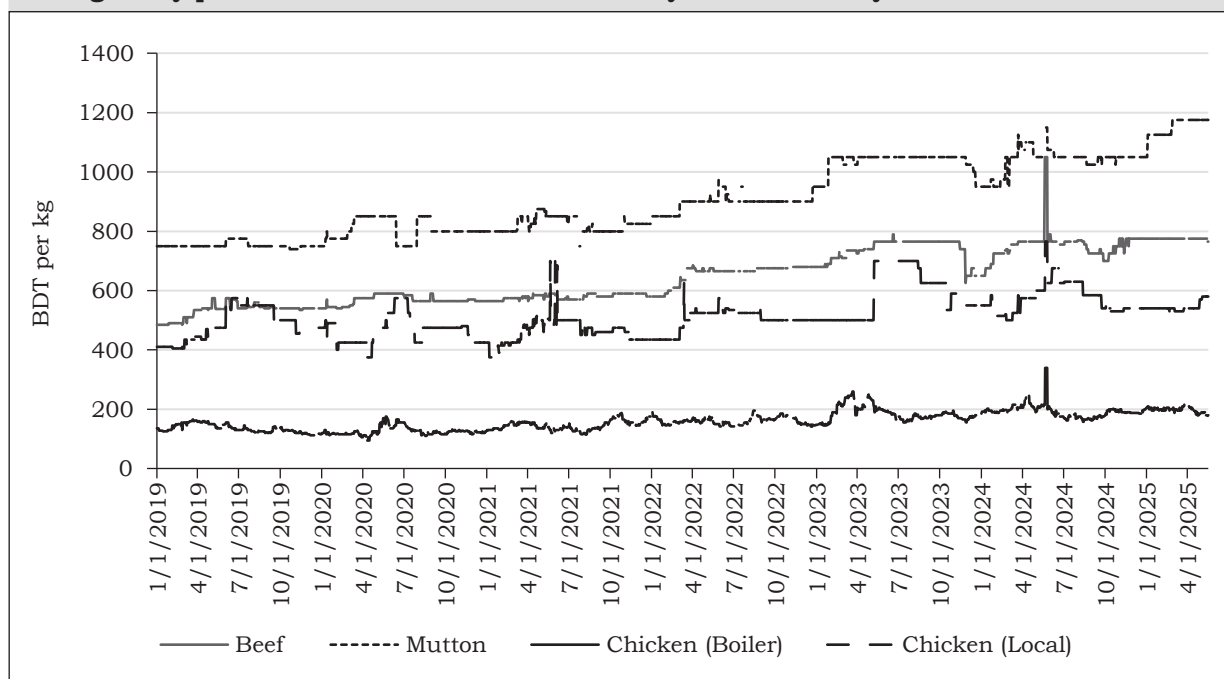
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025) and the World Bank's pink sheet (World Bank, 2025).

Note: The retail price of the item in Bangladesh is taken from TCB by averaging the daily prices for each month.

code: 29400000) stands at 37 per cent (NBR, 2025). This rate could be reduced to lower the prices of imported sugar, which would help ease food-related inflationary pressures. In addition, the sugar industry in Bangladesh operates under an oligopolistic market structure (Suman, 2024), which often leads to price-setting by a few dominant players. To ensure fair pricing and market competitiveness, stricter regulation of this sector is essential. The government should also consider offering targeted incentives such as tax breaks or subsidies to encourage the entry of new local millers. Increased competition would help bring down prices over time, contributing to lower inflationary pressure in the long run.

Price of meat

Meat prices in Dhaka exhibited only minor fluctuations between 2019 and 2025, with no significant spikes or drops (Figure 1.13) (TCB, 2025). Among the different types of meat, broiler chicken consistently remained the most affordable, with prices staying below BDT 200 throughout the period between 2019 and 2025 (TCB, 2025). In contrast, mutton was the most expensive, rising from under BDT 800 per kilogram in 2019 to approximately BDT 1,200 by 2025 (TCB, 2025). The price changes for mutton may have been caused by the scarcity of land for mutton production and the high prices of animal feed (Abrar, 2021). Bangladesh has achieved self-sufficiency in meat production, reducing its reliance on imports to meet domestic demand. In FY2020, the country produced approximately 7.67 million metric tonnes of meat, exceeding the national demand of 7.3 million tonnes (Samanta et al., 2022). While broiler chicken price remained below BDT 200, other meats, such as local chicken, have risen from BDT 600 in 2019 to around BDT 800 in 2025 (TCB, 2025). Local chicken is typically free-range and naturally hatched, making it widely perceived as safer and

Figure 1.13**Average daily price of meat in Dhaka from 1 January 2019 to 17 May 2025**

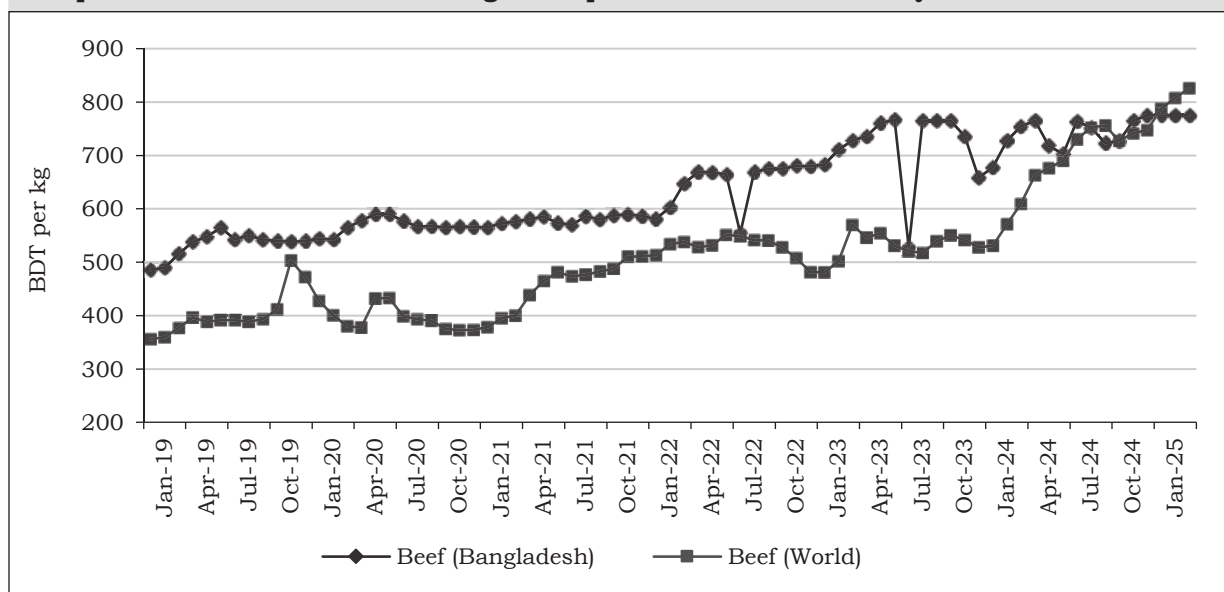
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

fresher than broiler chicken (LightCastle, 2020). This perception, combined with growing consumer awareness around food safety and health, has led to increased demand for local chicken, which contributes to its higher market price and makes it a rapidly expanding segment in Bangladesh's poultry market (LightCastle, 2020). The price of beef steadily rose from 2019 to 2025, where it was around BDT 500 in 2019 and grew to approximately BDT 800 in 2025 (TCB, 2025).

Given that meat is a primary source of protein for most Bangladeshi households, the relatively low and stable prices of broiler chicken helped ease the pressure on food inflation. Steady prices reduce the likelihood of sudden spikes in household food expenditures. Moreover, Bangladesh's self-reliance in meat production reduces the country's exposure to volatility in global meat prices, acting as a buffer against inflation driven by high import costs. This domestic self-sufficiency also minimises the impact of currency depreciation, particularly the weakening of the BDT against the US Dollar, which has increased the cost of other imports and helps prevent further inflationary pressures.

However, the average price of beef in Bangladesh has been consistently higher than in the world market from January 2019 to January 2025 (Figure 1.14). Although with the increase in the price of beef in the world market (World Bank, 2025), the price gap has narrowed significantly. As of March 2025, the average price of beef in the world market was BDT 826 per kilogram (World Bank, 2025) and the average price of beef in the Bangladeshi market was BDT 775 per kilogram (TCB, 2025).

To stabilise the prices of various meats, the government may assist small farmers by enhancing livestock health services, veterinary care, and breeding programmes to reduce cow mortality,

Figure 1.14**Comparison of International and Bangladesh prices of beef from January 2019 to March 2025**

Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025) and the World Bank's pink sheet (World Bank, 2025).

Note: The retail price of the item in Bangladesh is taken from TCB by averaging the daily prices for each month.

improve productivity and maintain stable meat prices. They may also provide targeted tax cuts or incentives for domestic feed millers to stabilise meat production costs. The government may also encourage the TCB to regularly monitor meat markets and intervene if necessary to prevent cartels or unfair pricing. The government may also subsidise the price of animal feed to reduce prices. They may also provide market linkages and support services to farmers for fair value chain participation (CPD, 2025).

Table 1.2**Summary of changes in average daily prices of essential food items**

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Rice	Has been increasing 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 USD 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.

(Table 1.2 contd)

(Table 1.2 contd)

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Aata (Unprocessed Flour)	Sharp rise from January 2023; remained elevated through 2024–2025.	Global wheat prices increased significantly.	Depreciation of the BDT against the US Dollar, depletion of foreign reserves, the Red Sea crisis, increased international shipping costs, and wheat supply volatility.	Spikes in food inflation, worsened food insecurity, and intensified rural poverty.	Develop climate-resilient wheat varieties; diversify import sources; and provide support from the government to increase domestic production.
Maida (Processed Flour)	Has risen since 2022; Decline in loose Maida prices in 2024.	The Russia-Ukraine war affects Global wheat prices; the main import sources are Ukraine, Romania, and Brazil.	Depreciation of the BDT against the US Dollar, global supply shocks, and high dependency on wheat imports.	Intensifies food inflation; impacts poor households as purchasing power decreases.	Create Maida buffer stocks; support wheat farming; subsidise domestic millers; diversify import sourcing from other countries.
Edible Oil	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.
Sugar	Sharp increase in 2023; remained high through 2025.	World market prices have been on the rise since 2019; local prices were BDT 117.5 per kg which was much higher than world prices of BDT 51 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.
Meat (Broiler Chicken)	Prices remained below BDT 200/kg, stable throughout 2019–2025.	Not significantly relevant due to self-sufficiency.	Stable domestic production, low import reliance, and strong supply chains.	Helps moderate food inflation due to low price fluctuations	Support poultry health, feed industry, and disease control; maintain TCB oversight to deter cartelisation.
Meat (Local Chicken)	The price was BDT 400 per kg in 2019, which increased to approximately BDT 600 per kg in 2022.	Not significantly relevant due to self-sufficiency in supply.	High demand amongst consumers due to health awareness.	Rise in inflationary pressure;	Support poultry feed industry and disease control

(Table 1.2 contd)

(Table 1.2 contd)

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Meat (Beef)	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 USD 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.
Meat (Mutton)	Highest price compared to other meats; price was BDT 700, which rose to almost BDT 1000 in 2022	The price was BDT 700 per kg, which rose to almost BDT 1000 in 2022	Lack of geographical land; high price of animal feed.	Reduced consumption of mutton; high inflationary pressure	Provide subsidised animal feed

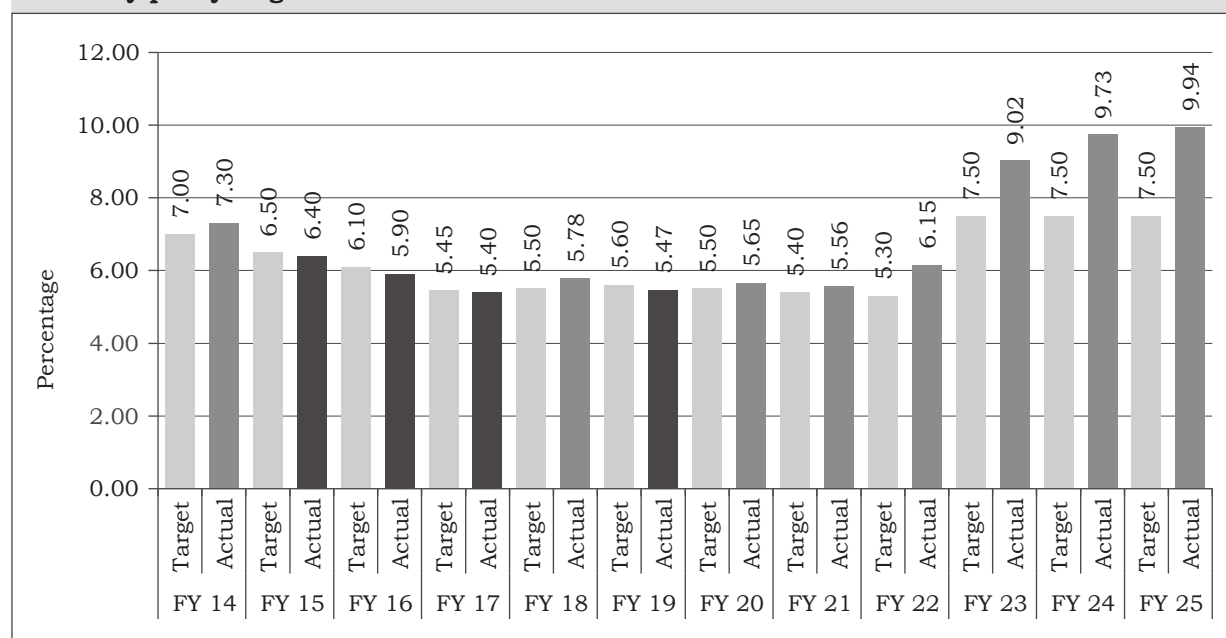
Source: CPD's compilation.

1.3.4 Measures taken to control inflation

The rate of inflation for most of the past 12 years was much higher than the targets initially set by the central bank (Figure 1.15). Although the actual inflation rate was slightly lower than

Figure 1.15

Monetary policy target vs. actual inflation



Source: Authors' illustration based on data from the Bangladesh Bank (Bangladesh Bank 2025b, BBS 2025b)

Note: The inflation target for FY 25 is 7-8 per cent, but we have taken the average on the interval for ease of analysis. The actual inflation data is taken for January since it was the only month available.

what was anticipated for FY2015, FY2016, FY2017, and FY2019, the cost of living continued to escalate. Inflation has surged to its highest level in the last 12 years, reaching 9.94 per cent in FY2025, significantly above the target of 7.50 per cent for FY2025 (Bangladesh Bank 2025). The most pronounced deviations between actual and targeted inflation were recorded in FY2024 and FY2025, with discrepancies of 29.73 per cent and 32.53 per cent, respectively. This tendency of setting such ambitious targets by the central bank suggests that policymakers are overly optimistic about reality. Furthermore, the graphical trend in the graph indicates that recent years have seen a growing gap between targeted and actual inflation rates (Figure 1.15), suggesting challenges in accurately forecasting and controlling inflation. Spikes in food prices have primarily driven rising price levels due to supply chain disruptions and flood damage.

The Monetary Policy Statement (MPS) for the second half of FY2025 focuses on controlling inflation, which remains high, by maintaining a tight monetary policy stance with the policy rate set at 10 per cent, the Standing Deposit Facility (SDF) rate at 8.5 per cent, and the Standing Lending Facility (SLF) rate at 11.5 per cent (Bangladesh Bank, 2025). By June 2025, broad money (M2) growth is expected to reach 8.4 per cent, aligning with inflation and GDP growth goals (Bangladesh Bank, 2025). The introduction of a crawling peg system aims to stabilise the exchange rate by linking the value of the BDT to a currency basket aligned with the Real Effective Exchange Rate (REER) Index. Due to improvements in the balance of payments and foreign exchange reserves, the central bank anticipates a 7.7 per cent growth in net foreign assets in H2FY25 (Bangladesh Bank, 2025).

Despite a positive global economic outlook, Bangladesh faces challenges such as high inflation, exchange rate volatility, and the need to maintain adequate foreign exchange reserves. The MPS highlights the necessity for comprehensive credit support to agriculture, recent foreign exchange policy liberalisation to bolster inflows, and initiatives to enhance financial governance and risk management (Bangladesh Bank, 2025). December 2024 and January 2025 saw a drop in the interest rates on short-term government securities by more than 1.5 per cent or 150 basis points (Bangladesh Bank, 2025). This likely reflects that investors expect inflation or interest rates to go down shortly, so they want to take advantage of the existing higher rates while they are still available (Fisher 1930).

1.3.5 Impact of increasing the money supply on inflation

The Quantity Theory of Money (QTM) influences the classical theory of inflation. The theory posits that the amount of money in circulation is directly proportional to the price level (Friedman, 1968). Inflation and money supply have been linked since the 1900s, when Friedman and other monetarists indicated a causal relationship between the two (Titumir, 2021). According to Friedman, *Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output* (Friedman, 1968).

During the tenure of the previous government, an unaccounted BDT 70,000 crore was printed for quantitative easing in fiscal year FY2023 (Alo, 2023). This additional money supply was not reflected in the official data from the Bangladesh Bank. To capture the impact of money supply in the economy, a vector autoregression (VAR) model was used to see the relationship among Consumer Price Index (CPI), money supply (M2), interest rate and Gross Domestic Product (GDP). Monthly data was taken from the Bangladesh Bank for the years 1974–2024. The results reveal a significant positive relationship between money supply and the Consumer Price Index (CPI), a negative relationship between CPI and its lagged values and interest rate, and no significant

Table 1.3**Granger causality Wald tests**

Null Hypothesis	Probability	Decision
M2 does not Granger-cause CPI	0.06	M2 Granger-causes CPI general
CPI does not Granger-cause M2	0.06	CPI general Granger-causes M2
Interest rate does not Granger-cause CPI	0.00	Interest rate Granger-causes CPI general
CPI does not Granger-cause Interest rate	0.31	CPI general does not Granger-cause Interest rate
GDP does not Granger-cause CPI	0.30	GDP does not Granger-cause CPI general
CPI does not Granger-cause GDP	0.71	CPI general does not Granger-cause GDP
Interest rate does not Granger-cause M2	0.45	Interest rate does not Granger-cause M2
M2 does not Granger-cause Interest rate	0.83	M2 general does not Granger-cause Interest rate
GDP does not Granger-cause M2	0.03	GDP Granger-causes M2
M2 does not Granger-cause GDP	0.56	M2 general does not Granger-cause GDP
GDP does not Granger-cause Interest rate	0.64	GDP general does not Granger-cause Interest rate
Interest rate Granger-cause GDP	0.10	Interest rate general does not Granger-cause GDP

Source: Author's calculations using data from Bangladesh Bank (Bangladesh Bank, 2025c).

relationship with GDP. After a VAR model, a Granger Causality test was conducted, which shows the existence of causality and the direction of causality.

There is bidirectional causality between M2 and CPI (Table 1.3). Interest rates significantly influence CPI, and GDP significantly influences M2, but the impact is unidirectional. There is no significant causality between GDP and CPI, interest rates and M2, CPI and interest rates, GDP and interest rates, CPI and GDP, and M2 and GDP. The test shows that M2 Granger causes CPI with a p-value of 0.06, which is statistically significant at the 10 per cent level. This means past values of money supply help predict future inflation, which supports the idea that an increase in money supply tends to lead to higher inflation. It validates the quantity theory of money; increasing the money supply will increase inflationary pressures, though at a moderately significant level.

1.3.6 Impact of increasing the policy rate on inflation

The data from Bangladesh Bank regarding repo rates suggests that the central bank has adopted a more aggressive stance on tightening monetary policy following the July Revolution. Till July 2024, the repo rate was 8.50 per cent (Bangladesh Bank, 2025c). However, after July 2024, the repo rate was increased to 10 per cent, and it currently remains at 10 per cent (Bangladesh Bank, 2025c). Therefore, the impact of repo rates on inflation was examined using a Markov Switching Dynamic Regression (MS-DR) model. Markov-switching models are used for series that are believed to transition over a finite set of unobserved states, allowing the process to evolve differently in each state (Goldfeld & Quandt, 1973). The transitions occur according to a Markov process (Goldfeld & Quandt, 1973). The time of transition from one state to another and the duration between state changes are random (Goldfeld & Quandt, 1973). To isolate the effects of the post-revolution policy change, the model is estimated using monthly data from July 2022 to February 2025, thereby capturing potential regime shifts in inflation dynamics under the new contractionary monetary policy framework.

The simplified regression equation is as follows:

$$Inflation_t = \beta_0 + \beta_1.repo\ rate_t + \beta_2.IPI_t + \epsilon_t \text{ (Equation 1)}$$

Or

$$Inflation_t = \alpha_0 + \alpha_1.repo\ rate_t + \alpha_2.IPI_t + \gamma_t \text{ (Equation 2)}$$

The regression will follow either Equation 1 or Equation 2, depending on the high inflation state or the low inflation state. From the equations discussed above, inflation refers to the point-to-point inflation, while the repo rate is the policy rate established by the central bank as the interbank interest rate. IPI, on the other hand, is the industrial production index used as a proxy for output growth in industries in Bangladesh. It is the summation of all industrial production indexes. The data for inflation and IPI are taken from the Bangladesh Bank's monthly economic trends (Bangladesh Bank, 2025). Repo rate is taken from the monetary policy statements published by the Bangladesh Bank (Bangladesh Bank, 2025). Before selecting the variables of interest and identifying the model specification, three other models were conducted using different combinations of variables, including lagged inflation values, the repo rate, and the exchange rate. However, the log likelihood, Akaike Information Criterion (AIC), and Bayesian Information Criterion (BIC) criteria, which indicate how well the data fit the model, were better for the chosen variables mentioned earlier.

According to the results from the MS-DR model, the coefficients indicate that the repo rate and IPI are highly significant (Table 1.4). For every percentage increase in the policy rate, point-to-point inflation is expected to rise by approximately 0.43 per cent, holding other variables constant. This suggests that a higher interest rate is positively associated with increased inflation, although this is somewhat counterintuitive since interest rate is used as a monetary policy instrument in order to dampen inflation. This contradiction of theory may arise due to the endogeneity of the repo rate, which is used as a 'reaction' to inflation, serving as a policy instrument. Thus, the endogeneity may explain the observed results. In state 1, the expected inflation level is 8.46 per cent (as indicated by the constant value), assuming all independent variables are zero. State 2's expected inflation level is 10.47 per cent, assuming all independent variables are zero. Both results are significant at the one per cent level of significance. While these results are important, the main focus of interest is on the transition probability matrix (Table 1.5).

Table 1.4

Results on the impact of point-to-point inflation using the Markov Switching Dynamic Regression

Inflation	Coefficient	Std. Err.	Z	P>z
repo rate	0.43***	0.06	6.99	0.00
IPI	-0.02***	0.01	-3.65	0.00
State1				
_cons	8.48***	0.90	9.41	0.00
State2				
_cons	10.47***	0.90	11.61	0.00
sigma	0.44	0.06		

Source: Authors' calculations using data from the Bangladesh Bank (Bangladesh Bank, 2025).

Note: *** p<0.01, ** p<0.05, * p<0.1.

Table 1.5**Transition Probability Matrix**

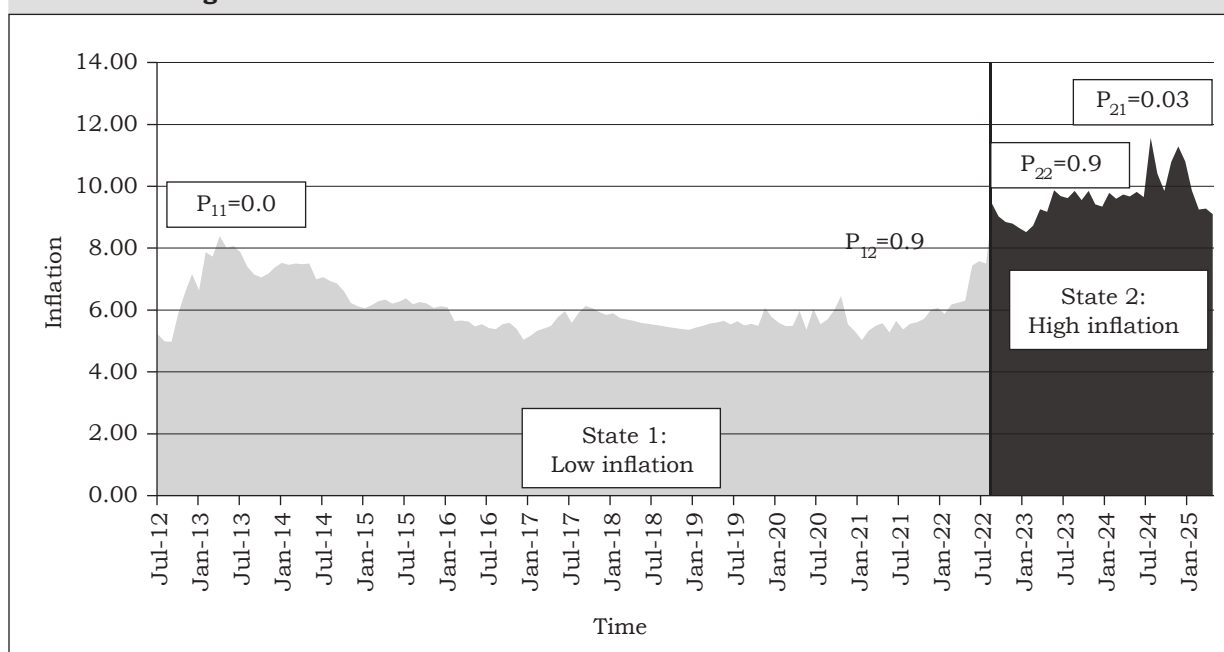
Transition Probabilities	Estimate	Std. Err.
p11	0.000	0.001
p12	0.999	0.001
p21	0.032	0.031
p22	0.968	0.031

Source: Authors' calculation using data from the Bangladesh Bank (Bangladesh Bank, 2021b).

Note: i) 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;

ii) Estimated transition probabilities shown to third decimal place.

The results suggest that when Bangladesh's economy enters a low-inflation phase (State 1), it does not remain there for long (Table 1.5) (Figure 1.16). In fact, the probability of staying in this period of low inflation is nearly zero. On the contrary, when the economy transitions into a high inflation phase (State 2), it tends to stay there. Additionally, the likelihood that the economy will shift back to the low inflation state in the next period is only 3.15 per cent. This implies that a high-inflation state tends to be sticky and persistent. Furthermore, once the economy begins in a high-inflation

Figure 1.16**Inflation during State 1 and State 2**

Source: Authors' illustration using data from the Bangladesh Bank (Bangladesh Bank, 2025).

Note: i) The bar indicates the switch to high inflation state; ii) 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.

state, the probability that it will remain there is as high as 96.8 per cent. The implications of the results suggest that inflation has persistently remained high before and after the July Uprising.

This empirical exercise aims to capture how the central bank's behaviour or policy effectiveness shifts over time. The findings reveal that monetary policy alone cannot curb persistently high inflation. Due to the sticky nature of prices, it is challenging for the central bank to stabilise and reduce prices, even with a tight monetary policy. The persistence of a high-inflation state suggests that structural or external factors dominate inflation dynamics, and so monetary tightening may not be effective on its own. Failing to react promptly to rising prices of goods and services can attest to this ineffectiveness. The results indicate a need for structural reforms, such as improving industrial output, managing foreign exchange reserves, curbing currency depreciation, and dismantling cartels that manipulate the market.

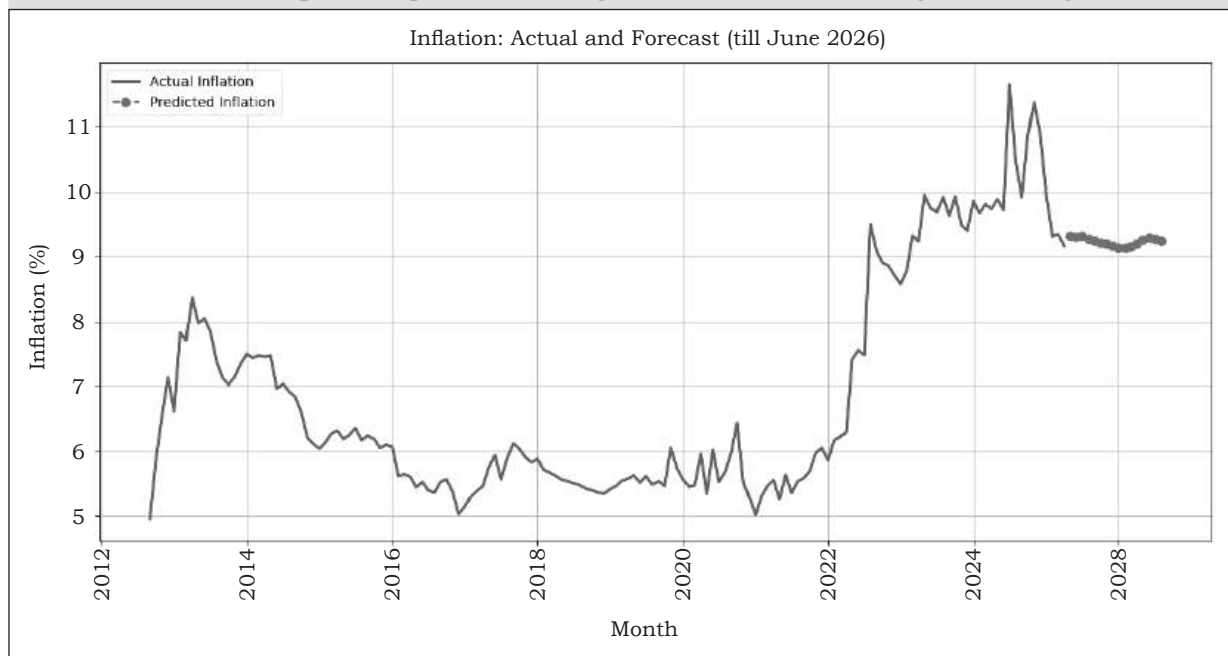
1.3.7 Forecasted inflation

Inflation has been a macroeconomic challenge for Bangladesh. Nevertheless, the interim government has projected a positive picture for Bangladesh, predicting that the inflation rate will drop to 6.5 per cent by next year (Byron, 2025). Based on past inflation trends, this prediction appears to be optimistic.

Using monthly data of inflation from June 2012 to April 2025 from Bangladesh Bank, a feedforward Artificial Neural Network (ANN) model with a univariate time series approach was used to predict inflation (Balkin & Ord, 2000). Lagged values, or one- and two-month lags, were used as input features to reflect short-term dependencies in the model, which was trained using historical monthly inflation data. The month variable's sine and cosine transformations are cyclical predictors for considering seasonal impacts. This dataset trains a Multi-Layer Perceptron (MLP) regressor, making recursive predictions about future inflation values. In particular, the forecast for the following month is created using the model's output from the previous month as input, and this procedure is repeated for a 16-month horizon from May 2025 to August 2026.

The results suggest that inflation is unlikely to decrease to 6.5 per cent by next year, assuming all other factors remain constant (Figure 1.17). While the trend indicates a gradual decline, the drop to 6.5 per cent seems unattainable given that all other factors are constant. A closer examination of the forecasted months provides a more detailed and nuanced understanding of the anticipated dynamics (Figure 1.18). The MLP regressor predicts a downward trend in the inflation rate from May 2025 to February 2026. However, inflation is likely to rise from March 2026 to June 2026, after which it shows signs of declining.

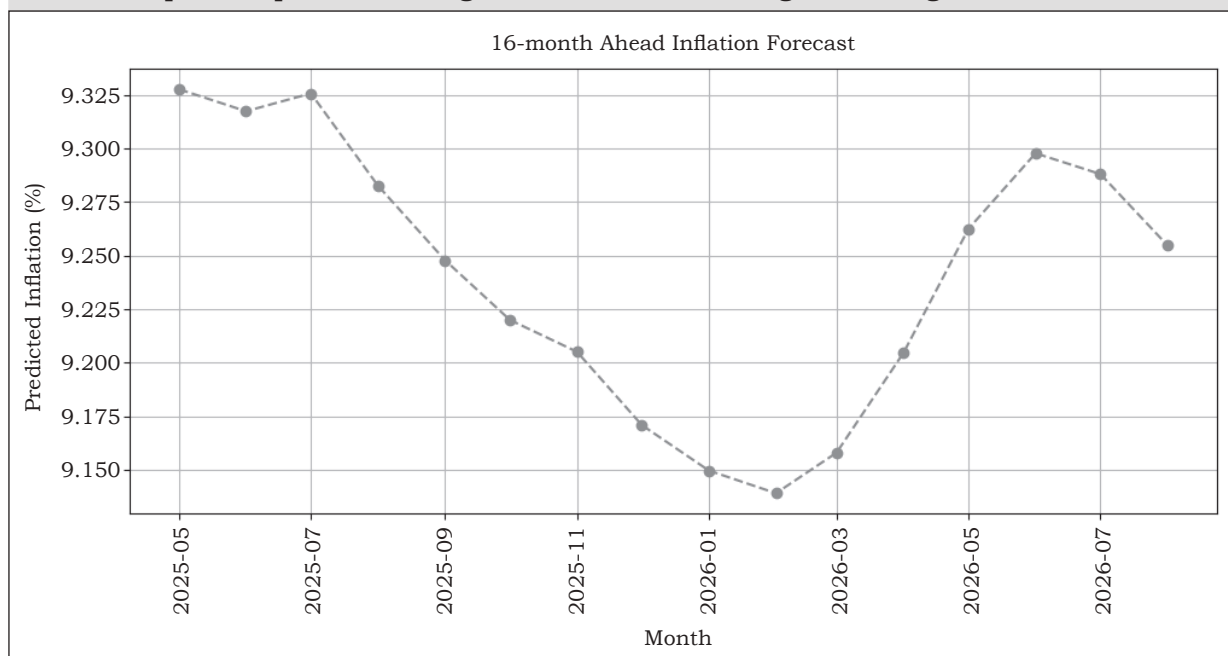
It may be useful to note that some caveats exist in using ANN to forecast. Recursive forecasting can amplify errors, leading to growing deviations from actual values. The model also excludes key macroeconomic factors like interest and exchange rates, limiting accuracy. Results show that the best ANN model that fits these data points can explain only 36 per cent of the variability in the data. Additionally, ANNs rely heavily on past trends, making them less adaptable to sudden policy changes. Without proper regularisation, they risk overfitting, especially with small datasets, reducing their reliability in real-world applications.

Figure 1.17**Actual and forecasted point-to-point national general CPI inflation using an MLP regressor**

Source: CPD's calculations using data from Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank, 2025c).

Note: CPI basket changed twice, once in 2012 when the base changed to 2005-2006 and then again in 2021 when the CPI base changed to 2021-2022.

The dotted line represents the predicted inflation over the next 16 months.

Figure 1.18**Forecasted point-to-point national general CPI inflation using an MLP regressor**

Source: CPD's calculations using data from Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank, 2025c).

1.3.8 Conclusions

Persistently high inflation has had disproportionately adverse effects on low-income households in Bangladesh, especially in rural areas. The economic strain in rural areas has been severe, with the population facing higher general and non-food inflation in conjunction with stagnant or declining incomes and limited access to social protection. On the other hand, food inflation has been higher in comparison to rural areas. To overcome these challenges, several households have adopted different coping mechanisms, ranging from reducing food consumption to compromising children's education. These further highlight households' vulnerability and the long-term socioeconomic implications of inflation. These challenges, however, necessitate a region-wise targeted policy intervention to support the most affected communities and improve the resilience of marginalised households to the predicaments of rising inflationary pressures.

Between 2019 and 2025, prices of essential food items in Bangladesh have risen sharply. Rice prices increased steadily, with Miniket rice experiencing the highest growth. Edible oil prices surged from around BDT 100 per litre in 2019 to BDT 168 per litre in 2024, compared to BDT 128 per litre globally. Sugar prices doubled from BDT 60 per kg in early 2023 to BDT 117.5 per kg in 2025, far exceeding global averages (e.g., BDT 43 per kg in the EU). Flour (Aata) remained stable until 2022, then spiked in 2023, while Maida peaked at over BDT 80 per kg. Meat prices also rose where beef increased from BDT 500 per kg in 2019 to BDT 800 per kg in 2025, aligning more closely with the global average of BDT 826 per kg. These trends highlight persistent food inflation driven by domestic inefficiencies, rising input costs, and external price shocks, necessitating targeted interventions in supply chains and market governance.

Whilst the central bank's MPS for FY2025 demonstrates a commitment to curbing inflation, the decomposition of these policies raises concerns about their effectiveness. Estimated results from the VAR model indicate that past values of money supply and inflation are the primary reasons for rising prices in the current period. The results validate the hypothesis that rising money supply has a significant impact on inflationary pressures. The Granger causality test establishes a causal relationship between the money supply and CPI. Therefore, it can be concluded that there are significant risks of an elevated inflation rate associated with printing money as a possible monetary policy tool, and this might be the primary reason for the unprecedented rise in inflation in the current year.

The Markov-Switching model estimation indicates a shift towards a high-inflation state, with little likelihood of returning to low-inflation periods using policy rates alone. The persistence of inflation is driven by factors such as supply chain disruptions, external shocks, and market manipulation. This highlights the need for complementary policies that extend beyond monetary tightening. To achieve long-term stability, it is crucial to implement structural reforms, including enhancing industrial output, improving foreign exchange management, and addressing market monopolies. Only through such comprehensive strategies can Bangladesh hope to achieve sustainable economic growth and reduce the persistent inflationary pressures affecting its economy. Additionally, the results from the MLP forecast indicate that inflation is unlikely to fall to 6.5 per cent next calendar year. Therefore, policies must be carefully calibrated if the Government of Bangladesh wants to reduce inflation.

1.3.9 Policy recommendations

A comprehensive policy response is necessary to address Bangladesh's ongoing food price increases and wider inflationary pressures. There is a need for both short-term relief and long-term structural reforms to stabilise prices and protect the vulnerable population. Key proposals

include strengthening buffer stock systems, promoting climate-resilient agriculture, reducing import dependency, and improving import processes. The importance of fair market practices is highlighted through the role of the Bangladesh Competition Commission (BCC) and the need to revise outdated competition legislation. Additionally, the section calls for a reduction in excessive money printing and urges the adoption of clear inflation targets backed by transparent monetary policy. Expanding social protection programmes through the Ministry of Social Welfare is also recommended to support low-income households facing the brunt of rising prices.

- Maintain strategic buffer stocks of essential food items, such as rice, wheat, sugar, and edible oil, and release them during supply shocks to stabilise prices and contain inflation.
- Invest in developing climate-resilient wheat varieties to mitigate production risks from extreme weather events.
- Support local wheat production through long-term subsidies and training for farmers and millers to reduce dependency on Maida imports.
- Streamline import procedures and resolve supply chain bottlenecks to prevent food shortages and price spikes, including bulk edible oil imports for subsidised sales.
- Enhance beef production by improving veterinary services, incentivising feed millers, and monitoring markets to curb unfair pricing.
- Reduce the 37 per cent tax on sugar (HS code: 29400000) and introduce regulatory reforms to break the sugar industry oligopoly and make prices more affordable.
- Strengthen market oversight by actively monitoring dominant players, investigating price manipulation, and enforcing competition to protect consumers.
- Revise the Competition Act of 2012 to include tougher antitrust provisions, stronger penalties, and better enforcement against monopolistic practices.
- Expand social safety nets—including cash transfers and targeted food assistance—to protect vulnerable populations from the effects of food inflation.
- Control excessive money supply growth and align it with real output to curb inflationary pressures effectively.
- Implement structural reforms like boosting industrial output, stabilising the exchange rate, and dismantling market cartels to support monetary policy.
- Set clear and realistic inflation targets backed by independent forecasts and transparent monetary policy communication to build public trust.
- Extend direct cash support programmes under the Ministry of Social Welfare to help low-income households manage rising living costs.

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1.4 FIXING THE FAULT LINES: RESTORING INTEGRITY TO THE BANKING SECTOR

Key Findings

- The Capital-to-Risk Weighted Assets (CRWA) ratio has sharply declined, especially for State-Owned Commercial Banks, which reported negative CRWA values after July 2024, highlighting severe vulnerabilities in the banking sector despite regulatory requirements and past efforts to mask systemic weaknesses.
- Non-performing loans (NPLs) in Bangladesh's banking sector surged from BDT 1,206.57 billion in Q2 FY2023 to BDT 3,457.65 billion in Q2 FY2025, with State-Owned and Private Commercial Banks accounting for 98 per cent of this total, driven by political lending, poor governance, and overall mismanagement.
- In 2024, Bangladesh's total NPLs were nearly 4 times the annual education budget and over 8 times the annual health budget, highlighting the severe scale of resource misallocation caused by the NPL crisis.

Key Recommendations

- Concrete measures such as improving loan sanctioning practices, enforcing single borrower exposure limits, stopping repeated loan rescheduling, and strengthening internal controls 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.

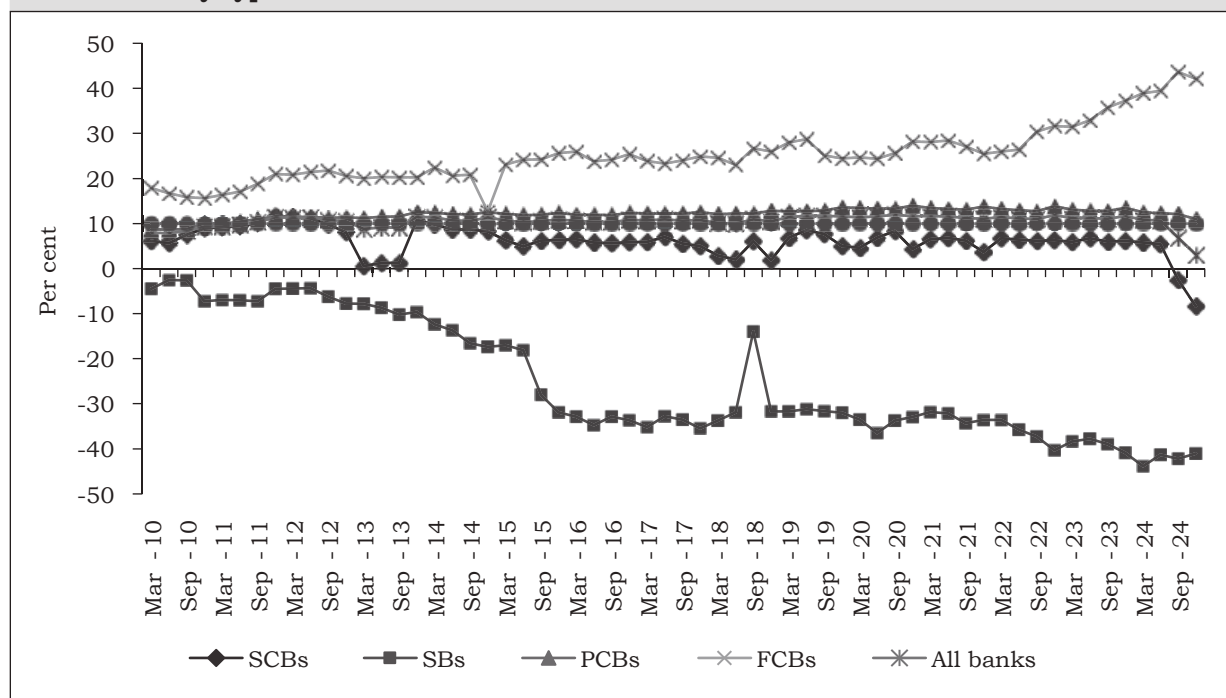
1.4.1 Introduction

Soon after the July uprising in 2024, the Bangladesh Bank, led by a new governor, implemented various efforts to optimise the banking system, which had languished for years. The measures implemented by the Bangladesh Bank are anticipated to provide swift outcomes. Nevertheless, the reforms must persist in the forthcoming years to have a lasting influence. This chapter assesses the existing condition of Bangladesh's banking sector, analyses its challenges and their origins, examines the actions implemented thus far, and offers a set of recommendations to improve the sector's stability.

1.4.2 Performance of the banking sector

The major indicators for the banking sector continue to paint a story embroiled around insufficient capital adequacy, excessive levels of non-performing loans (NPLs), stunted loan loss provisioning, and overall underperformance.

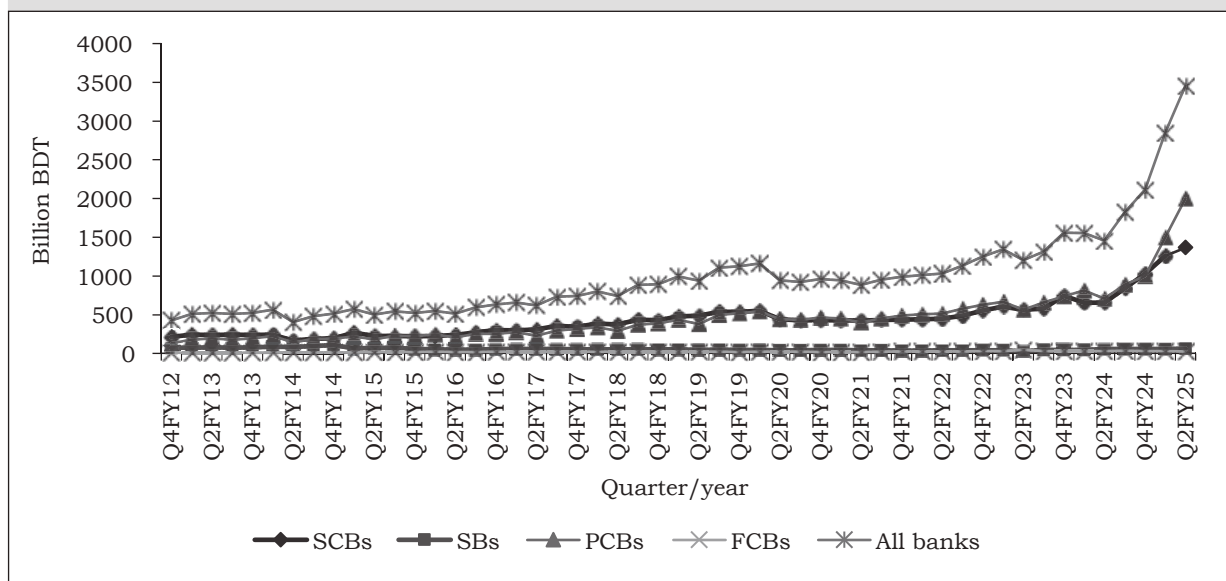
Capital Adequacy of Banks: The Capital-to-Risk Weighted Assets (CRWA) ratio can indicate banks' ability to absorb unexpected shocks. According to the Bangladesh Bank's guidelines, banks are required to have a lower bound of 10 per cent of total capital to risk-weighted assets (or minimum total capital plus a capital conservation buffer of 12.5 per cent) by 2019, in line with the BASEL III (Bangladesh Bank, 2014). However, as Figure 1.19 depicts, the CRWA for Specialised Banks (SBs) has been negative for over a decade. In contrast, for State-Owned Commercial Banks

Figure 1.19**CRWA ratios by type of banks**

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

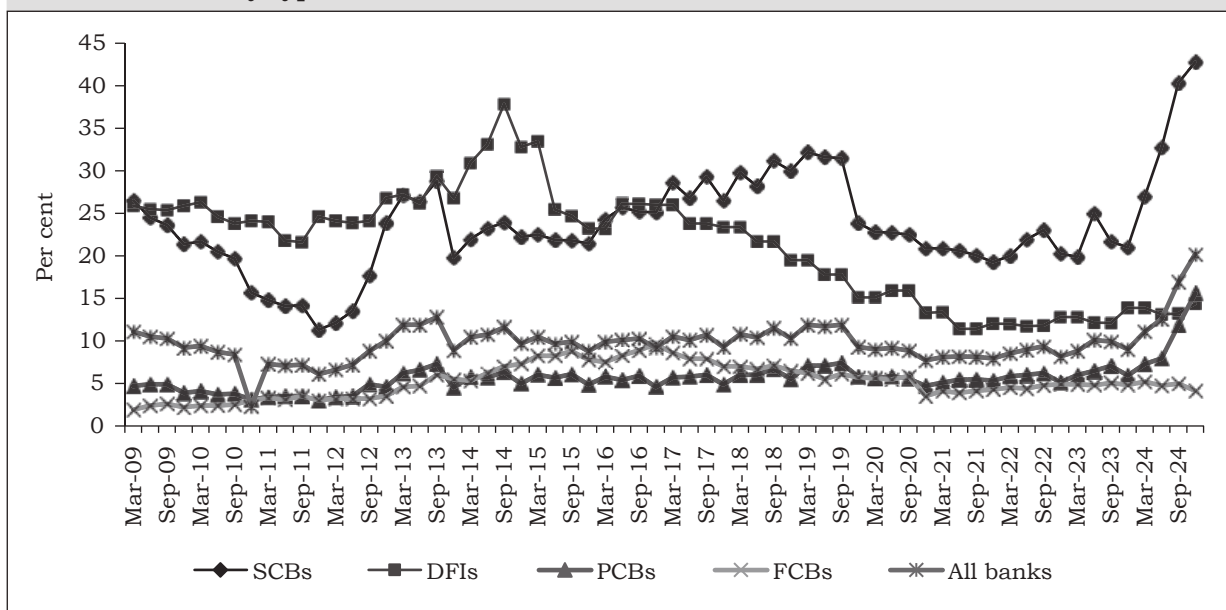
(SCBs), this ratio has been consistently lowest compared to Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) (Bangladesh Bank, 2024a). Moreover, the reported values of CWRA for SCBs after July 2024 were negative at -2.48 and -8.42 (Bangladesh Bank, 2024a). Although the ratio for PCBs also fell to 10.98 in December 2024 from 12.07 in September 2024, the substantial fall occurring for SCBs reduced the overall bank CRWA from 6.86 to 3.08 within three months (Bangladesh Bank, 2024a). Interestingly, in the last decade, the lowest reported CRWA for all banks has been the lower bound of 10 (Bangladesh Bank, 2024a). This implies that during the tenure of the past autocratic government, there may have been significant covert efforts to showcase a better functioning banking sector than what the actual data signalled.

Asset Quality: The asset quality rating evaluates current and potential credit risks associated with a bank's loan and investment portfolios, real estate holdings, other assets, and off-balance sheet activities. NPLs are the most widely used indicator of a bank's asset quality. According to the Bangladesh Bank, loans that are Sub-Standard (SS), Doubtful (DF), and Bad/Loss (B/L) are considered classified loans. Subsequently, these are treated as NPLs (Bangladesh Bank, 2024f). This classification is based on objective and subjective criteria: the objective criterion considers the loan's overdue period, whilst the subjective criterion evaluates the borrower's financial performance. NPLs have been on an increasing trend for years, with a rise of more than 8 times from Q4 of FY2012 to Q2 of FY2025 (Figure 1.20), where the latest figure for all banks stood at BDT 3457.65 billion (Bangladesh Bank, 2024a). This value stood at BDT 1206.57 billion two years ago in Q2 of FY2023 (Bangladesh Bank, 2024a), indicating how radical the increase in classified loans has been. Yet again, the revelation of the real data after the fall of an autocratic regime has revealed a poor condition of NPLs in the banking sector of Bangladesh.

Figure 1.20**Total classified loan**

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

On the other hand, Figure 1.21 shows how different categories of banks have amassed these NPLs. Amongst them, the trend for SCBs stands out as the highest amongst all those bank categories, with a gross NPL ratio reaching 42.83 per cent in December 2024 (Bangladesh Bank, 2024a). Although these data represent recognised NPLs, the total figures rise substantially when factoring in rescheduled and restructured loans, outstanding written-off loans, loans in special mention

Figure 1.21**Gross NPL ratios by type of banks**

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

accounts, and loans under court stay order. For instance, as per the latest reports, BDT 536.12 billion was the outstanding balance of written-off loans at end-December 2023 (Bangladesh Bank, 2023a). Moreover, according to the last released Financial Stability Report, there were BDT 912.21 billion worth of loans rescheduled, and more than 80 per cent of total outstanding rescheduled loans were still unclassified in 2023 (Bangladesh Bank, 2023a). The central bank also reported, as of February 2024, that 72,543 cases pending in the Money Loan Court were valued at BDT 1.78 trillion (Bangladesh Bank, 2024b).

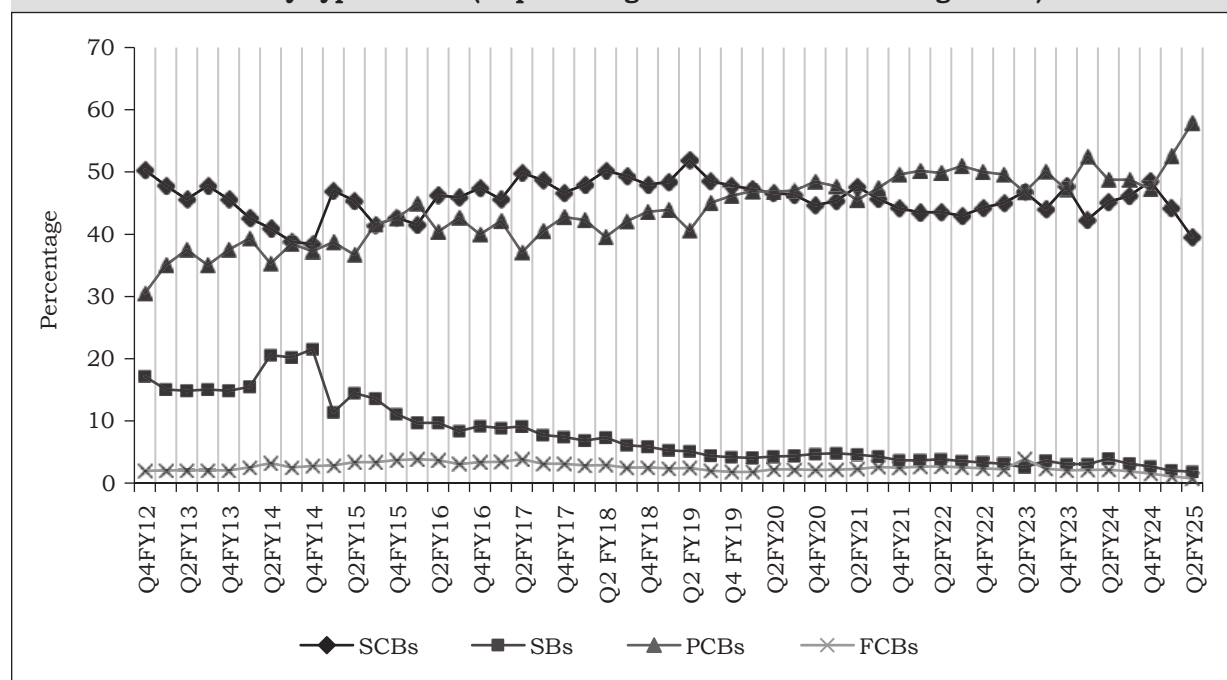
Figure 1.22 further reveals which banks holds the most NPLs, and in Q2 of FY2025, 58 per cent of these bad debts originated from PCBs, showcasing the fact that even though gross NPL ratios for these banks stood at only 15.6 per cent at the same quarter, they still are responsible for more than half the NPLs as of latest statistics (Bangladesh Bank, 2024a). Overall, SCBs and PCBs seemingly made up 98 per cent of NPLs in Q2FY25 (from 81 per cent in Q4FY12), whereas the share of SBs gradually fell over the same period (Bangladesh Bank, 2024a).

NPLs represent a substantial risk to a nation's financial stability and economic progress. Although they may initially seem innocuous—apparently stemming from borrowers' inability to repay high-interest loans—research indicates otherwise. Research suggests that increased interest rates are typically not a principal factor contributing to Bangladesh's high NPL levels (Ahmed & Islam, 2006) (Mujeri & Younus, 2009) (Hossain, 2012). Nonetheless, elevated interest rates may exacerbate the incidence of NPLs among Small and Medium Enterprises (SMEs) (Jahan, 2016).

The mismanagement of state-owned commercial banks in Bangladesh, along with pervasive malpractices and corruption, has considerably raised the levels of non-performing loans (CPD, 2018). Loans were often awarded based on political connections rather than impartial credit risk evaluations.

Figure 1.22

Distribution of NPL by type of bank (as percentage of total NPL in banking sector)



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

In other instances, borrowers' creditworthiness was disregarded in favour of their political clout, cultivating the belief that robust political connections were adequate to obtain substantial loans. Moreover, the government's provision of support to unprofitable state-owned firms via SCBs has intensified the NPL situation, further jeopardising the financial health of these entities.

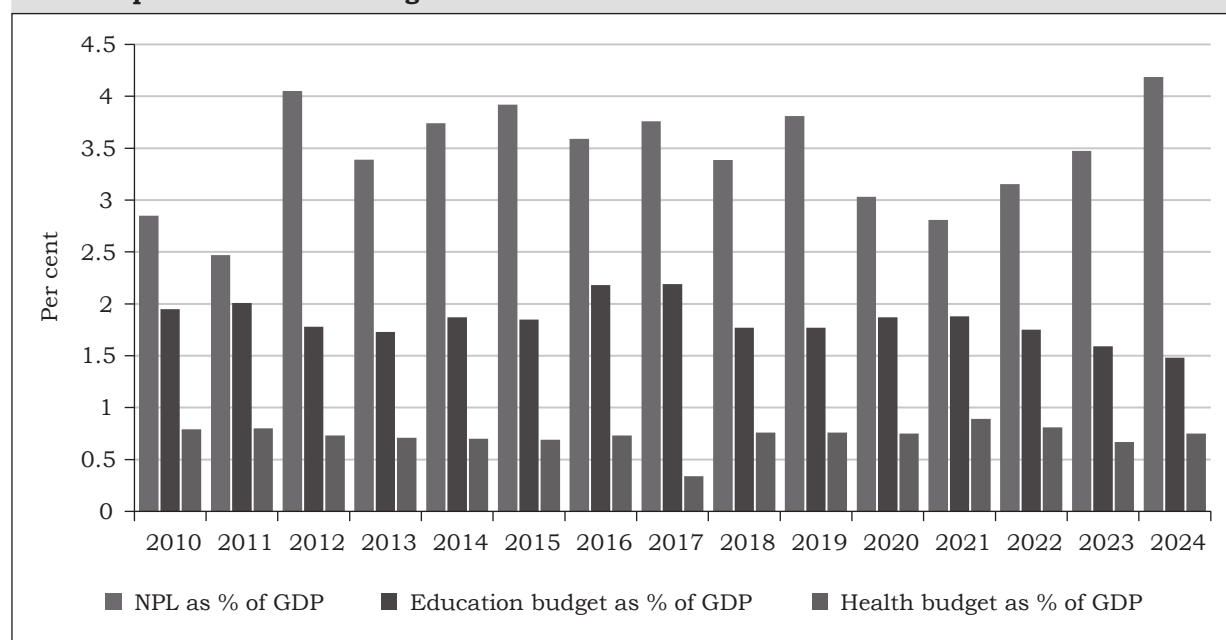
According to research, the primary causes of NPLs are uncertainty and corruption, which significantly impede the expansion of a country's banking sector (Park, 2012) (Moshirian & Wu, 2012) (Lin, 2012) (Serwa, 2010). In Bangladesh, political instability, corruption, inadequate governance, and a fragile rule of law are recognised as the primary reasons contributing to the elevated incidence of non-performing loans (Banerjee et al., 2017) (Alam et al., 2015).

The scale of the NPL crisis significantly hinders resource allocation to vital sectors of the economy. Capital immobilised in non-performing loans could be redirected to important social sectors inside the country. Figure 1.23 demonstrates that the volume of NPLs in Bangladesh has escalated significantly in recent years, with the overall NPL amount in 2024 surpassing the aggregate yearly budget allocation for education and health. In 2024, Bangladesh's total non-performing loans were nearly 4 times the annual education budget and over 8 times the annual health budget, highlighting the severe scale of resource misallocation caused by the NPL crisis.

Research on the corporate governance norms of Bangladeshi banks reveals insufficient regulatory control, predominance of private investors, inadequate transparency and disclosure, and inefficient institutional supervision (Chowdhury, 2010). Research has identified inadequate bankruptcy legislation, insufficient shareholder engagement (Ahmed et al., 2017), and political involvement (Reaz & Arun, 2006) as major impediments to achieving effective governance in Bangladesh's

Figure 1.23

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.

banking sector. Research (Haque et al., 2007) (Reaz & Arun, 2006) highlighted the influence of social elites, indicating that specific families often monopolise bank ownership, thereby obstructing justice, accountability, and openness.

Effective governance is essential for a more robust and secure banking sector. A comprehensive examination of banking literature reveals that the relationship between governance and NPL can be analysed through four distinct factors: i) institutional, ii) regulatory, iii) legal, and iv) data and informational.

In the institutional domain, governance concerns within the banking sector of Bangladesh have been multifaceted. A significant issue has been the appointment of bank directors, Chief Executive Officers (CEOs), and senior officials by the government, which compromises the autonomy and professionalism of banking institutions (Islam, 2017) (Alo, 2018) (Khatun, 2012) (Khatun & Saadat, 2019). This politicisation of appointments has often led to loans being approved based on political affiliations rather than financial merit (Parven, 2011) (Khatun, 2012) (Habib M. N., 2017). Moreover, even in cases where borrowers had poor repayment histories, loans were frequently rescheduled, reflecting a lack of financial discipline and proper risk assessment mechanisms history (Habib M. N., 2017) (Khatun, 2018) (CPD 2019). In addition, banks have occasionally written off loans to artificially enhance their balance sheets, thereby obscuring the true financial health of the institutions (Khatun, 2018) (CPD 2019). Internal control mechanisms and compliance risk management have also been inadequate, leaving banks vulnerable to mismanagement and fraud (Chowdhury, 2010) (Khatun, 2012) (Habib S. M., 2019). Furthermore, several banks have failed to comply with international regulatory frameworks such as the BASEL III standards, raising concerns about their long-term resilience (Habib S. M., 2019) (Khatun, 2018) (CPD 2019).

In terms of regulatory governance, multiple problems have been identified. One major issue is the dual regulation of banks by the Financial Institutions Division and the Bangladesh Bank, which has created overlapping jurisdictions and confusion in policy implementation (Reaz & Arun, 2006) (Khatun, 2012) (Khatun, 2018) (CPD 2019). The central bank also lacked full autonomy, limiting its capacity to act independently in regulating the financial sector (Reaz & Arun, 2006) (Khatun, 2012) (Khatun, 2018) (CPD 2019). This has sometimes resulted in preferential treatment being extended to loan defaulters, undermining regulatory discipline (CPD 2019). The issuance of bank licences has also been marked by political favouritism, with several licences granted arbitrarily to crony capitalists (Nabi, 2016) (Khatun, 2018). Additionally, the government has frequently intervened by recapitalising poorly performing banks, thereby using public resources to shield inefficient financial institutions (Khatun, 2018) (CPD 2019). This has contributed to the entrenchment of a quasi-monopolistic structure within the banking sector, dominated by a handful of influential banking oligarchs (Haque et al., 2007) (Reaz & Arun, 2006) (Khatun, 2018) (Khatun & Saadat, 2019).

Legal governance issues have further exacerbated the problems in the banking sector. Amendments to the Banking Company Act have reportedly benefited vested interests rather than serve the public or institutional integrity (Khatun, 2018) (CPD 2019). The Financial Loan Court Act has been criticised for being weak and ineffective in facilitating the recovery of defaulted loans (Adhikary, 2006) (CPD 2019), while the Bankruptcy Act contains several loopholes that dishonest entities can exploit (Ahmed et al., 2017) (CPD 2019). The legal system has also adopted a lenient approach toward wilful defaulters and corrupt bank officials, further weakening accountability (Islam, 2018) (Habib S. M., 2019). Compounding these issues is the lack of sufficient judges to preside over financial cases, contributing to significant delays in the adjudication process (Khatun, 2018) (CPD 2019). This has led to a large backlog of unresolved cases, diminishing confidence in the legal framework (Adhikary, 2006) (Khatun, 2018).

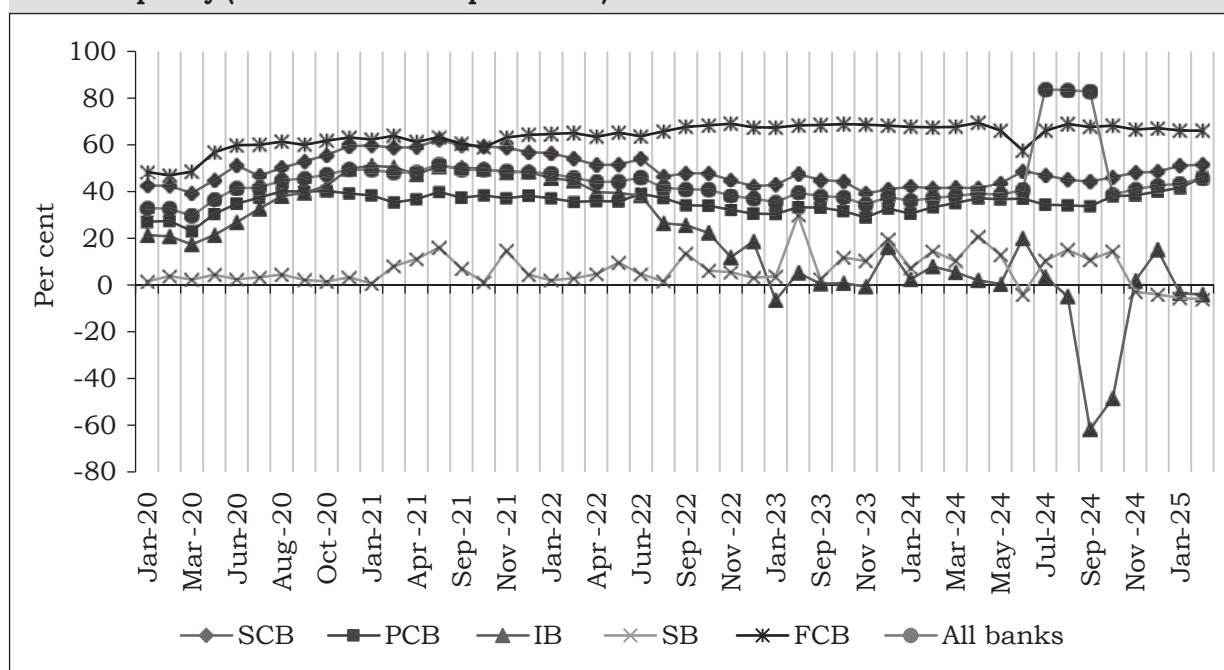
Finally, governance challenges concerning data and information have had far-reaching consequences for the banking sector. Access to up-to-date and accurate data remains restricted, limiting the ability of stakeholders to make informed decisions (Chowdhury, 2010) (CPD 2019). Concerns have also been raised about the integrity of the data available, with instances of manipulation or omission compromising its reliability (Habib S. M., 2019) (CPD 2019). There is also a lack of disaggregated data, which hampers targeted analysis and policy formulation (Chowdhury, 2010) (CPD 2019). Moreover, data is seldom integrated effectively into the decision-making and policy formulation processes. This lack of transparency in how data is used further undermines good governance. In some cases, misinformation, counterfeit documents, and fraudulent entities have been used to secure loans, revealing serious flaws in verification and due diligence procedures (Khatun, 2012) (Habib S. M., 2019).

Liquidity of Banks: The liquidity position of various banks is crucial in understanding their financial stability and overall performance. Globally, banks must maintain a sufficient amount of liquid assets to remain resilient against unexpected financial shocks; for instance, if depositors suddenly expect banks to go bankrupt and make substantial withdrawals, the liquid assets can be used to keep the bank functioning. 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, 2024c). Figure 1.24 illustrates the patterns of excess liquidity for the various bank categories.

The FCBs have the highest excess liquidity (as a share of total liquid assets), which stood at 66 per cent in February 2025 (Bangladesh Bank, 2024c). Whereas Islamic Banks (IBs) registered negative excess liquidity at 3 and 4 per cent in January and February 2025, these values for IBs are significantly better compared to the unusually high negative values of 48 and 62 per cent for

Figure 1.24

Excess liquidity (as share of total liquid assets)



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

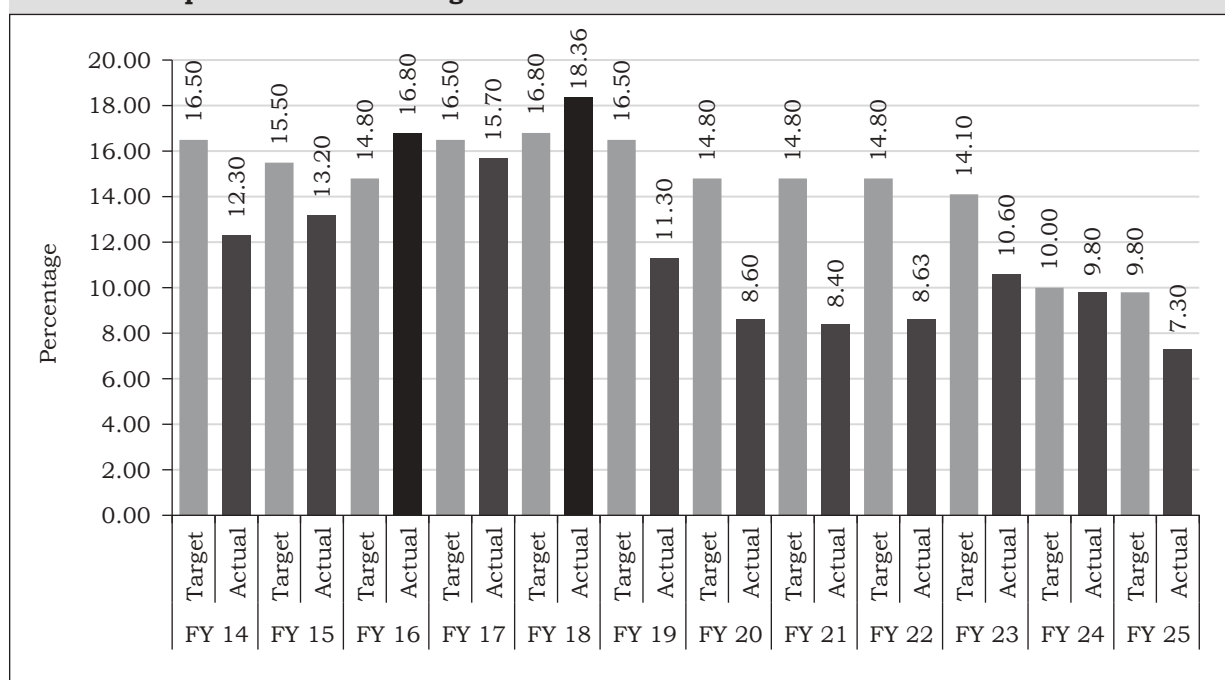
September and October 2024 (Bangladesh Bank, 2025a). Figure 1.24 also displays the relatively weaker performances of SBs regarding excess liquidity, showing a liquidity shortage for the last four consecutive months (Bangladesh Bank, 2025a). This implies that these banks have even failed to maintain the minimum required liquid asset levels mandated by the Bangladesh Bank. However, the performance of SCBs, PCBs, and FCBs has resulted in the overall banking sector having excess liquidity of 46 per cent as of February 2025 (Bangladesh Bank, 2024c). Even though 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 et al., 2022).

Since mid-2021, banks in Bangladesh have faced a liquidity crunch that has persisted throughout the first half of FY2025. The main contributors to this tight liquidity situation include the outflow of money from reserves to support the BDT's exchange rate and the failure to address the issue of NPL. Bangladesh Bank's support for bailing out banks during liquidity crises has fostered a moral hazard problem. When banks know they can depend on special liquidity support from the Bangladesh Bank if they encounter operational issues, even those stemming from mismanagement or fraud, they lose the incentive to enhance internal controls or make responsible lending decisions. The central bank must strengthen the governance of commercial banks and empower its task forces to recover stolen assets and reduce NPLs.

Whilst Bangladesh Bank has taken several steps to alleviate pressure on the banking sector during Q1 of FY2025, it has also implemented a contractionary monetary policy to control inflation. Consequently, the combined effects of this policy and the tight liquidity environment in the money market have led to a significant rise in interest rates, making borrowing more expensive. The call money rate increased to 10.07 per cent, and the interbank repo rate rose from 8.56 to 10.18 per cent between June and December 2024 (Bangladesh Bank 2025c). Although loan and deposit

Figure 1.25

Slowdown of private-sector credit growth



Source: Authors' illustration based on data from the Bangladesh Bank (Bangladesh Bank 2025f).

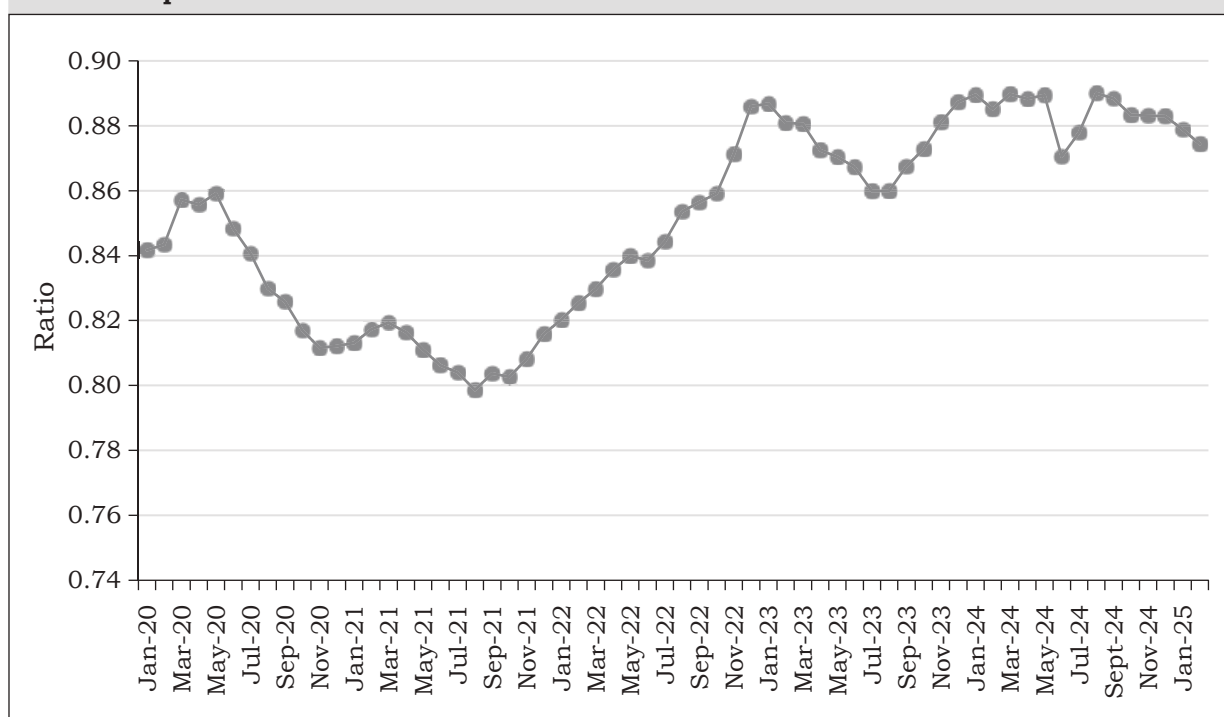
rates rose in tandem with the policy rate, most of the increase in lending rates occurred before the policy rate hikes began in August, following the lifting of the lending rate cap in May 2024 (Bangladesh Bank 2025c). The resulting impact is evident in the slowdown of private-sector credit growth (Figure 1.25). Moreover, since a significant rise in lending rates occurred before the policy rate increase due to removing the rate cap (Bangladesh Bank 2025c) market forces were already tightening credit conditions, likely in response to inflationary pressure and risk perceptions. Additionally, the interest rate spread widened from 2023 to January 2025 (Bangladesh Bank 2024e), reflecting banks' increased risk aversion and a more cautious approach to lending. This indicates that, even before the policy rate hikes commenced, banks had already tightened credit conditions due to inflation and economic uncertainty concerns. Bangladesh Bank must carefully calibrate and coordinate its monetary and fiscal policies to strike a balance that supports price stability without stifling economic momentum.

Private sector credit growth has consistently fallen short of its targets, except in FY2016 and FY2018 (Figure 1.25). In recent years (FY2022 to FY2025), private sector credit growth has continued to miss the targets, highlighting a lack of investor confidence in the economy. In response to this persistent low private credit growth, the central bank has had to lower its monetary policy targets for several years.

Advance Deposit Ratio: The Advance-Deposit Ratio (ADR) measures the number of advances or loans made by banks compared to their deposits. A relatively high level of ADR may indicate that banks have lower liquidity levels or are exposing themselves to riskier investments. The regulatory limit of ADR set by the Bangladesh Bank is 0.87 (Bangladesh Bank, 2020). Although the recorded ratios for July, August and September 2024 stood at 0.88, 0.89 and 0.89, respectively (Figure 1.26), from October 2024 to January 2025, the rate was constant at 0.88 and finally stood at 0.87 at the latest figure of February 2025 (Bangladesh Bank, 2024a).

Figure 1.26

Advance-deposit ratio



Source: CPD illustration based on data from the Bangladesh Bank (Bangladesh Bank 2024e).

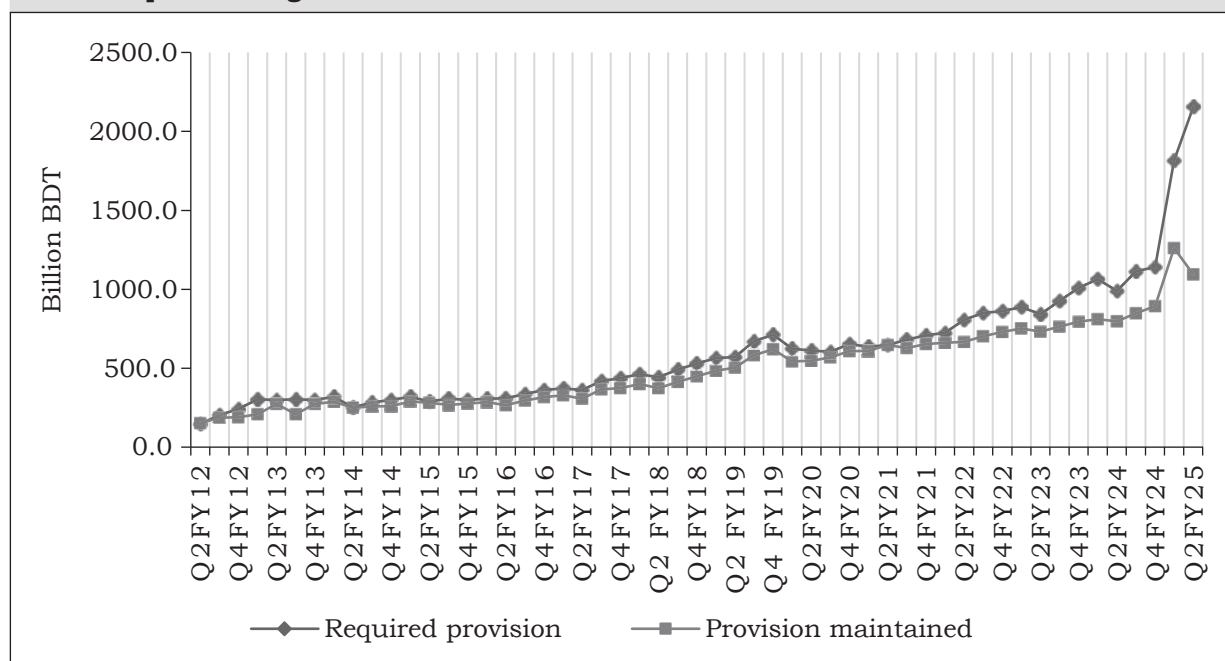
Loan Loss Provisioning: The ability of banks to protect themselves against bad loans is paramount – to achieve this, the central bank delineates thresholds of required provisions for banks to maintain. For the classified loans: Substandard (SS), Doubtful (DF), and Bad/Loss (B/L), the base percentages for provision are 20, 50 and 100 per cent, respectively (Bangladesh Bank, 2024d). Figure 1.27 presents the pattern of required provisions against provisions maintained from Q2 of FY2012 TO Q2 of FY2025 (Bangladesh Bank 2024e). In these 13 years, the required provisions have increased from BDT 144.5 billion to BDT 2,155.1 billion—approximately 15 times. Whilst both required and maintained provisions have risen almost exponentially throughout this period, the gap between the two started widening substantially from Q2 of FY2021.

Figure 1.28 shows how the excess or shortfall in loan loss provisioning has developed over the last five years – it can be gleaned from the graph that both SCBs and PCBs have struggled to adhere to provisioning requirements with increasing shortfalls. In fact, since Q3 of FY2012, every quarter registered a shortfall in provisioning for all banks, which has culminated in a negative of BDT 1061.3 billion as of Q2 of FY2025 (Bangladesh Bank, 2024a).

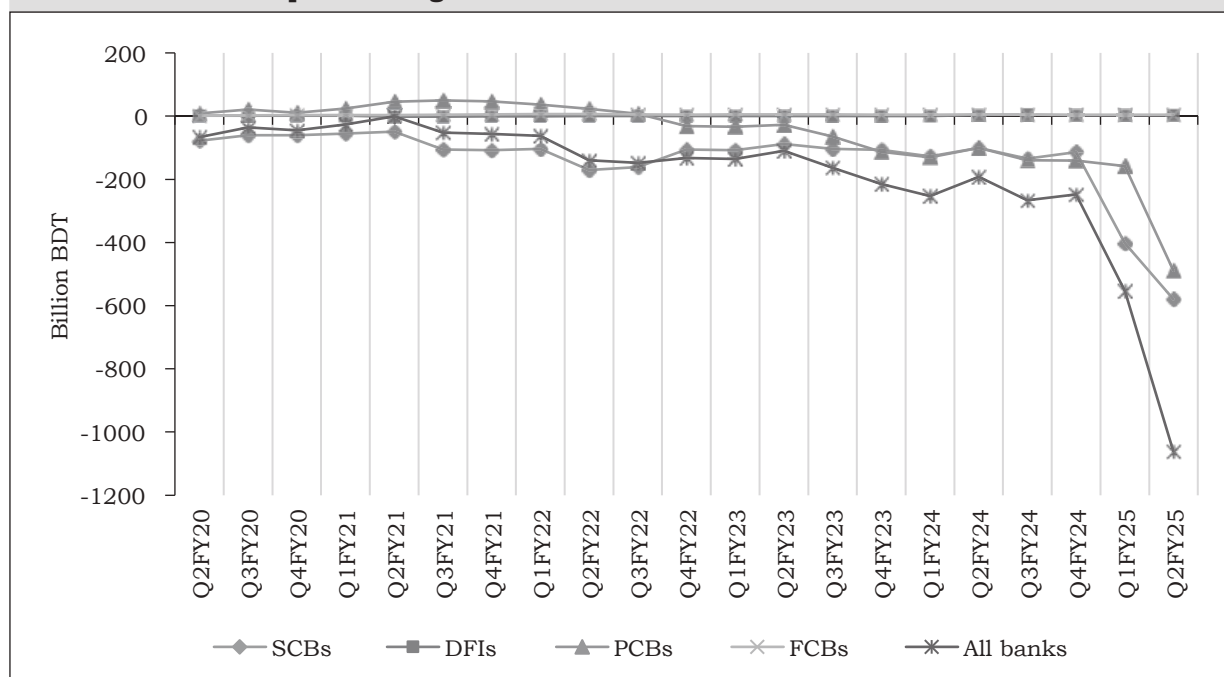
The shortfall in provisioning for PCBs has increased by BDT 330.52 billion in Q2 of FY2025 from BDT -158.31 billion to BDT -488.83 billion (Bangladesh Bank, 2024a). Additionally, the shortfall for SCBs has increased by BDT 465.38 from Q4 of FY2024 to Q2 of FY2025. Meanwhile, values for DFIs and FCBs have remained largely unchanged, indicating how values for SCBs and PCBs have deteriorated since the regime change.

Figure 1.27

Loan loss provisioning



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

Figure 1.28**Shortfall in loan loss provisioning**

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

1.4.3 Recent reform measures

Improving Banking Operations

In a master circular published on 27 November 2024 (to be effective from 01 April 2025) by the Banking Regulation and Policy Department (BRPD), Bangladesh Bank asserted its plan to implement the Expected Credit Loss (ECL) methodology-based provisioning system for banks. This was guided by a desire to align provisioning guidelines with the International Financial Reporting Standard (IFRS 9) by 2027 (Bangladesh Bank, 2024f). The ECL method is a forward-looking approach that estimates the likely future loss on loans and enables financial institutions to adjust their records accordingly. This contrasts with the previously used incurred loss approach, meaning losses are only recognised when borrowers default on loans (Bank for International Settlements 2017). Increased ability to account for future losses and appropriate provisioning could make the banking sector more risk-aware and less susceptible to NPLs.

Furthermore, the central bank has also released a detailed roadmap for the implementation of IFRS 9 in January 2025 (Bangladesh Bank, 2025b). This initiative will be carried out in three major phases, a summary of which is outlined in Table 1.6.

Changes were also made regarding fixed-term loans, wherein the ‘grace’ periods for unpaid instalments were gradually reduced. On 8 April 2024, the Bangladesh Bank published a circular stating that any unpaid instalments (or part of instalments) will be considered overdue 3 months after the expiry date. Whilst this has been effective since 30 September 2024, previously, borrowers were granted up to 6 months before their unpaid term loans were considered overdue (Bangladesh Bank, 2024g). This consideration period was set to be further tightened from 31 March 2025, after

Table 1.6**Roadmap of Implementation of IFRS 9 by Bangladesh Bank**

Phase	Key Points	Deadline to Implement
I	- Formation of a dedicated team under the Managing Director (MD)/ CEO. - Detailed monthly database on borrowers from January 2022. - Feasibility report submission to BRPD. - Training and capacity building for relevant employees.	December 2025
II	- Guidelines for ECL-based loan classification issued by the Bangladesh Bank. - Pilot IFRS-9 on branches that manage at least 25 per cent of the bank's total loan portfolio. - Prepare half-yearly statements for treated and non-treated bank branches.	December 2026 and onwards
III	- Pilot IFRS-9 on branches that manage at least 75 per cent of the bank's total loan portfolio. - Pilot IFRS implementation of ECL-based loan classification and provisioning on all banks.	December 2027

Source: CPD compilation based on the circulars of the Bangladesh Bank (Bangladesh Bank, 2025b).

which the Bangladesh Bank was to consider unpaid term loans overdue from the following day of the expiry date (Bangladesh Bank, 2024g).

In a circular published by the Department of Off-Site Supervision (DOS) on 13 March 2025, the rules on paying out dividends were significantly tightened (Bangladesh Bank 2025d). Firstly, it was stipulated that if the NPLs of banks are more than 10 per cent of total loans, they will be unable to declare dividends to shareholders from 2025 (Bangladesh Bank 2025d). Moreover, banks which are currently utilising any deferral facilities offered by the central bank will also be unable to declare dividends (Bangladesh Bank 2025d). Banks cannot have a shortfall in their cash reserve ratio (CRR) or the statutory liquidity ratio (SLR) if they want to pay out dividends. Within these policies, there lies a more concise framework as well surrounding the dividend payout ratio, which is calculated by dividing the bank's declared dividend by the bank's after-tax profit (and multiplied by 100) (Bangladesh Bank 2025d).

For instance, banks with a minimum of 15 per cent CRWA will be allowed to pay cash and stock dividends with an upper limit of 50 per cent of the dividend payout ratio. Whereas banks with a minimum of 12.5 per cent CRWA will be able to do the same, their dividend payout ratio cannot exceed 40 per cent. Finally, only banks with CRWA less than 12.5 per cent but still maintaining ten per cent will be allowed to declare stock dividends (Bangladesh Bank 2025d). This move is intended to prevent banks from having a provisioning shortfall and a weak capital base while giving out cash dividends to their shareholders. At the same time, the central bank has relaxed the daily cash reserve ratios for banks, by reducing them from 3.5 per cent to 3 per cent (Bangladesh Bank, 2025e). They will continue maintaining the 4 per cent biweekly minimum percentage of CRR, but this strategy will allow greater flexibility in managing liquidity and increase credit supply to the economy.

On more substantial reforms, a step taken by the Financial Stability Department (FSD) (issued in a circular on 30 December 2024) updated the guidelines on stress testing (Bangladesh Bank, 2024h). Stress testing allows financial institutions to understand how they will perform under various circumstances, such as adverse external shocks. According to their guidelines, all scheduled banks

must perform the stress tests every quarter and report them to the Risk Management Committee (RMC) and Board of Directors (BoD) (Bangladesh Bank, 2024h). These quarterly dates correspond to 31 March, 30 June, 30 September, and 31 December. The guidelines state that banks must submit soft copies of stress test reports within 30 days of each quarter's end (Bangladesh Bank, 2024h).

The FSD circular of 30 December 2024 (Bangladesh Bank, 2024h) also briefly mentions that the Bangladesh Bank will conduct macro-prudential stress tests aimed at large and Domestically Important banks (DSIBs). However, no elaboration is provided for this in the document. The banking stress testing instructions make the BoD and the CEO the predominant authority in undertaking the stress testing programmes within the bank. On the other hand, senior officials are supposedly accountable for the programme's day-to-day operations. Not outlining precise regulations in the makeup of the governing and implementation parties involved in the stress-testing activities may make the system susceptible to corruption, especially considering previous illicit activities within the banking sector (Rajib, 2024) (Rahman & Rajib, 2025). Notably, the first initiation of formal stress testing for banks occurred through a circular published in April 2010 (Bangladesh Bank, 2010). However, since this initiation up to the period leading up to the uprising of July 2024, updates were published only once in February 2011 (Bangladesh Bank, 2011).

The stress testing programme would be instrumental in analysing banks' credit, market, operational, and liquidity risks and act as a primary risk identification and monitoring tool at the individual financial institution level (Bangladesh Bank, 2024h). Another development through introducing these guidelines has been the inclusion of climate shock as a factor in assessing the vulnerability of bank loans. The Bangladesh Bank has adopted a Climate Vulnerability Index (CVI) to consider what portion of district-level loans could be impacted by climate shocks. Overall, this newly published guideline on stress testing after a gap of 14 years indicates the commitment of the Bangladesh Bank to address the NPL problem.

Ensuring Robust Management

Since the new governor has taken office, several measures have been taken to facilitate a competent and effective management body to steer the banking sector. Foremost, Bangladesh Bank created four new factions, including the Money Laundering and Terrorist Financing Prevention Department (Bangladesh Bank, 2025h) which now have the responsibilities previously accrued to the Bangladesh Financial Intelligence Unit (BFIU). The other three new departments are the Bank Inspection Department-9, the Inspection Compliance Department and the Islamic Banking Regulations and Policy Department. Before this development, Bank Inspection Department 1 was responsible for the four SCBs – Janata Bank, Agrani Bank, Sonali Bank and Rupali Bank; however, this will shift the responsibility of Janata and Agrani banks to Department 9 (Bangladesh Bank, 2025h). In addition, in January 2025, Bangladesh Bank has also laid out rules regarding the appointment of 'alternate directors', which now require prior approval from the central bank (Bangladesh Bank, 2025i). Previously, in February 2024, the rules only necessitated informing the central bank seven working days before the appointment of an alternate director. Undoubtedly, this reform initiative will act as a roadblock against favouritism, which prevents skilled and ethical individuals from taking the helm of an integral institution. Moreover, after the interim government took charge, in September 2024, Bangladesh Bank dissolved previous circulars allowing banks' board members to attend virtual meetings (Bangladesh Bank, 2024i).

To ensure the proficiency of banking officials, Bangladesh Bank has also utilised the existence of the Banking Professional Exam, where the first part is known as the Junior Associate of the Institute of Bankers, Bangladesh (JAIBB) - where individuals are equipped with primary banking

knowledge. A second stage is the more advanced part known as the Associate of the Institute of Bankers, Bangladesh (AIBB), where aspirants can acquire higher-level skills as potential bankers (Bangladesh Bank, 2025a). Consequently, the central bank had directed that from February 2025, passing the JAIBB will be necessary for promotions to senior officers or equivalent and obtaining the AIBB will also be required for subsequent promotions (Bangladesh Bank, 2025a). Financial incentives are to be put in place with amounts of at least BDT 35,000 for passing the JAIBB and BDT 50,000 for passing the AIBB. Additionally, from 1 January 2026, passing this exam will be mandatory for higher-level promotions – a decision which arises from the need to instil greater professional integrity within an ailing financial sector. However, individuals in senior positions with 15 years or more experience are exempt from these conditional promotions (Bangladesh Bank, 2025a).

Notably, Bangladesh Bank has also outlined guidelines to ensure transparent and appropriate policies related to transactions with bank-related persons or institutions (Bangladesh Bank 2025g). The bank-related person or institution can be any director, Managing Director/CEO, other official, a significant shareholder, the representative director of a shareholder company, a subsidiary company of a bank or any other influential entity. Furthermore, family members of such individuals, as stated in the central bank's circular, also fall within this group as well as related individuals, institutions, or companies (Bangladesh Bank 2025g). It is stated that credit facilities which exceed 10 per cent of the bank's Tier-1 capital cannot be extended to the defined people. Moreover, the credit given to directors or related individuals should not be more than 50 per cent of the face value of their shares. The circular also states that any direct facility exceeding BDT 50 lakh, or total direct and indirect exposure over BDT one crore, will require prior approval from Bangladesh Bank (including any renewals, modifications, or guarantee adjustments) (Bangladesh Bank 2025g). The entirety of this reform initiative is aimed at curbing practices which have historically undermined the institutional capacity of the banking sector through insider lending and corrupt practices – this may result in loans being approved based on proper eligibility rather than personal affiliations.

Another significant development after the appointment of the new governor of the Bangladesh Bank has been the enactment of 'The Special Regulations for Bangladesh Bank, 2024' (Bangladesh Bank, 2024k). This states that the Bangladesh Bank will appoint International Consulting Firms (ICFs) to ensure bank independence and proper audit. Prominent international firms Ernst & Young (EY) and KPMG have been contracted to conduct audits of six Bangladeshi banks, namely First Security Islami Bank, Exim Bank, Global Islami Bank, Social Islami Bank Limited (SIBL), ICB Islamic Bank, and Union Bank.

International development partners such as the Asian Development Bank, the United States Agency for International Development (USAID), the Foreign, Commonwealth and Development Office (FCDO), the IMF, and the World Bank have committed to support the Bangladesh Bank to undertake reforms aimed at bolstering governance, improving asset quality, enhancing financial inclusion, and ensuring financial resilience (ADB, 2024) (ERD, 2024) (World Bank, 2024) (IMF, 2024).

Impacts of Monetary Mechanisms

In recent years, the Bangladesh Bank has also changed the applicable lending rates in the economy. Effective April 2020, a lending rate cap of 9 per cent was initiated (Bangladesh Bank, 2024j). However, this was rectified in July 2023 as the Bangladesh Bank adopted a crawling peg interest rate regime known as the Six-Month Moving Average Rate of Treasury Bill (SMART). Finally, in line with international best practices, the Central Bank returned to a full-fledged market-based

interest rate system after four years in May 2024 (Bangladesh Bank, 2024j). These policy changes have been undertaken to reduce inflationary pressures in the economy, with the expectation that banking interest rates will rise and reduced economic activity will allow prices to cool down (CPD, 2024). The Bangladesh Bank has also been steadily raising the policy rate to adopt a contractionary monetary policy stance and reduce the persistent inflation in the country (CPD, 2023). After the uprising in July 2024, the newly appointed Bangladesh Bank governor raised the policy rate three times till October 2024 —from 8.5 to 9 per cent in the last week of August (Bangladesh Bank, 2024l) to 9.5 per cent in September 2024 (Bangladesh Bank, 2024m) and finally to 10 per cent in October 2024 (Bangladesh Bank, 2024n). The continuous increases in the policy rate have been primarily aimed at curbing inflation, but it has made bank borrowing costlier.

In another consequential move, Bangladesh Bank has moved to a market-based exchange rate; announced in a circular published on 14 May 2025, it aims to augment foreign investor confidence, introduce transparency and relieve stress on foreign exchange (FX) reserves (Bangladesh Bank 2025j). Even though the central bank had attempted to pass this decision previously on 31 December 2024, it had to reverse to a capped spread between the buying and selling of foreign currencies (a maximum of BDT 1.00) on 02 January 2025 due to dealers attempting to profit from market manipulation (Bangladesh Bank 2024o) (Bangladesh Bank 2025k). In this regard, it can be surmised that the central bank is expecting commercial banks to act responsibly with their considerable role in the FX markets.

Overall, the recent reform measures taken by Bangladesh Bank, especially after the uprising in July 2024, appear to be targeted towards reducing the stringent issue of NPLs in the banking sector and the inherently weakened governance of banks; all whilst maintaining stability of the sector in light of broader monetary policy.

Bank Resolution Ordinance 2025

The Banking Ordinance Resolution, also referred to as the Bank Resolution Act 2025, was released by Bangladesh Bank on 15 May 2025 as a major step to rectify numerous issues plaguing the banking sector (Bangladesh Bank 2025l). The discussion below encompasses understanding important points outlined in this ordinance, which may determine the future of banks in Bangladesh.

A critical question that first arises to one's mind is the point of enacting such resolutions under this ordinance. Firstly, it is intended to protect depositors and stabilise the banking system. As such, it is also mentioned that it would restore public confidence and reduce the necessity to use public financial support. Furthermore, scheduled banks under such circumstances will be allowed to continue integral tasks, ensuring minimum overall costs from resolution.

The Act also states that shareholders and creditors should not lose more than they would have under normal liquidation processes. Additionally, depositors with protected funds will be guaranteed to receive the full amount as insured. Importantly, complicit individuals can be held legally accountable through civil or criminal proceedings. Amongst these principles, a noteworthy point is that non-viable scheduled banks will be allowed to exit the market in an appropriate manner.

The central bank (Bangladesh Bank) will also design a resolution plan for scheduled banks under the Prompt Corrective Action (PCA) framework (Bangladesh Bank, 2023b). In such cases, it is necessary to investigate the feasibility and credibility of a normal liquidation and exit process. Whilst critical services will be continued, it is required that such a resolution plan include the

potential impacts of the process, including the affected employees of the bank. Scheduled banks must also provide all necessary information to the Bangladesh Bank, including the mechanisms in place for obtaining that information.

It is also noteworthy that this ordinance addresses points which have repeatedly arisen as serious issues affecting the viability of banks. Hence, the Bangladesh Bank could consider a scheduled bank non-viable if it failed to conform to the Bank Company Act 1991 and could not follow regulatory, capital and liquidity requirements. Additionally, non-viability may also occur given any fraudulent practices, especially where Ultimate Beneficial Owners or Responsible Persons of the bank hamper the sound functioning of the bank through resource exploitation.

The central bank can also appoint a temporary administrator to scheduled banks undergoing resolution; such a person will represent the interests of Bangladesh Bank and can only serve up to 12 months. To ensure sufficient transparency, this announcement will be made public. Moreover, Bangladesh Bank also has the power to transfer any assets, shares, or liabilities of such scheduled banks to third parties as deemed necessary. Intriguingly, the concept of Bridge Banks has also been utilised to ensure the smooth operation of such scheduled banks until they can be sold to third parties. Any tactics to entirely review all the assets and liabilities of scheduled banks under consideration can also be used, and any directors, CEOs or management personnel can also be replaced or removed. The Bank Restructuring and Resolution Fund has also been established to oversee such processes, where sources of funds may be budget allocations, transfers, grants, loans, investment income, etc. The ordinance specifically outlines the possibility of temporary financial assistance from the government, in which case, cost-benefit analysis may be necessary.

Under the various temporary measures mentioned in the ordinance, the ability of the Bangladesh Bank to assume temporary ownership of scheduled banks is a fundamental development. Undoubtedly, these steps will depend on the integrity of the central bank itself, and hence, Bangladesh Bank is liable to inform the government or any other authorities when it employs the resolution tools at its disposal. This ordinance also discusses the establishment of the Banking Sector Crisis Management Council (BCMC), which will include the Governor of Bangladesh Bank amongst members from the Ministry of Finance and the Bangladesh Securities and Exchange Commission (BSEC).

After 10 months of the July Revolution of 2024, the passing of this Bank Resolution Ordinance can be considered one of the most comprehensive and decisive initiatives to improve the performance of the banking sector. Applying the rules detailed within the document will provide evidence for their effectiveness; however, it is also relayed that BSEC's duty also includes taking in recommendations and allowing room for improvement.

1.4.4 Conclusion

The banking sector in Bangladesh remains entrenched in deep-rooted structural weaknesses, as evidenced by declining capital adequacy, soaring non-performing loans (NPLs), liquidity mismanagement, and persistent governance failures. The alarming drop in the Capital-to-Risk Weighted Assets (CRWA) ratio, particularly for State-Owned Commercial Banks (SCBs), underscores severe vulnerabilities that have been concealed for years under regulatory forbearance and political interference. The unprecedented increase in NPLs—reaching BDT 3,457.65 billion in Q2 FY2025—reflects systemic mismanagement, crony lending practices, and a legal framework that allows wilful defaulters to evade accountability. The sheer scale of these bad debts, which dwarf critical

public expenditures on education and health, underscores the dire consequences of misallocated resources and insufficient oversight.

Recent reform measures initiated by the Bangladesh Bank, including stricter provisioning rules, the adoption of Expected Credit Loss (ECL) methodologies, and enhanced stress-testing frameworks, signal a positive shift towards greater accountability and risk management. The central bank's efforts to professionalise bank management, curb insider lending, and enforce stricter dividend policies represent steps in the right direction. However, these reforms must be sustained and expanded to address the entrenched culture of impunity, political interference, and regulatory capture that have long plagued the sector. The dual regulatory oversight by the Ministry of Finance and Bangladesh Bank continues to undermine the central bank's autonomy, while legal loopholes allow defaulters to exploit stay orders and indefinitely delay repayments.

The Bank Resolution Ordinance 2025 grants Bangladesh Bank extraordinary authority to promptly intervene in troubled banks, including temporary control, the appointment of administrators, and the establishment of bridge banks to preserve financial stability. Whilst these safeguards address persistent issues of corruption and inefficiency, the law's effectiveness will ultimately depend on rigorous enforcement, given Bangladesh's history of inadequate regulatory implementation. The ordinance's focus on reducing public bailouts and protecting depositors signifies a commendable shift; however, the main challenge is to overcome entrenched political influence and ensure transparent, impartial resolution processes, rather than merely extending the regulatory framework theoretically.

For meaningful and lasting change, Bangladesh must prioritise institutional reforms that depoliticise banking governance, strengthen judicial processes for loan recovery, and ensure data transparency. The freezing and liquidation of assets belonging to wilful defaulters, alongside stricter enforcement of single borrower exposure limits, should be implemented without delay. Most crucially, these reforms require unwavering political commitment at the highest levels to resist vested interests and restore integrity to the financial system. Without such decisive action, the banking sector's instability will continue to undermine economic growth, erode public trust, and jeopardise Bangladesh's long-term financial stability. The time for half-measures has passed—only bold, systemic reforms can repair the fault lines in Bangladesh's banking sector.

1.4.5 Policy recommendations

Strong governance is essential for addressing Bangladesh's banking sector vulnerabilities. This can only be accomplished by implementing changes inside the sector. The banking sector must adhere to a comprehensive governance framework encompassing accountable management, proficient board directors, transparent internal control systems, robust audit procedures, effective risk management systems, stringent supervisory monitoring, and technology integration.

Commercial Banks Need to be Strengthened

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 the commercial bank, as well as approval from the Central Bank.

- Enforce single borrower exposure: Commercial banks' single borrower exposure limit 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, as mentioned in the Bank Resolution Ordinance 2025.
- Replace management and boards: Banks performing poorly should replace their management and board of directors with competent people.
- Depoliticise bank boards: The appointment of board members of commercial banks should be depoliticised and based only on qualifications and experience.
- 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. Licences awarded to digital banks should be cancelled, and the licence 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: Strengthen enforcement mechanisms and ensure the independence of Bangladesh Bank to effectively implement the Bank Resolution Ordinance 2025, minimising political interference and guaranteeing transparent, impartial resolution of troubled banks.

Long-term measures

- Prohibit weak bank board directors from joining bank boards after a 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 compatibility with Application Programming Interface (API) 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.

The Independence of the Bangladesh Bank Should be Upheld

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 licences: No more licences 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 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 (BFIU) 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: The MoF's FID should be shut down to remove dual regulation and stop political influence. The Bangladesh Bank can perform the functions of the FID.
- 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

- Wind up troubled banks: Efficiently execute the Bank Resolution Ordinance 2025, reducing political influence and ensuring transparent, unbiased resolution of distressed institutions.

Long-term measures

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

A Conducive Legal and Judicial Environment Should be Created

Short-term measure

- 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 disobeying 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, which 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 the 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.

Integrity and Availability of Timely Data Should be Ensured

Short-term measures

- Publish reports and data: Reports and data on individual banks and financial institutions should be published regularly and be publicly available.
- Disclose compliance with BASEL III: All commercial banks should be obliged to make mandatory disclosures under BASEL III promptly.
- 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.

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1.5 EXTERNAL SECTOR CHALLENGES OF TRANSITIONING: FROM FRAGILE COMFORT TO SUSTAINED RECOVERY

Key Findings

- Greater contribution of higher domestic value-adding knit-RMG sector to the country's export growth indicates that net export component in the gross export earnings has been on the rise, which is a positive trend from the perspective of replenishment of Bangladesh's forex reserves.
- The REER and NEER movements indicate that the BDT is in near-equilibrium position, which indicates that now is an appropriate time to introduce a market-driven exchange rate policy.
- Composition of import payments and L/C closing and opening figures evince a significant fall in imports of capital machinery, which signals that the slowdown in domestic investment will continue to be subdued over the coming months.

Key Recommendations

- Since exports of RMG continue to remain primarily volume-driven in Bangladesh's major markets, there is an overriding need to go for productivity enhancement, moving upmarket along the value chain, strengthening the backward and forward linkages of the export sector and export and market diversification if Bangladesh's competitiveness in the regional and global market is to be ensured.
- Policymakers may consider taking initiative to gradually phase out the incentive on remittance flows in view of the recent introduction of market-driven exchange rate system and the growing fiscal burden on account of the incentives.
- Bangladesh should initiate negotiations on bilateral FTA and signing of an Investment Agreement with the US, informed by advancement of Bangladesh's offensive interests (e.g. preferential market access in the US) and backed by adequate defensive preparedness to address USTR concerns (e.g. ensuring compliance with various standards; IPR enforcement; raising institutional efficacy; improving business environment and state of trade facilitation to reduce cost of doing business to attract investment from US and other countries, etc.).

1.5.1 Introduction

Over the recent past months, key indicators relating to the performance of Bangladesh's external sector have experienced encouraging recovery. Against the backdrop of robust remittance flows and impressive export growth, the current account balance has shown a significant improvement, and the decline in foreign exchange reserves has been halted. Exchange rate of the BDT against major currencies has seen a commendable degree of stabilisation and import activities have picked up given the leeway provided by greater availability of foreign exchange.

However, the external sector remains susceptible to headwinds originating from multiple directions. The recovery is taking place at a time when the external debt servicing payments are on the rise, the country has moved towards a market-driven exchange rate regime, growing import demand is anticipated to trigger further pressure on forex reserves, and uncertainties are on the rise as regards to the global and regional trading scenario facing Bangladesh's external sector.

Dealing with the above will decide whether Bangladesh is able to make the transition from the current 'fragile comfort' to a 'resilient recovery'.

1.5.2 Export sector performance: Impressive, but old challenges persist

The export sector of the country was able to demonstrate a high degree of resilience in FY2025 against the backdrop of considerable volatility experienced, particularly during the first quarter. Overall export earnings growth was 9.8 per cent during the first 10 months of FY2025 over the corresponding period of FY2024, with RMG and non-RMG export growth being 10.0 per cent and 9.1 per cent, respectively (Table 1.7). It is a good sign that growth of knit-RMG exports (10.7 per cent), with its relatively higher domestic value addition, was higher than woven-RMG exports (9.2 per cent). Our estimates show that the domestic value addition from exports during July-April, FY2025 (net export) was about USD 24.2 billion (fourth column in Table 1.7) considering that the gross export value was USD 40.2 billion (about 60.0 per cent of the gross export earnings). This was the net amount which replenished the forex reserves. The contributions of the various items to incremented exports (last column in Table 1.7) indicate that Knit-RMG share in additional export earnings has been on the rise which alludes to welcome compositional changes within the RMG exports and also has positive implications for forex reserves replenishment.

Table 1.7

Export growth of Bangladesh in FY2025 over FY2024 (July-April)

(Million USD)

Products	FY2024 (Jul-Apr)	FY2025 (Jul- Apr)	% change in FY 25 (Jul-Apr) over FY 24 (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 have been estimated by using the following coefficients- knit-RMG: 0.65; Woven-RMG: 0.45; Others: 0.80.

However, as is evidenced by Table 1.8, Bangladesh's RMG exports have continued to remain volume-driven in both the EU and US markets, rather than price-driven, although the growth rates of export earnings in both these key markets were impressive during the July-March of FY2025 over the corresponding period of FY2024 (16.3 per cent and 7.2 per cent respectively). Average unit price in the EU market rose only by +2.0 per cent while in volume terms the growth rate was 19.1 per cent (contributing to about 90.0 per cent of the rise in export earnings value). In the US market, the average unit price had declined (-3.1 per cent), with the earnings growth being exclusively on account of volume (17.0 per cent). As may be discerned from Table 1.8, the trends were similar for Bangladesh's major competitors in both the markets – China and Vietnam. The volume-driven nature of RMG export earnings in the EU and US markets would indicate that productivity gains have emerged as key factors in maintaining export competitiveness in both the markets. Also to note, gains from significant depreciation of the BDT (by about 30.0 per cent), as against only very modest depreciation of Chinese Yuan and Vietnamese Dong, were rather limited (as indicated by Bangladesh's market shares in the EU and the US). Going forward, as the BDT exchange rate stabilises, this one-off advantage is likely to be eroded.

Table 1.8**Factors driving RMG growth of Bangladesh and selected competitors in EU and US markets (July-March, FY2025)**

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: Based on EUSTAT and USITC Database (2025).

The above reemphasises the need for renewed efforts and emphasis on market and product diversification, and productivity enhancement, if Bangladesh is to continue its current impressive export sector performance.

1.5.3 Import performance: Investment-oriented import demand is yet to pick up

Whilst imports are picking up, the structure of imports continues to transmit disquieting signals (Table 1.9). Imports of capital machineries posted a negative growth of (-)23.6 per cent in line with recent past track record. This is indicative of muted investment demand in the domestic economy which is also corroborated by other indicators (especially the private sector credit uptake). The L/C settlement, (-28.7 per cent) and L/C opening (-26.0 per cent) figures also reinforce this observation. Growth of intermediate goods is still low, at 6.8 per cent, but what is discouraging is the low growth of L/C openings for these items (1.8 per cent). It is true that prices of some major commodities are on the decline in the global market (e.g. prices of Brent crude oil have come down to USD 60 in May this year which is a four-year low). However, if the inflation comes down (as is projected by the Bangladesh Bank) and investment picks up against the backdrop of rising domestic demand, imports are likely to increase, putting pressure on the country's forex reserves.

Table 1.9**Import performance (% growth during July-March of FY2025 over FY2024)**

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).

What is encouraging though is the high L/C opening for imports under back-to-back L/Cs (13.4 per cent). This would indicate continuing high performance of the export sector, particularly of export-oriented RMG sector.

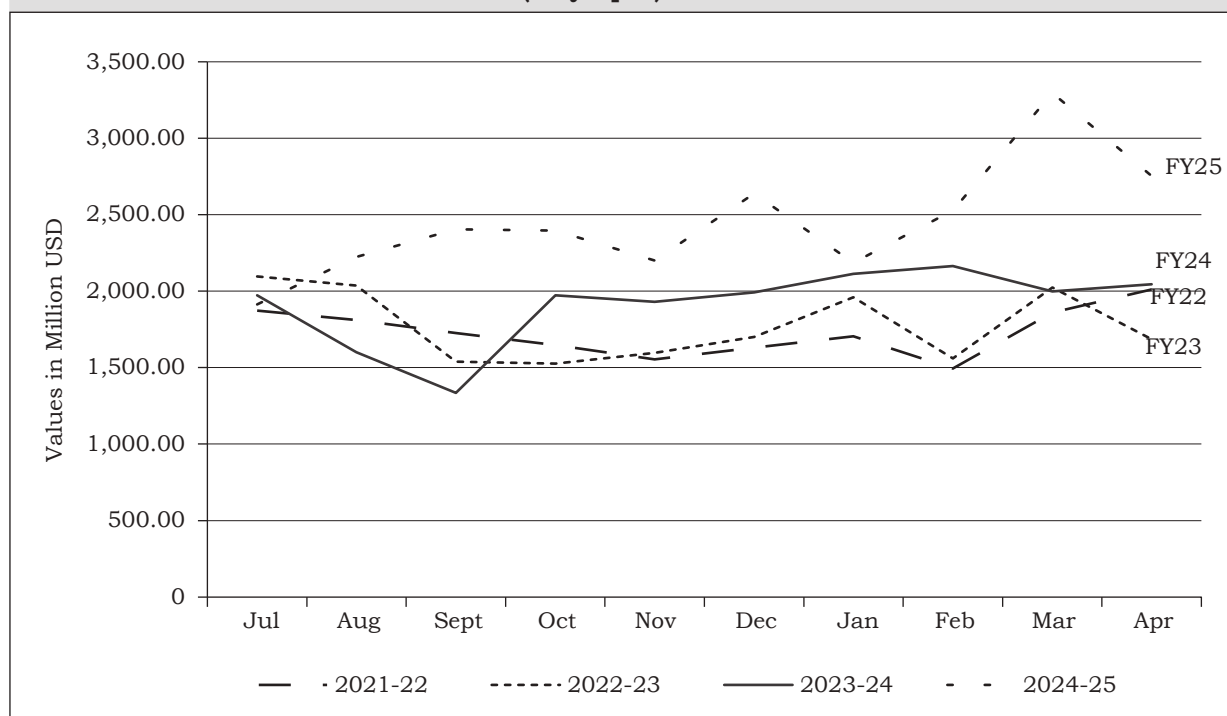
1.5.4 Robust remittance inflows: The proven saviour

The migrant workers of Bangladesh have once again come as a saviour of the country, sending an additional USD 5.42 billion during the first 10 months of FY2025 compared to FY2024. As may be seen from Figure 1.29, the remittance inflows in FY2025 (July-April) have been consistently high for all months except July 2024 (the month of the students-citizens uprising). Several factors have contributed to this. In all likelihood, a significant part of the remittances coming to Bangladesh over the recent years through informal channels are now being sent through formal channels. This is possibly for two reasons - the activities of hundi-hawla intermediaries have been disrupted (if not dismantled) to a large extent; and from the demand side, many of those who have been laundering money from Bangladesh are either on the run or lying low at the moment. The patriotic feelings of migrant workers should also not be discounted. Besides, in recent years, a significant number of migrant workers have left the country, and after settling down, many of them have started to send money back home. Indeed, between 2021 and 2024 (Calendar years) about 4.07 million joined overseas job markets - 53.9 per cent went to Saudi Arabia alone (75.9 per cent of all migrant workers went to 5 middle eastern countries) (BMET, 2025).

Whilst not many went to the USA, the country has emerged as a major source of overseas remittance flows to Bangladesh in recent years. During the first ten months of FY2025 (July-April), out of the USD 24.5 billion of total remittance flows to Bangladesh, the US accounted for about 4.2 billion (about 17.2 per cent). The corresponding figure for UAE, in the second position, was USD 3.5 billion (14.4 per cent). In contrast, Saudi Arabia, where more than half of the migrant workers were headed for and which has the largest concentration of Bangladesh's migrant workers, accounted for only USD 3.2 billion (13.2 per cent).

Figure 1.29

Remittance inflows: FY2022 to FY2025 (July-April)



Source: Bangladesh Bank (2025).

For some time now, CPD has been trying to draw the attention of relevant policymakers to the declining remittance flows from Saudi Arabia. While there are several plausible reasons, these do not explain the entire story. A large number of those who have gone to Saudi Arabia have become illegal because of the fraudulent practices on the part of sending agencies. Some have been sent back home. Many are not being able to send money legally and are compelled to resort to informal channels. Also in recent times, aggregators have emerged as major players in the remittance sending scenario (these are large scale money transfer institutions which collect money from small exchange houses and then sell to banks at a premium by taking advantage of their oligopolistic power). This could be one reason why the US and UAE have, in recent years, emerged as major sources of remittance inflows to Bangladesh.

Given the above, several steps are called for: energetic initiatives to break the syndicates that exploit workers' vulnerabilities and charge them exorbitant fees; align the skills of migrant workers with the demands of the job markets of destination countries; engage with foreign governments to negotiate better deals for workers (e.g. Malaysia; Korea; selected European countries); explore new market opportunities; facilitate sending of money by migrant workers through formal channels. Stern visible actions should be taken against those who exploit would-be migrant workers. More workers should have the opportunities to go for overseas jobs under Government to Government (G to G) arrangements. Voting rights of migrant workers will need to be ensured.

1.5.5 Balance of Payment scenario: Significant improvement

As is evidenced by data in Table 1.10, there has been a marked improvement in the BoP position as of July-March, FY2025, compared to the corresponding period of FY2024. The overall balance improved to (-) USD 1,068.0 million against the corresponding previous year figure of (-) USD 4,757.0 million, an impressive fall of USD 3,689 million. This was underpinned primarily by an improvement in the current account balance, driven by robust remittance flows. Trade account balance remained more or less the same as the rise in export earnings was balanced by the increase in import payments. As Table 1.10 testifies, the financial account did not register significant changes in view of the relatively low disbursement of foreign loans during the period under review. That the BoP position has improved mainly because of non-debt creating remittance flows augurs well for the economy.

Table 1.10

BoP position and structure of change (July-March period of FY2024 vs FY2025)

(Values in USD Million)

Correlate	FY2024 (Jul-Mar)	FY2025 (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).

As exports face challenges on many fronts (LDC graduation, Trump reciprocal tariffs, and non-tariff barriers put in place by India, among others), and imports are expected to pick up further, the trade balance is likely to come under pressure in the near future. Sustaining the BoP trends would critically hinge on continuing robust inflows of remittances and improvements in financial account through a greater flow of foreign borrowings.

1.5.6 Forex reserves: Encouraging trends, but pressure likely to rise

Following the downward slide of the past years, the forex reserves have experienced a visible rise in FY2025 against the backdrop of an improving BoP scenario and underpinned by impressive growth of export earnings and robust remittance flows. This has enabled the Bangladesh Bank to derestrict the imports to a large extent and stabilise the exchange rate of the BDT. As of 30th April, the forex reserves were USD 27.41 billion (although following the ACU payment of USD 1.88 billion, the reserves stood at USD 25.53 billion on May 15, 2025). Table 1.11 shows forex reserves in import equivalent months considering average import payment of USD 5.2 billion per month (based on average monthly import expenditure in 2024-25). Import payment capacity was 5.1 months as per BPM-6. Even the net international reserve (a conservative estimate) had higher purchasing capacity (equivalent to 3.7 months of imports) compared to the critical threshold of 3 months.

Table 1.11

Import equivalent of foreign exchange reserves in months

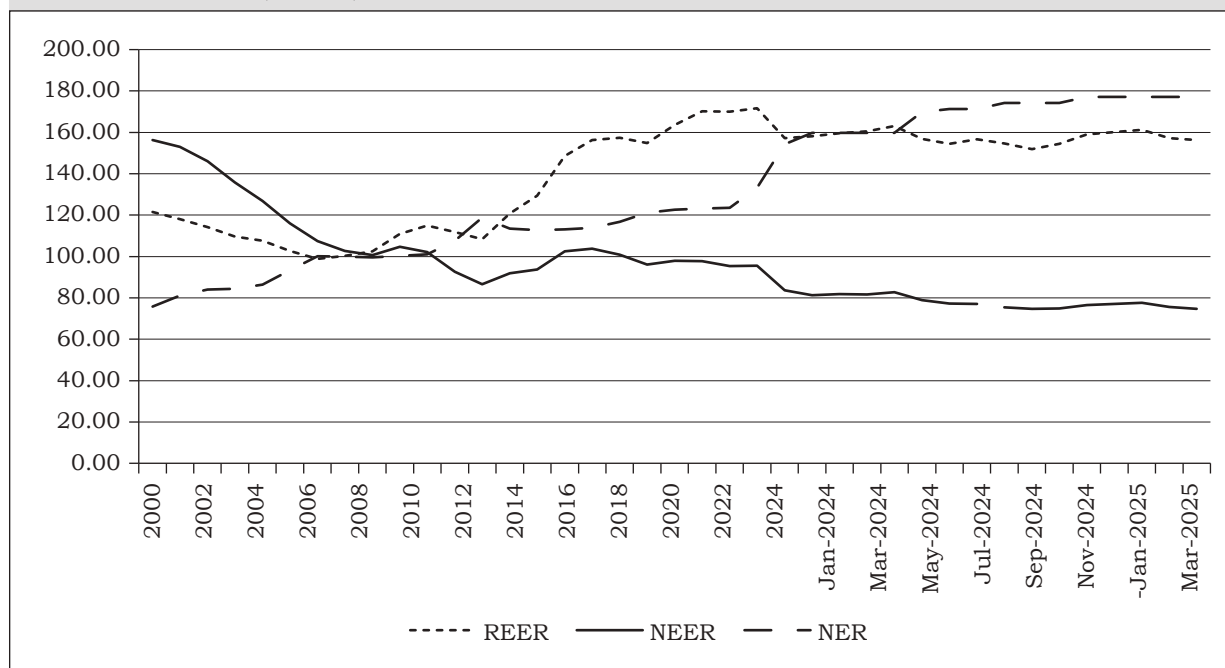
Indicator	April 30, 2025		
	Foreign Exchange Reserves	BPM-6 Reserves	Net International Reserves
Foreign exchange reserves (USD bln)	27.4	22.0	16.1
Months equivalent of imports	6.3	5.1	3.7

Source: Authors' calculations based on Bangladesh Bank (2025).

Future forex reserves trends will depend on a number of factors, but most importantly on export earnings, remittance flows, import payments and loan disbursement. Much will depend on stability of the exchange rate and ability to cope with the pressure of debt servicing. The amount of debt servicing is likely to go up as the grace periods of several large-scale projects are coming to an end. Also, the interest rates of majority of the current loans are significantly higher than the (highly concessional) loans that Bangladesh was getting previously. The terms of loans are also becoming increasingly stringent (e.g. shorter grace and maturity periods; requirements of payment of service charges and upfront fees, etc.). Going forward, Bangladesh must design its borrowings strategy in a way that it is able to avoid falling into a debt trap which often accompanies a *middle income* trap.

1.5.7 Exchange rate: Nearing stability, but entering into challenging terrain

Following significant depreciation of about 30.0 per cent over the past two years, the BDT appears to be nearing an equilibrium of sorts, at around BDT 122 to 1 USD. However, moving from a currency pegging to a market-determined exchange rate system was always going to be challenging. Thus, it is not difficult to understand why the Bangladesh Bank (BB) was reluctant to go for a market-driven rate in spite of the IMF making this as one of the key preconditions for the release of the fourth and fifth tranches of the IMF loans (worth USD 1.3 billion). In the end, the BB had

Figure 1.30**Movement of REER, NEER, and NER of BDT**

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

to agree to make the move, but it has kept a number of safeguards – the commercial banks will be allowed to trade in USD freely but will need to report twice daily to the Bangladesh Bank; there will be a band (corridor which is to remain undisclosed) deviations from which will likely trigger BB's intervention. A USD 500 million fund has been set aside for this purpose.

Our analysis indicates that BDT's exchange rate is near-about in equilibrium position at present, as is evidenced by Figure 1.30. Thus, the timing for going for the market-driven exchange rate (*managed float*, strictly speaking) appears to be just right for several reasons. The forex reserves are rising thanks to robust remittance flows and impressive export earnings growth. With IMF's USD 1.3 billion loan disbursement, and likely USD 3.5 billion worth of budget deficit financing to be disbursed by June 2025, forex reserves should be able to withstand the pressure of rising import demand and the unavoidable rise in external debt service payments. The Bangladesh Bank will need to be vigilant against any speculative attacks either from currency speculators or the so-called aggregators. Flexibility will need to be exercised, and further (gradual) depreciation allowed if the situation demands. The reserve fund will need to be strategically deployed in view of this. The REER, NEER and NER movements will need to be carefully monitored and closely studied. Exchange rate policy will need to be calibrated keeping in view future forex inflows and payment obligations. Debt creating inflows (foreign borrowings) must be checked, by taking into cognisance repayment capacity and returns on investment.

1.5.8 The headwinds

Trump Tariffs and Bangladesh's Response

The reciprocal tariffs (RTs) announced by US President Donald Trump on April 2, 2025, and the subsequent developments in this regard provide some indications about the newly emerging

global trading regime, with the weakening of the rules-based multilateral trading system and the ascendancy of unilateral trade measures by powerful countries. Bangladesh will need to learn to navigate this uncertain and unpredictable terrain at a time when it is preparing to graduate from the group of LDCs. At the recently held dialogue organised by the CPD, several recommendations were put forward, including the option of signing an FTA with the USA. As a start, Bangladesh could reduce (or allow duty-free entry) tariffs on items of interest to the US, taking into cognisance the revenue implications if this is offered to all the other countries on an MFN basis, while also keeping in the purview the interests of domestic industries. Duty-free market access for apparel made of US cotton could also be floated as a negotiating agenda.

However, what should draw the attention of Bangladesh's policymakers is the concerns voiced by the USTR as regards various non-tariff issues, measures and barriers to trade and investment, including lack of enforcement of IPRs, weak state of trade facilitation, procurement anomalies, etc. Along with market access issues, these are also likely to be on the spotlight in any trade discussion with the US. However, Bangladesh needs to address these concerns not merely because the US has raised these but also because efficient trade and investment facilitation are needed for strengthened regional and global integration of the country's economy. The demands in these areas will also rise following Bangladesh's LDC graduation. How the requirements in areas of compliance and trade and investment facilitation will need to be addressed have been elaborately spelt out in the *Smooth Transition Strategy of Bangladesh* in view of LDC graduation. The identified actions will need to be implemented in a time-bound and accountable manner.

Dealing with Non-Tariff Measures by India

The steps taken by India in the recent past will no doubt have adverse implications for Bangladesh's export performance not only in India but also concerning other countries (e.g. through transshipment via India). Not allowing RMG exports through land ports and a ban on Bangladesh's export of certain items to the north-east states of India will also be determined to Bangladesh's export interests in India. On the other hand, Bangladesh is a significant market for India, with the country's exports to Bangladesh averaging USD 12.0 billion in the past three years (UN Comtrade, 2025). A large number of economic actors in India involved in trade in goods and services are dependent on the Bangladesh market. Since 2011, India has been providing duty-free, quota-free market access to Bangladesh (for almost all items) as part of its LDC scheme under the SAFTA. India continues to offer transshipment facilities for Bangladesh's trade with Bhutan and Nepal. Bangladesh imports 40 MW of hydroelectricity from Nepal via the Indian grid, and one-fifth of Bangladesh's electricity needs are met from Indian sources. The under-construction deep seaport at Matarbari will benefit if it can draw traffic from N.E. states, and in turn, India will gain if its N.E. states have access to the port. It will be of interest to both countries to initiate discussion to resolve the emergent concerns to arrive at mutually agreed and win-win solutions, rather than keep on putting in place retaliatory and counter-retaliatory measures. Bangladesh should also keep in mind the option of requesting India for an extension of the DF-QF market access, beyond graduation timeline, similar to the ones offered by China (till 2028) and the UK, EU, and Canada (till 2029).

Proposed Impositions of 3.5% Tax on Remittance Outflows from the US

Following the reciprocal tariffs, US President Donald Trump has now proposed the introduction of a 3.5 per cent¹ tax on remittance outflows from the US, without exception, and any exemption

¹It may be noted that, subsequently, this was brought down to 1%, meaning that the actual average cost of sending money to Bangladesh from the USA will be 5.4 per cent (U.S. Congress, 2025).

threshold. This will be a significant blow for countries such as Bangladesh, for several reasons: As was noted, the US is at present the largest source of remittances for Bangladesh. The cost of sending money from the US to Bangladesh, under normal circumstances, is 4.4 per cent on average of the remitted amount (World Bank, 2024). If the proposed 3.5 per cent is added, this will stand at 7.9 per cent. If the average monthly remittance flow (for the July-April period of FY2024) from the USA is considered, in a single fiscal year the amount of sending cost would be about USD 395 million (equivalent to about BDT 4,820 crore). A tax-free threshold for remittance outflow would have been to Bangladesh's advantage, Bangladesh should lobby for this. Indeed, Bangladesh should raise this issue in TICFA discussions and bilateral trade negotiations. To note, the proposed tax may discourage aggregators who mobilise and send remittances from the USA in large amounts and sell to Banks in Bangladesh by using oligopolistic power.

1.5.9 Concluding remarks

As Bangladesh moves forward to a new fiscal year, FY2026, the country's external sector is gaining some momentum thanks to favourable tail winds, noted above. However, as was also pointed out, headwinds on several fronts are also anticipated. The recent bilateral trade tensions vis-à-vis USA and India come at a time when Bangladesh is preparing to address the formidable challenges associated with the country's imminent LDC graduation. The analysis presented in the preceding sections have drawn attention to some of the positive trends as also a number of emerging concerns which will inform Bangladesh's external sector performance in FY2026. Several measures to advance the interests of the country's external sector have also been put forward. Resilience of Bangladesh's external sector will be tested in the coming days, and this will depend on how aptly Bangladesh is able to navigate the turbulent waters and the emergent challenges over the coming days.

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1.6 CAPITAL MARKET DURING THE INTERIM GOVERNMENT: WOES CONTINUE

Key Findings

- During the first 9 months of the interim government, the capital market's performance fell short of expectations, which may be attributed to a combination of ongoing corrective sectoral measures and the lingering effects of past market irregularities.
- Several strategic decisions have been taken during the last 9 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.
- One of the most significant capital market-related challenges for the interim government appears to be restoring investor confidence and attracting new company listings, particularly in the context of ongoing political uncertainty.

Key Recommendations

- The BSEC should accelerate its administrative decision-making process and ensure the timely submission and implementation of the task force's forthcoming recommendations.
- The 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 the ICB, as well as conduct periodic reviews to monitor progress and address implementation challenges.
- The BSEC should introduce an Investor Protection Fund to safeguard retail investors from losses due to fraud or manipulation.

1.6.1 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 per cent over the past 16 years. The market also endured some of the most severe collapses in its history during this period, including the 2010 crash, which, as estimated by the Asian Development Bank, resulted in a market loss of approximately USD 27 billion ('Market lost \$27b to price debacle in 2010: ADB', 2016).

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, 9 months into its tenure, the adequacy, timeliness, and effectiveness of these measures have not been assessed. In particular, it is still unclear whether the five key challenges of the capital market identified by CPD over the past years— a) prevalence of low-quality IPOs, b) irregularities in financial reporting, c) lack of transparency in BO account management, d) questionable conduct of institutional investors, and e) manipulation in the secondary market, have been meaningfully addressed. Additionally, it remains to be seen whether any new challenges have emerged during this period.

Against this backdrop, this section endeavours to analyse from three perspectives. First, it provides a brief overview of recent market performance trends, with a particular focus on comparisons

between the current and previous regimes. Second, it assesses the potential adequacy and effectiveness of the reform initiatives implemented by the interim government thus far. Finally, it offers several recommendations to help ensure that the ongoing capital market reforms are on the right track and can be sustained over the long term.

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.

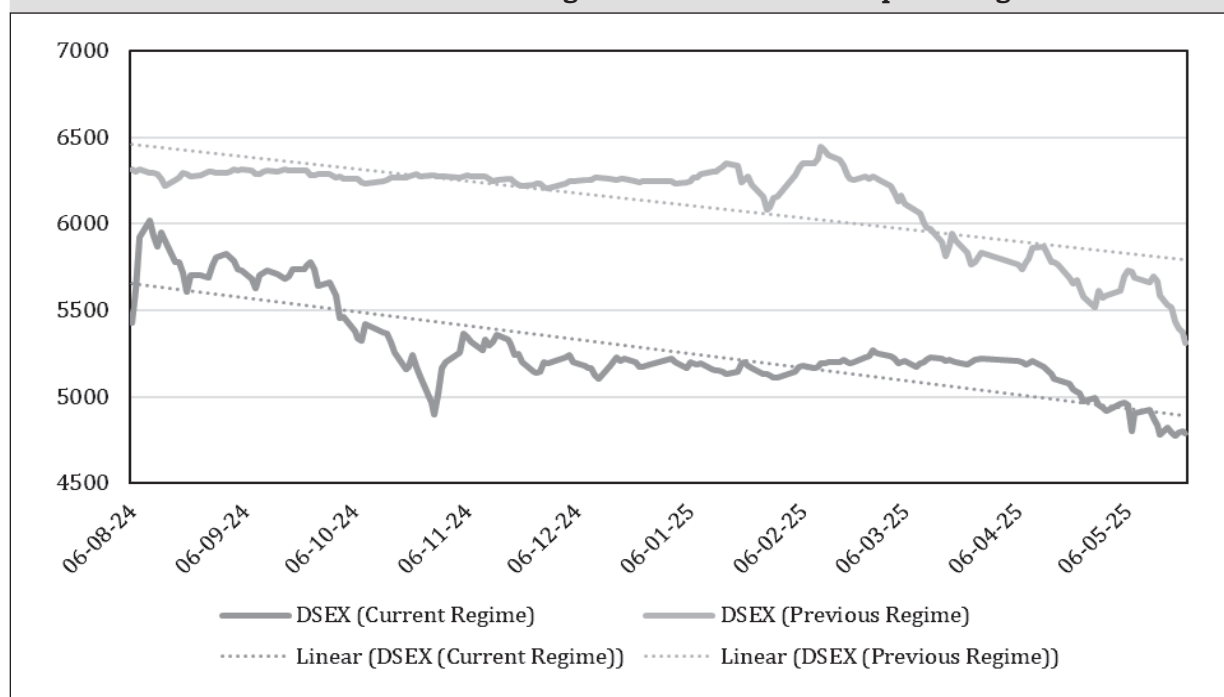
1.6.2 Performance of the capital market in recent months

The performance of the capital market during the first 9 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 1.31). 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. 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.

In terms of volatility, the data show that the capital market experienced higher volatility during the previous regime, with a standard deviation of 272, compared to 253 under the current regime (Table 1.12). This indicates a slight reduction in market fluctuations.

Figure 1.31

DSEX for the first 9 months of the interim government vis-à-vis the previous government



Source: Based on data from the Dhaka Stock Exchange (n.d.).

In terms of trading activity, the average total number of trades also declined, dropping from 161,295 in the previous regime to 142,958 under the current one. This represents an approximate 11.4 per cent decrease.

Interestingly, despite the decline in both volatility and total trades, the average total volume of shares traded remained unchanged at 176 million across both periods. This suggests that while fewer trades are taking place, the average trade size may have increased. Such a pattern arose perhaps due to a shift towards larger, possibly institutional transactions, as institutional investors typically execute fewer but larger trades compared to retail investors.

Table 1.12**Comparison of other indicators between the current and past regimes**

Indicators	Previous Regime (Aug 23- May 24)	Current Regime (Aug 24- May 25)
Market volatility (Standard Deviation)	272	253
Average Total Trade (in million)	0.16	0.14
Average Total Volume (in million)	176	176

Source: Dhaka Stock Exchange (n.d.).

1.6.3 Status of existing and emerging challenges in the market

IPOs related

Listing quality IPOs remains challenging: The entry of poor-quality IPOs has been a major challenge for the Bangladeshi capital market. 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). Moreover, a steady decline in the number of new IPOs over the years can be observed. The number of newly listed companies fell sharply to just three in FY2024, compared to 9 in FY2023 and 15 in both FY2022 and FY2021 (Bangladesh Security Exchange Commission, n.d.).

Inclusion of quality IPOs remains challenging amid political uncertainty: Despite the change in the regime and the overtaking of responsibilities by a new interim government, the IPO-related challenges still appear to be persistent. Already 9 months have passed since the interim 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 greater 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.

Efforts to attract quality IPOs might be undermined by political uncertainty: According to conducted KIIs, intending to attract new and quality IPOs, the government has undertaken several plans and strategies. The government is preparing to announce a set of incentive packages to attract quality IPOs in the upcoming budget. These include offering a 10 per cent lower tax for listed companies (currently it’s 5 per cent), 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. In this situation, tax incentives alone might not be enough to attract new IPOs to the market.

Eroding trust among MNCs poses a barrier to future listings: Furthermore, 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. It is alleged that previously, BSEC did not fulfil several promises (such as providing tax benefits) that encouraged currently listed MNCs to be in the market. As a result, non-listed MNCs may feel uncertain about the long-term reliability of the incentives promised by the BSEC. If this issue is not addressed, their lack of trust could reduce the appeal of these financial incentives and, in turn, weaken the prospects of their future enlistment in the market.

Overcoming cultural barriers could erode: In addition, 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. Owners often fear that listing their companies will invite external oversight, reduce their authority in decision-making, and subject them to greater transparency and regulatory scrutiny. As a result, even when they need capital, many opt for bank financing instead of raising funds through the stock market. Without coordinated and sustained efforts, this challenge may not be easy to address for any government.

Faulty valuation process discourages investors: 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, where institutional investors often submit vastly different prices for the same stock during the bidding process. Although the newly formed BSEC under the interim government has claimed to have initiated revising the existing rules and transferring IPO approval authority to the Dhaka Stock Exchange (DSE), there is still no clear timeline for when these changes will be finalised and put into effect.

Secondary market related

Market manipulation undermines investor confidence and market integrity: Manipulation in the secondary capital market has remained a persistent challenge in Bangladesh, causing significant harm to retail investors. Tactics such as insider trading, where individuals use confidential and price-sensitive information for personal gain, and circular trading, where groups collude to create artificial demand by repeatedly buying and selling the same stock, have been used to inflate the prices of weak or low-quality shares. These practices distort the market and often result in heavy losses for unsuspecting retail investors who are misled by manipulated prices.

Stronger enforcement measures under the interim government, but transparency remains a concern: According to several interviewed stakeholders, the interim government has begun taking stronger action against such irregularities, which were reportedly widespread during the previous regime. For example, in October 2024, the BSEC fined 9 individuals and companies a total of BDT 428.52 crore for manipulating the shares of Bangladesh Export Import Company Ltd (Beximco). The investigation revealed that the manipulators earned approximately BDT 477 crore through these activities ('Nine investors fined Tk 428cr for Beximco stock manipulation',

2024). In December 2024, the BSEC imposed fines of a total of BDT 134 crore on 20 individuals and entities for manipulating the share prices of Bangladesh Finance, Orion Pharma, and Orion Infusions ('BSEC fines 20 individuals, entities Tk 134.18cr', 2024). In the same month of 2024, the BSEC fined Abul Khayer Hiru and his associates BDT 1.34 billion for manipulating the stocks of companies, including NRBC Bank, Fortune Shoes Limited, and Delta Life Insurance Company Limited ('Abul Khayer Hiru and associates fined Tk 134 cr for stock manipulation', 2024). Besides, a total of 12 investigations has 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.

Weak market surveillance undermines timely enforcement and investor protection: Despite these efforts, the challenge regarding the lack of market surveillance remains highly relevant. On one hand, 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.

Poor information disclosure hampers investor decisions and encourages manipulation: Access to true and reliable information is essential for investors in the capital market. However, 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 cannot make informed decisions. This lack of information creates space for manipulation in the market. Although the regulator of the market under the current government has taken several actions against price manipulation, they rather put a limited effort into this area of information disclosure.

Weak oversight of IPO issuers undermines compliance and investor trust: According to interviewed stakeholders, there is a significant lack of monitoring and accountability mechanisms for companies issuing Initial Public Offerings (IPOs). It has been alleged that some issuers fail to deliver declared dividends to investors, raising serious concerns about compliance and investor protection. This gap in enforcement undermines trust in the IPO process and weakens overall market integrity.

BO accounts related

Weak KYC requirements in BO accounts facilitate manipulation: Anomalies in Beneficiary Owner (BO) accounts have been a longstanding issue in Bangladesh's capital market. A significant portion of market malpractice is carried out using fake or untraceable BO accounts. 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. Although initiatives have been proposed in the past to make NID submission mandatory for opening BO accounts, no such rules have been implemented, primarily due to concerns that stricter regulations might negatively affect the market index. However, reforms like these are ideally introduced when the market index is at a lower level, as investor expectations tend to be more subdued. Given the current depressed state of the capital market, this could be an opportunity for the interim government to implement such long-overdue measures. However, to date, there has been no indication that the regulatory commission of the interim government intends to undertake such an initiative.

Unauthorised trading by brokerages raises concerns over investor protection: One common concern in the capital market is that 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 trades without proper consent. Such unauthorised or excessive trading can artificially influence stock prices and contribute to abnormal market fluctuations.

Limited authority of CDBL weakens timely action against brokerage misconduct: Although the Central Depository Bangladesh Limited (CDBL) is responsible for monitoring the activities of brokerage houses, its authority is limited in scope. In cases where malpractice or irregularities are identified, CDBL does not have the legal power to take direct punitive action against the concerned brokerage house. Its role is confined to reporting such incidents to the BSEC, which holds the sole authority to initiate disciplinary or legal proceedings. This limitation often results in delays in enforcement and weakens the overall regulatory response to misconduct in the market.

Paper-based shares pose significant risks of fraud and financial misconduct: Furthermore, 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. Ideally, the authenticity of these share certificates should have been verified by the financial institutions before approving any disbursement. The failure to do so suggests possible involvement or serious lapses in due diligence by the banks concerned. Allowing holding shares only in demat form might enhance accountability in this regard.

Infrastructure and investor readiness limit T+1 settlement implementation: According to one interviewed stakeholder, if Bangladesh could enable T+1 settlement, it would improve market efficiency by reducing counterparty risk and accelerating the flow of funds, thereby attracting more investors. However, enabling T+1 settlement in Bangladesh is challenging due to several systemic and infrastructural limitations. Many brokerage firms and intermediaries lack the advanced technological infrastructure and automation required to process trades, confirm settlements, and ensure compliance within a single day. Additionally, the banking system does not support seamless real-time fund transfers after trading hours, and retail investors, who represent a large portion of market participants, often struggle to arrange funds or securities quickly, especially given limited digital literacy and financial awareness.

Institutional investors related

Institutional investors' role undermined by panic and short-termism: The role of institutional investors in any capital market is of paramount importance. Particularly 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. Rather than acting as stabilising forces, their trading behaviour, at times, mirrors that of retail investors, characterised by panic selling and short-term profit-seeking.

Lack of focus on institutional investors weakens market depth: 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 fulfil 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.

Lack of professional fund management undermines institutional investment effectiveness:

One critical issue raised is the absence of professional fund management. 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.

Weak legal framework and regulatory gaps hinder mutual fund governance and market stability: 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. Despite the urgency of the matter, the interim government has yet to undertake any meaningful initiatives to address these systemic deficiencies.

Rising negative equity poses major challenges for institutional investors and market stability: Another major concern highlighted by interviewed stakeholders is the growing volume of negative equity in the capital market, which has reportedly reached BDT 12,000 crore. This issue has persisted since 2011 and continues to undermine market stability. From an institutional investor's perspective, negative equity limits the ability to reallocate resources and make fresh investments. It restricts access to margin loans and other forms of financial leverage that are often essential for managing large portfolios. As a result, many institutional portfolios remain trapped in unrealised losses, reducing both liquidity and flexibility.

Financial reporting related

Weak financial reporting oversight hampers market transparency: 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. The FRC is mandated to ensure compliance with appropriate accounting standards and to promote transparency in corporate disclosures.

FRC's limited authority and capacity undermine financial oversight: Interviewed stakeholders raised concerns regarding the FRC's legal authority and technical capacity. Despite its important mandate, the FRC has yet to demonstrate effectiveness, largely due to limited technical expertise and institutional strength. Moreover, 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.

Reform efforts miss key institutional upgrades like FRC: 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.

1.6.4 Assessment of interventions made by the Interim Government

Leadership changes signal a fresh start but raise concerns over experience

In the first 9 months of 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.

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 is maintained in the market.

BSEC's Reform Task Force formed to boost market confidence, but delays risk momentum

In the same month, the BSEC formed a five-member task force to boost investor confidence and ensure good governance in the stock market. The task force includes members from university faculties, as well as former DSE and ICAB officials. Its goal is to overhaul the capital market by providing key short-term and long-term recommendations on three major areas: mutual funds (MFs), IPOs (initial public offerings), and margin loans.

In October, the Ministry of Finance formed a committee to develop an effective strategy for managing the BDT 1,545 crore Capital Market Stabilisation Fund (CMSF) ('Committee formed to manage Capital Market Stabilisation Fund effectively', 2024). This fund, established in 2021 during the previous regime to maintain market stability and liquidity by retaining undistributed cash and stock dividends, non-refunded public subscription money, and unallotted rights shares of listed securities, was found to have been misused over the years.

In order to encourage investment in the capital market, in November 2024, the government reduced the tax rate to 15 per cent from 30 per cent on capital gains exceeding BDT 50 lakh from selling shares of listed companies ('NBR reduces tax rate to 15% on capital gains above Tk 50 lakh', 2024). Also, the government is putting efforts in order to enlist well-performing local and multinational companies, along with state-run profitable entities, in the capital market. In this regard, BSEC proposed a five-year full corporate tax exemption for firms that will offload at least 30 per cent of their shares on stock exchanges through initial public offerings (IPOs) (Hossain & Tuhin, 2024).

In addition, as part of liquidity support, the government disbursed BDT 30 billion in low-cost funds to the state-run Investment Corporation of Bangladesh to boost investors' confidence and stabilise the market.

The BSEC has amended its rules regarding the hiring of auditors by companies. Previously, most companies were required to select their auditors from a list of firms approved by the commission.

The recent amendment introduces an exception to this rule, allowing companies to choose auditors outside the approved list under certain conditions (only for the current fiscal year).

The BSEC has also directed the DSE and CSE to ensure that listed companies notify investors immediately via SMS or email about dividend distribution and the issuance of TDS certificates, as per the directive issued on 14 January 2021 ('BSEC guidelines direct timely cash dividend notifications for investors', 2024). This directive aims to ensure that investors are promptly informed about their dividend disbursements and tax deductions.

Another directive issued by the BSEC on 06 January 2025 allows brokerage firms to receive 75 per cent of the interest generated in the Consolidated Customer Account. The remaining 25 per cent will be allocated to the Investors' Protection Fund, to protect investors' interests. Previously, the interest earned on deposits was fully retained by the brokerage firms, but with this new directive, a significant portion will be shared with the investors ('Brokerages allowed to retain 75% of investors' deposit interest', 2025).

Observations: It can be observed that several strategic decisions have been taken during the last 9 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.

The formation of the reform task force by the interim government is indeed a commendable initiative, and the inclusion of experts from a diverse range of backgrounds is a positive step towards comprehensive reform. However, it is concerning that the final submission of the task force's recommendations remains pending, despite the deadline having passed over two months ago. According to the interviewed stakeholders, the process followed by the task force in collecting insights could have been more inclusive and better reflected their insights and perspectives. More importantly, several respondents expressed concern that the commission appears to be placing excessive reliance on the forthcoming task force report. As a result, necessary and time-sensitive measures, which have been strongly recommended by other stakeholders, are being delayed, potentially undermining the momentum for much-needed reform. This is why the quick submission of the task force proposal has become highly important.

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.

1.6.5 Recommendations

Based on the discussions, CPD proposes the following key recommendations for the capital market:

IPO Related

- The 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.

- The 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.
- The 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.
- The BSEC should expedite the revision of all IPO-related regulations, including valuation methodologies, and ensure their timely and effective implementation.
- The 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.

BO Accounts related

- The BSEC should make the inclusion of NID for BO Accounts mandatory, using the current market downturn as an opportunity.
- The 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.
- The BSEC should provide authority to CDDBL to take punitive measures against brokerage houses in case of any misconduct.
- The BSEC should introduce an independent third party to be involved in transferring dividends between investors and issuers.
- Introduce stricter penalties for brokerages found guilty of unauthorised trading, including suspension or revocation of licences.

Secondary market-related

- The BSEC must increase transparency by publicly disclosing the results of all 12 investigations carried out.
- Whilst taking action against market irregularities, BSEC should also provide incentives and recognition for well-governed, compliant companies to maintain investor confidence.
- The BSEC should introduce an Investor Protection Fund to safeguard retail investors from losses due to fraud or manipulation.
- The BSEC should encourage corporate governance ratings and establish whistleblower protection mechanisms to improve compliance and market integrity.
- The MoF should increase the budget for BSEC to invest in a surveillance system to make it automated and also increase their effective and quick communication with other relevant agencies.
- The BSEC should accelerate its administrative decision-making process and ensure the timely submission and implementation of the task force's forthcoming recommendations.

Institutional investors related

- The BSEC should draft and implement a Mutual Fund Code of Governance and ensure its quick implementation.
- The BSEC should create a formal platform for regular engagement between the BSEC and institutional investors to discuss challenges, policy reforms, and market development initiatives.
- The 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.

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

Financial reporting related

- The MoF should empower the Financial Reporting Council (FRC) with the authority to take action against cases of financial misreporting.
- The MoF should allocate funds 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.
- The BSEC should accelerate mandatory adoption of IFRS for listed companies and strengthen monitoring to ensure compliance.

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1.7 POWER AND ENERGY CRISIS IN BANGLADESH: GAS, ELECTRICITY, AND TRANSPORTATION SECTORS

Key Findings

- Bangladesh’s energy crisis is deepening due to declining domestic gas production, rising import dependence, and outdated infrastructure.
- Frequent electricity outages, high fuel prices, and unreliable gas supply have severely disrupted households, industries, and transport systems.
- Institutional inefficiencies and delayed reforms have undermined investment, increased costs, and weakened public trust in energy governance.

Key Recommendations

- Domestic gas exploration should be expedited, and investment in renewable energy should be prioritised to reduce import dependence and increase energy security.
- Transparent and automated fuel pricing mechanisms should be introduced, and redundant components (multiple layers of Tax & VAT) should be excluded from the existing pricing formula.
- The government should modernise infrastructure, promote energy efficiency, and reform institutions like the BERC to ensure accountability, transparency, and responsive planning.

1.7.1 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, (Alam, 2025) 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.

1.7.2 Energy supply-demand gap analysis

Bangladesh’s energy system relies heavily on three major energy sources: natural gas, electricity, and transportation fuels (diesel and petrol). This section analyses the trends in demand and supply for each of these energy types using national data, highlighting the scale of the deficits and their sectoral implications.

Natural gas

Natural gas remains vital to Bangladesh's energy system, powering over half of the electricity generation and playing key roles in industry, domestic use, and fertiliser production. However, the sector is under severe strain due to falling domestic production and growing demand. Between FY2020 and FY2024, total gas production declined from 883 to 745 BCF, while distribution remained steady (Table 1.13). As a result, the production-distribution gap widened significantly from 3,492 to 6,479 mmcm (123.35 BCF-228.79 BCF) (PetroBangla, 2025).

Table 1.13

Yearly gas production and share summary

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

Source: Petrobangla MIS Report (2025).

There is limited effort even under the Interim Government regime to explore natural gas from the probable gas wells onshore and offshore. Thirty-four wells were targeted to be explored in FY2025, whereas only 8 wells were being explored as of October 2024. A part of the gap is partially met by imported LNG. The share of LNG has increased from 7.3 per cent in FY2020 to 25 per cent in FY2025 (till January). Such a rise in the import of LNG has significantly raised the expenses. Hence, the financial state of Petrobangla increasingly turned out to be negative.

The sectoral consumption patterns show power and industry as the largest gas users. Whilst power has remained the dominant sector; industrial use has steadily increased. Domestic consumption, by contrast, has fallen from 158 BCF in FY2018 to 100 BCF in FY2024 (Table 1.14). Total national gas use peaked at 1,041 BCF in FY2019 but declined to 916 BCF in FY2024 (HydroCarbon Unit-Energy & Minarel Resorce Division 2025).

Table 1.14**Annual gas consumption by sector in Bangladesh (in Billion Cubic Feet - BCF)**

Year	Power	Industry	Captive	Fertiliser	Commercial	Domestic	CNG	Tea Estate	Total
FY2013	329	136	134	60	9	90	40	1	798
FY2014	333	138	136	61	9	91	41	1	809
FY2015	355	148	150	54	9	118	43	1	877
FY2016	400	156	161	53	9	141	46	1	967
FY2017	404	163	160	49	9	154	47	1	987
FY2018	399	167	161	43	8	158	46	1	982
FY2019	451	164	158	58	8	159	43	1	1042
FY2020	456	156	152	55	7	133	36	1	994
FY2021	426	182	169	65	6	134	35	1	1017
FY2022	402	191	176	60	6	128	37	1	1001
FY2023	389	179	164	50	6	101	42	1	932
FY2024	392	168	154	50	5	100	45	1	916

Source: HydroCarbon Unit-Energy & Mineral Resource Division (2025).

Also, the future demand is expected to grow sharply from 3,965 mmcf (1447.23 BCF/year) in FY2025 to 4,762 mmcf (1738.13 BCF/year) in FY2028, driven by the power and industrial sectors (Table 1.15). Domestic and commercial demand is projected to decline slightly, reflecting lower allocation priorities (Energy and Mineral Resources Division 2024). In other words, unless alternate energy sources (including renewable energy) are managed for major economic activities, the gas crisis will be further acute in the coming years. Over-dependence on LNG would further weaken the financial state of Petrobangla as well as weaken the overall BoP of the country.

Table 1.15**Sector-wise average gas demand forecast**

Sector	FY2025	FY2026	FY2027	FY2028	FY2025	FY2026	FY2027	FY2028
	in mmcf				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
Sector	FY2025	FY2026	FY2027	FY2028	FY2025	FY2026	FY2027	FY2028
	in mmcf				in BCF			
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

Source: Energy and Mineral Resources Division (2025).

In the price trend analysis, it has been found that gas prices increased significantly for industries and captive power from BDT 30 to BDT 40–42 per cubic metre, whilst electricity generation retained the subsidised rate of BDT 14 in 2025 (Table 1.16). Rising gas prices along with lowering supply have heavily affected the gas dependent industries such as textiles, glass, ceramic and steel industries.

Table 1.16**Sector-wise gas price in 2025**

(BDT/cubic meter)

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

Source: Petrobangla Annual Report 2023-24.

Together, these trends reveal a deepening gas crisis. Without new exploration, infrastructure upgrades, and pricing reform, Bangladesh's energy security and industrial growth will remain at risk.

Electricity

Electricity demand in Bangladesh has risen steadily, driven by urbanisation, industrial growth, and agricultural electrification. Despite achieving over 95 per cent national electrification by 2021, supply has not kept pace with demand due to limited fuel availability, ageing infrastructure, and inefficiencies in generation and distribution.

Table 1.17, from FY2011 to FY2024, installed capacity increased from 7,264 MW to 28,098 MW. However, actual demand only rose to 16,477 MW, significantly below the forecasted 17,830 MW. The gap has widened in recent years, with 'energy not served' peaking at 3,818 MkWh in FY2023 (BPDB 2024).

Table 1.17**Electricity demand, capacity, and shortfall (FY2010–FY2024)**

Fiscal Year	Installed Capacity (MW)	Maximum Generation Capacity (MW)	Forecasted Demand (MW)	Maximum Demand Served (MW)	Energy Not Served (MkWh)
FY2011	7,264	6,639	6,765	4,890	1,899
FY2012	8,716	8,100	7,518	6,066	1,647
FY2013	9,151	8,537	8,349	6,434	1,070
FY2014	10,416	9,821	9,268	7,356	515
FY2015	11,534	10,939	8,920	7,817	177
FY2016	12,365	11,170	9,600	9,036	122

(Table 1.17 contd)

(Table 1.17 contd)

Fiscal Year	Installed Capacity (MW)	Maximum Generation Capacity (MW)	Forecasted Demand (MW)	Maximum Demand Served (MW)	Energy Not Served (MkWh)
FY2017	13,555	12,771	10,400	9,479	37
FY2018	15,953	15,410	11,200	10,958	32
FY2019	18,961	18,438	12,100	12,893	53
FY2020	20,383	19,892	13,300	12,738	58
FY2021	22,031	21,280	14,500	13,792	78
FY2022	22,482	21,680	15,800	14,782	86
FY2023	24,911	24,171	17,100	15,648	3,818
FY2024	28,098	26,947	17,830	16,477	2,251

Source: BPDB Annual Report 2023-24.

Note: Installed Capacity includes grid-connected power plants; Forecasted demand is based on projections by BPDB; 'Energy Not Served' indicates unmet electricity demand in MkWh.

These shortfalls are especially severe during peak hours and irrigation seasons. Rural areas face daily outages, while urban users rely increasingly on diesel generators, raising energy costs. Industries adjust production schedules to cope with load shedding, and SMEs, without backup power face financial strain. In agriculture, unreliable power forces a shift to diesel pumps, increasing irrigation costs and affecting food prices.

Although the generation mix has diversified, over 43 per cent still comes from gas-fired plants, which remain vulnerable to supply disruptions. Financial stress on utilities, stemming from high subsidies and low-cost recovery, further limits investment in system upgrades.

Table 1.18**Year-wise electricity tariff changes (2021–2024)**

Consumer Category	Voltage Level	2021 (in BDT)	2023 (in BDT)	2024 (in BDT)	% Change (2021-2024)
Residential (0-50 kWh)	Low Voltage (LV)	3	4.35	4.63	13.6
Residential (76-200 kWh)	Low Voltage (LV)	5	6.31	7.2	11.0
Residential (301-400 kWh)	Low Voltage (LV)	6.5	6.99	8.02	5.8
Commercial (Shops)	Low Voltage (LV)	7	8.49	9.71	9.7
Industrial (Small Scale)	Low Voltage (LV)	6	6.64	7.55	6.5
Agriculture (Pumps)	Low Voltage (LV)	4.5	5.25	5.25	4.2
Medium Voltage (General)	11 kV	8.87 / 10.55	9.78 / 11.63	10.61 / 11.63	4.3/2.6
High Voltage (Industrial)	33 kV	9.73 / 12.17	10.44 / 13.05	11.39 / 14.40	4.3/4.6
EHV Bulk Supply	132/230 kV	9.68 / 9.63	9.63 / 9.68	9.68 / 9.63	0/0

Source: Tariff Rate-BPDB.

On the other hand, electricity tariffs have also risen. Between 2021 and 2024, annual average growth rates for residential users (0–50 kWh) rose by 13.6 per cent, whilst other categories like shops and small industries saw increases of 6.5 per cent (Table 1.18). These hikes have impacted affordability, especially for low- and middle-income users (BPDB 2024). This rise in electricity tariff has been carried out to lessen the huge loss of the BPDB over the years owing to faulty pricing for purchasing electricity from IPPs, capacity payment, creating excess generation capacity, etc. The consumers have to take the burden of these faulty activities.

Despite capacity growth, Bangladesh’s electricity sector continues to face a growing gap between demand and reliable supply, underscoring the need for fuel diversification, pricing reform, and investment in transmission and distribution.

Petroleum fuels

Petroleum fuels such as diesel, petrol, octane, and kerosene are central to Bangladesh’s transport, agriculture, and energy backup needs. Unlike electricity or natural gas, these fuels are entirely imported, making their availability and affordability sensitive to global price volatility and exchange rate fluctuations. Since mid-2022, international market shocks combined with domestic price adjustments have significantly impacted fuel consumption patterns across sectors.

According to Table 1.19, over the last five years, fuel consumption initially increased across all four fuel types but saw a notable decline in FY2024. Diesel, the most consumed fuel, dropped by 14 per cent, from 4.94 million metric tons in FY2023 to 4.24 million metric tons in FY2024. Petrol and octane also declined by 5.2 per cent and 2.1 per cent, respectively, while kerosene consumption fell by nearly 10 per cent. This reversal reflects both high domestic prices and weakened purchasing power, especially among low-income and informal sector users (BPC 2025).

Table 1.19

Petroleum oil consumption statistics for the last 5 (five) financial years in M.ton.

Product	Octane	Petrol	Kerosene	Diesel
FY2020	262825	322432	105851	4023409
FY2021	303917	378846	101783	4597585
FY2022	395602	446647	86117	4850700
FY2023	393557	454556	77487	4935483
FY2024	385435	430836	70001	4244527
Annual Average (FY20-FY25)	9.3	6.7	-6.8	1.1

Source: Bangladesh Petroleum Corporation (BPC).

These consumption drops occurred alongside persistently high fuel prices. Between June 2024 and May 2025, prices remained elevated, with diesel and kerosene fluctuating between BDT 104–108 per litre, petrol between BDT 121–127, and octane from BDT 125–131 (Table 1.20). Although these prices are marginally lower than the August 2022 peak, they remain high by historical standards, maintaining pressure on households, transport services, and farming operations (BPC 2025). Although the BPC is supposed to follow automated pricing formula considering the global price, there is little reflection of it in retail pricing and consumers face the burden of a higher price.

The impacts of these high fuel prices have been felt across sectors. In transport, bus and freight services have reduced operations or raised fares, triggering public dissatisfaction and reduced

mobility, especially in rural and peri-urban areas. Informal operators such as autorickshaws and motorbike ride-share drivers reported income losses due to low passenger demand and high fuel costs (Azad and Islam, 2022). In agriculture, diesel price increases raised irrigation costs by 15 per cent, particularly affecting Boro season farmers reliant on shallow diesel pumps (Wardad, 2024).

Table 1.20**Domestic fuel oil price trend (June 2024 – May 2025)***(in BDT/litre)*

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

Source: Bangladesh Petroleum Corporation (BPC).

Industries have also suffered, especially during power outages, which forced many factories to switch to diesel-powered generators. This shift has significantly increased energy costs, particularly in energy-intensive sectors like textiles, steel, and ceramics. SMEs without captive or backup systems were hit harder, leading to production delays.

These underscore the vulnerability of Bangladesh’s petroleum fuel users to international market shocks. Without policy measures to improve fuel efficiency, stabilise prices, or protect low-income users, such fuel price disruptions could continue to destabilise critical sectors in the future.

Inefficiencies and system loss

A core issue is inefficiency and mismanagement within the energy sector itself. Bangladesh suffers from gas system losses of 12–14 per cent, significantly higher than the international standard of 2 per cent. Each 1 per cent system loss is estimated to cost around BDT 800 crore. Despite this, institutional reforms have lagged, and there is little accountability or oversight to address wastage or corruption (Alam, 2025).

Fiscal planning has also been weak. In the current fiscal year, the Energy and Mineral Resources Division received a modest allocation of BDT 1,087 crore, of which only 10.4 per cent was spent in the first six months (Ministry of Finance, 2024–25). Whilst the government continues to prioritise imported LNG having spent over BDT 160,000 crore on imports from 2017 to 2023 investment in domestic gas exploration remains minimal. The state-owned BAPEX receives just BDT 1,000 crore annually. A recent tender for offshore oil and gas exploration failed to attract any foreign bidders, reflecting low investor confidence (Taher, 2025).

Bureaucratic inertia, political cronyism, and reliance on short-term import-based solutions are obstructing sustainable energy development.

1.7.3 Sectoral impacts of the energy crisis based on KIIs

The energy crisis in Bangladesh has had cascading effects across all layers of society and the economy. Beyond the macro-level gaps in supply and rising prices, the most critical disruptions are being experienced by end-users whose lives and livelihoods depend on affordable and stable access to electricity, gas, and fuel. The three most affected segments, households, industries, and the transportation sector, have undergone significant operational, behavioural, and financial adjustments to cope with the ongoing crisis. These user-level disruptions form the core of the current crisis and are expected to be further validated through the planned survey-based data collection.

Household sector

For households, the energy crisis has meant frequent and prolonged electricity outages, especially during peak hours and in the summer seasons. In urban settings, families have experienced 1–4 hours of daily load shedding, while rural areas face even longer and less predictable outages. These interruptions have not only disrupted daily routines such as cooking, bathing, and studying but also created stress in maintaining access to digital services like mobile banking, online education, and remote work. In households with piped gas connections, low pressure has become a daily obstacle, especially during morning and evening hours. This has forced many families to shift to LPG cylinders as a substitute. However, LPG prices have surged, rising from BDT 900 to BDT 1,500 for a 12.5 kg cylinder between 2021 and 2023, causing an average monthly increase in cooking energy costs of BDT 500 to BDT 800 for many families.

The financial burden is further compounded by power outages, which have prompted middle and high-income families to invest in inverters, solar panels, or even diesel generators. However, these alternatives remain out of reach for poorer households, who are often left without any backup during outages. Consequently, low-income families have resorted to undercooking meals, using traditional fuels, or reducing energy use altogether. In addition to cooking and cooling, energy shortages have directly impacted education. Students are unable to charge devices, attend online classes, or study during evening hours due to power cuts. The energy crisis has also strained healthcare access, with refrigeration for medicines and the use of nebulisers or diagnostic equipment in homes being affected. Furthermore, inflation in transport and food prices both driven by fuel costs has reduced household purchasing power, leading to a shift in consumption behaviour, where families are allocating more of their monthly budget to energy and less to education, nutrition, and healthcare.

Industrial sector

Loss in production and earnings: Bangladesh's industrial sector particularly energy-intensive industries such as textiles, garments, cement, ceramics, and steel has been severely affected by a prolonged and worsening energy crisis. These industries rely heavily on natural gas for process heating and captive power generation. However, due to declining domestic gas production and a policy preference to prioritise gas supply for power plants, industrial gas allocations have been frequently curtailed, often without sufficient notice. This has forced many factories to operate well below capacity or suspend operations altogether. Between 2021 and 2023, production in several key industrial zones dropped by an estimated 20–30 per cent during peak shortage periods. In recent months, the situation has further deteriorated, with many textile and garment factories

operating at only 40–50 per cent capacity (RMG Bangladesh, 2023). Output in yarn, fabric, and garments has declined sharply, and nearly half of the textile factories have reportedly shut down. As a stopgap, large industries have turned to diesel generators, but the cost of self-generated power is three to four times higher than that of grid electricity (BPDB 2024). This has significantly driven up production costs and negatively impacted their earnings.

Small and medium enterprises (SMEs) have suffered even more. Lacking the capital to purchase backup generators or absorb price shocks, many SMEs, especially in plastics, agro-processing, and light engineering, have faced declining output, order cancellations, and missed delivery deadlines. Many have laid off contract workers or shifted to part-time operations. Energy insecurity has also created hesitancy in new investments and delayed technology upgrades in manufacturing. In the garments and textiles sector, which accounts for over 80 per cent of Bangladesh's exports, energy disruptions have led to shipment delays, resulting in financial penalties and reputational damage with international buyers. Even export processing zones (EPZs), once considered infrastructure-reliable, have not been immune. Altogether, the unpredictability of energy supply is now considered one of the most pressing constraints to industrial productivity, expansion, and long-term competitiveness, especially when compared to regional competitors like Vietnam and India, who are offering more energy-secure environments for industrial investment.

Beyond the garments and SMEs, the broader industrial landscape has also suffered. Production in the steel industry has dropped by 25–30 per cent, while the ceramic industry has seen a decline of more than 50 per cent due to energy shortages (Alam, 2025).

Transportation sector

The transportation sector has experienced severe pressure due to fuel price volatility and shortages in compressed natural gas (CNG). Diesel, which powers most freight trucks, buses, and irrigation pumps, surged to BDT 108 per litre in 2024 ('Fuel prices cut as auto adjustment sets in', 2024) (The Business Standard, 2024). This caused operating costs to increase by 15–25 per cent (based on survey findings), leading logistics firms to reduce fleet use and pass costs to consumers through higher transport fares and commodity prices. Delays in goods delivery, particularly perishable agricultural product, have affected farm incomes and raised food prices in urban markets. Petrol prices, fluctuating between BDT 121 and 127 per litre ('Petrol, octane prices slashed by Tk 6 per litre; diesel, kerosene by Tk 1.25 per litre', 2024), have likewise increased costs for private vehicle users and ride-sharing services, further reducing affordability for daily commuters.

CNG, once a cheaper and cleaner transport fuel, has faced erratic supply despite increased annual allocation. Long queues at CNG stations have become the norm, prompting many drivers to switch to petrol or diesel, thereby increasing their fuel costs by 25–30 per cent. According to our survey findings, auto-rickshaw drivers and informal transport operators have faced a 30–40 per cent drop in daily earnings due to reduced trips, fuel switching, and rising costs. Public transport operators have raised fares, which disproportionately affect low-income commuters who rely on daily travel for work and education. App-based ride-hailing services have also seen driver dropout rates rise, with many citing poor fuel margins and reduced passenger demand as key reasons. These impacts have reduced transport availability, increased commuter costs, and introduced logistical inefficiencies that affect other sectors, including agriculture and retail distribution.

1.7.4 Policy recommendations

The energy situation in Bangladesh requires a comprehensive approach. First, it is important to diversify the energy sources. One method to overcome the domestic supply deficit is to expedite gas exploration, particularly offshore. On the other hand, promotion and scaling up of renewable energy sources, notably wind and solar, should be prioritised to reduce dependency on imports and fulfil at least 10 per cent of total electricity consumption by 2030.

Second, pricing adjustments should find a balance between fairness and efficiency. The establishment of an automated, transparent fuel pricing method will help with volatility management. Earlier, CPD investigated the pricing mechanism of BPC and BERC and found that the pricing could be reduced up to BDT 15 per litre (Moazzem et al., 2025). The MoEPMR should follow the scientific pricing mechanism in order to set the fuel and electricity prices.

Third, the infrastructure needs to be updated. Smart monitoring technology and grid upgrades are required to reduce transmission and distribution losses, which are now around 10 per cent (BPDB 2024). To expedite the transition to clean transportation, the government should invest in electric vehicle (EV) charging infrastructure throughout the country, promoting concessional finance and public-private partnerships.

Industrial and business organisations are needed to ensure uninterrupted power and energy supply on a priority basis. In order to do this, the government should promote renewable energy (RE) as an alternative and provide fiscal incentives directly for adopting RE for using industrial sheds, rooftops, or fallow lands. Additionally, the MoEPMR must monitor this initiative and their billing amount for tracking usage records and provide incentives accordingly.

Finally, institutional reforms are needed. In order to manage fuel prices and tariffs independently, the BERC needs to be strengthened. The Petrobangla, Power Division, and BPC need to collaborate to ensure integrated energy planning and rapid crisis response. Digitising energy data and making price and allocation more transparent will make policymaking more responsive.

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1.8 CONCLUSIONS AND WAY FORWARD

The preceding chapters provide an understanding of the performance of a few sectors. They indicate that whilst there are some positive signs of economic recovery, there are also several negative signs. A brief summary of the key issues is highlighted below.

Public finance in Bangladesh is under considerable strain. The combination of limited revenue growth, high operating expenditure pressures, and rising borrowing costs threatens fiscal sustainability. Addressing structural weaknesses, ensuring fiscal discipline, and safeguarding social investments are essential to navigating the challenges ahead, particularly in view of the IMF conditions and LDC graduation.

This persistent inflation has eroded the purchasing power of low-income groups, exacerbating poverty and social inequalities. In recent months, contractionary monetary policy has led to a marginal reduction in the inflation rate. Controlling inflation will require an integrated approach, including tight monetary and fiscal policies, improving market competition, and ensuring more efficient supply chains for essential goods.

The banking sector is facing significant stress due to high levels of non-performing loans (NPLs) and weak governance practices. Overcoming these challenges requires structural reforms, including bank mergers, stricter lending practices, and enhanced regulatory oversight. The recent initiatives taken by the Bangladesh Bank are expected to revitalise the banking sector.

The external sector has shown encouraging signs of recovery, driven by strong remittance inflows and impressive export growth, improving the current account balance and stabilising the BDT. Imports have also picked up amid higher foreign exchange availability. However, risks remain due to rising external debt servicing, the introduction of a market-driven exchange rate, and global and regional trade uncertainties.

The capital market's performance remained below expectations, influenced by a combination of corrective measures and persistent irregularities from the past. Strategic decisions aimed at reforming the market were made, but bureaucratic delays and administrative complexities have hampered progress. Restoring investor confidence and encouraging new listings, especially amid ongoing political instability, has been one of the most pressing challenges.

The power and energy sector faces persistent challenges, including payment arrears to foreign suppliers, an overdependence on imported fuels, and infrastructural inefficiencies. Addressing these problems will require significant investments in energy infrastructure, diversification of energy sources, and a shift towards renewable energy options to ensure a stable and sustainable energy supply for the country.

Way forward

The government has initiated several reform measures in recent months, including the separation of the National Board of Revenue (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.

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.

Chapter 2

CPD's Recommendations for the National Budget FY2025-26 *(Second Reading)*

EXECUTIVE SUMMARY

Bangladesh's economy stands at a critical juncture as the country prepares for its FY2025–26 budget amidst mounting macroeconomic challenges and structural imbalances. The interim government, formed following political turmoil in 2024, has inherited a fragile economic landscape defined by persistent inflation, weak revenue mobilisation, a growing fiscal deficit, and strained external balances. Although remittance inflows and exports have offered some support, underlying vulnerabilities in public finance, energy, banking, and the business climate continue to threaten long-term stability.

Revenue collection remains severely constrained. With tax revenue growth at just 4.4 per cent during the first half of FY2025, the government risks facing a shortfall of over BDT 105,000 crore by the fiscal year's end. The widening deficit has led to excessive reliance on scheduled bank borrowing, crowding out private sector credit and tightening liquidity conditions in an already sluggish financial system. Inflation remains entrenched at over 9 per cent, with food inflation disproportionately affecting rural households. While remittance inflows increased by 22.6 per cent, a 22 per cent drop in overseas migration casts doubt over the sustainability of this trend. GDP growth has decelerated significantly, registering just 1.81 per cent in Q1 of FY2025—well below the 5.25 per cent revised target.

To avoid exacerbating macroeconomic instability, the FY2025–26 budget must recalibrate its approach to deficit financing. A renewed focus on revenue generation is essential. This includes digitisation of the National Board of Revenue (NBR), implementation of a unique taxpayer identification system linked to national IDs, and bifurcation of the NBR's policy and administration arms. These institutional reforms, aimed at improving tax compliance and administrative efficiency, are critical to restoring fiscal health. At the same time, inflation control measures must go beyond monetary tools. Strengthening supply chains for agricultural products, investing in cold storage, and expanding rural market access are needed to ease food price volatility. The Competition Commission must be empowered to address hoarding, price manipulation, and market distortions.

Fiscal consolidation should not come at the cost of social protection. The tax-free income threshold should be raised to BDT 4 lakh, while targeted cash transfers must be scaled up for low-income households most affected by inflation. The budget must also avoid austerity measures that slash allocations to health, education, and social welfare. With Bangladesh set to graduate from least developed country (LDC) status in 2026, the government needs to begin phasing out subsidies and export incentives that violate WTO rules. At the same time, it must identify tariff lines where duties exceed WTO-bound rates and ensure full compliance with multilateral obligations to avoid post-graduation trade disruptions.

In the energy sector, state-owned enterprises are in crisis. The Bangladesh Power Development Board (BPDB) and Petrobangla collectively owe more than BDT 29,000 crore in unpaid dues, threatening the solvency of power producers. Petrobangla alone faces LNG payment arrears exceeding USD 722 million. The government has offered interest-free loans to assist repayment, but structural reform is essential. A five-year repayment plan should be put in place while avoiding additional unsustainable subsidies. Instead of increasing reliance on costly liquefied natural gas (LNG) imports, domestic gas exploration must be prioritised. Import duties on renewable energy inputs such as solar panels and inverters should be reduced to 5 per cent, with supplementary and advance taxes removed. Fiscal incentives favouring fossil fuel plants must be withdrawn to encourage a fairer energy transition.

Small and medium enterprises (SMEs), which account for over 24 million jobs, are under growing pressure. Recent changes to VAT and turnover tax thresholds have increased compliance burdens. The government should exempt SMEs from advance income tax and VAT, and make tax deductions at source refundable or adjustable against final liabilities. Dedicated credit lines, reduced interest rates, and SME-specific guarantee funds are essential to improve access to finance. Strengthening market competition is also crucial to prevent dominant firms from marginalising smaller players, particularly in the retail and services sectors.

The health sector requires urgent fiscal attention. Out-of-pocket expenditures remain among the highest in South Asia, straining household budgets. The budget should raise the health development surcharge from 1 per cent to 5 per cent and impose a flat BDT 10 excise tax per cigarette stick. A specific excise duty of BDT 0.10 per millilitre should replace the existing VAT on sugary beverages to curb non-communicable diseases. Essential medicines must be exempted from VAT, and tariffs on active pharmaceutical ingredients (APIs) should be removed to reduce production costs. In addition, resources must be earmarked to support victims of the July 2024 protests, including medical assistance and compensation for families of those affected.

Bangladesh's education sector has suffered post-pandemic learning losses and requires renewed investment. The budget should increase stipends at all education levels and expand the school feeding programme to all 9.3 million primary students. VAT on tuition fees for English-medium schools and imported educational materials should be eliminated to ease the financial burden on middle-class families. Corporate tax rates for private universities should be reduced to 10 per cent from the current 15 per cent to incentivise investment in higher education. Special scholarships must also be established for students injured or disabled during the July unrest to ensure their academic continuity.

Environmental sustainability must be embedded within fiscal policy. The reintroduction of a 5 per cent supplementary duty on plastic bags is necessary to combat the growing plastic pollution crisis. A 1 per cent surcharge on products deemed environmentally harmful and increased income taxes on fossil fuel-powered vehicles would encourage a shift to greener alternatives. Public investment should prioritise clean energy, solid waste management, and the expansion of urban green spaces to address worsening air pollution and meet climate targets under the Paris Agreement.

The upcoming budget presents a historic opportunity for the interim government to demonstrate bold leadership in the face of economic adversity. Without decisive action, Bangladesh risks stagnation that could erode hard-earned development gains. A policy package that combines revenue enhancement, inflation containment, inclusive social protection, SME support, energy diversification, and environmental resilience can lay the foundation for a more sustainable and equitable economic future. The Centre for Policy Dialogue's recommendations serve as a strategic framework for aligning fiscal decisions with both immediate priorities and long-term national goals, especially in light of Bangladesh's transition from LDC status.

2.1 INTRODUCTION

The national budget for fiscal year 2025-26 (FY2026) holds significant importance as it is being formulated by the interim government amid a challenging macroeconomic environment. The interim government inherited an economy characterised by high inflation, subdued revenue collection, sluggish budget implementation, a liquidity crunch in the banking sector, and declining foreign exchange reserves. The lower momentum in export earnings and remittance inflows has further exacerbated economic vulnerabilities.

Therefore, the FY2026 budget needs to address these pressing challenges through focused short-term measures whilst laying the foundation for medium-term reforms aimed at stabilising the economy and enhancing structural resilience.

In this context, the Centre for Policy Dialogue (CPD) has prepared a set of budgetary recommendations and fiscal measures to guide the upcoming budget for FY2026. These proposals focus on reinforcing macroeconomic stability, improving resource mobilisation, strengthening public finance management, improving social sectors such as health and education, addressing the financial situation of the power and energy sector, overcoming environmental challenges, and supporting small and medium enterprises. The recommendations consider the current economic realities and propose pragmatic strategies to navigate the prevailing uncertainties whilst promoting medium to long-term economic sustainability.

2.2 SNAPSHOT OF MACROECONOMIC CORRELATES

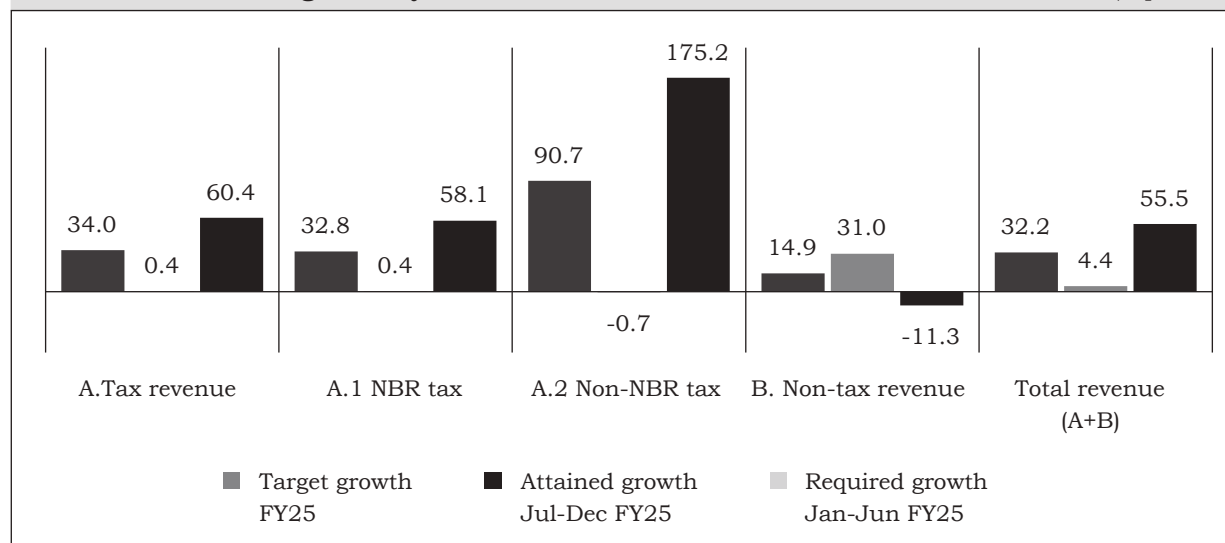
Key Recommendations

- The key macroeconomic management stance ought to be restoring macroeconomic stability via curbing the high inflationary rate, maintaining a stable foreign exchange reserve and enhancing fiscal space.
- A balanced approach is required when it comes to financing the budget deficit, especially considering the impact on the private sector.
- Precautionary measures must be put in place considering the growing uncertainty in the global economy.

2.2.1 Fiscal Space Shrank During the First Half of FY2025

Growth of revenue mobilisation was rather subdued during the July-December period of FY2025. In the aforementioned period, total revenue collection recorded a growth of 4.4 per cent. This implies that if the annual growth target of 32.2 per cent is to be met, then total revenue collection will need to increase by a whopping 55.5 per cent during the second half of FY2025 (Figure 2.1). This is indeed a highly unlikely prospect. If the current trend of revenue mobilisation continues, then revenue shortfall could reach BDT 105,000 crore at the end of FY2025.

During the July-December period of FY2025, overall budget utilisation was 28.3 per cent, whereas the corresponding figure for FY2024 was 25.5 per cent (MoF, 2025). The implementation rate of the Annual Development Programme (ADP) slowed down—reaching 14.8 per cent during the

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

Source: Author's calculation from MoF (2025).

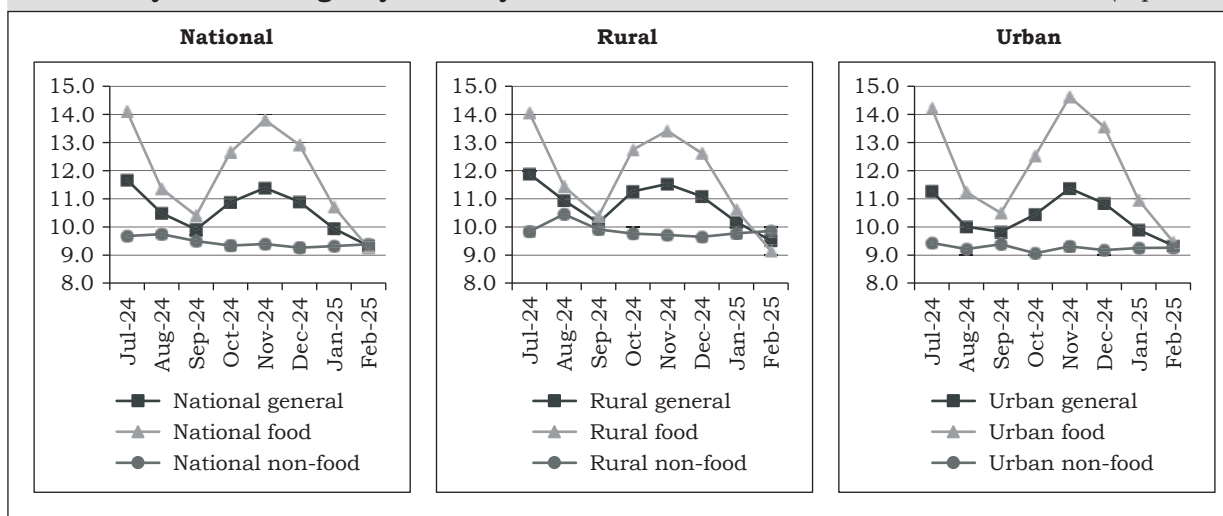
first half of FY2025 from 15.9 per cent during the corresponding period of FY2024 (MoF, 2025).¹ In this regard, it needs to be mentioned that following the mass uprising in July-August 2024, considerable reprioritisation and re-evaluation of development projects as well as reshuffling of the administration took place. These are likely to be the major factors behind the slow implementation of ADP. On the other hand, utilisation of non-ADP budget shot up, reaching 35.1 per cent during July-December of FY2025 from 30.6 per cent during July-December of FY2024. The major drivers of this phenomenon were the sharp increases in domestic interest payment and expenditures owing to subsidies and incentives.

Whilst the budget deficit increased, the composition of deficit financing turned out to be the more problematic issue. During the July-December period of FY2025, the budget deficit was BDT 29,527 crore. The corresponding figure was BDT 7,321 crore during the July-December FY2024 period (MoF, 2025). Borrowing from scheduled banks was catering to the majority of deficit financing, which was affecting private sector credit growth and adding to the ballooning interest payment liabilities.

2.2.2 Inflationary Pressures Continued Throughout the Fiscal Year

During the July-February period of FY2025, general inflation remained over 9 per cent at the national, rural, and urban levels (Figure 2.2). In both urban and rural areas, food inflation was generally higher than non-food inflation. On average, inflation in rural areas was higher than in urban areas. If the proposal to hike gas prices is accepted, then it is likely to adversely impact the inflation scenario, particularly that of non-food items. The uncertainty in the global economy owing to the tariff war might add to this. The Bangladesh Bank's target to contain inflation within a 7-8 per cent range by end-June 2025 (Bangladesh Bank, 2025a) is likely to be missed if the aforementioned dynamics unfold.

¹ According to data from the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning, ADP utilisation during July-December of FY2025 was 17.3 per cent (IMED, 2025a), which reached to 20.8 per cent during July-January of FY2025 (IMED, 2025b).

Figure 2.2**Inflationary trend during July-February FY2025***(in per cent)*

Source: Author's compilation from Bangladesh Bureau of Statistics [BBS] (2024, 2025a, 2025b).

2.2.3 Monetary Aggregates are Unlikely to Meet the Monetary Policy Targets

During the first seven months of FY2025, net foreign assets decreased by (-) 2.6 per cent (Table 2.1) owing to public sector debt service payments and lower than expected foreign support for budget financing. The higher than targeted growth of net domestic assets can be mainly attributed to the central bank's considerable liquidity support to several banks to meet their daily liquidity requirements. The reliance on bank borrowing to finance budget deficit is evident from the high growth of credit to the public sector. On the other hand, the historical low growth of credit to the private sector implies that net credit to the private sector will need to increase by more than 66 per cent during the last five months of FY2025. This is highly unlikely.

Table 2.1**Growth of monetary aggregates***(in per cent)*

As of	Net foreign assets	Net domestic assets	Domestic credit	Credit to the public sector	Credit to the private sector	Broad money	Reserve money
January FY2025	-2.6	9.8	9.1	16.6	7.2	8.0	9.0
June FY2025 (MPS target)	7.7	8.5	12.0	19.8	9.8	8.4	1.0

Source: Bangladesh Bank (2025a, n.d.a).

2.2.4 External Sector Performance Shows Signs of Recovery

In terms of the growth of both export earnings and import payments, recovery from the earlier dismal scenario was observed. Remittance inflow exhibited an impressive 22.6 per cent growth during the first eight months of FY2025 (Table 2.2). However, overseas migration recorded a considerable decline

of (-) 22.0 per cent during the aforementioned period. Significant improvements were observed both in the cases of current account and financial account balances. As a result, overall balance of payments exhibited an improvement to the tune of USD 3.5 billion. Both foreign exchange reserve and exchange rate of BDT against USD have stabilised compared to the earlier situation.

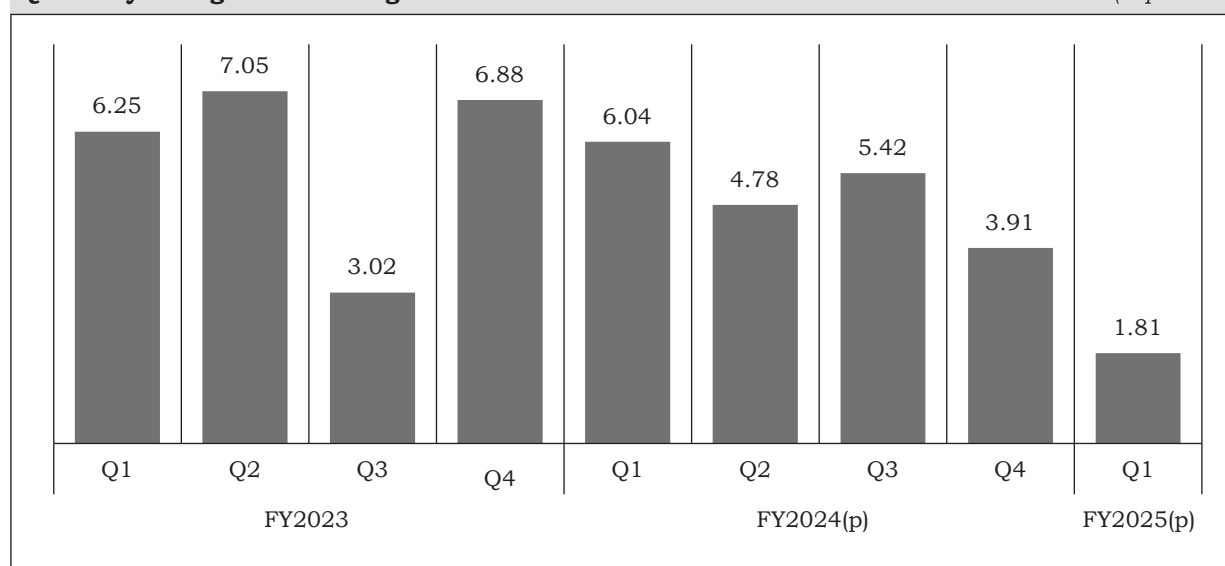
Table 2.2**Key indicators of the external sector**

Indicator	Unit	Timeframe	FY2024	FY2025
Export earnings growth	Per cent	July-February	-6.4	10.5
Import payments growth	Per cent	July-January	-18.3	4.3
Remittance growth	Per cent	July-February	7.6	22.6
Overseas migration growth	Per cent	July-February	15.8	-22.0
Current A/C balance	Million USD	July-January	-4,280	-552
Financial A/C balance	Million USD	July-January	81	850
Overall balance	Million USD	July-January	-4,687	-1,170
Forex reserve	Million USD	As of February	20,528	20,907
Exchange rate	BDT/USD	As of February	110.0	122.0

Source: Author's compilation and calculation from Bangladesh Bank (2025b, n.d.b, n.d.c, n.d.d), BMET (n.d.), and EPB (n.d.).

2.2.5 GDP Growth Declined in the First Quarter of FY2025

During the July-September period of FY2025, estimated GDP growth was 1.81 per cent (Figure 2.3). The corresponding figure for FY2024 was 6.04 per cent. In this connection, it needs to be mentioned that the annual GDP growth target for FY2025 was set at 6.75 per cent in the national budget for FY2025. As has been reported in the media, this target will be adjusted downward to 5.25

Figure 2.3**Quarterly GDP growth in Bangladesh***(in per cent)*

Source: Author's compilation from BBS (2025c).

per cent in the revised budget for FY2025 (Byron and Hasan, 2025). Whether this curtailed target can be achieved remains a question. For instance, World Bank (2025) forecasts Bangladesh's GDP growth for FY2025 to be 4.1 per cent. Other multilateral organisations such as the International Monetary Fund (IMF) and Asian Development Bank (ADB) have also made downward adjustments regarding Bangladesh's GDP growth in FY2025.

Given the current dynamics, the key macroeconomic management stance ought to be restoring macroeconomic stability via curbing the high inflationary rate, maintaining a stable foreign exchange reserve and enhancing the fiscal space.

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2.3 FORMULATING THE FY2026 BUDGET: CONSIDERATIONS AND ALIGNMENT WITH LDC GRADUATION

Key Recommendations

- The design and fiscal targets of the upcoming FY2026 should be set realistically, taking cognisance of both domestic and external economic scenarios and drawing lessons from the experiences of the previous years.
- Considering the current foreign exchange reserve scenario, the government should prioritise implementing all ADP projects that are supported by foreign sources.
- To access the special and differential treatment accorded to developing countries following LDC graduation, Bangladesh must identify tariff lines where current customs duties and other charges exceed the bound duty rates it has committed to.

2.3.1 Context

The budget for FY2026 is likely going to be the only budget prepared by the current interim government, as discussions for national elections in December 2025 are widespread. It is going to be prepared under new leadership at the Ministry of Finance as well. Given this context, the national budget for the upcoming FY2026 provides a unique opportunity for the interim government to break free from the formulaic mould, initiate short-term reforms and lay the foundation for medium-term reforms in public finance management in Bangladesh. Preparation of a credible fiscal framework can be the starting point in this regard.

2.3.2 Setting the Budgetary Targets for FY2026 in a Realistic Manner

Whether the FY2025 public finance framework was designed considering the correct set of assumptions remains a critically important question. During its 'Analysis of the National Budget for FY2024-25 in June 2024, CPD observed that 'the targets to be set for the macroeconomic framework for FY2025 did not take cognisance of the current realities and are too optimistic' (CPD, 2024). This led to the fiscal framework for FY2025 being rather formulaic and was underpinned by the notion that a business-as-usual scenario would prevail. As a result, lofty and highly optimistic budgetary targets were set that had a high probability of missing their marks by a considerable margin at the end of the fiscal year. Regrettably, many of the concerns are turning out to be true as FY2025 draws to a close and more up-to-date data becomes available.

The design and fiscal targets of the upcoming FY2026 budget must be set realistically, drawing lessons from the experiences of the previous years and taking into account the emergent macroeconomic scenario. Recent developments in both domestic and external fronts must be taken into cognisance in this regard. Whilst the issue of realistic target setting is discussed, the revenue collection targets for FY2025 can provide a perfect example. The proposed budget for FY2025 considered a fiscal framework which targeted a revenue mobilisation growth of 13.2 per cent over the revised budgetary target of FY2024. The growth target for FY2025, however, becomes 32.2 per cent, more than double the anticipated growth rate, when the actual revenue collection of FY2024 is considered. This illustration emphasises how important it is to set realistic targets when formulating a budget.

As has been reported in the media, the size of the national budget for FY2026 may be equal to or less than that of the ongoing FY2025 (Islam, 2025). The primary reason behind this is the subdued momentum of revenue mobilisation along with heightened pressure of debt servicing (as discussed in Section 2). This, perhaps, is an indication of steps in the right direction whilst taking cognisance of the current realities.

2.3.3 Streamlining Public Expenditure

It must be ensured that the current austerity measures have little impact on the social safety net, health and education sectors, agriculture, and small and medium-sized enterprises (SMEs), even though they must be maintained due to prudent macroeconomic management and IMF conditionalities. It will be necessary to maintain the newly started practice of removing unproductive activities from the ADP. Simultaneously, the ADP's infrastructure-heavy formulation will need to be reassessed to give the sectors involved in human capital formation the attention they deserve. Additionally, it is important to continue the efforts to reduce wasteful and expensive public spending, such as purchasing government vehicles and travelling abroad.

Considering the current foreign exchange reserve scenario, the government should prioritise implementing all ADP projects that are supported by foreign sources. Projects that are almost complete (implementation rate of 85 per cent or above in June 2025) should be given higher priority by the government. Projects with an implementation rate of 10 per cent or less up till end of FY2025 ought to be deprioritised. To support their continuation, 'carryover projects' with a maximum implementation rate of less than 30 per cent till the end of FY2025 should be re-examined.

2.3.4 Maintaining Balance in Budget Deficit Financing

Receiving financing from foreign sources will be a significant challenge in FY2026. The majority of foreign borrowing is dependent on the ability of government agencies to design and implement ADP. The majority of budget support is reliant on policy reforms. It is unlikely that non-bank borrowing targets will be met. Since people are saving less amid high inflation and interest rates for bank deposits and other instruments are rising, the sale of NSD certificates may remain sub-par. Consequently, there will probably be added pressure on bank borrowing to cover the budget deficit. The government's fiscal space will be constrained if private sector borrowings are not to be squeezed out, given the commercial banks' liquidity situation and the government's decision not to borrow from the central bank.

2.3.5 Safeguarding the Interests of Limited Income, Vulnerable and Disadvantaged Groups

Due consideration should be given to the economy-wide implications and equity concerns related to enhancing fiscal space and streamlining governmental spending. Supporting limited income, disadvantaged and vulnerable groups should be a primary priority of fiscal management in the days ahead, both for measures related to revenue and expenditures. For instance, given the prevailing high inflationary situation, tax-free income threshold for personal income should be increased to BDT 4.00 lakh. The public expenditure framework also needs to address the issue of persistently high costs for necessities. Small farmers and households with low or limited incomes should receive special attention in this regard. A substantial and targeted investment in social safety net programmes that target marginalised populations, such as women, youth, and people with disabilities, will be necessary.

2.3.6 Aligning with the LDC Graduation Agenda

Given the upcoming graduation from the least developed country (LDC) category in November 2026, Bangladesh's tax policies will need to ensure compliance with World Trade Organization (WTO) rules and obligations as applicable for (non-LDC) developing country members. The country's tariffs, customs duties and other charges will need to be reviewed and rationalised and aligned with WTO obligations as under various agreements. In doing so, *special and differential treatment* accorded to developing country members under the various WTO Agreements should also be taken into cognisance to take advantage of the flexibilities.

As part of the aforesaid exercise, tariff lines will need to be identified where customs duties and other charges exceed respective bound duties which were committed by Bangladesh when it acceded to the WTO in 1995 as one of its founding members. For example, Bangladesh had bound duties on alcohol and cigarettes at 200 per cent, milk powder at 45 per cent, and biscuits at 30 per cent. Currently, the total import taxes on these items (which include customs duties [CDs], supplementary duties [SDs] and regulatory duties [RDs], import VAT, advanced income tax [AIT]) exceed Bangladesh's bound rates. Already 60 such lines have been identified by the NBR which will need to be brought down to bound tariff rates to ensure trade neutrality (i.e., duty structure is not allowed to discriminate between imported and domestically produced items). This exercise will have to be continued till November 2026, the time of graduation, at which point compliance will have to be established. To note, Bangladesh has a binding coverage of 17 per cent of tariff lines which means 83 per cent of tariff lines remain unbound. Bangladesh will continue to enjoy the flexibility related to tariffs on non-bound items even after graduation. NBR should be aware of and take advantage of this.

Bangladesh has minimum import prices for several imported goods. These will need to be withdrawn following LDC graduation since such practices are not WTO-compatible. As is known, SDs, RDs, AIT, advance VAT, etc. along with CDs are a common feature of Bangladesh's import duty structure. Such non-CD charges will need to be done away with in respect of imported items in cases where the principle of *trade neutrality* is violated (e.g., when such duties are imposed on imported items but not on similar domestically produced items).

LDC graduation will mean that direct export incentives (e.g. the 3-4 per cent cash incentive for export-oriented apparel sector, and the 20 per cent cash incentive for agricultural exports) will no longer be permissible under the WTO. Such export incentives will need to be phased out and WTO compliance needs to be ensured. To support exporters, Bangladesh will need to put in place other supportive measures (non-cash incentives) that do not violate WTO regulations.

The frequency of notification as regards changes in trade and tariff policies concerning agricultural subsidies will rise once Bangladesh graduates from the LDC group. These will have to be notified to the WTO in a timely fashion. Notifications as regards domestic support will need to be submitted every year instead of submission on a biennial basis (which has been the case for Bangladesh as an LDC).

As may be recalled, the majority of Category A, B and C submissions in the context of the *Trade Facilitation Agreement (TFA)* concern the broad areas of customs and logistics facilitation. The NBR should review Bangladesh's commitments regarding the TFA. This is particularly important in view of *Category B* (time-bound commitments) and *Category C* (compliance to be assured subject to technical assistance). In view of LDC graduation, initiatives must be undertaken concerning implementing *Category B* obligations. Technical assistance should be brought promptly to ensure compliance with *Category C* commitments.

The WTO's 13th Ministerial Conference (MC13) decision stipulates that graduating LDCs will not be taken to the WTO Dispute Settlement Body (WTO-DSB) for three years following graduation of the LDCs. There is a need to build adequate national capacity to deal with possible disputes in the WTO given the expiry of this provision in 2029. The national budget for FY2026 should make appropriate allocations to build national human resource capacity to deal with trade-related disputes.

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2.4 REFORMS OF THE NBR AND THE TAXATION SYSTEM

Key Recommendations

- Initiate institutional reforms of the NBR by putting in place two distinct entities—the Revenue Policy Department and the Revenue Administration Department, in order to separate policy making functions and policy implementation functions concerning domestic resource mobilisation.
- To promote digitalisation, automation, and modernisation of the taxation system, establish a dedicated Digitalisation Wing within the NBR. This wing will be responsible for coordinating the digitalisation efforts across various NBR departments, ensuring system and software interoperability, and facilitating greater involvement of local IT companies in implementing digitalisation programmes and projects.
- Align expenditure patterns with income tax statements by introducing a unique identifier (such as the NID), which must be provided when making specified expenditures (as determined by the Tax Administration) and made mandatory when filing tax returns.

This section focuses on proposed initiatives in the areas of reforms of Bangladesh's revenue system with a view to modernise the system and making the revenue administration structure more efficient and effective. The section also highlights the need to set up a separate entity to be tasked with the responsibilities of digitalising Bangladesh's taxation system. The section proposes measures to reform the VAT system and explores additional tax measures as part of the reforms of taxation. The section also underscores the changes that are needed to make the newly introduced Income Tax Act 2023 more effective and taxpayer friendly.

2.4.1 NBR Institutional Reforms

As far as Bangladesh's revenue mobilisation was concerned, the disquieting trend is that Bangladesh's revenue-GDP ratio has been on a secular decline over the recent past years. The ratio decreased from 10.9 per cent in FY2015 to 8.2 per cent in FY2024. To recall, the 7th FYP had set a target to raise the ratio from 10.9 per cent in FY2015 to 16.1 per cent by FY2020! Evidently, the country has a long way to go to reverse this declining trend. Thus, it is not surprising that the Interim Government has put reforms of the NBR and the taxation system as one of its top policy priorities. The urgency of the reforms is underpinned by the need to transform NBR into a 21st century revenue agency that has (a) the institutional capacity to design, plan and propose appropriate tax and revenue policies, (b) the ability to provide hassle-free and efficient services to the taxpayers, and (c) the capability to ensure significant rise in revenue earnings and raise the country's revenue-GDP ratio. To this end, the NBR has constituted a five-member Advisory Committee to come up with concrete recommendation for reforms of the NBR and the taxation system in general, as also as regards administrative and governance structure that will be required to make the reforms successful. The Committee has already submitted its interim report. The NBR is also taking various steps on its own towards the betterment of the taxation system.

The Advisory Committee has proposed separation of policy formulation and revenue collection functions of the NBR both of which are at present vested in the NBR. It is to be noted that the separation of policy and implementation tasks of the NBR is also one of the IMF conditionalities for the USD 4.7 billion loan that Bangladesh has taken from the Fund, in June 2023.

It has been proposed that the NBR be reorganised both horizontally and vertically. Two separate Departments have been proposed: the *Revenue Policy Department* and the *Revenue Administration Department*. Both departments are to be placed under the Ministry of Finance. At present, NBR activities are carried out under the *Internal Resource Department*, which in turn works under the Ministry of Finance. The proposed and envisaged changes will require the replacement of the *National Board of Revenue Order 1972*. The Revenue Administration Department has been proposed to carry out the functions which are currently performed by the NBR. The Revenue Policy Department's mandate will be to deal with policy matters. This bifurcation of responsibility is expected to enhance both accountability and efficiency of the taxation system.

The need to set up separate, independent, and specialised entities with the mandate to implement the overall taxation policy of the country is a long-felt one. The criticism against the prevailing system in place is that it puts the focus primarily on revenue collection, to the detriment of formulating policies that are aligned with the needs of the economy, requirements of the taxpayers and that serve the overall developmental strategies of the country. For example, the 8th FYP (2021-2025) envisaged a gradual reduction of the average nominal protection rate by 3-5 percentage points annually till 2025. Till now, the NBR has not taken any tangible steps towards the implementation of this directive. The implementation of newly put in place National Tariff Policy 2023 (NTP 2023) provides an opportunity now to undertake tariff rationalisation along these lines. Setting concrete plans, targets and timelines for tariff rationalisation and ensuring accountability and responsibility to implement the plan will be the mandate of the proposed Policy Department. Separation of tax policy will also be important in formulating taxation policies keeping in the perspective the need of the various FTA/CEPA/ETCA negotiations which Bangladesh is undertaking at present and is planning to undertake in future. The Policy Department will also be required to take cognisance of WTO commitments and the country's trade and investment strategies as also the broader issues of developmental interests. The Revenue Administration Department will be tasked to implement these policies.

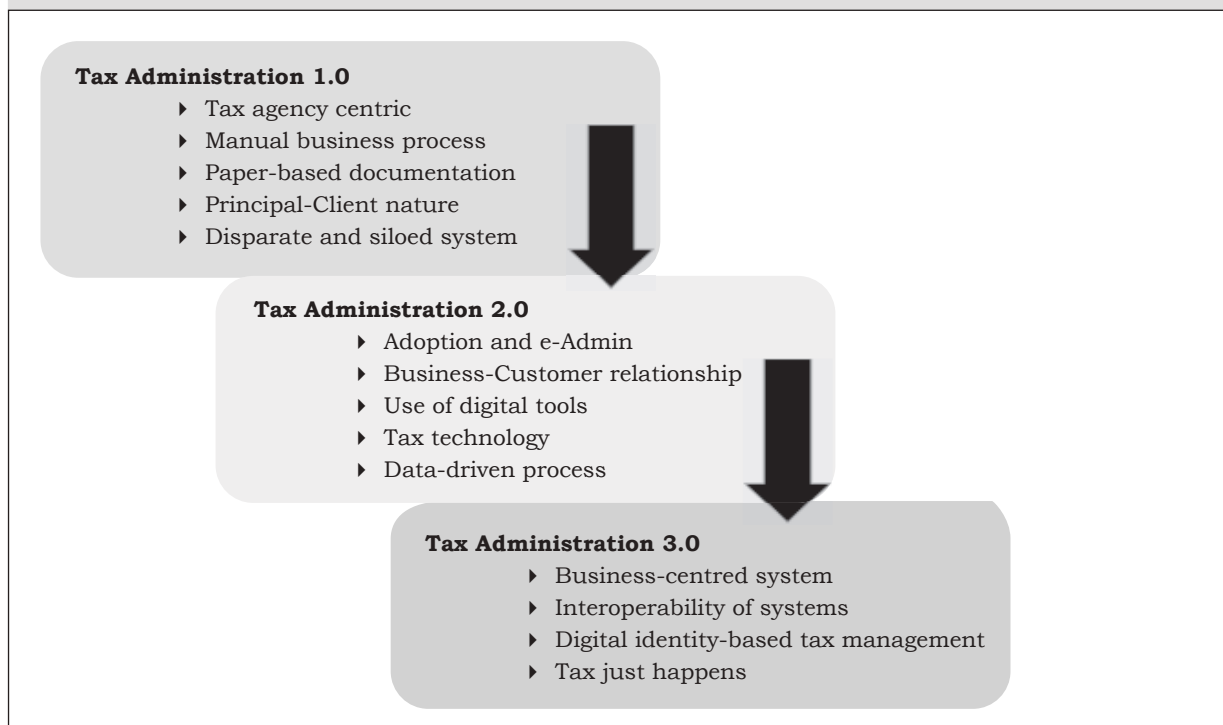
The Policy Department needs to include, besides tax-revenue officials, representatives from businesses, accounting professionals, economists, academia, think tanks and the civil society. The Department should be headed by a professional of high repute who has wide-ranging and in-depth knowledge about taxation policy and economic issues and is also equipped with proper technical knowledge.

Bangladesh's tax system will need to move away from the currently prevailing *Tax Administration 1.0* to *Tax Administration 3.0* (Figure 2.4), through leapfrogging. The reforms under consideration will need to ensure that the taxation system is able to work independently, free from administrative control and unnecessary interventions by various entities and vested interests. The NBR Chairman will report directly to the Minister of Finance. Two Vice-Chairmen posts have been proposed to be created—one for direct taxes and the other for indirect taxes. These will need to work in a coordinated manner. A shift from trade taxes to income taxes and VAT, and within the broad categories, a shift from indirect taxes to direct taxes will need to be ensured.

Because of entrenched vested interests, systemic reforms of the NBR will not be easy to carry out. To recall, a similar initiative was taken in 2008 by the then *Caretaker Government*. However, this was not followed up by the newly elected *Awami League Government*. Expeditious decision making and timely implementation of the decision, given the above proposed reforms, are of crucial importance. The interim Government's tenure provides a window of opportunity in this regard. However, only systemic reforms will not be enough to achieve the targets of higher DRM. Digitalisation of the taxation system and, with its help, raising the efficacy of revenue mobilisation ought to be seen as necessary next steps to attain the goals of higher DRM.

Figure 2.4

Tax Administration 1.0 to Tax Administration 3.0



Source: Rahman and Rozario (2024).

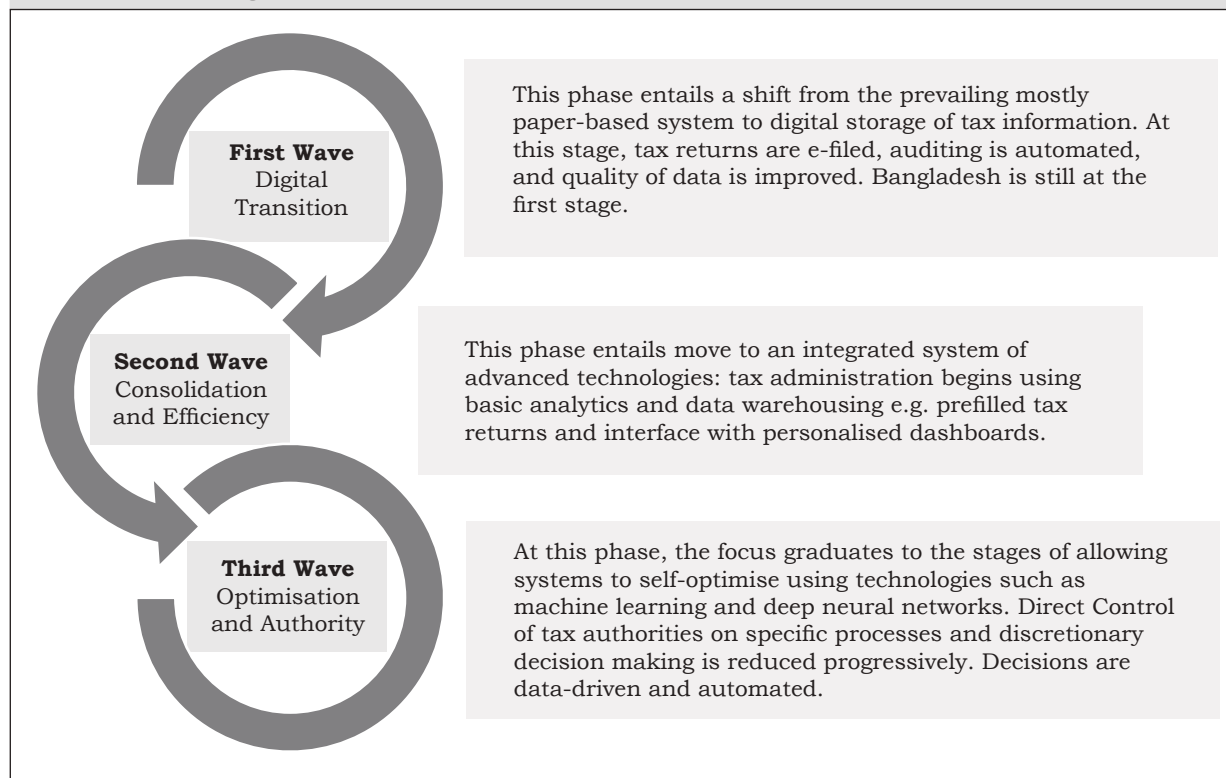
2.4.2 Digitalisation of NBR

Globally, countries are moving towards digital transformation of income tax and revenue collection systems, rather than mere automation. The current reforms in Bangladesh will need to be geared towards the transformation and modernisation of the taxation system. An earlier CPD study (2024) had reported that among its peers, Bangladesh would potentially generate the highest rate of return from the investment in modernising the tax system: BDT 400 additional revenue earnings could potentially be generated for BDT one invested in tax system digitalisation, automation and modernisation. Thus, investing in these activities will prove to be a good value for money.

Given the above, the NBR should put in place a separate Digitalisation Cell. At present, the various components of the NBR (VAT, Customs and Income Tax) are taking up digitalisation programmes on their own, in an uncoordinated manner. This is creating difficulties since there is a lack of interface between the different software systems. A separate and dedicated Digitalisation Cell will help coordinate the digitalisation efforts by all concerned entities. The Cell will need to particularly ensure interoperability of the various systems which is crucial to put in operation systemic interface, deter tax avoidance and facilitate revenue mobilisation. By further strengthening the successfully implemented e-TIN system, the e-Return should now be made mandatory beyond the current limited classes of taxpayers (government officials and bankers). Corporate tax return submission will also need to be brought under e-filing.

However, only three tax functions have been brought under the ambit of digitalisation: tax registration (e-TIN), tax deducted at source (e-TDS, that also only partially) and individual returns filing (e-Return). These will need to be expanded in a planned manner.

Figure 2.5
Three Waves of Digitalisation



Source: Rahman and Rozario (2024).

In undertaking digitalisation, three waves may be envisaged (Figure 2.5). Bangladesh will be required to move from the current first wave of digitalisation to the second wave, and finally to the third wave of digitalisation, in a time-bound manner. To note, Bangladesh does not necessarily need to follow the aforesaid waves sequentially. Through technological leapfrogging, some intermediate stages, regarding some of the elements, may be skipped in order to reach a higher stage.

To recall and note, whilst in the past Bangladesh has taken various initiatives in areas of digitalisation of the taxation system, the results have been far from satisfactory (Rahman and Rozario, 2024). According to the World Bank, for example, the iVAS currently offers only 43 per cent of the benchmark features despite the substantial investment made over the past years (Rahman and Rozario, 2024). Foreign vendors implementing digitalisation projects were often not able to deliver the outputs they were expected to. On the other hand, there are many Bangladeshi tech companies and IT professionals who have acquired the expertise needed to implement many of the digitalisation programmes currently under consideration. However, due to various stringent eligibility conditions and requirements, local IT companies are not able to participate in the bidding process. There is a need to revisit the tender requirements and create a conducive environment to enable capable local companies and firms to take part in tenders and bidding processes floated by the NBR as part of implementing programmes and projects in the areas of digitalisation and modernisation of the taxation system.

4.3 Strengthening NBR's Capacity Towards Revenue Mobilisation

Institutional capacity of the NBR will need to be strengthened significantly through the allocation of adequate resources. Adequate investment will have to be made to build up the required human and implementation capacities. NBR should put in place a system to ensure reconciliation of expenditure information with income data. This will go a long way to detect tax evasion. For example, in India, the Aadhar number is linked to a host of services such as mobile SIM cards, bank accounts, land registration, vehicle registration, etc., for reporting purposes. Since 2021, submission of Aadhar number has been made mandatory whilst submitting income tax returns along with respective PAN (Permanent Account Number). NBR can think of introducing such a system by adjusting this to the Bangladesh context.

According to the current rules and regulations, parliament members can introduce tax exemption proposals at parliament sessions. In the past, parliament members having business interests or being influenced by business and prompted by vested interests often submitted tax exemption proposals at budget sessions of the parliament. These in most cases did not serve the interest of the economy and the cause of revenue mobilisation. This provision needs to be revisited. It should be the NBR which should be entrusted with the responsibility of placing tax exemption proposals to the parliament (following wide-ranging consultation with the concerned stakeholders).

Efforts will need to be geared to put in place single-window customs clearance to facilitate export-oriented activities, in particular, and trade in general. NBR may also think of operationalising the OECD Standard for Automatic Exchange of Information to track global assets. NBR may also think of establishing a high net wealth unit within the large taxpayer unit to ensure financial data transparency. Given the WTO-MC12 decision concerning the withdrawal of the moratorium on taxing E-commerce (March 2026 or MC14, whichever is earlier), NBR should adjust Bangladesh's import duties on E-commerce accordingly. To be true, NBR is taking a number of measures in this regard (NBR, 2025), however, much more needs to be done in this regard.

2.4.4 Reforms of the VAT

There is a need to bring all VAT-related functions under one roof by introducing a comprehensive national system. Such a system could cover the wide spectrum of VAT-related activities including collection, issuance of challan, accounting, submission of returns and others. There is a need to fast track NBR's plans in this regard.

As is known, NBR has now made VAT registration mandatory for businesses that have an annual turnover exceeding BDT 5.0 million (instead of BDT 30.0 million) and VAT registration mandatory for businesses with an annual turnover of between BDT 5.0 million and BDT 30.0 million (instead of annual turnover between BDT 3.0 million and BDT 5.0 million with the applicable turnover tax of 4 per cent) (NBR, 2025). NBR may consider reducing the prevailing VAT rate (15 per cent) by moving towards a general uniform lower VAT rate (perhaps 10 per cent flat rate) by reducing exceptions but taking into cognisance SME interests. To note, at present, the number of entities with VAT registration stands at only about 5.0 lakh, while the actual number of VAT-eligible entities is way higher than this. VAT points from where VAT is collected are much higher than VAT points from which VAT is deposited to the government. Evidently, there is widespread and largescale leakage and corruption embedded in the prevailing system. Energetic steps will need to be taken to plug the existing loopholes.

2.4.5 Reforms of the bonded warehouse facility (BWF)

The NBR will need to expeditiously reform the current bonded warehouse licencing system to facilitate duty-free import of raw materials by non-bonded, small-scale exporters. The current system excludes more than 70 per cent of exporters who accounted for about a fifth of the country's total exports in FY2024. A large number of such exporters import export-oriented inputs and intermediates which do not enjoy bonded warehouse facility at present. The NBR is considering allowing import of raw materials without duty if the concerned exporter can provide a bank guarantee equivalent to the applicable import duties. If implemented, this will significantly reduce the hassle faced currently by such exporters in claiming duty drawbacks from the DEDO (Duty Exemption and Drawback Office). It will reduce the cost of doing export business and save time on the part of the exporters. The NBR needs to operationalise the newly proposed system quickly. At the same time, the work on bond automation will also need to be expeditiously completed to operationalise the expanded bond system. Exporters should be required to renew bond licences with less frequency than is currently the case.

2.4.6 Identifying new avenues of taxation

In the emergent economic environment, an increasing share of business activities in Bangladesh is taking place in the arena of the digital economy: E-commerce, F-commerce, freelancing, business process outsourcing and others. There should be a plan as regards taxing the country's growing digital economy (Rahman and Purification, 2023). At present, 28 IT-enabled services are enjoying tax incentives (no income tax). A plan should be there to phase out some of these incentives.

To guard against corporate tax evasion, additional measures besides the Document Verification System (DVS) will need to be introduced. These could include requiring audit firms to verify actual transactions rather than relying solely on company-provided information.

The NBR should develop a policy as regards taxing wealth (wealth tax) and inheritance (*inheritance tax*) towards a more equitable tax system. All tax expenditures and incentives should have a time-bound and predictable sunset clause, so that businesses and entrepreneurs can plan their business model accordingly. Additionally, a plan will need to be put in place to reduce tax expenditure significantly, keeping in perspective of the country's trade and industrial policies and strategies on the one hand, and the interests of higher revenue mobilisation on the other.

2.4.7 Reforms of the Income Tax Act 2023

Implementation of the new *Income Tax Act 2023* has revealed several problems which are making operationalisation difficult. These will need to be addressed in a speedy manner.

Submission of proof of tax deduction at source, every month, is proving to be onerous on the part of the taxpayers. The requirements should be reset at two times per year (which was in place previously; if not, then at most on a quarterly basis, i.e. at four times per year).

The definition used for Company in the Income Tax Act 2023 is quite wide-ranging and extensive (e.g., education institutions are also covered under the definition). Since companies are required to maintain and submit a significant number of additional documents, compliance burden is quite onerous particularly for groups such as the aforementioned ones. Indeed, many such entities are not being able to submit all the required documents creating problems both for the taxpayers and the NBR officials dealing with entities. The definition may be reviewed and changed accordingly to deal with the emergent situation.

The Act requires engagement of several tax officials from various circles for purposes of audit of randomly selected taxpayers. NBR's intentions are well-understood and well-appreciated; it plans to make the system more robust and address the issue of tax evasion. However, the implementation difficulties on the ground will also need to be taken into cognisance of. According to one report, under the new system, as many as seven tax officials will be required to undertake a single audit (নিরীক্ষায় পড়লে একজন করদাতার পেছনে ছুটবেন সাত কর্মকর্তা, 2023). It is apprehended that the proposed multilayered audit will raise the compliance burden significantly on the part of the taxpayers. On the other hand, with limited human resources at the NBR, its officials are also finding it difficult to implement the audit. The proposed system may be revised to make it more actionable and effective.

2.4.8 Final Remarks

Reforms of the NBR and Bangladesh's taxation system are long overdue. Lack of reforms has been imposing high costs on the country and the economy. The tenure of the Interim government provides a rare window of opportunity to address the attendant problems and challenges and the underlying reasons. The preceding sections have highlighted several areas where structural, operational and systemic changes will be called for if Bangladesh's taxation system is to embrace rationalisation, automation, digitalisation and modernisation. What is also no less important, the country's taxation systems also need to be taxpayer friendly. Time for concrete and targeted actions is now.

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2.5 FISCAL POLICY FOR CONTROLLING INFLATION

Key Recommendations

- Prioritise spending on critical sectors such as healthcare, education, and agricultural infrastructure while cutting non-essential expenditures to reduce aggregate demand and alleviate inflationary pressures.
- Expand cold storage facilities for agricultural products to create a strategic buffer stock for stabilising prices.
- Strengthen the role of the Competition Commission by hiring skilled professionals to monitor markets, investigate market manipulation, and enforce anti-trust laws with a zero-tolerance policy.

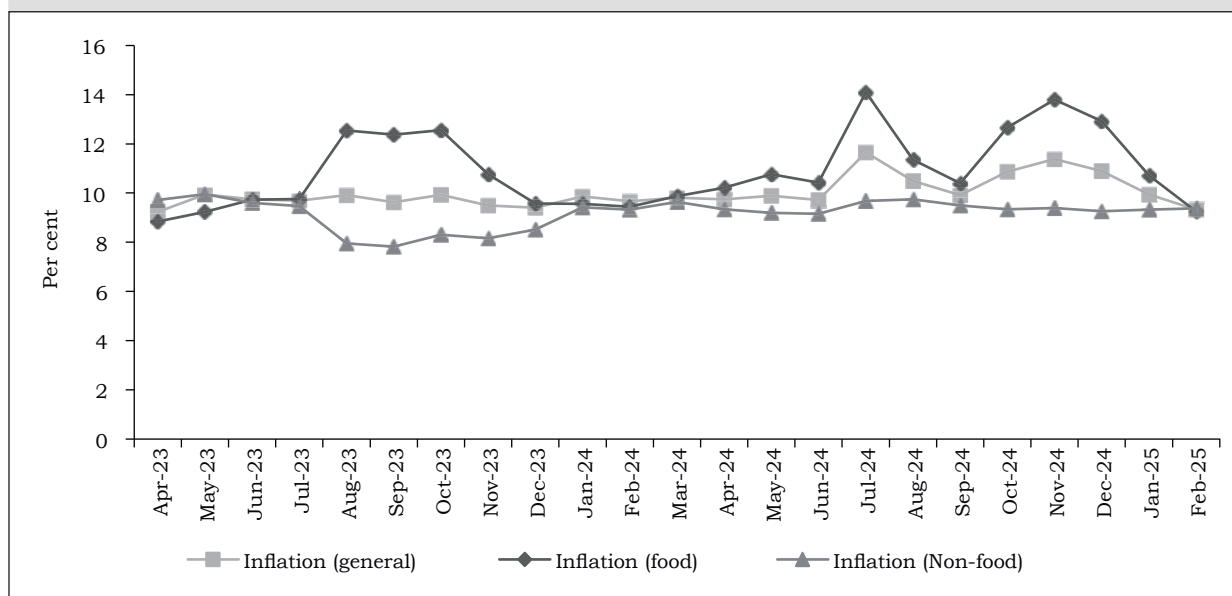
2.5.1 Introduction

Inflation has become a significant economic challenge for Bangladesh in recent years. Under the former autocratic regime, high prices and high inflation had become the norm for the economy, causing immense suffering for millions. The persistent inflationary pressure diminished purchasing power, especially for low-income households, and jeopardised economic stability. 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, 2024a), to 9.5 per cent in September 2024 (Bangladesh Bank, 2024b) and finally to 10 per cent in October 2024 (Bangladesh Bank, 2024c). However, due to the overall expansionary stance in fiscal policy, such monetary measures had limited impact.

Fiscal policy is a demand-side tool that may influence inflation by regulating aggregate demand through government expenditure and tax changes. When it comes to supply-side inflation, which is often driven by cost-push factors like increasing material prices, targeted fiscal policies that boost productivity and lower production costs are the most effective way forward. A balanced fiscal strategy is crucial in the context of Bangladesh, where both demand-pull and cost-push variables drive inflation. Spending cuts on non-essential government programmes may reduce aggregate demand and thereby reduce demand-pull inflation. The government should strategically invest in critical infrastructure, agriculture, and energy to combat cost-push inflation while easing supply-side limitations. Improving specific social safety net programmes like food assistance and cash transfers may shield low-income people from the adverse consequences of inflation without substantially raising overall demand. This chapter explores how fiscal policy tools can be strategically employed to reduce inflation in Bangladesh, with specific recommendations for the national budget for the fiscal year (FY) 2026.

2.5.2 Recent Trends of Inflation

Food, non-food, and general point-to-point CPI inflation have been hovering around 10 per cent (Bangladesh Bank, 2024d) since April 2023, when the Bangladesh Bureau of Statistics (BBS) introduced a new base and basket for CPI (Figure 2.6). 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). Another possible reason for the elevated inflation rates could be the disastrous flood in the eastern region of Bangladesh in June 2024 (CPD, 2024a). Nevertheless, after seven months of assuming office, the interim government

Figure 2.6**Point-to-point general, food, and non-food CPI inflation in Bangladesh (in per cent) (Base Index 2021-22=100)**

Source: CPD illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS, 2025).

brought down the point-to-point national general, food, and non-food inflation within single digits (Figure 2.6). As of February 2025, the point-to-point general inflation rate was 9.32 per cent, the point-to-point food inflation rate was 9.24 per cent, and the point-to-point non-food inflation rate was 9.38 per cent.

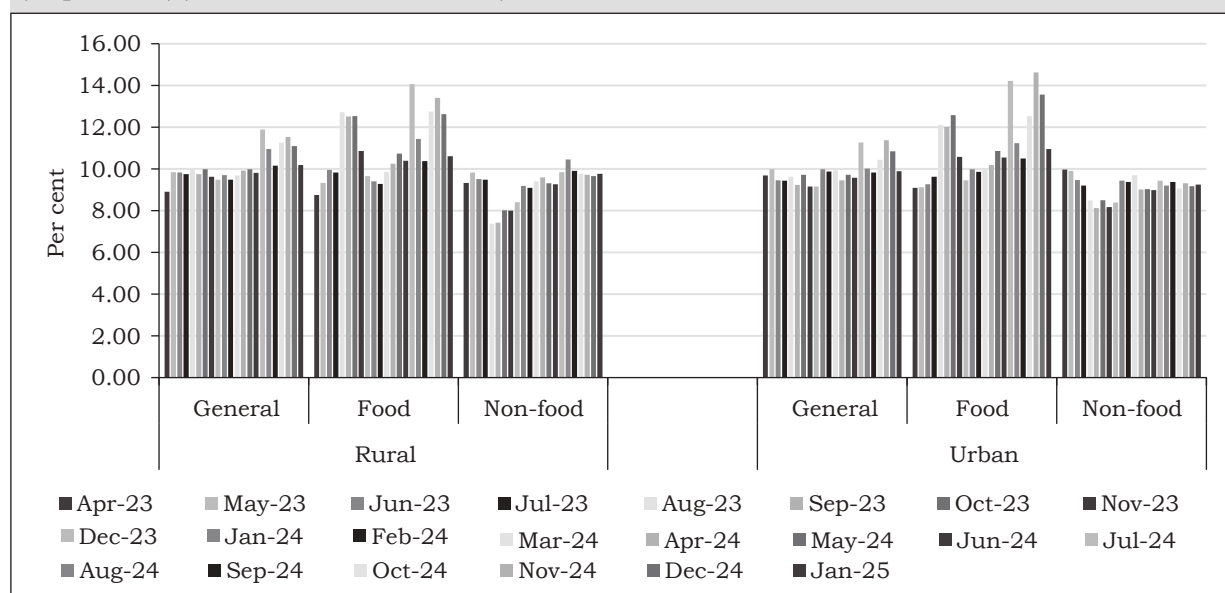
In terms of geographic differences, point-to-point general, food, and non-food inflation have been decreasing in both rural and urban areas of Bangladesh in the first two months of 2025 (BBS, 2025) (Figure 2.7). Notably, food inflation decreased from 10.61 per cent in January 2025 to 9.15 per cent in February 2025 in rural areas and from 10.95 per cent in January 2025 to 9.47 per cent in February 2025 in urban areas (BBS, 2025). However, the point-to-point general CPI inflation rate was higher in rural areas than urban areas for 18 months out of the 23 months between April 2023 and February 2025 (BBS, 2025). 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.

2.5.3 Some measures taken by the interim government to control inflation

When the interim government took office in August 2024, controlling inflation was one of its major economic priorities. In the past few months, the interim government has taken several measures to control inflation. Under the interim government, the Trading Corporation of Bangladesh (TCB) has verified, printed and delivered 57 lakh smart family cards to local administration offices for nationwide distribution free of charge ('TCB to distribute 57 lakh cards', 2025). Smart family cardholders were provided the opportunity to purchase 2 litres of edible oil for BDT 200, 2 kilograms (kg) of lentils for BDT 120, and 1 kg of sugar for BDT 70 ('TCB prepares 57 lakh smart family cards to prevent duplication', 2024).

Figure 2.7

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, 2025).

The interim government had also announced that 50 lakh families would receive 30 kg of rice at BDT 15 per kg under the food-friendly programme in March and April. Furthermore, as an Eid gift from the interim government, one crore low-income families would receive 10 kg of rice free of cost ('50 lakh families to get rice at Tk 15 per kg in March, April: Food adviser', 2025). Furthermore, according to the National Board of Revenue (NBR), customers will not have to pay the additional 7.5 per cent trade value-added tax (VAT) when shopping at supermarkets ('NBR eases VAT for supermarket shoppers', 2025.). Under the revised VAT structure, supermarkets will now be subject to a 15 per cent VAT. However, they can claim input tax credits, ensuring customers do not face additional costs separately. Instead, VAT will be incorporated into product prices, helping ease consumers' financial burden.

Nevertheless, high inflation has revealed the inherent weakness in the government's domestic resource mobilisation approach, which is mainly dependent on revenue collection from indirect taxes. If inflation continues at the present rate, the government may be compelled to withdraw indirect taxes on essential items. Thus, fiscal policy, highly dependent on indirect taxes, propagates economic inequality in society and forces the government to trade off revenue generation in the face of high inflation. It is urgently required to increase revenue collection from direct taxation and reduce dependence on indirect taxes, especially since Bangladesh is now poised to graduate from the Least Developed Countries (LDC) group.

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 been only partly successful. The Competition Commission's role should be strengthened. Skilled professionals should be hired to monitor markets for essential commodities regularly. The Commission should create a database, monitor the operations of prominent market players regularly, investigate market control and manipulation (if any), and take appropriate action. An adequate budget should

be earmarked for the Commission to perform these duties. To this end, the Ministry of Commerce should also work with the Commission. The Bangladesh Competition Commission should adopt a strong stance against cartels and a zero-tolerance policy towards collusive practices. Furthermore, the Competition Act 2012 should be revised to address monopolies directly and include specific anti-trust clauses and concrete penalties for violators.

2.5.4 Demand-side measures for controlling inflation

Government expenditure is a crucial fiscal policy tool that may substantially affect inflation. Studies suggest that governmental expenditure, especially in non-productive industries, may result in long-term inflationary pressures (Kundu, 2016; Afrin, 2014). Consequently, the appropriate management of government expenditures is crucial for controlling inflation. The government can reduce aggregate demand and alleviate inflationary pressures by curbing non-essential expenses, such as subsidies on non-priority sectors and inefficient public projects. Research indicates that curtailing superfluous government expenditure and redistributing resources to productive sectors may alleviate inflationary pressures (Chakraborty, 2024) (Hossain A. , 2020).

Boosting tax collections is a potent fiscal tool for mitigating inflation. Increased tax collections diminish the need for deficit financing, often resulting in inflationary money supply expansion. Studies suggest that augmenting tax revenues might counterbalance expenditures, alleviating inflationary pressures (Alam, 2018). Expanding the tax base by integrating informal sectors and enhancing tax collection efficiency may provide supplementary revenue without unduly burdening low-income people. Furthermore, progressive taxation on high-income individuals might diminish disposable income and restrain excessive expenditure, alleviating demand-pull inflation (Raihan & Anjum, 2020).

Regulating fiscal deficits is crucial to avert inflation. Expansionary fiscal policies in emerging economies such as Bangladesh often result in elevated inflation owing to increased money supply and aggregate demand. Previous research underscores the need to maintain a manageable level of public debt to regulate inflation (Afrin, 2014). Decreasing fiscal deficits and efficiently managing public debt will alleviate long-term inflationary pressures (Chakraborty, 2024) (Hossain A. , 2020). Restricting borrowing from the central bank and emphasising productive investments over discretionary spending helps sustain fiscal discipline and mitigate inflation.

2.5.5 Supply-side measures for controlling inflation

Subsidies and social expenditures are significant fiscal policy tools that could influence inflation. A common criticism of subsidies is that they distort market prices. However, targeted subsidies can help vulnerable populations without making inflation worse. For example, subsidies on vital commodities such as food, fuel, and healthcare may be targeted to assist low-income families, especially ensuring that anti-inflationary policies do not disproportionately impact the impoverished. Studies indicate that targeted subsidies and social expenditures might effectively mitigate inflation while maintaining fiscal stability (Chakraborty, 2024; Hossain, 2020).

Targeted fiscal support measures may improve agricultural production and stability, aiding inflation management. Studies demonstrate that effectively structured fiscal assistance programmes may expand agricultural acreage, enhance farmers' earnings, and strengthen rural social security systems (Chang, 2024). These policies should prioritise subsidies for inputs like seeds, fertilisers, and pesticides to lower agriculture costs and enhance output, thereby alleviating cost-push inflation. Investment in infrastructure development, including irrigation systems, storage facilities, and rural roadways, may enhance agricultural efficiency and mitigate supply chain bottlenecks.

Increasing access to low-interest loans for farmers may improve production and mitigate debt-induced inflationary pressures.

Supply-side factors, such as agricultural productivity and supply chain efficiency, play a significant role in inflation dynamics. Fiscal measures that address these factors can help reduce inflation. Water-efficient high-value crops such as maize, spices, oilseeds, and pulses should be promoted in drought-prone northern regions. This can be achieved by distributing high-quality seeds and saplings at subsidised prices and low-interest agricultural credit. In southern regions, Boro rice cultivation should be promoted under special projects with provisions for improved salt-tolerant rice seeds, surface water irrigation systems, and mechanical tillage support. The government should establish cold storage facilities for grains, potatoes, vegetables, and fruits to reduce post-harvest losses. Such facilities, deployed in conjunction with the increased scale and scope of government procurement of agricultural products, can serve as a strategic buffer stock of essential food items that can then be used to stabilise prices as and when required. The establishment of broodstock banks for fish species such as *ruhi*, *katla*, *tilapia*, and freshwater prawns is essential to ensure the availability of quality fingerlings. Solar-powered pumps should be encouraged through low-interest loans to minimise dependency on the national grid for electricity in irrigation. Enhancing research and development in agriculture can improve crop yields and reduce production costs. A subsidised insurance programme for crops, livestock, and poultry sectors, particularly against natural disasters like hailstorms, floods, and cyclones, should be introduced to protect farmers from income shocks.

2.5.6 Social protection for coping with inflation

Bangladesh has grappled with high inflation for several years, largely due to policy and institutional failures. Given the prevailing high prices of essential items and the high inflation rate, the budget for FY2025 needed to provide some relief and support to the poor and vulnerable whose savings have been eroded and whose income has lost its purchasing power. The Minimum Wage Board should consider increasing the minimum wage in all industries so that workers earning minimum wages may at least afford basic food. Private sector corporations should consider a higher salary increment in 2024, given that a 5 per cent salary increment in the face of double-digit price hikes is compelling workers to compromise their standard of living severely.

Unfortunately, in the budget for FY2025, the allocation for Open Market Sales (OMS) was proposed to be reduced by 64 per cent, from BDT 5491.74 crore in RBFY2024 to BDT 2004.22 crore in BFY205 (MoF, 2024a). The volume of essential commodities sold through the OMS should be increased. The government should set higher targets for foodgrain procurement and food distribution programmes. To reach the goals, adequate resources should be allocated to the FY2023 budget. Although 140 SSNPs were listed in the budget for FY2025, most of such programmes were very small in scope and scale. Analysis of the allocations for several programmes revealed that beneficiaries were getting less than BDT 500 per month (MoF, 202), which can hardly be considered useful in this time of high prices and high inflation (Table 2.3).

The low allocation per beneficiary per month raises questions about the effectiveness of Bangladesh's overall social protection strategy. It remains unclear why Bangladesh has been pursuing many small programmes spread out over many different ministries and divisions of the government, budget after budget. Such a policy reduces the ultimate impact of SSNPs on the beneficiaries and creates ample room for inefficiencies to flourish.

Table 2.3**Some Programmes with Allocation Less than BDT 500 per Beneficiary per Month in the Proposed Budget for FY2025**

Name of programme	Allocation per beneficiary per year (in BDT)	Allocation per beneficiary per month (in BDT)
School Feeding Programmes in Poverty-stricken Areas	125	10
Tottho Apa: Empowering Women Through ICT towards Digital Bangladesh	298	25
Char Development and Settlement Project-bridging	642	54
Vulnerable Group Feeding (VGF)	658	55
Service and Assistance Centre for Disabled	669	56
Agricultural Rehabilitation	853	71
Trust for the Protection of the Persons with Neuro-developmental Disabilities	1257	105
National Legal Aid Assistance	1511	126
Student Stipend for Primary Education Level	1539	128
Open Market Sales (OMS)	1831	153
Rehabilitation and Alternative Employment Generation for Beggars	3000	250
Stipend Under Technical and Madrasa Education Division	4072	339
Child Sensitive Social Protection in Bangladesh	4613	384

Source: Authors' compilation based on data from the Ministry of Finance (MoF, 2024).

It is important to note that whilst the Ministry of Finance (MoF) publishes the budget allocation and revised budget allocation for SSNPs, the actual expenditure on SSNPs is never published. Various studies have highlighted many problems with Bangladesh's social safety net schemes. Some of the most prevalent issues are inadequate funding, poor targeting, wasted resources, poor communication between organisations responsible for implementation, excessive overhead, and the complete lack of an assessment framework to measure results (Rahman et al., 2011; Khatun et al., 2012). Addressing inclusion and exclusion errors, fraud, and corruption in social assistance systems in Bangladesh is challenging due to the lack of comprehensive information and insufficient competence within government ministries to conduct internal audits that may uncover the underlying causes of irregularities in these programmes. Research has shown that the highest likelihood of errors, fraud, and corruption arises when choosing recipients (van Stolk & Tesliuc, 2010). In Bangladesh, there is a widespread understanding that beneficiary selection for social security programmes is often flawed. Due to insufficient monitoring and assessment, these irregularities continue without being reduced or stopped. The fact that the actual expenditure on SSNPs in Bangladesh is not publicly disclosed makes it challenging to ascertain how much money is being spent, how many people are benefiting, and whether there are any anomalies in the expenditure.

2.5.7 Policy recommendations

Inflation poses a significant threat to Bangladesh's economic stability and social welfare. To address this challenge, the government must adopt a comprehensive fiscal strategy that balances demand-side and supply-side measures. Based on the analysis, the following policy recommendations are proposed for the national budget for FY2026:

- Prioritise spending on critical sectors such as healthcare, education, and agricultural infrastructure while cutting non-essential expenditures to reduce aggregate demand and alleviate inflationary pressures.
- Limit borrowing from the central bank and prioritise productive investments over non-essential expenditures to maintain fiscal discipline and reduce inflation.
- Design subsidies to benefit low-income households, ensuring that essential goods remain affordable without increasing overall spending.
- Increase minimum wages across all industries to ensure workers can afford basic food and encourage private sector corporations to offer higher salary increments in 2024 to mitigate the impact of double-digit price hikes.
- Examine and adjust duty and tax structures on essential commodities at both import and domestic levels to provide relief to low- and limited-income consumers.
- Extend the scope of direct cash or kind assistance programmes for low-income population groups.
- Strengthen the role of the Competition Commission by hiring skilled professionals to monitor markets, investigate market manipulation, and enforce anti-trust laws with a zero-tolerance policy.
- Provide additional support for subsidised credit programmes in the agriculture sector to incentivise production during the next fiscal year.
- Continue providing stimulus packages to small and medium enterprises to help them survive economic challenges.
- Allocate funds to promote water-efficient, high-value crops in drought-prone regions and salt-tolerant rice varieties in southern regions.
- Establish a subsidised crop insurance programme to protect farmers from natural disasters.
- Expand cold storage facilities for agricultural products to create a strategic buffer stock for stabilising prices.
- Encourage the use of solar-powered irrigation systems through low-interest loans.
- Allocate funds for the establishment of broodstock banks to ensure the availability of quality fingerlings for the fisheries sector.
- Increase the volume of essential commodities sold through open market sales (OMS) and set higher targets for foodgrain procurement and distribution programmes.
- Review social safety net programmes (SSNPs) to determine intervention priorities based on recipient families' changing economic and social profiles.
- Re-evaluate existing SSNPs to improve targeting, avoid overlaps, and introduce finite planning with exit strategies.
- Reallocate resources within social safety net initiatives to ensure equitable distribution and successful outcomes.
- Establish a unified database and framework to rigorously monitor and analyse social safety net initiatives for future planning and budget allocation.
- Improve interministerial coordination and explore programme mergers to reduce administrative costs and enhance efficiency.

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2.6 BREAKING THE 'VICIOUS CYCLE' OF FINANCIAL CRUNCH OF THE POWER AND ENERGY SECTOR

Key Recommendations

- The Ministry of Power, Energy and Mineral Resources (MoPEMR) should discuss with the Ministry of Finance (MoF) regarding allocating necessary foreign exchange for clearing overdue loans, bills and charges to foreign-owned companies/foreign funded projects through negotiation with the MDBs, including the IMF, World Bank and ADB for budget support.
- The MoPEMR needs to discuss with the MoF and the Ministry of Planning regarding how to channel additional resources to the MoPEMR by discouraging the allocation of funds for low priority and less important projects of other ministries/departments.
- Equipment and components related to renewable energy-related supply chains including generation, transmission and distribution, where the Customs Duty (CD) should be reduced to 5 per cent and taxes should be eliminated from all renewable energy goods.

The power and energy sector has been going through a prolonged phase of huge financial loss, public debt, and fiscal burden due to faulty policies, lack of transparency and weak governance of the earlier regime. Such a huge fiscal and financial burden has been passed on to the new regime, which finds it difficult to address short terms measures. At present, major challenges confronted by the power and energy sector are: (a) continuous default of import bill payment; (b) repayment of the loans and dues of international companies; (c) disrupted gas and electricity supply; (e) lack of government motivation to explore domestic gas resources; and (f) huge subsidy burden which is passing on to the consumers through increasing power and energy tariff. The national budget for FY2026, to be approved in June 2025 by the interim government, is expected to propose specific fiscal and budgetary measures to address those challenges.

Since the interim government has expressed its commitment to apply market-oriented, competitive and renewable energy-based solutions as part of addressing the challenges of energy security and energy transition in the country, the proposed budget is expected to take measures accordingly. Taking that into account, the priority for the next fiscal year's budget should be paying off outstanding dues and loans, taking measures to reduce subsidy on power and energy sector, putting emphasis on exploring domestic gas rather than importing LNG, reducing tariff barriers for importing renewable energy related components, and withdrawing all types of discriminatory fiscal incentives/benefits in favour of fossil-fuel based power generation. Details of CPD's budget recommendations are given below:

2.6.1 Addressing the failure of repayment of overdue loans, import bills and charges of BPDB and Petrobangla

The Bangladesh Power Development Board (BPDB) has a significant amount of payment overdue to local and foreign-owned and foreign-financed power generation companies. As of February 2024, the total overdue amount is as high as BDT 29000 crore. Out of this amount, BDT 21000 crore is overdue with locally owned IPPs while BDT 8000 crore is overdue with foreign owned IPPs. Besides, BPDB has been struggling with the failure to clear overdue loans in the case of financing large-scale power plants, including Adani Power Jharkhand Ltd (APJL) and Rooppur Nuclear Power Plant. According to the officials Adani Power has offered Bangladesh to settle overdue payments worth around USD 800 million by June 2025 to avoid a late-payment surcharge stipulated in their

Power Purchase Agreement (PPA) (Rahman, 2025).² On the other hand, Rooppur Nuclear Power Plant has overdue payments amounting to be USD 750 million due for disbursement by December 2024. However, Russia agrees to extend loan disbursement for Rooppur until 2026.

Similarly, Petrobangla has been confronted with due bills against the import of LNG and coal. According to the PetroBangla officials, as of January 2025, a total of USD 722 million (around BDT 8,664 crore) is owed to foreign companies for the import of coal and LNG. To address the problem, the finance ministry has decided to clear all gas and electricity sector arrears within the current fiscal year by increasing the revised Annual Development Programme (ADP) outlay by reallocating unspent funds in the sector. The finance ministry's outstanding electricity subsidy stands at approximately BDT 38,000 crore, whilst Petrobangla gas subsidy dues total around BDT 7,000 crore. The current fiscal year's budget allocated BDT 35,000 crore for electricity subsidies, of which BDT 20,000 crore has already been disbursed (Kashem, 2025). Finance officials estimate that an additional BDT 30,000 crore may be allocated in the revised budget to clear electricity dues totalling at BDT 50,000 crore in the ongoing fiscal year. With the upcoming summer season, electricity sector subsidies are expected to rise by BDT 4,000 crore per month- about BDT 48,000 crore per year. In other words, both power and energy sector has entered a 'vicious cycle' of overdue loans, bills and payments which could not be managed by allocating higher amount of subsidy in the next fiscal year. The Ministry of Power Energy and Mineral Resources (MoPEMR) and its concerned divisions need to find out a sustainable solution.

Recommendations

1. The MoPEMR particularly BPDB and Petrobangla needs to design a five-year financial payment plan to gradually reduce all overdue payments to concerned divisions and departments to zero. Such a plan will require a gradual phase out of fossil-fuel based power plants after their current contracts are over. Moreover, such a plan will require withdrawal of the 'capacity payment' clause from renewed PPAs, as well as PPAs to be signed for new fossil-fuel based power plants. Such a plan need not require increasing tariffs for electricity, gas and LNG at the retail level.
2. As a short-term solution, the MoPEMR should discuss with the MoF regarding allocating additional funds to the BPDB and Petrobangla as a loan to clear overdue of payments of locally funded IPPs and loans. Such funds could be channelled from the ministries and departments which have systematically poor record of utilising allocated fund for last few consecutive fiscal years.
3. Similarly, the MoPEMR should discuss with the MoF regarding allocating necessary foreign exchange for clearing overdue loans, bills and charges to foreign-owned companies/foreign funded projects. In this case, the Ministry of Finance, especially ERD could negotiate with the MDBs including IMF, World Bank and ADB for necessary budget support. However, the MoPEMR needs to present a medium-long term financial sustainability plan.
4. The MoPEMR needs to discuss with Ministry of Finance and Ministry of Planning regarding how to channel additional resources to the MoPEMR by discouraging the allocation of funds for low priority and less-important projects of other ministries/departments.
5. The MoPEMR should not pursue setting up any new fossil fuel-based power generation plant under its ADP. The reserve margin (not more than 30 per cent of total generation capacity) should be based on the capacity of renewable energy-based power generation- the MoPEMR should take new projects in ADP accordingly.

²An amount of 2 per cent monthly interest as a late- payment surcharge on the total outstanding bill compounding to an annual rate of around 27 per cent. Please see, <https://thefinancialexpress.com.bd/economy/conglomerate-resumes-full-scale-electricity-export-to-bangladesh>

6. The 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.
7. To reduce the subsidy burden, the MoPEMR should renegotiate the electricity purchase prices from the IPPs, which were contracted unsolicited under the special Act at a higher price compared to the market price.

2.6.2 Addressing the energy crisis by emphasising the exploration of domestic gas reserves

The government has a plan to drill a total of 35 gas wells across the country by 2025. However, till date, only three key projects have been approved. A total of 10 wells are supposed to be explored using rented rigs, while the remaining 26 will be awarded through open bidding ('Govt to float open tender to drill 26 wells in gas fields soon: Energy Adviser', 2024). However, so far, the drilling of only one well has begun, and the survey process for another well has started (Moazzem et. al. 2024). Eight new projects are proposed for survey, exploration and extraction of hydrocarbons to enhance gas reserves. Five of the projects will focus on enhancing natural gas supply through surveys and exploration, while two others are meant to strengthen the exploration capabilities of Bangladesh Petroleum Exploration and Production Company Limited (BAPEX) and the Department of Geological Survey of Bangladesh (GSB). Another project is for upgrading the existing network of Titas Gas Transmission and Distribution Company Limited (TGTDC) for preventing leaks and addressing low- pressure problems in Dhaka, Narayanganj and the areas around (Islam, 2025).

Surprisingly, no local/foreign companies have submitted tenders against the tenders floated for exploring gas from offshore blocks. A review committee has been formed to identify the issues and concerns related to the bidding documents/bidding processes. The government has decided to import one cargo of liquefied natural gas (LNG) from the spot market by the first week of March 2025 through the direct purchase method to prevent a shortfall in gas supply. Such a slow pace of gas exploration work and prompt initiatives to import LNG raised concerns regarding the sincerity of the government to follow through on its commitments to reduce energy import dependency.

Recommendations

1. Petrobangla should start exploring the wells immediately using its 'gas development fund' instead of relying on the foreign bidders.
2. BAPEX should take loans for allocating resources for gas exploration for the 10 wells that are supposed to be explored using rented rigs.
3. Since supplying energy is one of the top-most priorities for the national economy, the MoPEMR should discuss with the Ministry of Planning for necessary allocation of resources for ADP projects for development of gas-fields
4. The government should deprioritise importing LNG and should put focus on the exploration of domestic natural gas. In this context, the recent signing of a deal with the USA on the supply of LNG would weaken the effort to explore domestic gas. The government may welcome USA based companies to submit their proposals for exploration of gas in the offshore fields.
5. The review committee should immediately submit their recommendations based on the discussions with the foreign companies and thereby re-tender the offshore gas blocks.

2.6.3 Addressing the tariff related challenges for Renewable Energy (RE) based investment

One of the significant barriers to attracting private and public investment for energy transition is the high tariff structure imposed on the import of essential renewable energy components. The

Total Tax Incidence (TTI) on these imported components consists of multiple layers, including Customs Duty (CD), Supplementary Duty (SD), Advance Income Tax (AIT), Advance Tax (AT), and Value Added Tax (VAT), all of which contribute to higher overall costs. As Islam (2024) puts it, the government of Bangladesh applied an average of 26.2 per cent import duty on solar panels (HS Code: 854140), a 37 per cent tax on solar inverters (HS Code: 850440), and a 58.6 per cent import duty on mounting structures following fiscal budget for FY2023–24. However, the import tariff rates have remained the same in FY2025 too (NBR, 2024). Additionally, other key renewable energy technologies, including wind, hydro, geothermal, and biomass-based power generation, rely on imported equipment and components that are subject to substantial import duties. Wind power technologies such as wind-powered generating sets (HS 850231) and turbine components (HS 850300) face high import tariffs, discouraging investment in wind energy. Similarly, hydropower projects, which depend on hydraulic turbines (HS 841011–841013) and related components (HS 841090), bear considerable import duties, further inflating project costs. Lithium-ion batteries (HS 850760) and lead-acid batteries (HS 850720), which are crucial for renewable energy storage, are subject to a tariff rate of 58.60 per cent and 89.32 per cent respectively, making them highly costly for industrial and residential users. Similarly, electric vehicles (HS 870380, 870390) face high import duties. The overall impact of these tariffs is twofold: (a) they increase the capital expenditure (CAPEX) for renewable energy projects; and (b) slow the adoption of clean energy technologies due to higher financial barriers (Fedoseeva & Zeidan, 2018; Wei, 2014).

Recommendations

1. For parts, equipment and components related to renewable energy-related supply chains including generation, transmission and distribution, where the Customs Duty (CD) exceeds 5 per cent, it should be reduced to 5 per cent. Such measures have marginal implications on government's revenue generation.
2. Apart from high Customs Duty, AIT, RD, AT, and SD further discourage investment in solar panels (HS 854140), wind turbines (HS 850231), and battery storage (HS 850760, 850720). The government should eliminate these taxes on all renewable energy goods to reduce costs and boost adoption. Such measures have marginal implications on the government's revenue generation.
3. It is also recommended to reduce the VAT on parts, equipment and components related to renewable energy-related supply chains, including generation, transmission and distribution to 10 per cent from 15 per cent.

6.4 Promoting distributed scale Renewable Energy through attractive fiscal measures

The recent decision to extend the tax exemption for utility scale power generation companies is a welcome step. However, it is important to note that the benefits apply exclusively to utility scale Independent Power Producers (IPPs) and not to distributed energy producers especially private households or businesses that wish to install solar power systems (Islam, 2024). Additionally, they need to pay high VAT while purchasing the necessary equipment. This exclusion limits the potential of distributed renewable energy solutions, which have proven effective in expanding access to electricity and reducing reliance on fossil fuels, particularly in developing countries (Gunkel et al., 2023; Babich et al., 2019). This exclusion results in households and businesses facing significant financial barriers to adopting renewable energy, despite their willingness to invest in cleaner power solutions. At present, private renewable energy adopters receive no direct financial benefits beyond access to lower-interest loan schemes, making it difficult for businesses and households to afford renewable energy installations (Hossain, 2024). Despite this cost advantage over fossil-fuel based power plants, renewable energy projects still require some level of financial support because their generation costs remain higher than the existing retail electricity tariff, leading to potential financial

losses for BPDB. However, Hossain (2024) emphasises that there is little evidence that Bangladesh's renewable energy sector is receiving any meaningful fiscal incentives from the fiscal budget.

Recommendations

1. Incentives such as income tax rebates or accelerated depreciation benefits, which are currently extended to the utility scale power producers should be extended to the distributed power producers including households, businesses, and other private entities that install solar home systems, rooftop solar, battery storage, and other decentralised renewable energy solutions.
2. The government should reduce the VAT on solar components targeting the utility scale power producers including solar components used for private use which will encourage the households and businesses to install the facilities.
3. The government should introduce low-interest grants, or subsidy schemes to support distributed renewable energy producers including households and businesses investing in solar power.
4. A dedicated 'Renewable Energy Development Fund' should be established to provide financial support for facilitating establishment of distributed renewable energy under private and commercial solar, wind, and biomass production units. To improve access to clean energy in remote and underserved regions, development fund should be allocated for mini-grid solar, battery storage technologies and wind projects.
5. Financial incentives, such as rebates on installation costs or direct subsidy payments for net-metered electricity, could encourage more widespread adoption.

2.6.5 Addressing the challenges of discriminatory fiscal benefits availed by fossil-fuel based power plants

Addressing the discriminatory fiscal benefits provided to the fossil fuel-based power producers is a major step towards creating a level playing field for renewable energy-based power producers in the country. According to the Private Sector Power Generation Policy (1996), any fossil fuel-based power plant shall be exempted from corporate income tax for 15 years and exemption from income tax in Bangladesh for foreign lenders to such companies. The companies will be allowed to import plant and equipment and spare parts up to a maximum of 10 per cent of the original value of total plant and equipment within a period of 12 years of Commercial Operation without payment of customs duties, VAT (Value Added Tax) and any other surcharges as well as import permit fee except for indigenously produced equipment manufactured according to international standards. In case of the imported fuel there is full exemption of custom and import duties; and 5 per cent VAT on the imported fuel as it will be used for power generation process. In the last budget speech, the Amendment of notification related to Rampal power plant and rental power companies was proposed to impose 5 per cent CD for imports of such items by power generation companies, however, it was not passed. Such fiscal benefits have created almost a one-sided supply chain in the power sector where renewable energy-based producers with their limited fiscal benefits could be competitive.

Recommendations

1. The Power Division should discuss with the NBR to withdraw the corporate tax exemption for all type of fossil fuel-based companies in case of upcoming power plants.
2. A minimum of 5 per cent custom duty along with a minimum of surcharge should be imposed by the NBR on the import of all the machineries and steel structure of fossil fuel-based power generation companies.

3. The Power Division should review the comparative fiscal and financial benefits provided to the fossil-fuel based companies and compare those benefits with those provided to the renewable energy-based power producers and thereby take initiatives to withdraw all types of discriminatory benefits (which is supposed to be measured in terms of per unit of power generation) provided to the fossil-fuel based power producers. In this context, the MoPEMR and the Power Division, Bangladesh Energy Regulation Commission (BERC) and Sustainable and Renewable Energy Development Authority (SREDA) should take joint initiatives to discuss with the MoF and NBR to withdraw those discriminatory measures which will reduce government's fiscal expenditure as well as will help generate additional revenue.

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2.7 FISCAL MEASURES TARGETING SMES

Key Recommendations

- Withdraw the recent decision to lower the VAT and tax eligibility thresholds—reduced to BDT 50 lakh for VAT registration and BDT 30 lakh for turnover tax, from the previous BDT 3 crore and BDT 50 lakh, respectively—and reinstate the original thresholds.
- Exempt SMEs from Advance Income Tax (AIT) and Advance VAT; additionally, the non-refundable nature of AIT and Tax Deducted at Source (TDS) should be revised to allow for adjustment against final tax liabilities for SMEs.
- Strengthen the capacity of the Bangladesh Competition Commission to ensure balance in the market by increasing funding for digitalising its market monitoring mechanisms to ensure fair market practices. Additionally, offering direct legal and financial support to SMEs can help them combat the market dominance of large enterprises.

2.7.1 Context

SMEs continue to face disproportionately higher costs of borrowing. The small and medium enterprises (SMEs) in Bangladesh, which employ around 24 million people, are facing disproportionately higher challenges amid the ongoing economic pressures. Lately, the cost of borrowing has become even higher for SMEs compared to other sectors, increasing the operational cost of running the businesses. In November 2024, the weighted average interest rate (WAIR) for SMEs was 12.19 per cent, whereas it stood at 11.78 per cent for other sectors; the same rate was 6.99 per cent for SMEs and 7.39 per cent for the rest of the sectors in FY2023 (Bangladesh Bank, 2025). The latest data on the volume of credit disbursed to Cottage, Micro, Small, and Medium Enterprises (CMSMEs) also indicated a downward trend, dropping by 13.1 per cent during the April-June quarter of FY2024 compared to FY2023, suggesting slow or no new investments (Bangladesh Bank, 2025).

The financial burden on SMEs is forcing them to shut down, leading to rising unemployment.

The rising operational costs, given the higher inflation and depreciation of the BDT, coupled with lower consumer confidence, are resulting in a drop in revenue streams for SMEs. This, in turn, is leading to the closure of SMEs, layoffs, delayed wage payments, and the depletion of their savings to continue business operations (Halder, 2025). In the last seven months since the interim government took charge, at least 21 factories, including Green Bangla Home Tex Industries, Asian Falcon Garments, GL Fashion, Master Textile, West Best Attires, and Star Cutting and Engineering, have shut down – all of which were small and medium-sized factories (‘তিন শিল্প এলাকায় সাত মাসে বন্ধ ১৫ কারখানা’, 2025).

Accessing funds through specialised schemes remains difficult, especially for small enterprises.

Over the years, several financing schemes, including those by Bangladesh Bank, have been introduced to enhance SMEs’ access to credit. However, their effectiveness remains uncertain as a number of these funds especially targeting women of SMEs, and start-ups, remain undisbursed—allegedly due to collateral-related complications, lack of interest of commercial banks and bureaucratic harassment. Even those funds that have been disbursed are often found to be short-term and have been directed mainly towards medium-sized enterprises that face relatively less severe financing constraints compared to small-size ones (World Bank, 2019). The introduction of new credit schemes for SMEs also faces challenges due to the significant amount

of unpaid loans from previous schemes, including the 300-crore emergency loan fund provided to SMEs through the SME Foundation during COVID-19 (Textile Journal, 2024).

The decision to lower VAT and Turnover Tax Thresholds might exacerbate the crisis for SMEs. Amidst the challenging times faced by SMEs in Bangladesh, the interim government has recently lowered the thresholds for VAT registration to BDT 50 lakh and for turnover tax to BDT 30 lakh, down from the previous levels of BDT 3 crore and BDT 50 lakh, respectively. Already, SMEs are finding it challenging to remain competitive due to the imposition of AIT at 5.0 per cent and TDS at 7.0 per cent. Adding more tax and VAT liability during the ongoing reality could potentially impose an additional financial burden on SMEs.

The structural challenges continue to persist for the SMEs. Along with emerging challenges, several structural issues continue to persist, including the weak regulatory performance of the Bangladesh Competition Commission, which allows large enterprises with significant advantages to undermine SMEs and push them out of the market (Chowdhury, 2025). Additionally, the anticipated disruptions in electricity supply during the upcoming summer will disproportionately impact SMEs, as they lack the capacity, unlike large enterprises, to secure alternative power sources.

The SME Foundation has requested budget allocation for the implementation of the new SME policy 2025. The SME Foundation has developed and requested budget allocation for the implementation of the National SME Policy 2025, spanning from July 2025 to June 2030. The objective of the policy is to enhance the SME sector's contribution to the GDP of Bangladesh. The policy focuses on supporting eco-friendly SMEs, promoting financial inclusion for women entrepreneurs, and securing seed capital for innovative ventures and small-scale investments. However, there are allegations regarding the lack of novelty and failure to incorporate lessons learned from the implementation shortcomings of the SME policy of 2019 (Hossain, 2025).

The agro-mechanisation sector can reach its full potential if SMEs receive adequate support. The agro-mechanisation sector in Bangladesh depends significantly on SMEs for the manufacturing, assembly, and distribution of agricultural machinery. However, the country's current tax and tariff policies are not well-aligned with the needs of the agro-machinery industry. Additionally, Bangladesh lacks a dedicated HS Code for agro-mechanisation products, which complicates the implementation of sector-specific tariffs and incentives.

2.7.2 Recommendations

Against the above-mentioned context, CPD proposes the following fiscal measures in the upcoming budget of FY2025-26.

- Withdraw the recent decision to lower the VAT and tax eligibility thresholds—reduced to BDT 50 lakh for VAT registration and BDT 30 lakh for turnover tax, from the previous BDT 3 crore and BDT 50 lakh, respectively—and reinstate the original thresholds.
- Exempt SMEs from Advance Income Tax (AIT) and Advance VAT; additionally, the non-refundable nature of AIT and Tax Deducted at Source (TDS) should be revised to allow for adjustment against final tax liabilities for SMEs.
- To ensure balance in the market, the capacity of the Bangladesh Competition Commission should be strengthened by increasing funding for digitalising its market monitoring mechanisms to ensure fair market practices. Additionally, offering direct legal and financial support to SMEs can help them combat the market dominance of large enterprises.

- Introduce energy subsidy measures (such as green energy grants) to SMEs with a focus on promoting the adoption of renewable energy sources, (rooftop solar and mini/micro-grids are found to be viable options for SMEs) to mitigate the effects of unreliable electricity supply and reduce energy costs.
- Allocate higher funding to the Ministry of Labour and Employment, Ministry of Youth and Sports, Ministry of Expatriates' Welfare and Overseas Employment, and Ministry of Social Welfare to expand the coverage of social safety net programmes and initiate unemployment insurance.
- Allocate additional funds to the NBR for providing tax submission training to grassroots-level SMEs, publishing sector-specific tax guidelines in Bangla, and conducting regular training sessions on these guidelines.
- Ensure an increase in the SME loan disbursement target set by Bangladesh Bank, with a specific focus on micro and small enterprises, and ensure its effective implementation to facilitate easier access to finance for SMEs.
- Allocate funds for establishing guarantee funds to back loans for only micro and small enterprises, especially those with limited collateral, which would encourage commercial banks to lend more freely to SMEs without requiring stringent guarantees.
- Ensure adequate budgetary support for the implementation of the SME Policy 2025 with a focus on innovative and sustainable measures (such as the establishment of innovation hubs). This budget should also be designed to address the lessons learned from the SME Policy 2019, particularly the reasons behind inadequate financial resources for SMEs, limited capacity-building initiatives, limited support for women entrepreneurs, weak monitoring mechanisms, etc.
- To support the agro-mechanisation, the government should lower VAT on essential inputs, reallocate subsidies to support local agro-machinery manufacturers, and introduce a specialised HS Code 10 for agro-mechanisation products.
- Consider introducing a revenue-based financing model, especially for women entrepreneurs of SMEs, where SMEs repay loans as a percentage of revenue rather than fixed instalments.

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2.8 FISCAL POLICY FOR PROTECTING PUBLIC HEALTH

Key Recommendations

- The budget for FY2026 should increase the allocation for health to prevent people from being pushed into poverty due to out-of-pocket health expenditures.
- Simple, specific, and universal excise duties are needed to reduce the consumption of cigarettes, other tobacco products, soft drinks, and energy drinks.
- The government should allocate funds to provide financial assistance and medical support to those who were injured and to the families of individuals who died during the July uprising.

2.8.1 Introduction

Health spending has become a vital area of public investment regardless of a nation's economic standing. The United Nations' 2030 Sustainable Development Agenda recognises the paramount significance of healthcare. Specifically, Sustainable Development Goal (SDG) 3 emphasises the need to ensure healthy lifestyles and promote well-being for all individuals, regardless of age, on a worldwide scale (UN, 2015). The health system of Bangladesh is in a critical state due to a lack of government prioritisation and a lack of good governance. The health sector's infrastructure is weak, and its governance is in disarray. In 2017, the nation had one hospital bed for every 1,196 individuals (BBS, 2019). As of 2017, only 5.1 per cent of health facilities in Bangladesh had emergency transportation, 21.5 per cent had alcohol-based disinfectant, 27.5 per cent had medical masks, 34.5 per cent had lab facilities, 43.1 per cent had regular electricity, 55.1 per cent had soap and water, 83.7 per cent had paracetamol oral suspension, 86.3 per cent had thermometers, and 90.1 per cent had improved water sources (NIPORT, ACPR, and ICF, 2018). In addition to insufficient funding and tools, healthcare institutions in Bangladesh lacked sufficient personnel to give proper treatment. In 2018, the nation had one registered physician for every 1,581 individuals (BBS, 2019). As of 2017, 28 per cent of health facilities in Bangladesh had specialists, 59.1 per cent had general practitioners, and 79.7 per cent had nurses (NIPORT, ACPR, and ICF, 2018). Therefore, substantial investment from the government, private sector and international development partners is required to transform the health sector and build a healthy future for Bangladesh. Without such investments, the ambitious goals outlined in SDG 3 will remain unfulfilled. Along with higher allocation for the health sector, effective utilisation of resources is also crucial. In this context, this chapter examines the health sector budget and makes a set of recommendations for FY2026.

2.8.2 Overview of the health budget

The allocation for health as a share of the total budget decreased from 5.33 per cent in FY2024 to 5.20 per cent in FY2025 (MOF, 2024a). The allocation for health as a share of GDP has declined slightly from 0.75 per cent in FY2024 to 0.74 per cent in FY2025 (MOF, 2024a). Such allocation is marginally lower than the average allocation of 0.75 per cent of GDP during FY2016 to FY2024 (MOF, 2024a).

Budget allocation for health has been less than 1 per cent of GDP for the past 20 years (MOF, 2024a), indicating that healthcare has been one of the least prioritised sectors for the government. The budget allocation on health per person has increased by only BDT 186, from BDT 2,227 in 2023 to BDT 2,413 in 2024 (MOF, 2024a). The Urban Primary Health Care Services Delivery Project, a government social safety net programme (SSNP) initiative aimed at ensuring the delivery of quality

primary health care (PHC) services to urban populations, had its budget allocation drastically reduced from BDT 439.38 crore in FY2024 to BDT 180.13 crore in FY2025 (MOF, 2024b). Notably, the portion of the budget allocated to non-development expenditures has consistently been higher than the portion allocated to development expenditures. This trend suggests that a larger share of the health budget is directed towards operational costs rather than improvements to the healthcare system itself. This could potentially impact the health system's capacity to invest in infrastructure, technology, and other areas that directly contribute to improved health outcomes, highlighting the need for a more balanced approach to budget allocation.

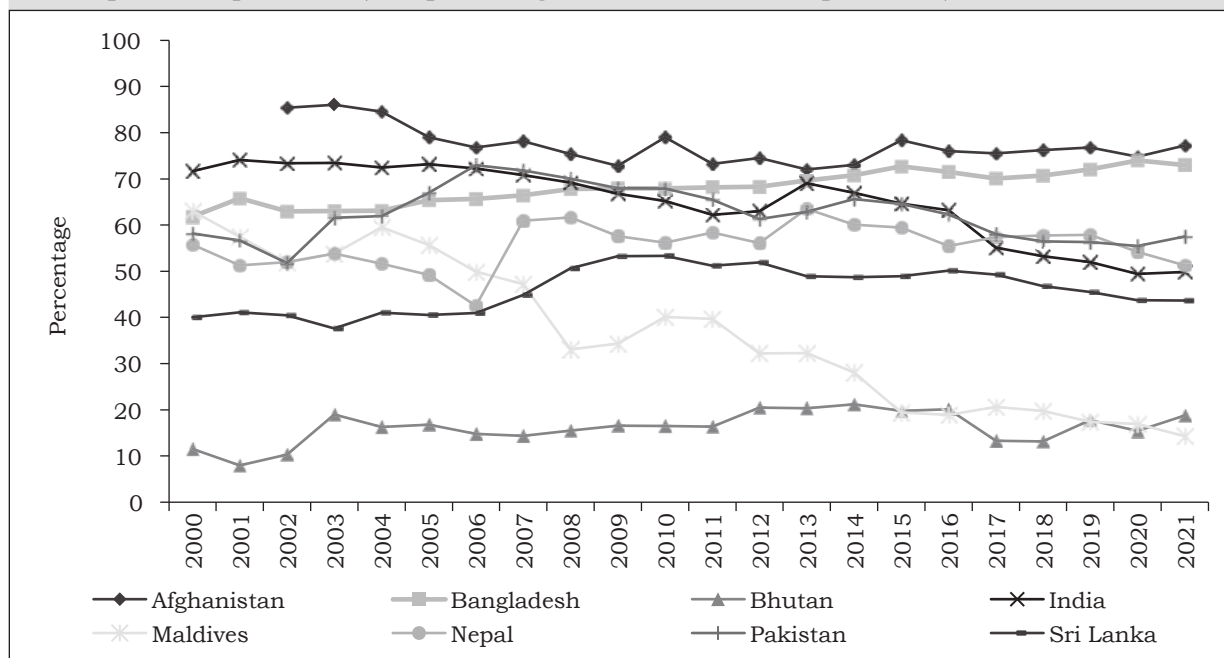
2.8.3 International comparison of government expenditure on health

A comparison of Bangladesh's government expenditure on health with that of its regional neighbours or other least developed countries (LDCs) reveals a rather gloomy picture. Figure 2.8 depicts out-of-pocket healthcare expenditures as a percentage of current healthcare expenditures for eight South Asian countries- Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka- from 2000 to 2021. It reveals significant variations in out-of-pocket expenditure across the countries. Notably, Bangladesh consistently has one of the highest out-of-pocket spending throughout the period. In 2000, Bangladesh had an out-of-pocket expenditure equal to 61.82 per cent of current health expenditure, which rose to 74 per cent of current health expenditure in 2020. This indicates that a substantial portion of healthcare costs in Bangladesh is borne directly by individuals, bypassing public or private health insurance mechanisms.

Whilst all countries have fluctuations in out-of-pocket expenditure across the years, a downward trend is generally observed over the two decades. This suggests a potential increase in health

Figure 2.8

Out-of-pocket Expenditure (as a percentage of current health expenditure)



Source: Authors' illustration based on data from the World Bank (World Bank, 2024).

insurance coverage or government-funded healthcare initiatives in some countries. However, the data for Bangladesh shows a slight upward trend in recent years, which warrants further investigation. In 2021, Bangladesh's out-of-pocket expenditure on health per capita at purchasing power parity was the 8th highest among 45 LDCs (World Bank, 2024). Bangladesh's out-of-pocket expenditure as a percentage of current health expenditure was 73 per cent of current health expenditure in 2021 and showed an increasing trend for the past two decades, whereas the trend is decreasing for countries such as India, Pakistan, Bhutan, Nepal and Sri Lanka (World Bank, 2024). Bangladesh's expenditure on health as a share of GDP was the lowest among 45 LDCs in 2021 – no other LDC has spent less on health than Bangladesh in 2021 (World Bank, 2024). Moreover, in Bangladesh, the proportion of the population pushed below the USD 2.15 poverty line due to out-of-pocket expenditure on healthcare increased from 3.11 per cent in 2010 to 3.74 per cent in 2016 (World Bank, 2024).

2.8.4 Fiscal measures related to health: Tax on tobacco and related products

In Bangladesh, the price strategy of the tobacco industry promotes the use of cigarettes that are comparatively more affordable. The intricate tiered tobacco tax system facilitates the implementation of varying prices. Differential pricing undermines the original objective of taxes, which is to get favourable public health results. Therefore, it is necessary to simplify Bangladesh's tobacco tax system. The affordability of cigarettes should be curtailed through tax-induced price increases. With a unified scheme, the government should replace the current tiered taxing structure for tobacco and tobacco-related items. In addition, it is recommended that the ad valorem tax, which is calculated based on a percentage of the retail price, be replaced with a specific tax set per pack. Implementing a standardised and targeted excise tax system on tobacco would significantly streamline the government's administrative process. Additionally, it would allow the government to transfer control of the management of cigarette recommended retail prices (RRPs), which is causing a burden on the tax authorities. The government lacks the resources necessary to oversee and implement RRP nationwide. The tobacco business exploits this absence of oversight to optimise its financial gains. Therefore, it is recommended that the government let the market determine the appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales. CPD proposes implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026 (Table 2.4). This tax should be increased by at least BDT 5 per stick yearly to account for annual inflation and income growth.

Table 2.4

Proposed Tax Structure for Cigarettes (per pack of 10 cigarettes)

Tier	Tax structure for cigarettes in FY2025					CPD's recommendation				
	Retail Price		SD			Tier	Retail Price		Specific excise duty	
	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (in BDT)		Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)
Low	50	5.0	60.0	30.00	3	Universal	Market-based	Market-based	100	10
Medium	70	7.0	65.5	45.85	4.58					
High	120	12	65.5	78.60	7.86					
Premium	160	16	65.5	104.80	10.48					

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

Cigarette prices around the world can be used as a measure of global comparison to understand where Bangladesh stands globally in effectively using taxation strategies to reduce smoking. The worldwide variation of cigarette prices reflects differences in public health policies and taxation strategies across countries.

In the comparative analysis of 127 countries, Bangladesh emerges with the 91st lowest price for cigarettes, with a pack priced at approximately BDT 350 as of 11 March 2025 (Numbeo, 2025). On the other hand, in our neighbouring country, India, the price is much higher at BDT 486.77 (Numbeo, 2025). Developed countries like Australia, New Zealand and the United Kingdom have much higher cigarette prices (Numbeo, 2025). Countries with higher cigarette prices often have strong public health and taxation policies aimed at reducing smoking rates compared to countries with lower cigarette prices, where public health concerns may not be dealt with as seriously.

In line with the proposed tax structure for cigarettes to increase prices, the tax structure for Bidi, Jarda, and Gul should also be reformed. This will protect low-income groups from health hazards and reduce the burden of health expenditure on the government. Instead of the current tier classification of Bidi into filtered and non-filtered, and additional groupings based on the size of the pack, CPD proposes a specific excise tax of BDT 3 per stick for all Bidi to be implemented in FY2026 and allow the price of Bidi to be determined by the market (Table 2.5). Such a uniform specific tax on all Bidi should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 2.5**Proposed Tax Structure for Bidi**

Type of bidi	Tax structure in FY2025					CPD's recommendation				
	Retail Price		SD			Type of bidi	Retail Price		Specific excise duty	
	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)		Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)
Non-filtered 25-stick handmade bidi	18	0.72	30	5.40	0.22	All	Market-based	Market-based	75	3
Non-filtered 12-stick handmade bidi	9	1.33	30	2.70	0.23				36	
Non-filtered eight-stick handmade bidi	6	1.33	30	1.80	0.23				24	
Filtered 20-stick handmade bidi	19	1.05	40	7.60	0.38				60	
Filtered 10-stick handmade bidi	10	1.00	40	4.00	0.40				30	

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks posed by the long-term consumption of such items. CPD proposes a BDT 6 specific excise duty per gram (gm) of Jarda and Gul to be implemented in FY2026 and to

allow the price of Jarda and Gul to be determined by the market (Table 2.6). Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 2.6**Proposed Tax Structure for Jarda and Gul**

Type of product	Tax structure in FY2025					CPD's recommendation			
	Retail Price		SD			Retail Price		Specific excise duty	
	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10 gm jarda	48	4.8	55	26.40	2.64	Market-based	Market-based	60	6
10 gm gul	25	2.5	55	13.75	1.38				

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

The Health Development Surcharge Management Policy 2017 states that a 1 per cent surcharge must be charged to tobacco companies in Bangladesh, which is also following the WHO Framework Convention on Tobacco Control (FCTC), to which Bangladesh is a ratified member (NTCC, 2017). A Statutory Regulatory Order (SRO) issued by the Bangladesh government provides more information on how the funds collected via the Health Development Surcharge should be used. CPD advocates for a further increase in the Health Development Surcharge to strengthen the National Tobacco Control Cell (NTCC) in achieving the goals and reaching the goal of a tobacco-free Bangladesh by 2040. In this connection, CPD proposes that the Health Development Surcharge on cigarettes and other tobacco products be increased from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products be increased from 15 per cent to 20 per cent in FY2026 (Table 2.7).

Table 2.7**Proposed Health Development Surcharge and VAT on Cigarettes and Other Tobacco Products**

Items	Tax structure for FY2025		CPD's recommendation	
	Health Development Surcharge (in per cent)	VAT (in per cent)	Health Development Surcharge (in per cent)	VAT (in per cent)
Cigarettes	1	15	5	20
Bidi	1	15	5	20
Jarda	1	15	5	20
Gul	1	15	5	20

Source: Authors' compilation based on data from the National Tobacco Control Cell (NTCC) (NTCC, 2017).

CPD believes corporate taxes should be raised incrementally to achieve a tobacco-free Bangladesh by 2040. In the budget for FY2024, companies manufacturing tobacco products were subject to 45 per cent corporate tax, the same corporate tax rate as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies. Therefore, in addition to the aforementioned tax reforms, CPD also proposes that the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul, be

increased from 45 per cent in FY2025 to 55 per cent in FY2026. The associated surcharge will be increased from 2.5 per cent in FY2025 to 7.5 per cent in FY2026 (Table 2.8).

Table 2.8**Corporate Tax on Tobacco Product Manufacturing Companies**

Type of company	Tax structure in FY2025		CPD's proposed tax structure for FY2026	
	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)
All companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul	45	2.5	55	7.5

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

2.8.5 Fiscal measures related to health: Tax on soft drinks

Carbonated soft drinks and energy drinks are a significant health concern in Bangladesh. Such beverages have a substantial amount of sugar, which is a significant cause of obesity, diabetes, and tooth decay. Typically, a single soft drink can, around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly 10 teaspoons of sugar, whilst the World Health Organization (WHO) recommends that adults should not consume more than six teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). In the budget for FY2025, the beverage and carbonated industry is subject to a 30 per cent SD for carbonated soft drinks, 40 per cent SD for energy drinks, and 15 per cent VAT applicable for both (NBR, 2024). However, a minimum tax on sales revenue of carbonated beverage producers has been reduced from 5 per cent in FY2024 to 3 per cent in FY2025. In Bangladesh, carbonated soft drinks and energy drinks are widely available. Hence, it is necessary to decrease the consumption of such beverages to reduce the associated health risks.

Table 2.9**Proposed Tax Structure for Soft Drinks and Energy Drinks**

Beverage	Tax Structure for FY2025		CPD's recommendation		
	SD (%)	VAT (%)	Specific excise duty	VAT (in per cent)	VAT (%)
Soft drinks	30	15	0.10	100	15
Energy drinks	40	15	0.10	100	15

Source: Authors' compilation based on data from the Ministry of Finance (NBR, 2024).

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2026 (Table 2.9). Since sweetened beverages are demerit goods, placing a specific excise duty will reduce consumption and provide the government with substantial revenue. CPD also recommends that the government stop giving high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials (NBR, 2024). This will be a respite to our shrinking fiscal space.

Furthermore, limiting sugary beverage intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4, which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015). We also propose that the VAT on soft drinks and energy drinks should be increased from 15 per cent in FY2025 to 20 per cent in FY2026.

2.8.6 Fiscal measures: Bangladesh's LDC graduation and tax on medicine

Bangladesh is import dependent, importing more than 90 per cent of the raw materials that are necessary yearly for the pharmaceutical business from countries such as China and India, totalling BDT 47 billion (Mitsumori, 2018). Bangladeshi pharmaceutical businesses lack the technological and manufacturing capabilities to create Active Pharmaceutical Ingredients (APIs) (Mitsumori, 2018). According to Table 2.10, the total tax incidence on imported APIs is 31 per cent, which is considerably high. As Bangladesh prepares to transition from a Least Developed Country (LDC) to a developing country in 2026, it will no longer benefit from the trade advantages and exemptions currently available to LDCs.

Table 2.10

Tax Breakdown of Imported Active Pharmaceutical Ingredients (API), FY2025

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
29420090	Other Organic Compounds not elsewhere specified	5	0	15	5	0	5	31

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh, 2024).

Under the VAT and Supplementary Duty Act 2012, the government imposed 2.4 per cent VAT on pharmaceuticals, including medicines at the local trading stage and 15 per cent VAT on the import of pharmaceutical products and raw materials for the production of medicines (GoB, 2019). As an LDC, Bangladesh's pharmaceutical industry is enjoying the facilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) pharmaceutical waiver, which exempts the country from obligations to enforce patent protection for pharmaceutical products (WTO, 1994). Unless Bangladesh gets an extension on the transition period of the TRIPS waiver after it graduates from the LDC group in 2026, the waiver will be withdrawn starting from 2026. So, Bangladesh will lose the LDC-specific international support measures under this agreement.

Therefore, CPD proposes that the VAT on medicines should be exempted starting from FY2026 to ensure that medicines continue to be affordable to all, even after the loss of the TRIPS waiver in 2026. Beyond 2026, the government must implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit people from low-income groups by allowing them to access medicines and other pharmaceutical products at an affordable price. Furthermore, since the total tax incidence (TTI) on imported APIs stands at 31 per cent as of FY2025, CPD recommends reducing it to zero to support the pharmaceutical industry and enhance competitiveness.

2.8.7 Taxation on sanitary napkins

Despite the importance of sanitary napkins in ensuring menstrual hygiene among women and girls, the use of sanitary napkins is still less than desired throughout the country. One of the

biggest reasons for this is that they are not affordable for most of the population. In FY2025, the government extended the exemption from Value Added Tax (VAT) (excluding AT) and Supplementary Duty (SD) on six imported raw materials out of 12 used in the production of sanitary napkins and diapers until June 2025 (Ministry of Finance, 2024c) (Table 2.11). However, many local companies do not qualify for this temporary tax cut due to certain conditions. Firms must set up machinery on the factory premises to benefit from the tax-free benefits. In addition, a company has to invest a minimum of BDT 76 crore, have its own testing lab, have environmental clearance from the Department of Environment, ensure at least 30 per cent value addition and employ at least 250 Bangladeshis in the factory. In addition, interested companies will have to apply to the NBR to get the scope of importing the six raw materials without SD and VAT ('VAT, SD exempted on import of sanitary napkin, diaper raw materials', 2019). In addition, other import tariffs include Customs

Table 2.11**Tax Breakdown of Imported Sanitary Napkins and Raw Materials Required to Make Sanitary Napkins, FY2025**

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar	25	45	15	5	3	5	127.72
48239094	Air laid paper imported by Ind.IRC. VAT-compliant hygiene product manufacturers	25	20	15	5	0	5	85
35052000	Glues Based on Starches, Dextrins or Other Modified Starches	5	0	15	5	15	5	49
35069110	Adhesives Based on Rubber or Plastic (Incl. Artificial Resins)	25	0	15	5	15	5	73
39069000	Acrylic Polymers, In Primary Forms, Nes	10	0	15	5	0	5	37
39199020	Performance Tape/Closure/Side Tape	25	0	15	5	0	5	55
39201020	Other plates, sheets, film, foil and ethylene are imported by VAT regi. personal	25	0	15	5	3	5	58.6
40021100	Latex Of Styrene-Butadiene or Carboxylated Styrene-Butadiene Rubber	5	0	15	5	0	5	31
47032100	Semi-bleached or Bleached Coniferous Chemical Wood Pulp, Soda., not elsewhere specified	0	0	15	0	0	5	20
48119090	Other Paper, Paperboard, Cellulose Wadding and Webs of Cellulose Fibres not elsewhere specified	25	0	15	5	3	5	58.6
HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per metre	5	0	15	5	0	5	31
56031110	Nonwovens Of Man-Made Filaments Weighing <=25g/M2	25	0	15	5	3	5	58.6
63079000	Made Up Articles (Including Dress Patterns) not elsewhere specified	25	0	15	5	3	5	58.6

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh, 2024).

Duty (CD), Advance Income Tax (AIT), Regulatory Duty (RD), and Advance Tax (AT). Furthermore, the Total Tax Incidence (TTI) on imported sanitary napkins and diapers is 127.71 per cent (National Board of Revenue Bangladesh, 2024).

2.8.8 Health cost of the July movement

In July 2024, Bangladesh experienced one of the deadliest periods in its history since gaining independence in 1971, as violence erupted during anti-government protests over the quota reform system. According to the Ministry of Health, 843 deaths were linked to the protests, along with 14,025 injuries (OHCHR, 2025). The Office of the High Commissioner for Human Rights (OHCHR) cross-referenced the Ministry of Health's data with detailed reports from civil society organisations to provide a more accurate estimate. After eliminating duplicate cases, OHCHR concluded that the protests resulted in approximately 1,400 deaths, 12 per cent of whom were children (OHCHR, 2025). Forensic examinations conducted by Dhaka Medical College on 130 fatalities revealed that 66 per cent of deaths were caused by bullets fired from high-powered automatic and semi-automatic rifles used by security forces (OHCHR, 2025). Additionally, OHCHR obtained forensic medical reports indicating that 12 per cent of all protest-related deaths resulted from shotguns loaded with metal pellets (OHCHR, 2025). These pellets inflicted severe injuries on thousands, leading to long-term health consequences. Many victims suffered permanent eye damage or blindness. In Dhaka alone, the National Institute of Ophthalmology and Hospital treated 736 patients with eye injuries related to the protests, 504 of whom required urgent surgery (OHCHR, 2025). Similarly, Sylhet Osmani Medical College Hospital treated 64 individuals with metal pellet injuries, including 36 cases involving eye trauma (OHCHR, 2025). Given the scale of casualties and long-term suffering caused by the violence, it is crucial to allocate government funds to provide financial assistance and medical support to those injured and to the families of those killed during the July uprising.

2.8.9 Budget recommendations

Considering the aforementioned analysis, the following recommendations are proposed for the upcoming health budget of FY2026:

- Adopt a more balanced approach to budget allocation between developmental initiatives and operational needs of the health sector.
- Establish an extensive monitoring and evaluation framework to track the progress and impact of development initiatives, ensuring that funds are used effectively and efficiently.
- Simplify Bangladesh's tobacco tax system to decrease the affordability of cigarettes through price rises caused by taxes.
- Replace the ad valorem tax, calculated based on a percentage of the retail price, with a specific tax set per pack to significantly streamline the government's administrative process.
- Allow the market to determine appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales and implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026.
- Implement a specific excise tax of BDT 3 per stick for all Bidi instead of the current tier classification based on filtering and pack size, allowing the price of Bidi to be determined by the market.
- Impose a BDT 6 specific excise duty per gram (gm) of Jarda and Gul in FY2026, allowing the market to determine the price of Jarda and Gul.
- Increase the Health Development Surcharge on cigarettes and other tobacco products from 1

per cent to 5 per cent and the VAT on cigarettes and other tobacco products from 15 per cent to 20 per cent in FY2026.

- Increase the corporate tax on all companies manufacturing tobacco products from 45 per cent in FY2025 to 55 per cent in FY2026, with the associated surcharge increasing from 2.5 per cent in FY2025 to 7.5 per cent in FY2026.
- Remove the supplementary duty on soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in FY2026.
- Increase the VAT on soft drinks and energy drinks from 15 per cent in FY2024 to 20 per cent in FY2026.
- Stop high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials.
- Exempt the VAT on medicines starting from FY2026 to ensure that medicines remain affordable to all, even after the loss of the TRIPS waiver in 2026.
- Make TTI on imported API zero from FY2026 to protect the local pharmaceutical industry and help retain its competitiveness in the global market after the LDC graduation, allowing low-income groups to access medicines and other pharmaceutical products at an affordable price.
- Impose zero TTI for raw materials used to make sanitary napkins. TTI of all 12 raw materials used to produce sanitary napkins should be made zero, and the conditionalities to avail of these benefits should be removed to ensure affordability for women and adolescent girls of all income levels.
- Allocate a portion of the national budget to create a fund for providing financial assistance to the families of those killed and individuals injured during the July 2024 protests, covering medical expenses, rehabilitation, and psychosocial support for long-term recovery.

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2.9 FISCAL POLICY FOR INCENTIVISING EDUCATION

Key Recommendations

- The school feeding programme should be expanded to include all primary school students, which is 9.3 million (MoPME, 2023).
- The government should launch a scholarship programme in FY2026 to fund the education of individuals injured or disabled during the July uprising, ensuring support until they complete their undergraduate degree at any public or private university.
- The government should also introduce special finance programmes or schemes in the top public and private universities in Bangladesh to improve the quality of education and research outputs.

2.9.1 Introduction

High-quality education is presently an urgent need in Bangladesh. As of the fiscal year FY2023, the literacy rate for individuals above the age of 15 in Bangladesh was approximately 76 per cent (MoF, 2024a). The country is now showing signs of a youth bulge, which means it is poised to reap the benefits of a demographic dividend if it can capitalise on the potential of its vast young labour force. The Labour Force Survey 2022 of the Bangladesh Bureau of Statistics (BBS) reveals that while the national unemployment rate is 3.53 per cent, the youth unemployment rate is as high as 8 per cent (BBS, 2023). The share of unemployed youth in total unemployment is 83.2 per cent (BBS, 2023). Informal employment as a share of total employment was 84.9 per cent in 2022 (BBS, 2023). While the share of youth not in education, employment or training (NEET) was 22 per cent (BBS, 2023). Ironically, research has shown that each additional year of schooling increases the probability of entering NEET status by 1.16 per cent for male youth and 1.07 per cent for female youth (Khatun & Saadat, 2020).

A survey of 100 major non-government employers in Bangladesh showed that 40 per cent of employers believed that their workers need to obtain new skills within 12 months due to technological advancement (Khatun et al., 2022). The ability to use technology has also been linked to greater returns in the labour market. Research has shown that in Bangladesh, workers who have used computers earn 17 per cent more than workers who have not used computers (Khatun & Saadat, 2021). Regrettably, in a survey of 500 young graduates of public and private universities in Bangladesh, it was found that the average score in an introductory computer literacy test was only 44 out of 100 (Khatun et al., 2022). This suggests that education in Bangladesh fails to provide young people with the necessary skill sets to compete in the labour market.

2.9.2 Overview of the education budget

Unfortunately, Bangladesh has recently made modest progress in allocating the necessary educational budgetary resources. The current amount of public spending on education in Bangladesh is inadequate. This is because the budget allocated for the education sector in FY2025 did not reflect sufficient efforts. In FY2025, the government allocated BDT 94,711 crore for the education sector, accounting for only 1.69 per cent of GDP (Ministry of Finance, 2024). Moreover, the budget allocated for FY2025 was only a 7 per cent increase from the previous year's proposed budget of BDT 88,162 crore (Ministry of Finance, 2024). It is important to note that the proposed budget allocation for the education sector is consistently subject to downward revisions each fiscal year. Moreover, the actual expenditure incurred in the education sector is even lower than the

revised allocations. Due to a two-year lag, actual expenditure data is only available up to FY2023. Hence, for instance, in FY2023, the budget allocation for the education sector was BDT 81,449 crore, which was revised to BDT 70,507 crore, and the actual expenditure was BDT 62,079 crore, accounting for 1.40 per cent of GDP (Ministry of Finance, 2024). Moreover, the allocated budget for education is primarily used for operational expenses rather than development expenditures, which may compromise the quality of education, highlighting a lower priority in the development of this sector. The government is still behind in meeting its targets of spending at least 3.5 per cent of GDP in education by 2031 and 4 per cent by 2041, as suggested in the Perspective Plan of Bangladesh (2021-2041) (GED, 2020). In addition, the Eighth Five-Year Plan states that the education budget should grow from 2 per cent of GDP in FY2019 to 3 per cent of GDP by FY2025. However, the education budget failed to meet this target in FY2025.

In addition to the insufficiency of spending, there are worries over the effectiveness of allocated resources to attain the desired results. Education in Bangladesh is plagued by persistent absenteeism at the primary level (Kumar & Saqib, 2017), a high secondary dropout rate (Hossain T., 2021), concerns about the quality of education (Titumir, 2021), ineffective teaching methods (Farooqui, 2014), insufficient resources (Islam M. S., 2021), and the negative impact of COVID-19 on learning (Hosen et al., 2022). The education budget for FY2026 must address these long-standing difficulties while also considering emerging and growing concerns. Therefore, this chapter analyses the status, achievements, impediments, and other numerous factors regarding the planned budgetary allocation in the education sector for FY2025 and makes a few recommendations for FY2026.

2.9.3 Global comparison of the education budget

Bangladesh's actual education expenditure is lower than many least-developed countries (LDCs). For example, in FY2022, Bangladesh allocated BDT 71,954 crore for the education sector, which was revised down to BDT 69,641 crore (Ministry of Finance, 2024). Yet, Bangladesh's actual expenditure in FY2022 accounted for BDT 60,431 crore (Ministry of Finance, 2024), which is only 1.52 per cent of GDP, the third lowest among 31 LDCs and eighth lowest among 137 countries of the world. It should also be highlighted that Bangladesh was also the third lowest among 39 LDCs in terms of average education expenditure as a percentage of GDP from 2016 to 2023 (The World Bank, 2025). Haiti and South Sudan were the only countries that spent less than Bangladesh.

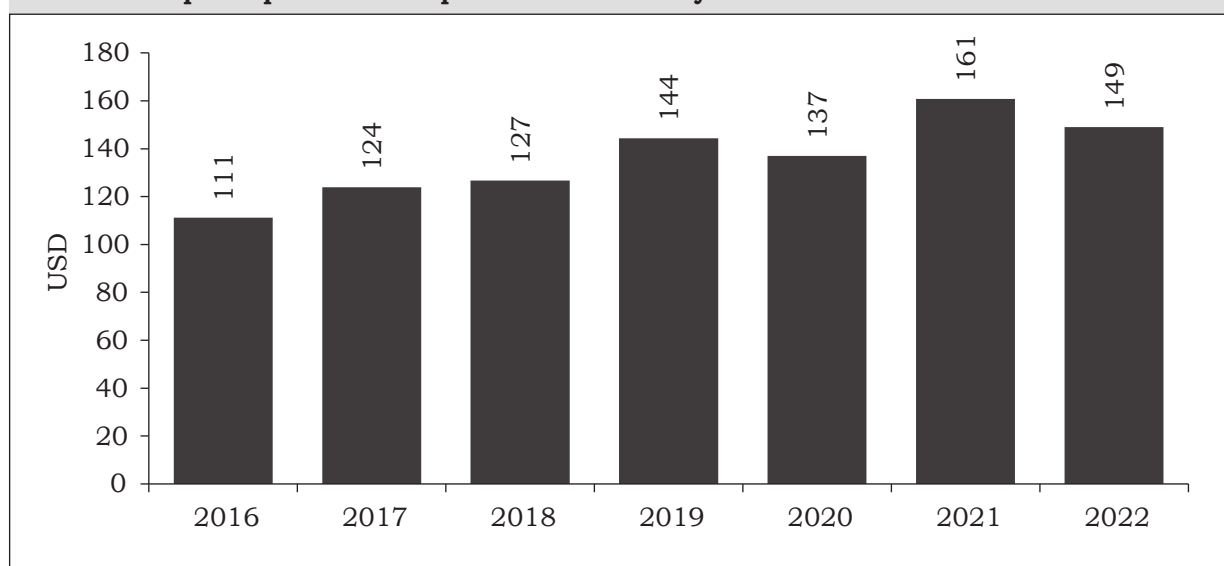
At least 34 LDCs, including countries such as Senegal and Djibouti, spent, on average, 2 per cent or more of their GDP on education from 2016 to 2023 (The World Bank, 2025). In 2022, the GDP per capita based on purchasing power parity (PPP) revealed an interesting contrast between Senegal and Bangladesh. Bangladesh displayed a higher GDP per capita at USD 7,805, compared to Senegal's USD 4,331, but on average, Senegal dedicated 5.3 per cent of its GDP to education, starkly contrasting with Bangladesh, which spent, on average, only about 1.7 per cent of its GDP on education between 2016 and 2023 (The World Bank, 2025) (Table 2.12).

This disparity highlights the different national priorities and strategies in resource allocation despite Bangladesh's higher economic output per person. Furthermore, from 2016 to 2022, the government's per capita actual expenditure on primary education in Bangladesh averaged around USD 136. This level of spending positioned Bangladesh as the 15th lowest among 112 countries. In comparison, during the same period, Senegal and Djibouti spent an average of USD 159 and USD 709 per capita, respectively, on primary education (UIS, 2024). In addition, Bangladesh's per capita expenditure on primary education decreased from USD 161 in 2021 to USD 149 in 2022 (Figure 2.9).

Table 2.12**International Comparison of Government Expenditure on Education**

Country	Bangladesh	Djibouti	Senegal
GDP per capita based on purchasing power parity (PPP) for 2022 (in USD)	7,805	6,136	4,331
Government total average expenditure on education as a percentage of GDP from 2016 to 2023 (in per cent)	1.7	3.8	5.3
Government per capita average expenditure on primary education from 2016 to 2022 (in USD)	136	709	159

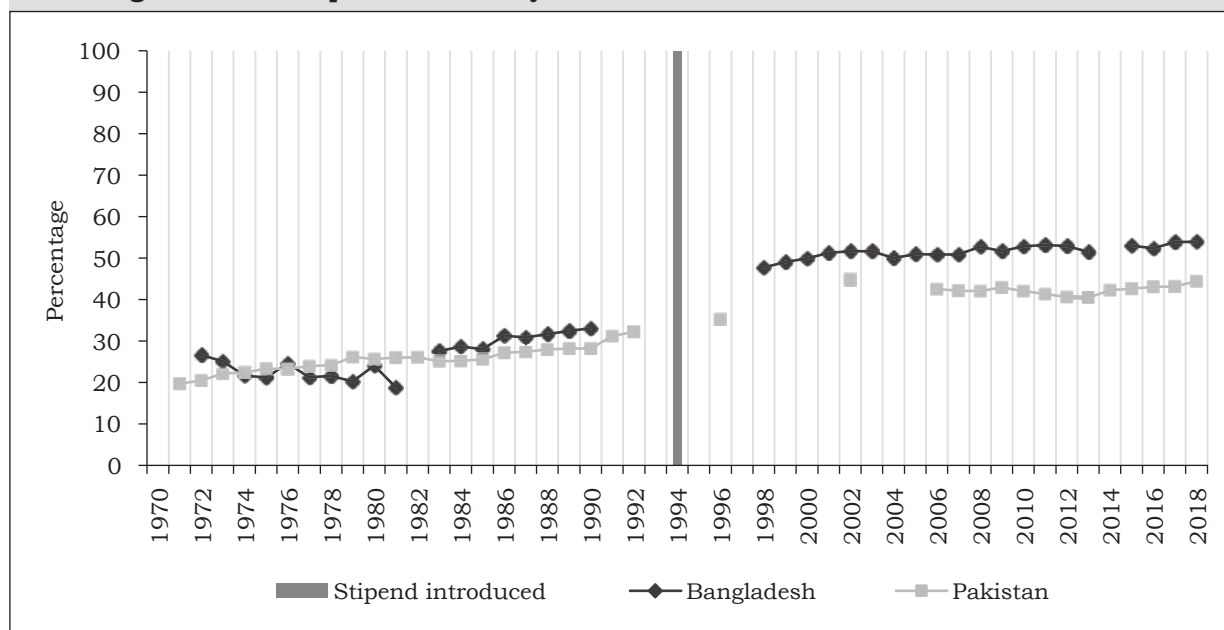
Source: Authors' compilation based on data from the Ministry of Finance (Ministry of Finance , 2024), World Bank (The World Bank, 2025), and UNESCO Institute for Statistics (UIS) (UIS, 2024).

Figure 2.9**Government per Capita Actual Expenditure on Primary Education in USD**

Source: Authors' illustration based on data from the Ministry of Finance (Ministry of Finance , 2024).

2.9.4 Female education stipend

Women's economic empowerment is critical to the long-term success of any society. The government, private sector and non-government organisations have all played their part in women's economic empowerment in Bangladesh. In 1982, the government of Bangladesh initiated some social safety net programmes that were especially targeted towards women and girls, such as the female secondary education stipend. Results from a pilot project showed that girls' secondary enrolments increased from an average of 7.9 per cent to 14 per cent in some project areas, and dropout rates fell from 14.7 per cent to 3.5 per cent (Raynor et al., 2006). In 1994, the highly successful programme was launched nationwide. Female students received a monthly sum of money ranging from BDT 25 in Class 6 to BDT 60 in Class 10, as well as payments for new books and exam fees, on condition of a minimum of 75 per cent attendance rate, at least a 45 per cent score in annual

Figure 2.10**Percentage of Female Pupils in Secondary Education**

Source: Authors' illustration based on data from UNESCO (UNESCO, 2020).

school exams and staying unmarried until sitting for the Secondary School Certificate (SSC) or turning 18 years old.

The female secondary education stipend programme in Bangladesh was not only effective in increasing girls' enrolment in schools but also succeeded in providing a host of benefits, such as increasing the ratio of female students in secondary schools, improving the female literacy rate, lowering fertility rate, controlling population growth rate and increasing female labour force participation. As a result of the catalytic benefits of its successful female secondary education stipend programme, Bangladesh managed to advance Pakistan in terms of several key socio-economic indicators. In 2018, girls comprised 54 per cent of pupils in secondary schools in Bangladesh, whereas in Pakistan, only 44 per cent of secondary school pupils were girls (Figure 2.10). In 2017, the adult female literacy rate was 70 per cent in Bangladesh but only 46 per cent in Pakistan.

2.9.5 Budget recommendations

Overall, the education budget for FY2025 was meagre in terms of the total budget and GDP. However, in FY2025, education was among the top five priority sectors, receiving 11.9 per cent of the total Annual Development Programme (ADP) allocation. Yet, this growth was relatively marginal compared to FY2024, when the share of total ADP allocation accounted for 11.4 per cent. Thus, the proposed education budget for FY2026 should be more comprehensive to combat the pandemic's spillover effects, with funds allotted towards more concrete actions. Therefore, CPD suggests the following measures should be considered in the FY2026 budget for the education sector.

Increase in education stipends

Stipends for education have been crucial in increasing the proportion of Bangladesh's population receiving primary and secondary education. These financial incentives have facilitated the reduction of drop-out rates and increasing the overall enrolment rates in Bangladesh. In addition to improving school attendance, education stipends have also contributed to promoting gender equity.

Therefore, CPD proposes increasing the allocation of all education stipends to be implemented in the budget for FY2026 (Table 2.13). In addition, CPD also proposes bringing back the stipends that were removed in FY2025.

Table 2.13

Proposed Education Stipend Structure in FY2025

Name of stipend	Current stipend structure in FY2025			Proposed stipend structure in FY2026	
	Number of beneficiaries (in crore)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)
Student stipend for the primary education level	1.16	1,785	1,539	16,800	12,000
Stipends for secondary, higher secondary and madrasah education level students	Removed			7,204	12,000
Stipends for undergraduate and postgraduate level students	Removed			234	18,000
Stipends for students of technical education institutions	0.12	489	4,072	1,994	24,000
Stipends for physically challenged students	0.01	114	11,371	240	24,000
Total for stipend programmes	1.29	2,387.4		26,472	

Source: CPD compilation based on data from the Ministry of Finance (MoF, 2024b).

Our proposed stipend reform will benefit more than one crore students at all levels and cost the government BDT 26,472 crore.

Removal of existing taxes on education

Whilst the government has exempted Bengali medium schools and later private universities, from paying Value Added Tax (VAT) on tuition fees, the VAT on English medium schools remains at 5 per cent (NBR, 2019). It is often opined that English medium education is a luxury good and that students who study in English medium schools belong to affluent families and do not stay

in the country long term. Education is a fundamental right and should not be misconstrued as a luxury good. English medium schools are privatised and not recognised as having a low tuition fee. Hence, the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families. Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, be exempted in FY2026, and the exemption should remain in place indefinitely.

Additionally, since English medium schools follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. Currently, the Total Tax Incidence (TTI) on foreign printed books is 73.96 per cent (NBR, 2022). The total tax incidence includes 25 per cent as Customs Duty (CD), 10 per cent as Supplementary Duty (SD), 5 per cent as Advance Income Tax (AIT), 15 per cent as VAT, and 3 per cent as Regulatory Duty (RD) (NBR, 2022). Such high duties on foreign books intended to provide children with quality education defeat the purpose of achieving SDG 4, which aspires to 'ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all' (UN, 2015).

Therefore, CPD recommends exempting all taxes and duties on foreign books imported in FY2026 to ensure that education remains affordable for all. Furthermore, a 15 per cent VAT was imposed on ballpoint pens in the budget for FY2024, and no change was made in FY2025 (MoF, 2023). The VAT of 15 per cent on ballpoint pens should be withdrawn in FY2026, as they are mostly used by students.

Reduction of corporate income tax on private universities and educational institutions

The government proposed to reduce the corporate income tax for publicly traded and non-publicly traded companies. However, the corporate tax for private universities and colleges remains at 15 per cent (MoF, 2022). This corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education. The corporate income tax contributes to high tuition fees and increases the costs borne by academic institutions. This may lead to a compromised quality of education, poor infrastructure management, and insufficient teachers being hired, which may further decrease the teacher-to-student ratio.

Therefore, CPD recommends that corporate income tax on private universities and colleges be reduced from 15 per cent to 10 per cent in the revised budget for FY2026.

Increase the scope of the school feeding programme to include all government primary school students

In March 2020, all academic institutions were forced to close to ensure safety and protect teachers and students from COVID-19. As such, Bangladesh experienced one of the longest school closures owing to COVID-19 (UNESCO, 2021). This led to learning losses and deprived 2.96 million children in Bangladesh who were dependent on the school feeding programme of essential nutrients (WFP, 2020). Since 2001, Bangladesh has been implementing the national school feeding programme in collaboration with the World Food Programme (WFP). According to a study by the WFP conducted in 2018, this initiative contributed to a 4.2 per cent increase in school enrolment and a 7.5 per cent decrease in dropout rates in Bangladesh (Arafin, 2024). School feeding programmes are integral in mitigating hunger and improving school attendance and retention (Arafin, 2024). In the proposed budget for FY2025, the Ministry of Primary and Mass Education has allocated approximately BDT 45.11 crore to support the school feeding programme targeting poverty-stricken areas (MoF, 2024). This initiative aims to benefit around 3.6 million primary school students (MoF, 2024), with an estimated expenditure of BDT 125 per student annually.

Considering the significant positive impact of this programme, CPD recommends that the interim government should expand its coverage to include all primary school students, accounting for about 9.3 million, as reported by the Annual Primary School Census (APSC) 2023 in the proposed budget of FY2026 (MoPME, 2024).

To achieve this broader inclusion while maintaining the same per capita expenditure, the budget allocation would need to be increased to approximately BDT 116 crore.

Introduce a scholarship programme to recover from the impact of the July uprising on education

Although initially triggered by the reinstatement of the quota system in public sector employment, the movement in July last year ultimately brought forth broader, deep-rooted issues of social, economic, and political injustice occurring under the previous regime. What initially began as peaceful demonstrations led by the students contesting the High Court's decision to allocate 30 per cent of public sector employment to the descendants of Bangladesh's 1971 war veterans quickly escalated into violence and repression sanctioned by the state, with widespread human rights violations. Whilst the July movement led the country to make radical changes with a renewed sense of freedom and hope, it has also impacted young individuals socially, psychologically, and academically. Many children were injured and killed in the violence that ensued. According to the United Nations Office of the High Commissioner for Human Rights (OHCHR), as many as 1,400 individuals were killed, among whom about 12 or 13 per cent were children (UN, 2025). But, according to a list published by the Ministry of Health and Family Welfare in Bangladesh, 843 individuals died, and 14,025 were injured during the July uprising (Ministry of Health and Family Welfare, 2025). Due to several undocumented cases, the actual number of casualties of the July uprising may be much higher. Nevertheless, what remains concrete is that several young individuals, including children, lost their lives, while many others sustained severe injuries, leaving some with permanent disabilities. Students who sustained injuries or were disabled during the movement may have been forced to either delay their schooling or discontinue their education altogether. This adversity is particularly severe for those who became disabled, hindering their ability to pursue their academics in the same capacity as before and requiring specialised support.

In this context, the interim government should introduce a scholarship programme in FY2026 to finance the education of those who were injured or disabled during the July movement. This support should remain available for all injured individuals during the July uprising until they receive their undergraduate degree from any public or private university.

Finance special programmes or schemes in top public and private universities to improve the quality of education and research

Substantial investments are required to improve the quality of education imparted at universities in Bangladesh. At present, the state of higher education in Bangladesh is not ideal and does not meet global standards. There are 171 universities across the country, including 55 public universities, 114 private universities, and two international universities (BANBEIS, 2024). Yet, the quality of education provided fails to be on par with the international benchmark due to insufficient funding, an absence of competent faculty members, and suboptimal curricula in conjunction with frequent political interferences, restricting academic liberty (Huque et al., 2025). Therefore, the government needs to play a more proactive role in improving the quality of higher education. For example, in China, the government initiated many financial programmes during the 1990s to aid a few reputed Chinese universities in becoming top-tier institutions. These include the 211

Project, 985 Project, 863 Project, and 973 Project (Li, 2010). Apart from financial programmes, the Chinese government implemented several other reform measures and strategic policies to renew the higher education system in China.

The Government of Bangladesh should allocate some budget for FY2026 to finance special academic programmes or schemes in a few of the top public and private universities in Bangladesh to facilitate research outputs, promote subjects related to Science, Technology, Engineering, and Mathematics (STEM), and develop world-class leading curricula in the higher education system.

In addition, similar to China, the government also needs to allocate funds to implement a few reform agendas, including providing benefit packages to attract distinguished academics, professors, and scholars from around the world. This may encompass housing discounts, high salaries, jobs for spouses, international schools for children, residence permits, and modern laboratories and equipment (Huque et al., 2025).

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2.10 FISCAL MEASURES FOR THE ENVIRONMENT

Key Recommendations

- All types of equipment for renewable power plants should qualify for VAT exemptions and incentive tariffs, and a 1 per cent surcharge should be imposed on goods produced through environmentally harmful means.
- A 5 per cent to 50 per cent higher Advance Income Tax (AIT) should be imposed on fossil fuel-driven motor vehicles, depending on the size of the vehicle's engines and electric motor, compared to the AIT on hybrid and fully electric vehicles, encouraging the consumption of green technology.
- The 5 per cent supplementary duty on plastic bags, initially withdrawn in FY2023, should be reinstated.

2.10.1 Introduction

Bangladesh must implement green fiscal policies to tackle global warming and successfully shift towards a sustainable economy that benefits all parties involved. By incorporating externalities into pricing, aligning government expenditure with environmental goals, and generating additional revenue, these policies may contribute to achieving the desired results outlined in the Paris Agreement (UN Environment Programme, 2022). Massive investments are required to fulfil global climate commitments. To achieve net-zero emissions in the energy sector alone, an estimated yearly expenditure of around USD 3.1 trillion to USD 8.2 trillion would be required from now until 2050 (Lenaerts et al., 2022). According to the United Nations Environment Programme, removing subsidies for fossil fuels may yield around USD 2.9 trillion by 2022. This substantial amount of money could be directed towards attaining global climate objectives (UN Environment Programme, 2022).

Bangladesh may gain valuable insights from ongoing worldwide initiatives and endeavours to mitigate climate change. The national budget should align with the government's efforts to promote an environmentally sustainable fiscal policy. The government has a compelling motive to encourage green growth as by 2026, it will cease to be classified as a least developed country (LDC), and it further aspires to attain upper middle-income status by 2031. Consequently, due to this transition, there will be an increase in the stringency of environmental restrictions.

Bangladesh's urbanisation is experiencing a significant upward trajectory, even though most of the population still resides in rural regions. Bangladesh's economy is undergoing significant structural changes as it progresses towards prosperity. Although beneficial for growth, structural change may harm the environment, including air and plastic pollution. Individuals' carbon footprints are amplified when metropolitan regions see an influx of additional people. The cumulative addition of these larger footprints may significantly impact environmental quality. The process of urbanisation in Bangladesh is linked to increased levels of greenhouse gas emissions and a rise in the average yearly temperature (Murshed & Saadat, 2018). Although urban areas occupy a relatively tiny fraction of the Earth's surface, they contribute about 70 per cent of the global greenhouse gas emissions (United Nations Environment Programme, 2024). It is estimated that urban areas worldwide have the potential to suffer a loss of 44 per cent of their gross domestic product (GDP), which is equal to USD 31 trillion, as a direct result of the destruction of biodiversity and the environment (World Economic Forum, 2022).

2.10.2 Alarming state of air pollution in Dhaka and other cities

Greater industrialisation results in increased urbanisation and elevated energy consumption, contributing to the escalation of carbon dioxide emissions. Air pollution is a major environmental and climate-related concern that the rise in energy use has caused. As of 26 March 2023, the PM 2.5 concentration in the air of Bangladesh exceeded the World Health Organization's (WHO) acceptable air quality standard by a factor of 13.2 (IQAir, 2022). A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that more than 76 per cent of respondents thought that air pollution in Dhaka city became much worse in the past 2 to 3 years (Khatun et al., 2023). The CPD's Green Cities Initiative survey also revealed that, on average, individuals in Dhaka city are stuck in traffic for 46 minutes out of every 2 hours spent on the road (Khatun et al., 2023). Being stuck in traffic for prolonged periods increased individuals' exposure to Dhaka's highly polluted air. On average, individuals in Dhaka city spent BDT 4,000 per year to diagnose and treat symptoms associated with air pollution, as revealed by the CPD Green Cities Initiative survey (Khatun et al., 2023).

Bangladesh has committed, as stated in its Nationally Determined Contribution (NDC), to reduce its greenhouse gas (GHG) emissions by 6.73 per cent in five sectors—electricity generation, transportation, industry, waste management, and land use—by the year 2030 (MoEFCC, 2021). Bangladesh intends to reduce greenhouse gas emissions by 15.12 per cent, contingent upon receiving international funding and technical assistance (MoEFCC, 2021). The previous government of Bangladesh planned to cut transportation-related emissions by 12.30 per cent on its own by 2030 and by another 10.23 per cent with international assistance. The updated NDC specifies that Bangladesh requires a total of USD 14.6 billion to fulfil its unconditional commitment and USD 89.9 billion to fulfil its conditional obligation, respectively, in the transport sub-sector of the energy sector from 2021-2030 (MoEFCC, 2021). Bangladesh must implement certain tax and regulatory policies to decrease greenhouse gas (GHG) emissions to achieve these objectives.

Bangladesh does not have certain fiscal measures that might support a green transition. Only a few tax incentives and green funds are available to promote environmentally friendly and sustainable production and consumption. The Renewable Energy Policy 2008 implemented a 15 per cent value-added tax (VAT) exemption for all renewable energy equipment and its related raw materials. Currently, SRO No. 141-Act/121/138-VAT exempts from VAT for importing and producing photovoltaic cells, solar modules, solar panels, and solar batteries with a maximum capacity of 60 Amperes. The renewable energy policy includes a provision for corporate income tax exemptions specifically for renewable energy producers. These exemptions are valid for five years and may be extended if necessary. The Finance Act of 2014 included a new surcharge to protect the environment. Nevertheless, the environment protection surcharge (EPS) has not been fully implemented (Finance Division, 2020). Two Bangladesh Bank funds support the green energy transition in Bangladesh: The Refinance Scheme for banks and financial institutions and the Green Transformation Fund (GTF) for Export-oriented Industries (Bangladesh Bank, 2020).

2.10.3 Plastic pollution getting out of hand

The global popularity of disposable plastic is increasing due to its flexibility and low cost, despite its detrimental effects on the environment and human health. Every day, 646 tonnes of plastic waste are collected in Bangladesh, with 48 per cent sent to landfills, 37 per cent recycled, 12 per cent dumped into waterways, and 3 per cent littered in urban areas (The World Bank, 2021). Around 1,212 dump sites in Bangladesh contribute between 24,032 and 36,047 tonnes of plastic waste annually to the country's rivers (The World Bank, 2021). Both plastic consumption and

pollution have soared with rapid urbanisation. In the metropolitan regions of Bangladesh, yearly per capita plastic use is projected to reach 9.0 kg in 2020, up from 3.0 kg in 2005. Mismanaged plastic trash in Bangladesh mainly comprises single-use items like shopping bags, packages, and wrappers (The World Bank, 2021). The plastic usage rate in Dhaka is three times greater than the national average for metropolitan areas. The use of disposable plastics intensifies urban floods since they obstruct drainage systems. The use of single-use plastics poses significant risks to both human health and the environment. A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that 73 per cent of respondents thought plastic pollution had worsened significantly in the last 2 to 3 years (Khatun et al., 2023). In the CPD's Green Cities Initiative survey, 57 per cent of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution (Khatun et al., 2023).

Per capita plastic waste generated in Bangladesh was only 0.03 kg per day in 2010, compared to the global average of 0.19 kg per day (Jambeck et al., 2015). However, 87 per cent of the plastic waste generated in Bangladesh was inadequately managed, leading to the country becoming the 10th-largest contributor of mismanaged plastic waste worldwide in 2010 (Jambeck et al., 2015). The Ganges River, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the second largest river source of plastic inputs into the ocean worldwide in 2015 (Lebreton et al., 2017).

COVID-19 has led to a spike in the unsustainable manufacture of single-use plastics and synthetic materials, which have been employed to create personal protection equipment (PPE) such as body suits, masks, and face shields. There has been an alarming increase in the use of disposable plates, cups, and cutlery made of plastic due to concerns about the spread of disease. Between 26 March 2020 and 25 April 2020, roughly 14,165 tonnes of single-use plastic waste were produced in Bangladesh, which comprised 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitiser (ESDO, 2020).

Bangladeshi governments have implemented numerous initiatives to address environmental challenges like pollution. The Bangladeshi authorities have already implemented measures to tackle the problem of plastic usage. In 2002, a regulatory order under the 1995 Environment Act prohibited using plastic shopping bags in Bangladesh. Nevertheless, the limitation proved futile primarily due to its lack of rigorous enforcement. The government enforced the Mandatory Jute Packaging Act in 2010, which had a moderate impact on reducing the nation's plastic use. The National 3R Strategy for Waste Management was established in 2010 to provide directives on reducing, reusing, and recycling plastic. The Eighth Five-Year Plan urged various local stakeholders, such as the Department of Environment, the Bangladesh Plastic Goods Manufacturers and Exporters Association, plastic manufacturers, research industries, and city corporations, to actively engage in implementing the Extended Producer Responsibility (EPR) Policy for plastic management. Bangladesh has pledged to achieve a 30 per cent decrease in plastic waste by 2030 as a component of its National Action Plan (The World Bank, 2021). The country has set goals to lower virgin material consumption by 50 per cent by 2030. It also aims to recycle 50 per cent of all plastics by 2025, to reach a recycling rate of 80 per cent by 2030 and to phase out targeted single-use plastics by at least 90 per cent by 2026 (The World Bank, 2021). The National Action Plan lays out in detail the measures and methods that will be used to achieve these objectives. In addition, on 28 August 2024, the Ministry of Environment, Forests and Climate Change issued a circular mentioning 17 plastic-made materials as single-use plastic, which will be phased out gradually (MoEFCC, 2024a). This includes straw, stirrer, one-time utensils or cutlery, plastic sticks, plastic banners, covers, and posters, sachets or pouches, lollipop and chocolate covers, Styrofoam food packaging, thin plastic films, plastic invitation card, thermal lamination on invitation card or advertising

products, thin plastic cover of cigarette pack or tissue paper or toilet roll or soap, shopping bag or carry bag manufactured from polyethylene or polypropylene or mix, melamine foam sponges- used for household cleaning, single-use plastic packaging for any products, cigarette filter, and plastic bottles and caps (MoEFCC, 2024a). Furthermore, since 1 October 2024, the provision of polythene bags has been banned across all superstores in Bangladesh (MoEFCC, 2024b), followed by a similar ban on kitchen markets in November to discourage vendors and small shops from using polythene bags and instead switching to eco-friendly alternatives (MoEFCC, 2024c). Furthermore, the Ministry has also formed a committee to monitor and enforce the ban on polythene shopping bags to safeguard successful policy implementation (MoEFCC, 2024d).

2.10.4 Budget recommendations for reducing air and plastic pollution

Considering the above, the government may adopt the following budgetary measures to minimise air and plastic pollution and support the greening of the economy:

- *VAT exemptions:* The government should fully implement the commitments of the Renewable Energy Policy 2008. VAT exemption exists for solar panels and batteries, but there are no exemptions for solar inverters, which are a crucial component of solar power plants. Moreover, the import duty on inverters (HS 85044090) was raised to 37 per cent in the budget of FY2022. An extensive policy considering VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2026.
- *Incentive tariffs:* According to the Renewable Energy Policy 2008, an incentive tariff can be considered for electricity generated from renewable sources. This tariff allows electricity generated from renewable sources to be priced 10 per cent higher than the highest purchase price of electricity generated from fossil fuel sources.
- *Environment surcharge:* The Finance Act of 2014 set a one per cent surcharge on goods produced by industries polluting the environment. This environment protection surcharge should be implemented completely in FY2026.
- *Phase-out fossil fuel subsidies:* The government should phase out fossil fuel subsidies starting from FY2026 in line with recommendations from the IMF. Initially, all fossil fuels may be sold at the international market price, which may be updated monthly. Instead, the government can redirect the funds allocated to fossil fuel subsidies to develop green energy.
- *Feed-in tariff:* To promote renewable energy in Bangladesh, a formal feed-in tariff policy exclusively for renewable energy must be implemented in FY2026. Currently, an informal version of the feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package must be present in the policy to reach all potential renewable energy producers regardless of their generation capacity.
- *Structure of advance income tax:* To reduce air pollution originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the AIT on fossil fuel-driven motor vehicles is five per cent to 50 per cent higher than the AIT on hybrid and fully electric vehicles, depending on the size the vehicle's engine and electric motor (Table 2.14).

Table 2.14**Proposed advanced income tax (AIT) structure for the owners of private motor cars in FY2026**

Type and engine capacity or electric motor power of motor cars	AIT for hybrid and fully electric vehicles (in BDT)	AIT for conventional fossil fuel vehicles (in BDT)
A car or a jeep, not exceeding 1500cc or 75kW	25,000	26,250
A car or a jeep exceeding 1500cc or 75kW but not exceeding 2000cc or 100 kW	50,000	55,000
A car or a jeep exceeding 2000cc or 100 kW but not exceeding 2500cc or 125 kW	75,000	90,000
A car or a jeep exceeding 2500cc or 125 kW but not exceeding 3000cc or 150 kW	125,000	162,500
A car or a jeep exceeding 3000cc or 150 kW but not exceeding 3500cc or 175 kW	150,000	210,000
A car or a jeep exceeding 3500cc or 175 kW	200,000	300,000
A microbus	30,000	36,000

Source: CPD compilation.

- In addition to the AIT on private motor vehicles, the government should also consider imposing an AIT on motorcycles starting in FY2026 (Table 2.15).

Table 2.15**Proposed advance income tax structure for the owners of motorcycles in FY2026**

Type and engine capacity of the motorcycle	Yearly AIT (in BDT)
A motorcycle with an engine of up to 100cc	1,500
A motorcycle with engine from 101cc to 150cc	3,000
A motorcycle with an engine above 150cc	5,000

Source: CPD compilation.

- *Increase customs duty on plastic waste:* The relatively low customs duty on plastic waste needs to be raised. This will raise the cost of importing plastic waste, causing plastic makers to find their raw materials domestically and boosting domestic plastic recycling.
- *Allocate funds for plastic waste reduction:* The budget for FY2026 should allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India. The government of Bangladesh should call for funding and technical and logistical support from the Indian government to reduce plastic waste in the 54 transboundary rivers shared between Bangladesh and India.
- *Allocate specific excise duty:* The budget for FY2026 should also allocate a specific excise duty per unit on the 17 different single-use plastic items that have been identified by the Ministry of Environment, Forest, and Climate Change.

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2.11 CONCLUDING REMARKS

The national budget for FY2026 is being formulated at a time when Bangladesh is facing formidable economic challenges, requiring decisive and well-calibrated policy measures. Restoring macroeconomic stability remains the foremost concern for policymakers. This requires targeted interventions to address inflationary pressures, stabilise the exchange rate, and ensure fiscal prudence. Given the current economic landscape, the budget must prioritise the protection of vulnerable and disadvantaged groups and economic recovery.

The FY2026 budget will probably be the only budget formulated by the current interim government under new leadership at the Ministry of Finance. In this context, the upcoming national budget presents a unique opportunity for the interim government to move beyond conventional approaches, implement short-term corrective measures, and establish the groundwork for medium-term reforms in resource mobilisation, public finance management and expenditure efficiency. A crucial first step in this process would be the development of a credible and well-structured fiscal framework.

By taking a pragmatic and forward-looking approach, the government can not only navigate the current economic turbulence but also set the stage for a stronger, more stable economic future for Bangladesh. It is expected that the elected political government will take these measures forward.

Chapter 3

State of the Bangladesh Economy in FY2024–25 ***Navigating Expectations in Turbulent Times*** *(First Reading)*

EXECUTIVE SUMMARY

Bangladesh's economy is navigating turbulent waters, facing compounded challenges from both domestic structural weaknesses and global economic headwinds. The interim government, formed in August 2024 after widespread protests, inherited an economy burdened by fiscal deficits, soaring inflation, dwindling foreign reserves, and a fragile banking sector. Whilst some reform measures have been initiated, persistent governance gaps, supply chain bottlenecks, and energy sector crises continue to threaten macroeconomic stability. The post-pandemic recovery has been uneven, disrupted by global commodity price shocks, tightening monetary policies in advanced economies, and domestic policy inertia.

The fiscal situation remains strained, with revenue growth stagnating at 3.7 per cent in the first four months of FY2025 - far below the 32.4 per cent annual target. This has forced increased reliance on high-cost domestic borrowing. Tax collection has underperformed, particularly in VAT and import duties, due to political unrest and import restrictions. The budget deficit widened to BDT 12,886 crore in July-October FY2025, financed largely through bank borrowing and savings certificates. Meanwhile, Annual Development Program implementation hit a decade-low of 17.3 per cent in the first half of FY2025, delaying critical infrastructure and social sector projects.

Inflation continues to squeeze households, with point-to-point inflation hovering near 10 per cent and food inflation peaking at 14.1 per cent in July 2024. Rural communities are particularly affected, facing prices for staples like rice, sugar and edible oil that are 20-150 per cent higher than international benchmarks. These price hikes stem not just from global volatility but from domestic market failures - intermediaries inflate rice prices by 97 per cent from farm to retail, with millers capturing 14 per cent margins. Similar distortions affect onions, potatoes and fish markets, while weak enforcement allows hoarding and cartelization to flourish.

Private investment remains stagnant at 23.5 per cent of GDP, hampered by high borrowing costs and policy uncertainty. SME interest rates outpace corporate loans, while FDI net inflows turned sharply negative in late 2024. Frequent power outages and complex import procedures further deter investors. The manufacturing sector shows signs of strain, with industrial production declining and unemployment rising to 4.49 per cent in July-September 2024 - exacerbating the youth discontent that fuelled the 2024 protests.

Agriculture faces multiple challenges, with Aman rice production falling 1.3 million metric tons short in FY2025 and wheat imports halving. Fertiliser shortages threaten the crucial Boro season, with stocks down to 20.8 lakh metric tons compared to 28.7 lakh tons the previous year. Government procurement systems are failing farmers, achieving only 37.8 per cent of rice procurement targets as growers reject prices below market rates. The energy sector is trapped in a debt spiral, with BPDB owing BDT 40,000 crore to power plants and Petrobangla accumulating USD 722 million in LNG arrears. Despite renewable energy pledges, fossil fuels still dominate generation at 87 per cent.

The banking sector's crisis deepens, with non-performing loans reaching BDT 2,84,977 crore (17 per cent of total loans) - exceeding the combined education and health budgets. Capital adequacy ratios fell to 6.86 per cent in September 2024, signalling systemic risk. The RMG sector, which accounts for 84 per cent of exports, faces labour unrest as workers demand wages that keep pace with inflation. Current minimum wages of BDT 12,500 per month fall far short of the estimated BDT 25,000 needed to support a family of four.

To navigate these challenges, Bangladesh needs bold, coordinated reforms. Fiscal policy must prioritise tax base expansion through digitisation while rationalising subsidies and fast-tracking high-impact development projects. Inflation control requires dismantling cartels, modernising supply chains, and empowering farmers through direct market access. Investment revival depends on stabilising energy supplies, simplifying trade policies, and ensuring SME access to credit. The banking sector needs strict enforcement of single-borrower limits, liquidation of defaulters' assets, and depoliticised gains and social stability.

3.1 INTRODUCTION

The economy of Bangladesh has been facing considerable challenges over the last couple of years that have weakened its macroeconomic stability. Despite claims of economic growth by the fallen regime under the previous autocratic government, the economic situation remained 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 little improvement.

The interim government, formed on 8 August 2024, following the student-people uprising in July-August 2024, has taken several economic measures, including many reform initiatives, given the attendant challenges. These include setting up the White Paper Committee on the state of the economy and the Task Force on Restrategising the Economy and Mobilising Resources for Equitable and Sustainable Development. Besides, specific measures in various sectors have also been initiated. However, these initiatives have not resulted in substantive changes that will relieve people and businesses. Given the multi-dimensionality of ongoing economic challenges, measures must be targeted to all sectors and 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 led to 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.

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

3.2 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

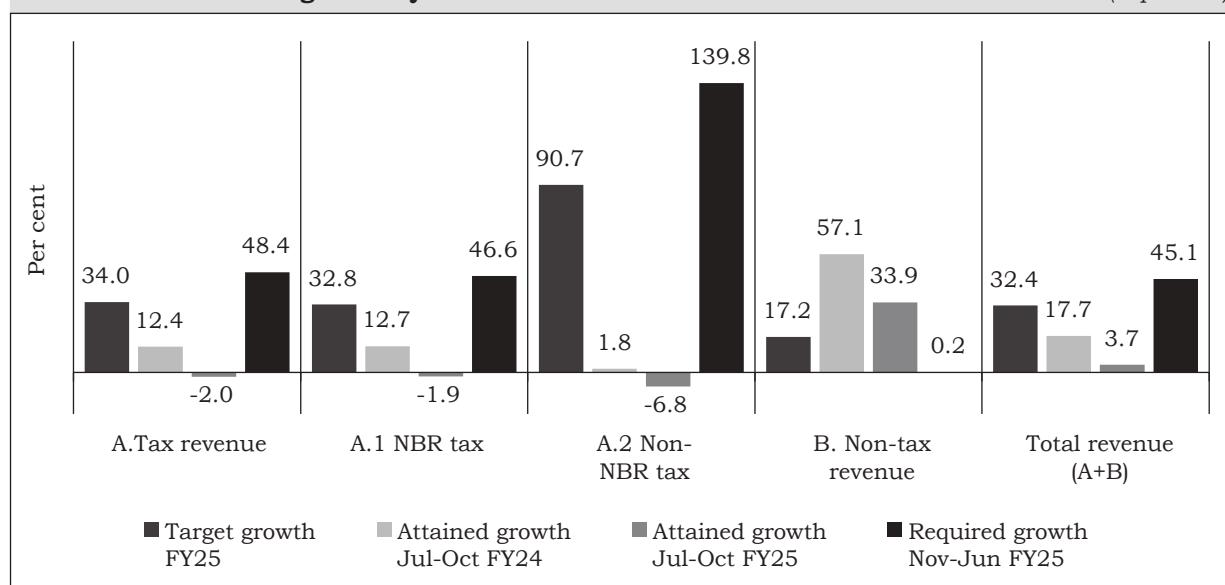
- Putting a high priority on preventing tax evasion, limiting tax avoidance, and bolstering compliance systems should be imperative for the interim government to create a more inclusive fiscal base and reduce revenue leakages.
- The recently started practice of excluding non-productive initiatives from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

3.2.1 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.

3.2.2 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 compared to the corresponding figure for FY2024, where total revenue mobilisation

Figure 3.1**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.

recorded a 17.7 per cent growth (Figure 3.1). 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.

As can be evinced from Figure 3.1, 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 period¹. Within the components of NBR tax, collection of value-added tax (VAT) and supplementary duty (SD) declined substantially while import duty also decreased. While the political turmoil during July and August of 2024 has contributed to this, the subsequent slowdown in the annual development programme (ADP) implementation has also played a part. The overall growth in revenue mobilisation was driven by non-tax revenue. Within the components of non-tax revenue, the government's interest-earning was the most significant driver (MoF, 2025).

The underwhelming performance in 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, several products' VAT and SD hikes have been discarded. However, imposing higher indirect taxes during high inflation, indiscriminately impacting affluent and less affluent sections of society, cannot be justified.

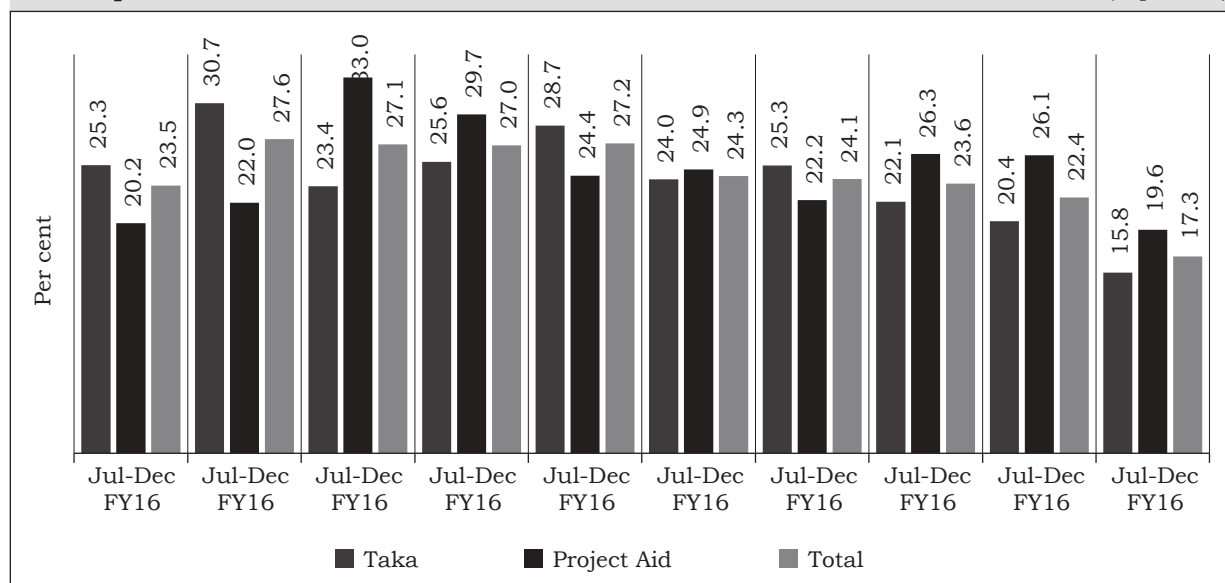
3.2.3 Public Expenditure

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 spent during the July-October period of FY2025 (the corresponding figure for FY2024 was 8.9 per cent).² Perhaps this is due to the political turmoil during July-August 2024 and 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 BDT 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 for government employees, might add to this once the proposed dearness allowance comes into effect.

Whilst 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 10 years (Figure 3.2).

¹According 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).

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

Figure 3.2**ADP implementation rate***(in per cent)*

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

Within the components of ADP, utilisation of both 'Taka' (the part of ADP financed by domestic resources) and project aid reached their historic lows during the July-December period of FY2025. While the implementation rate of the former reached 15.8 per cent, this rate was 19.6 per cent for the latter. 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 Section 5) is a matter of concern from the perspective of achieving healthy economic growth.

The top 10 ministries/divisions with 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 3.1). 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 the 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 during July-December FY2025 (Table 3.1).

Table 3.1**ADP implementation situation of top 10 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

(Table 3.1 contd.)

(Table 3.1 contd.)

Ministries/Divisions	FY2024		FY2025	
	Share in total ADP (%)	July-December implementation rate (%)	Share in total ADP (%)	July-December implementation rate (%)
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
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 10	3.1	19.6	
Bridges Division	3.3	33.1	Not included in the top 10	
Top 10 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).

3.2.4 Deficit and its Financing

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

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

The government's net borrowing from the banking system was BDT 15,651 crore (11.4 per cent of the budgetary target) during July-October of FY2025. On the other hand, BDT 5,911 crore was borrowed from the banking system during the corresponding period of FY2024. This increase in government bank borrowing might limit the availability of funds for the private sector. The government's net borrowing from non-banking sources increased to BDT 2,799 crore during July-October of FY2025. On the contrary, the government repaid BDT 9,326 crore to non-banking sources during the same period of the previous fiscal year. Within the non-banking sources, the net sale of National Savings Certificates experienced a sharp rise (95.3 per cent of the budgetary target) and a substantial decline in the sale of other instruments (e.g., treasury bills/bonds). Therefore, the government's total net domestic borrowing (from the banking system and non-banking sources) stood at BDT 18,450 crore during July-October of FY2025. On the other hand, the government paid back (net) BDT 3,415 crore during the same period of the previous fiscal year. The dependency on domestic sources to finance 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.

3.2.5 The Path Ahead

Given 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. Whilst 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., generating additional resources and reducing leakages. The fiscal measures in the coming days, including the revised budget for FY2025 and the budget for FY2026, will allow the interim government to concentrate on broadening the tax base instead of imposing additional burdens 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 wealth and property taxation and the growing digital economy, should be considered in the coming discourse. To create a more inclusive fiscal base and reduce the leakages, the interim government should prioritise preventing tax evasion, limiting tax avoidance, and bolstering compliance systems. The government must also prioritise the issue of curbing illicit financial flows.

Streamlining public expenditure will require a careful balancing game.

Whilst the current austerity measures will need to be continued, both on account of prudent macroeconomic management and as part of IMF conditionalities, it must be ensured that their impact on the social safety net, health and education sectors, agriculture, and small and medium enterprises (SMEs) is minimal. The practice of excluding non-productive initiatives from the ADP that has recently started 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, efforts to limit unnecessary and costly public expenditures, such as purchasing government vehicles and international travel, should continue. Furthermore, exit strategies must be formulated for fiscal incentives tied to exports and remittances. If a market-based exchange rate regime is adopted, the resulting depreciation could be enough to balance out current fiscal incentives adequately.

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

Given Bangladesh's dwindling foreign exchange reserve scenario, the government must prioritise implementing all foreign-funded ADP projects. Special emphasis should be placed on projects 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, rapid improvement in the government agencies' ADP design and implementation capacities has become a requisite to avail such funds. Policy reforms often determine the availability of external budget supports (such as those from IMF programmes). Whilst the government must adopt a flexible approach, proper utilisation and accountability of these funds are equally important.

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

The economy-wide implications and equity concerns associated with enhancing fiscal space and streamlining public expenditure should receive due attention. One of the core pillars of fiscal management (both in the case of revenue and expenditure-related measures) in the coming days should be a focus on supporting the vulnerable and disadvantaged groups. The public expenditure framework must address the challenge of continuing high prices of essentials. In this regard, specific attention should be given to low and limited-income households and 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. Whilst 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 to boost 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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3.3. 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 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 Pajam 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.
- Empower farmers to adapt agricultural best practices, expand the use of existing modern technologies, and improve their negotiation skills to secure fair prices.

3.3.1 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.

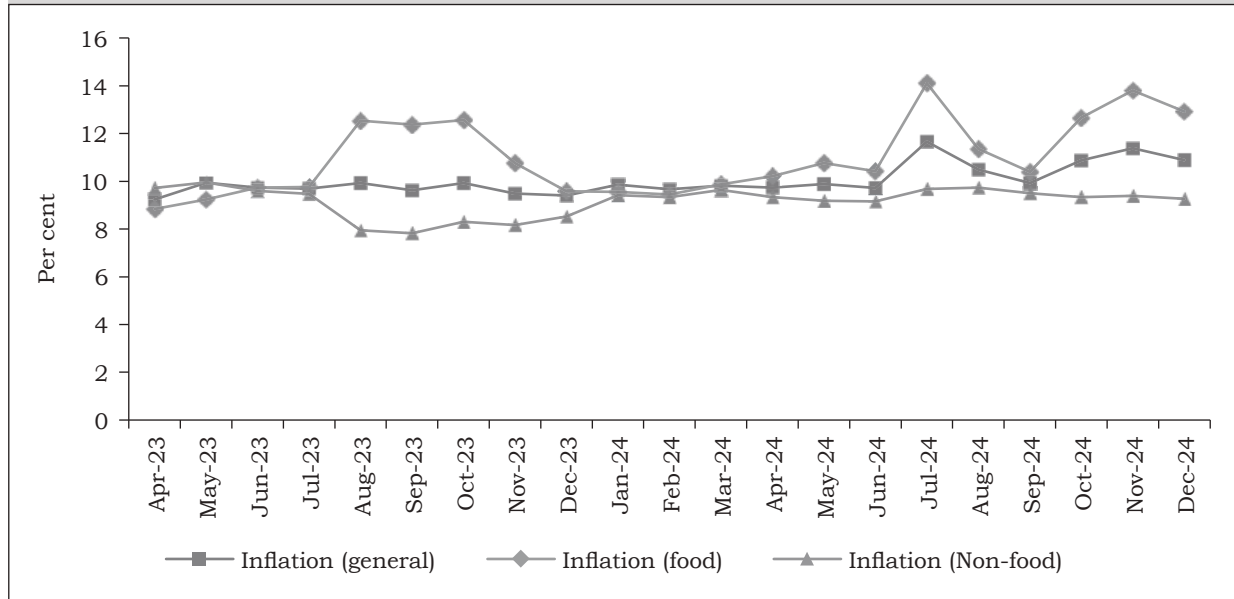
This chapter reviews the recent trends in Bangladesh's inflation, compares the average prices of selected items internationally, analyses the constraints in the supply chains of essential food items in Bangladesh, provides insights from an observational field visit to the rice market, and evaluates the 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.

3.3.2 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 3.3). 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 has continued.

Figure 3.3

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



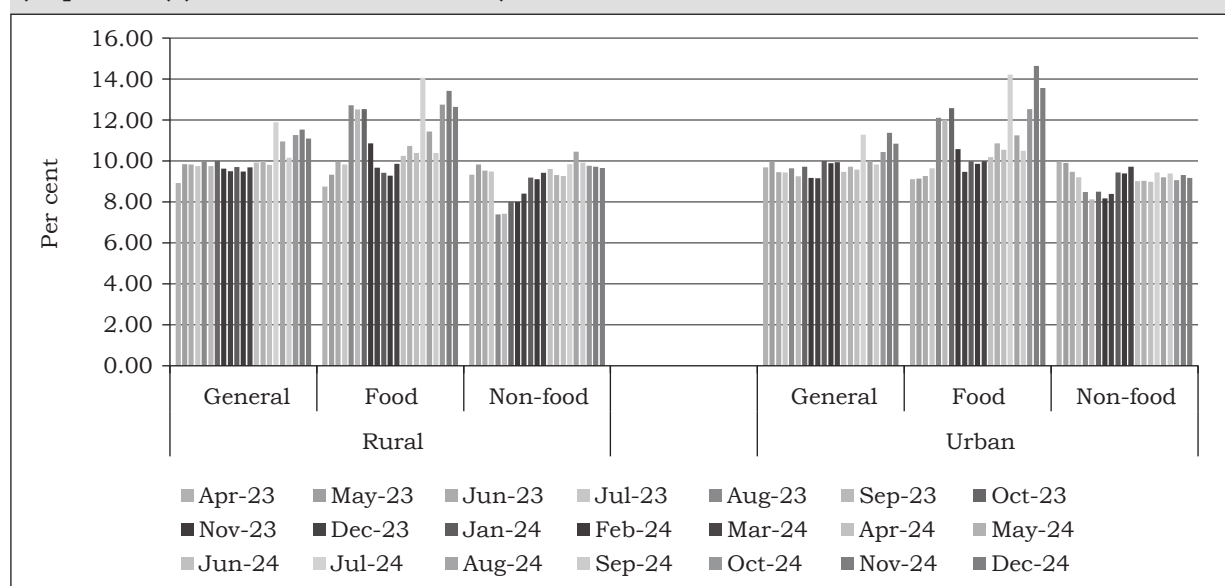
Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2024a).

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. However, in July 2024, the uprising was littered with lockdowns, curfews, and internet shutdowns, which impacted 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 and growing 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, the total damage caused by floods in Bangladesh's eastern region in August-September 2024 has been estimated at BDT 14,421.5 crore, equivalent to 1.8 per cent of the National Budget for 2025 (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 typically go towards stabilising prices. As a result, this natural disaster contributed to rising inflation.

Figure 3.4

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).

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 3.4) (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 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.

3.3.3 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 in mid-2023, the prices of Thai and Vietnamese rice varieties started rising and became more comparable to the prices of Bangladeshi rice varieties (Figure 3.5).

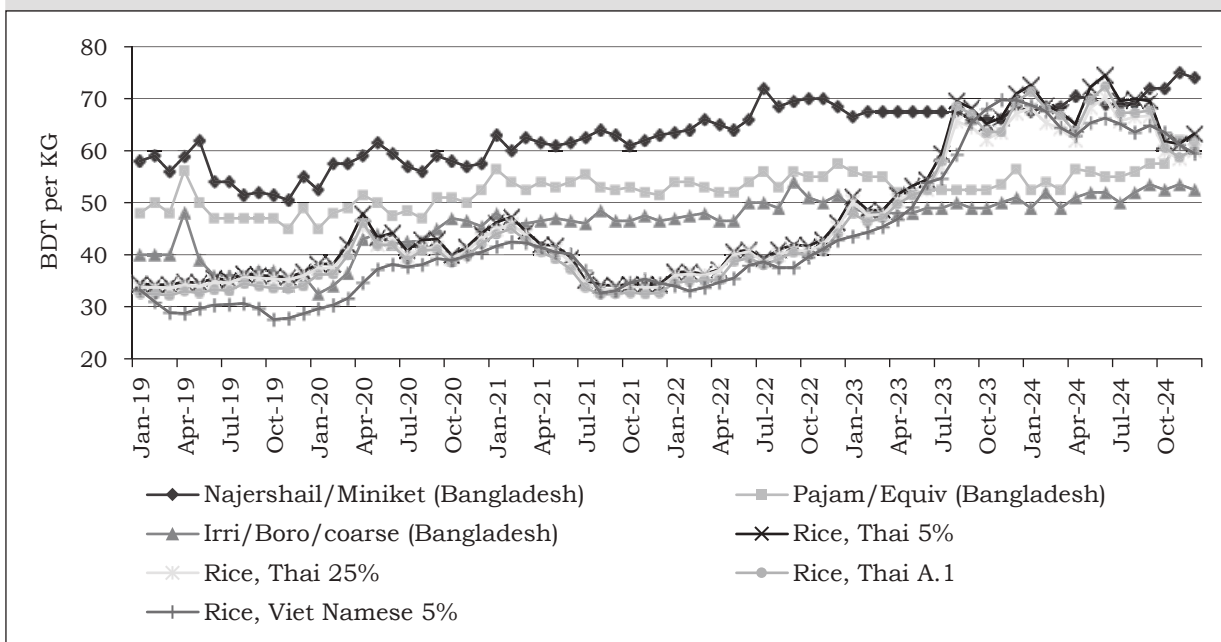
The average price of beef in Bangladesh has been consistently higher than in the world market from January 2019 to December 2024 (Figure 3.6). However, with the increase in the price of beef in the world market, the price gap has narrowed significantly. As of December 2024, the average price of beef 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 3.6).

The average price of soyabean oil has been consistently higher in Bangladesh compared to the world market from January 2019 to December 2024 (Figure 3.7). 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 3.7).

Figure 3.5

Average price of rice in Bangladesh and international markets from January 2019 to December 2024

(BDT per kg)



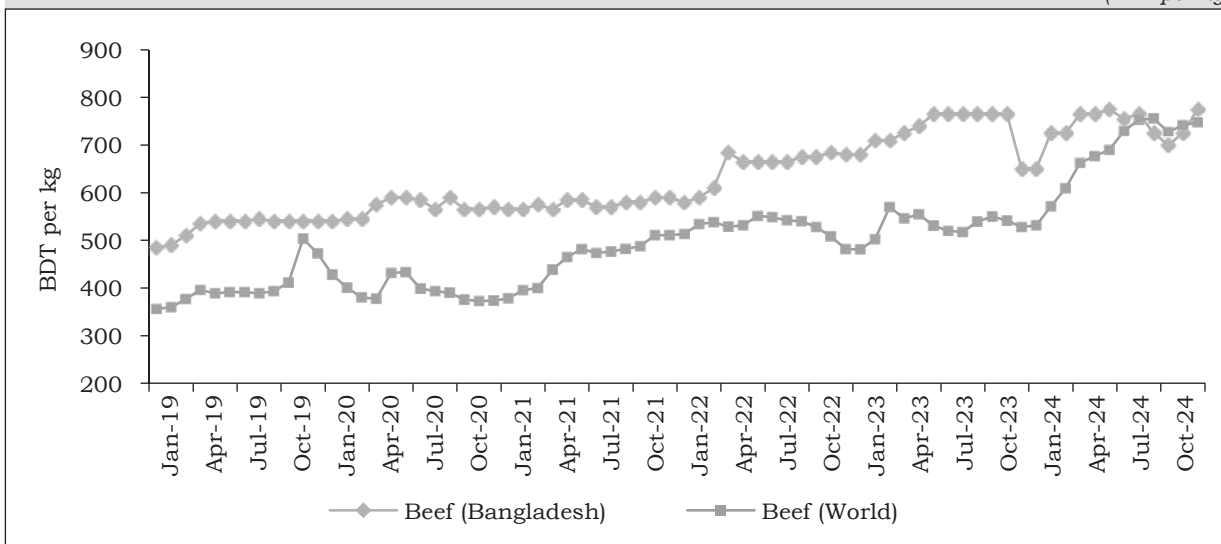
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024).

Note: The price of rice in Bangladesh is shown as the average retail price in Dhaka on the second day of each month.

Figure 3.6

Average price of beef in Bangladesh and world market from January 2019 to December 2024

(BDT per kg)



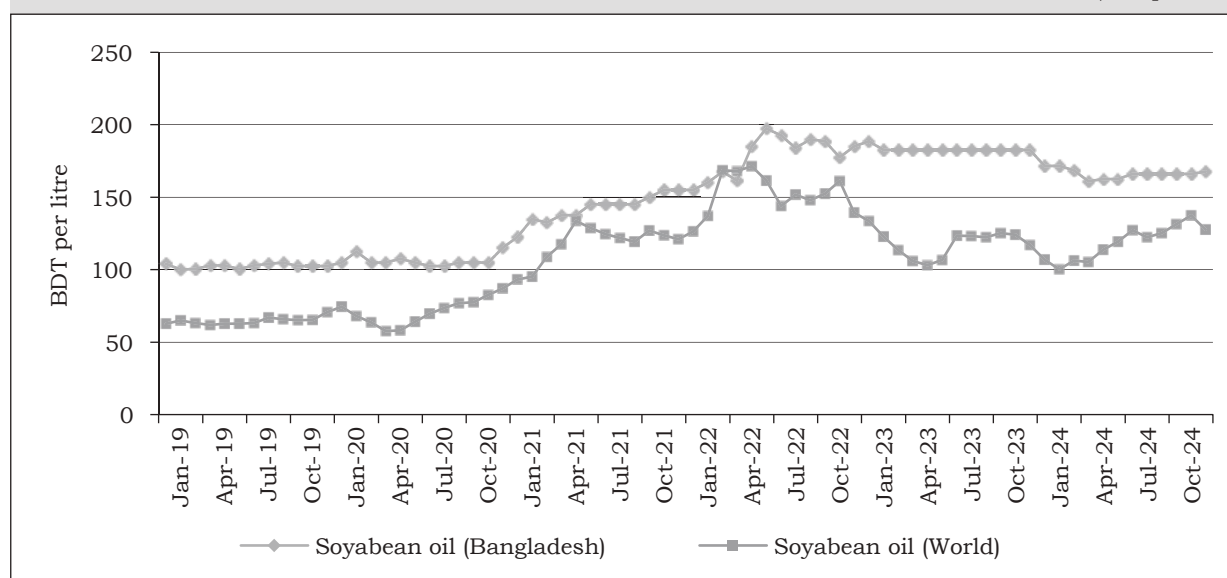
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024).

Note: The price of beef in Bangladesh is shown as the average retail price in Dhaka on the second day of each month.

Figure 3.7

Average price of soybean oil in Bangladesh and world market from January 2019 to December 2024

(BDT per litre)



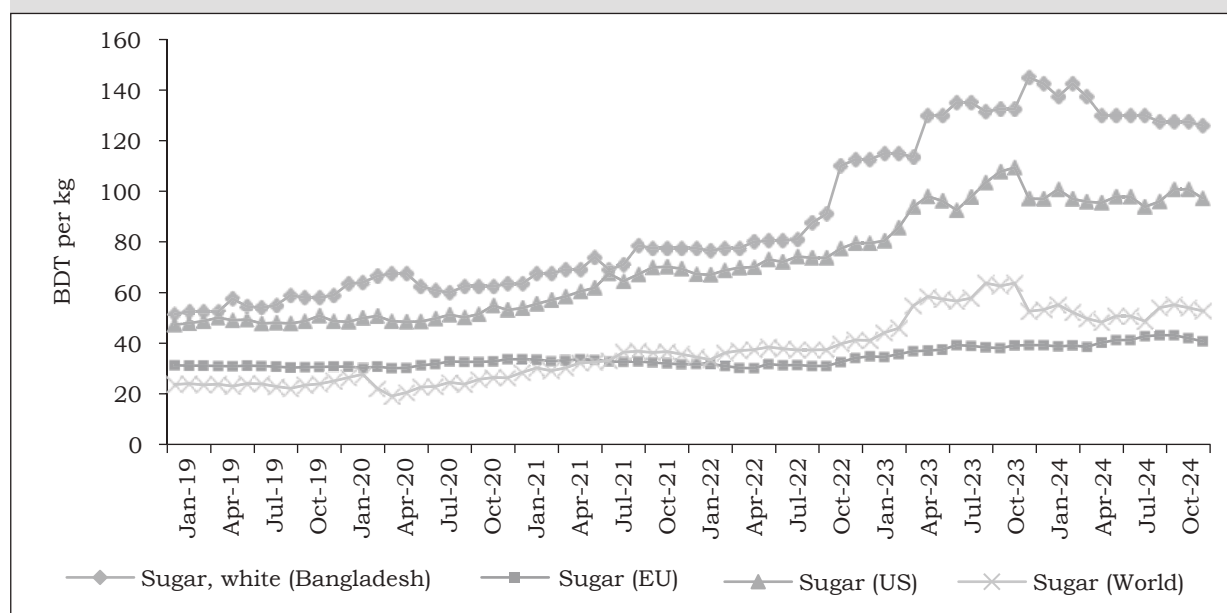
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2024) and World Bank's pink sheet (World Bank, 2024).

Note: The price of soyabean oil in Bangladesh is shown as the average retail price of soybean oil in Dhaka on the second day of each month.

Figure 3.8

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 is shown as the average retail price in Dhaka on the second day of each month.

The average price of sugar has been significantly higher in Bangladesh than in the EU, US, and world markets (Figure 3.8). 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).

3.3.4 Supply Chains of Essential Food Items

Constraints in the supply chain of onion: The price of onions is largely influenced by commission agents or warehouse operators (aratdars) as retailers source the bulk of the onions from them (Mila et al., 2022). In addition, the 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 potato supply chain: Market intermediaries are integral 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 (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 (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). 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 eggs (of broiler chicken): Several technical and marketing issues exist in the supply chain of eggs. 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 the 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 middlemen 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 adds to the elevated costs. Furthermore, fish farmers cannot often negotiate for fair 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 going 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 the 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 wheat supply chain: Bangladesh faces significant climatic, infrastructural, and systemic challenges. 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), 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 depends on weather conditions, with production peaking during the winter. However, adverse climatic factors like 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 sugar supply chain: Bangladesh's sugar industry 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, 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 external factors 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 poor storage facilities and seasonal variations further complicate the situation. 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 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, inadequate 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 the imposition of tariffs or quotas and currency rate fluctuations. The refining industry is dominated by only 9 major groups, leading to a highly concentrated market that can limit competition and flexibility. Wholesalers depend heavily on Delivery order traders (DOTs) due to credit options, creating a bottleneck and potential vulnerabilities in the supply chain.

3.3.5 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. et al., 2008).

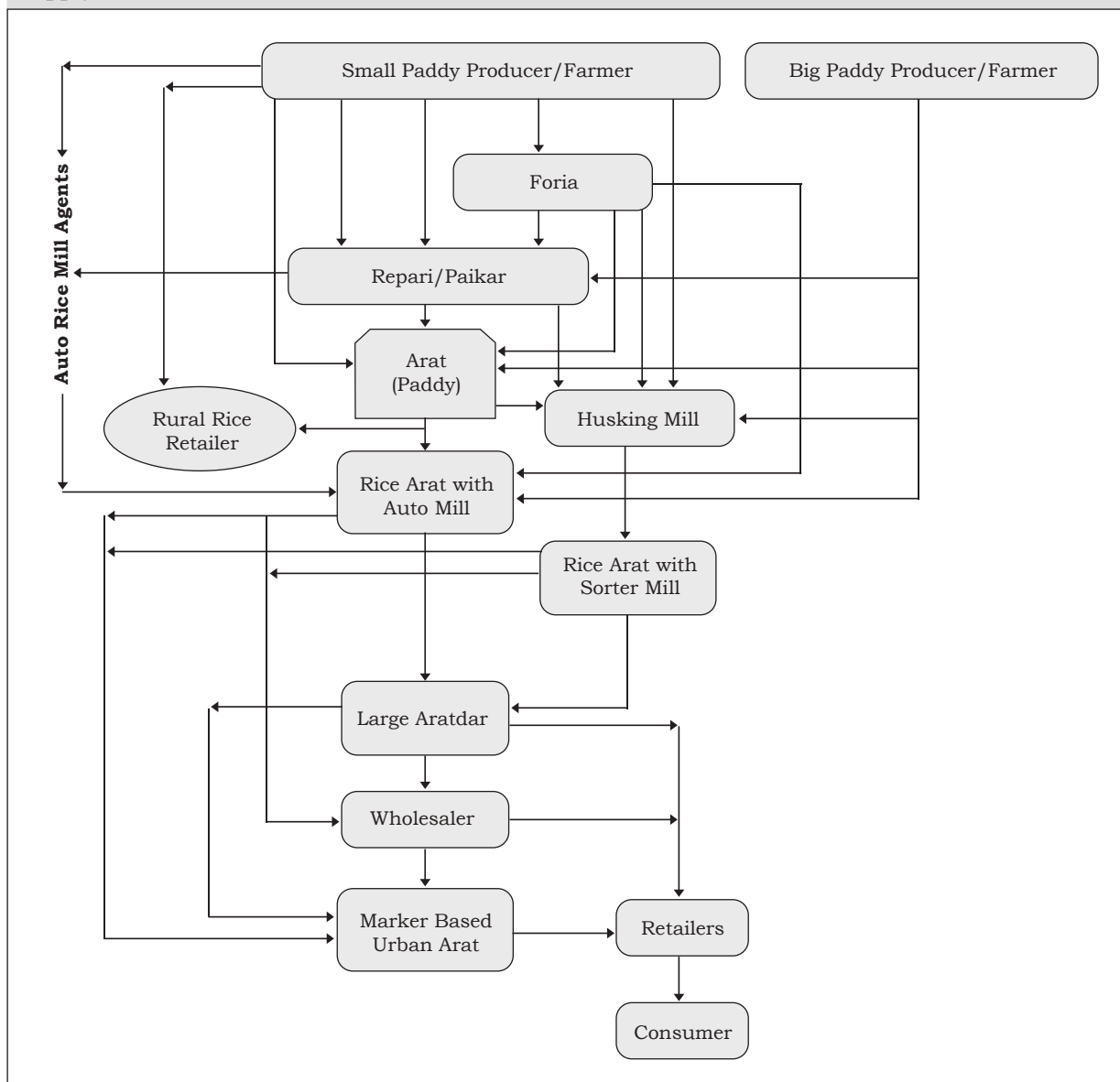
To understand the causes of the high and rising prices of rice and to develop a preliminary notion of the main contributors to elevated prices owing to the supply chain, CPD undertook an observational field visit to the rice market. The objectives of this visit were to i) understand the supply chain 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 a 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 determine 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 3.9.

According to the observational field visit, the types of market agents involved in the supply chain of rice include 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 the local weekly market (haat), regional hub, and mokam. A local weekly market (haat) is where farmers from the local area meet once or twice a week to 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), large traders (beparis) 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 rice supply chain is essentially a web of complex networks connecting various market agents interacting with each other. Large-scale producers or farmers, often store some of their paddies

Figure 3.9

Supply chain of rice market



Source: Illustration based on an observational field visit.

Note: Based on an exploratory observational field visit. It may not represent the national rice market for all varieties of rice.

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, their houses 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 small and large farmers and 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, are responsible for managing paddy work as warehouse operators. These types 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. They typically purchase in bulk since they need a substantial amount of paddy for their mills. Typically, auto rice millers purchase all the paddy from small farmers at a lower price in the local weekly market (BDT 26.8 per kilogram). In addition, during the 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, BDT 40.2 per kilogram. However, the increased paddy price rarely benefits farmers, as mill owners raise rice prices, referring to higher paddy costs. Processing rice in an auto rice mill costs BDT 80 per 37.3 kilograms. In other words, when rice is passed onto the next market actor, BDT 2 per kilogram is added to the purchasing price, determining 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 kilogram 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 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.

Due to the involvement of such varied intermediaries, consumers experience extreme price escalation, which reduces their ability 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 3.2). 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 essential to note that millers retain the highest margin, accounting for approximately 14 per cent, compared to the other participants in the rice supply chain, highlighting their significant dominance of the chain (Table 3.2).

Table 3.2

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
Arottdar (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.

3.3.6 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, by following 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 ('Adviser: Irregularities were found in the TCB card distribution', 2024.).

Regrettably, the interim government did not take notable steps to address irregularities, such as cartel extortion, hoarding, or price fixing, 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.

3.3.7 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 they produce, whilst consumers are paying high prices for the goods 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. Based on the findings presented in this chapter, the following policy recommendations are proposed for consideration by 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 programmes 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 water, ice, and drainage utilities.
- 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 programmes 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 programmes 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 Sales (OMS).

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3.4 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, however export earnings continue to remain volume-driven.
- Whilst 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 account of debt-creating financial accounts, which is a positive sign from the vantage point of Balance of Payment composition.

Key Recommendations

- Given 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 crucial elements of Bangladesh's export competitiveness given the 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. If it does, it will 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 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, current account balance, and the overall balance of payments allowed for some de-restriction of import activities. However, to what extent the positive trends will continue over the second half of FY2025 is uncertain, particularly because some of the headwinds are becoming gradually discernible. The following sections elaborate on some of the pertinent issues given above.

3.4.1 External Trade Scenario

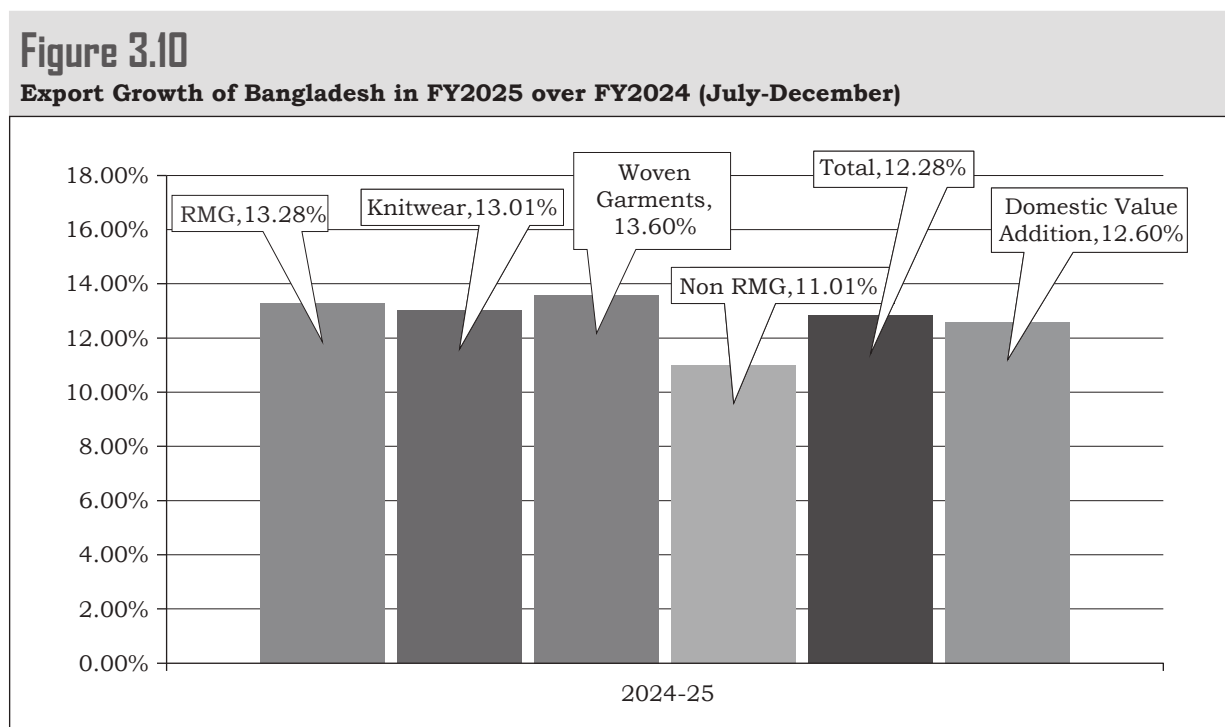
Robust Export Performance, But Mostly Volume-Driven

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 (Figure 3.10). 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 Figure 3.10 Shows. Within the RMG, while knitwear continued to exhibit robust performance (13.0 per cent growth), womenswear 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 non-RMG traditional export sectors registering impressive growth.

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

Estimating value addition is important from the perspective of understanding 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, which posted a high growth of 12.6 per cent. This robust performance is owed to the high growth of knitwear exports (for which the value addition is considered to be about 60 per



Source: Authors' compilation based on EPB (2024).

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 USD 2.48/kg in FY2023 for corresponding periods). However, as seen below, exporters did not benefit from higher apparel prices.

Table 3.3
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: Authors' compilation based on EUSTAT and USITC databases

About the drivers of the export growth in the key markets of the EU and the USA, as Table 3.3 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 (-0.05 per cent and -4.0 per cent respectively). This, however, depicts the overall trend regarding 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. The significant fall in cotton price, by 13.3 per cent between the July-December period of FY2024 and FY2025, 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 apparel, 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 apparel in Bangladesh and other countries.

Whilst 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 apparel items, are not visible. Notably, 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 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 Bangladesh's total exports, which currently hovers around 60 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 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 implemented, and adequate preparation must be taken in anticipation of changing market access regimes beyond the border.

Recent initiatives by 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 10 years, an additional 10) and identifying sectors that will be prioritised (19 sectors) in policies. The policies must be implemented by making all the investment-related services available as stipulated in the *One Stop Service Act of 2018*.

Proactive implementation of the *Smooth Transition Strategy* given 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 regarding deferment of LDC graduation (beyond 2026) and the possibility of availing the Generalised System of Preferences (*GSP*) plus facility should not dissuade Bangladesh from doing what is needed towards sustainable graduation. This is for several reasons. Firstly, Bangladesh is comfortably situated given all 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 is currently 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 regarding labour, environment, CO₂ 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 given the country's graduation timeline of November 26, 2026.

Better and more efficient trade facilitation measures will be critical in raising Bangladesh's export and trade competitiveness. These include the implementation of the recently formulated National Logistics Policy (2024), Paperless Trade Policy, Single Window System and cross-border Digital Commerce Policy (2024), and the introduction of green trade facilitation measures. The implementation of these measures will significantly increase Bangladesh's trade competitiveness, reduce trade-related costs, and improve the business environment.

Imports Gain from Price Effect

The encouraging growth of exports and robust inflow of remittances helped stall the fall in the forex reserves experienced since June 2024, which stabilised to about USD 26.0 billion in recent months. This facilitated the withdrawal of restrictions on imports that had been put in place earlier. This led to a rise of 2.0 per cent in imports during the July-October FY2025 period compared to the corresponding period of FY2024 (when imports were -20.6 per cent lower compared to the matched period of FY2023). However, the import structure indicates that the growth was mainly because of the increase in 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 between July-November and FY2025. However, 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. Given the decline in global prices of key commodities such as fuel and cotton, import volumes have shown a positive trend despite overall

value fluctuations. As such, data on import L/C openings and settlements should be interpreted with caution, as they may not fully reflect the actual volume of imports.

Encouraging Remittance Inflow but Composition Merits Closer Look

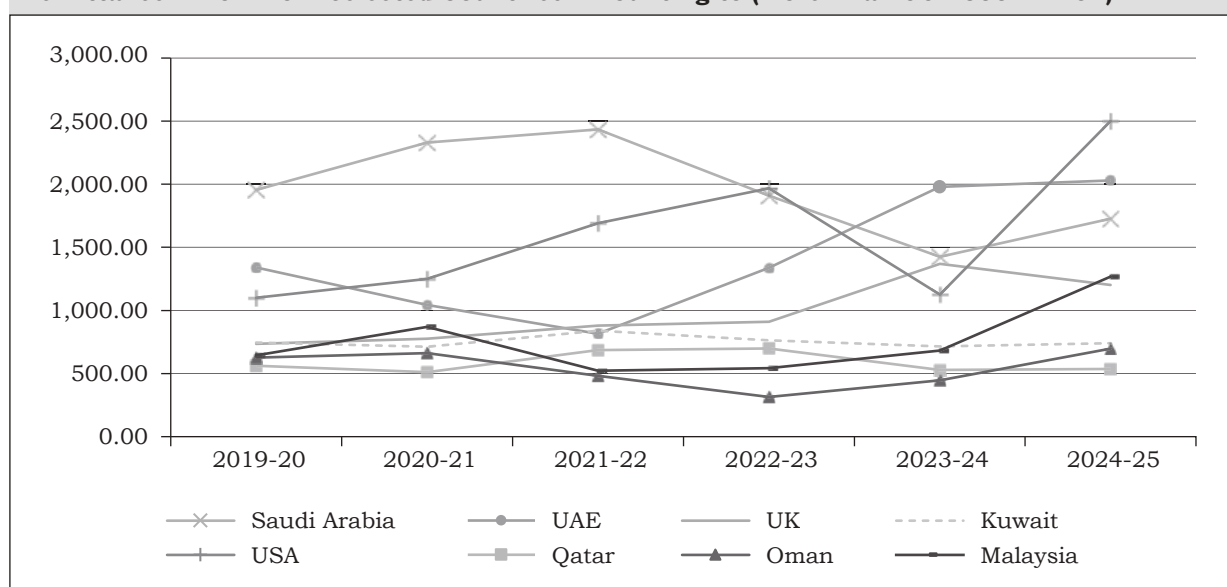
As was noted, the high growth of remittance inflow has contributed to restraining the slide in the availability of foreign exchange in Bangladesh. The year 2024 saw the highest amount of remittance flow to the country, USD 26.89 billion, 22.7 per cent higher than 2023 Bangladesh Bank (2025). If the period under review (July-December of FY2025) is considered, the growth in remittance flow was 27.6 per cent against the matched period of FY2024.

Over the past four years (between 2021 and 2024), about four million people have left Bangladesh for overseas jobs, mostly in the Middle East. Previous CPD analyses showed 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, even though 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 discernible from Figure 3.11.

The decrease in remittances from Saudi Arabia (more than 50 per cent of migrant workers left for Saudi Arabia) and the parallel rise in the remittances from the UAE allude to the suspicion about a shift towards informal channels in recent years. This calls for a more in-depth investigation. In this connection, one may recall the White Paper Committee 2024 report, which the Interim Government set up. The report noted that Dubai has emerged as a major hub of the money laundered from Bangladesh in the recent past. Several 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

Figure 3.11

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



Source: Author's compilation based on BMET (2025).

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 a 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). 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 to facilitate this process.

Balance of Payment Scenario

Table 3.4

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: remittance 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 (2025).

The robust performance of exports and remittances contributed to an overall improvement in the balance of payments (BoP) situation towards the end of December 2024 (table 3.4). While this is still not comfortable, the trend is encouraging when compared with the corresponding period of FY2024 (Table 3.4). As was noted, the large inflow of export and remittance earnings has helped stall the downward slide in the forex reserves situation and contributed to stabilising the exchange rate of BDT to a certain degree. The improvement is primarily due to the significant reduction in the trade account deficit and, to a large extent, to the declining current account deficit. The improvement in the 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 regarding FDI and portfolio flows remains a nagging concern.

There are several issues which, however, will need to be kept in perspective given the likely BoP scenario over the near-term future. Firstly, with increasing deregulation of imports, import payments are expected to go up; consequently, the trade balance could come under further pressure. In this scenario, sustaining current robust export performance will be critically important. Secondly,

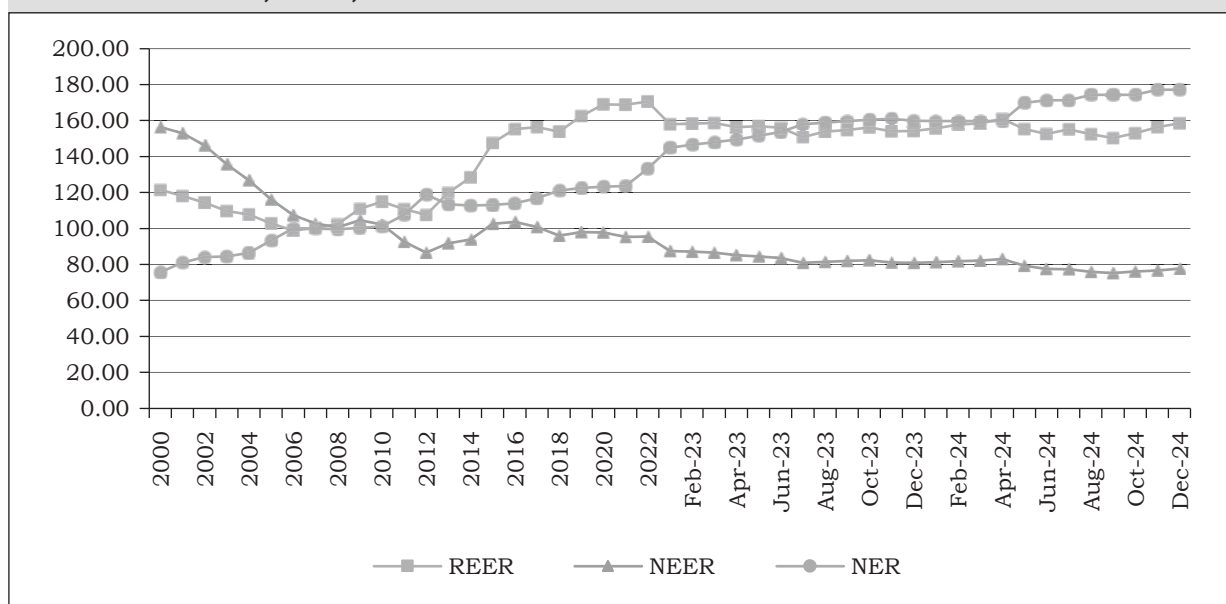
maintaining the ongoing high growth of remittances may prove challenging. The rise in remittance flow could be because of the evident disruption of hundi/hawala and other informal channels of illicit financial flows in the aftermath of the August uprising. If this is the case, this increase could be a one-time phenomenon rather than a sustained trend. Thirdly, 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. Several megaprojects are approaching the end of their grace periods—when only interest payments were required. As full repayment begins, including both interest and principal, the burden on the external account will intensify. Fourthly, although the Bangladeshi Taka, given the higher availability of foreign currency in the country, has somewhat stabilised (for example, at about BDT 120-121 vis-a-vis USD), a further increase in foreign exchange demand for import and debt servicing could lead to renewed depreciation. Under a flexible exchange rate regime, this may translate into heightened imported inflationary pressures.

Exchange Rate Movement and Stabilisation of BDT

After a sharp decline of almost 40 per cent over the last three years, the value of the BDT appears to have stabilised in recent months. As Figure 3.12 indicates, the BDT exchange rate against USD appears to be at the equilibrium level. As is known, the Bangladesh Bank is currently pursuing a crawling peg policy (within a limited range). However, a move towards a fully market-based exchange rate regime is anticipated shortly. 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, remittance inflows totalled USD 26.88 billion. To support this flow, approximately USD 0.67 billion was disbursed as incentives to remitters—equivalent to over BDT 8,000 crore at the prevailing exchange rate of USD 1 = BDT 120. Given the revenue situation, the prevailing policy should be carefully weighed and, if justified, changed. Maintaining the exchange rate stability and holding comfortable forex reserves are the twin challenges the central bank will have to deal with soon.

Figure 3.12

Movement of REER, NEER, and NER of BDT



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

3.4.2 Concluding Remarks

The external sector's performance 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 can deal with these emergent challenges and take advantage of the drivers and accelerators of external sector performance, how the key external sector's evolution in the coming months of FY2025 will hinge critically on this. In the context of LDC graduation, the smart way forward would be to implement the Smooth Transition Strategy in earnest and take the needed initiatives to transform the economy from preference-driven competitiveness to skills and productivity-driven competitiveness.

The discourse about graduation deferment should not dissuade Bangladesh from taking the necessary 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 remaining 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 earnestly. Measures must be geared towards undertaking energetic initiatives concerning prosecution, investigation, collaboration with relevant global initiatives and platforms, and filing criminal/ civil cases in foreign jurisdictions to recover the stolen assets and evaded taxes.

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3.5 DISARRAY IN PRIVATE INVESTMENT

Key Findings

- Private investment is experiencing major disarray during the tenure of the interim government, which started in the previous regime.
- Small and Medium Enterprises (SMEs) face higher average interest rates, disproportionately increasing their financial burden.
- Key operational challenges currently being faced by the businesses include high interest rates, 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.

3.5.1 Context

Private investment continues to face considerable disruption during the interim government's tenure, a situation that originated under the preceding administration. Bangladesh did not raise its investment levels to match those of its peer developing countries in the last regime. Over the past decade, investment levels in Bangladesh have remained stagnant, consistently ranging between 30 and 32 per cent of GDP (Table 3.5). 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 3.5). Private investment contracted steadily during the fiscal years 2023 and 2024, whereas FDI has continuously declined since FY2018.

Table 3.5

Level of investment in Bangladesh

(percentage 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	0.36
2023	30.95	24.18	6.77	0.32
2024a	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 fall in private investment and FDI reflects the country's recent struggle to maintain macroeconomic stability, particularly in exchange rate management.

The 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's image and improve the business environment, it has added new positions in the cabinet (such as special envoy to the chief adviser) and replaced the 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, several reform measures have been undertaken by the new government. However, whether these new initiatives will be sufficient, effective, and aligned with the latest investment trends and challenges remains uncertain.

Against this backdrop, this section examines the most recent state of investment in Bangladesh's economy, focusing on identifying newly emerged opportunities and risks and assessing the initiatives undertaken by the interim government.

3.5.2 State of Private Investment during H1 of FY2025

a) Investment

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

Private sector credit growth can indicate a country's investment climate. 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 3.6). However, when examining monthly data, it can be observed that following the interim government in August 2024, there was a sharp decline in credit growth during the subsequent three months: September, October, and November (Figure 3.13).

Table 3.6

Private Sector Credit Growth in FY2025 vis-à-vis FY2024

(BDT in Crore)

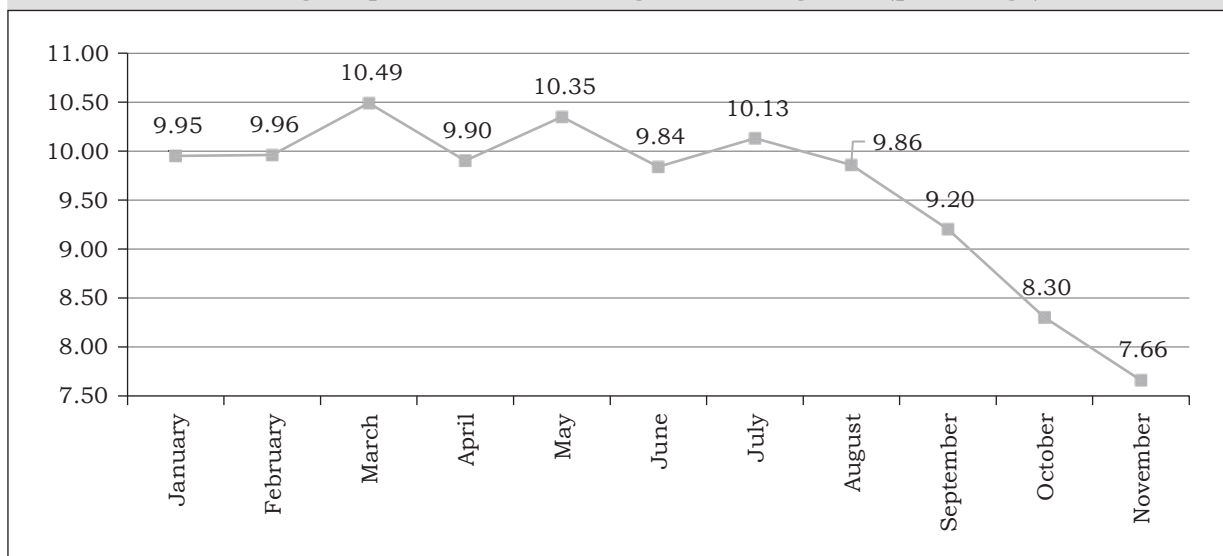
FY 23 (July–November)	Change from FY 23 to FY 24 (%)	FY 24 (July–November)	FY 25(July–November)	Change from FY 24 to FY 25 (%)
6,890,320	9.9	7,569,017	8,251,389	9.0

Source: Bangladesh Bank (2025).

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 will likely experience a decline in private-sector investment during these months. However, it is important to note that the rise in interest rates, the embargo on disbursements for certain banks, the liquidity crisis of Banks, and the limited scope of laundering of banks' money during this period may have also played a key role in the drop in private sector

Figure 3.13

Month-on-month change in private sector credit growth during 2024 (percentage)

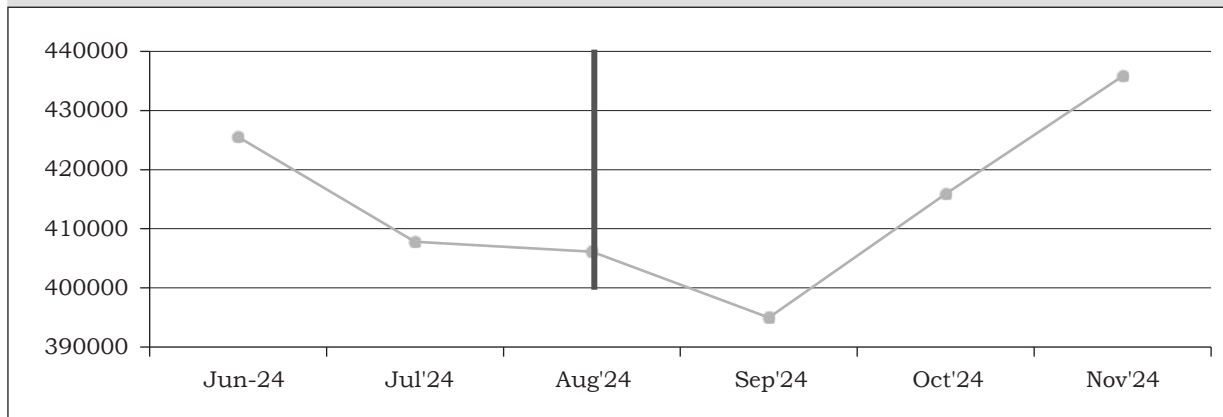


Source: Bangladesh Bank (2025).

Note: The vertical line indicates the month when the interim government took over the earlier government.

Figure 3.14

Liquidity situation of Bangladesh's Banking Sector in BDT crore (Private + State-owned Banks) *

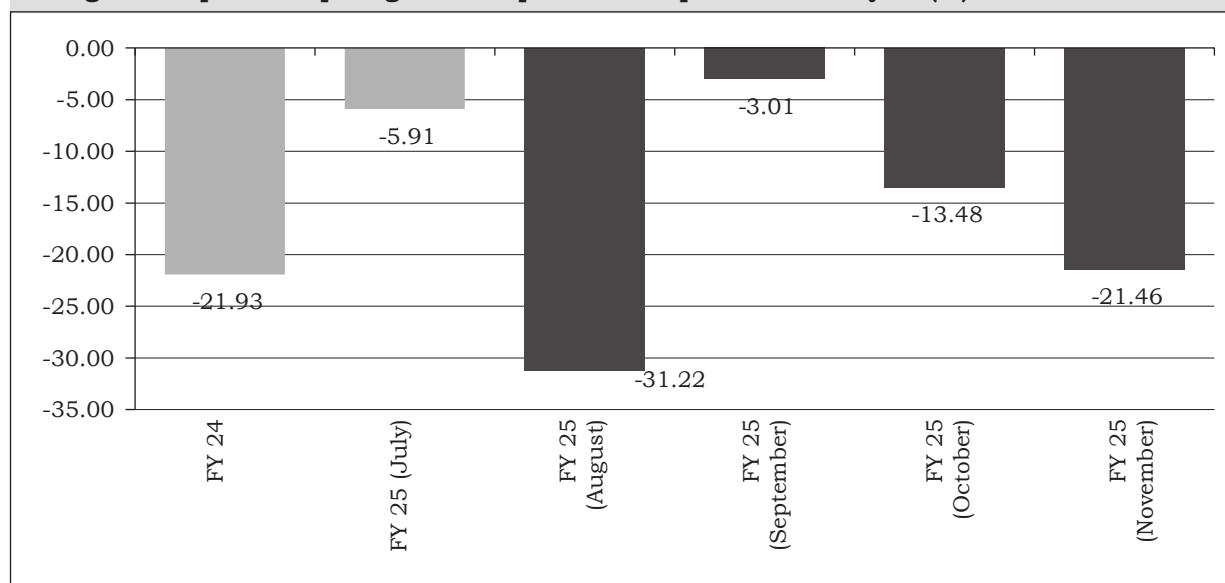


Source: Bangladesh Bank (2025).

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

credit growth. The liquidity data of Bangladesh Bank confirms a decline in the banking sector's lending capacity in most of the recent months. After maintaining a downward trend till September 2024, the total liquidity size improved (Figure 3.14).

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 3.15). Notably, in August of FY2025, the import of capital goods dropped by a significant 31.2 per cent (Figure 3.15). This suggests poor investment performance

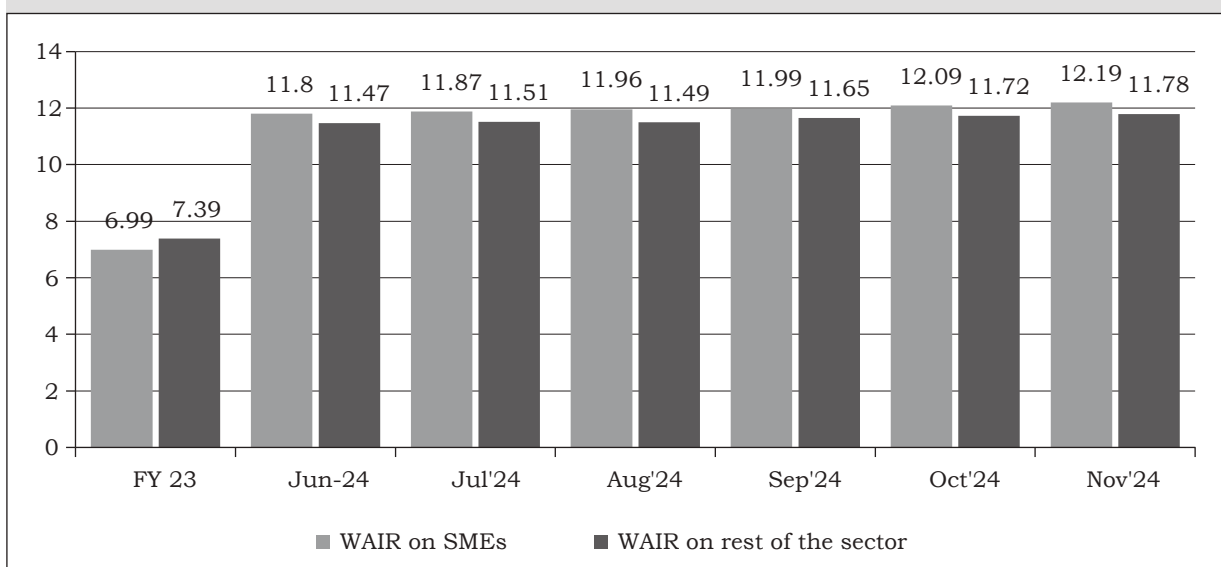
Figure 3.15**Changes in import of capital goods compared to the previous fiscal year (%)**

Source: Bangladesh Bank (2025)

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. Overall imports of capital goods decreased by 22 per cent in FY2024 compared to the previous fiscal year (in the case of July–Nov of FY2024, there was a 15.7 per cent decrease compared to July of FY2023).

The increasing negative trend in importing capital goods can likely be attributed to several past and 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 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 (Babu & Noyon, 2024). This decline in consumer demand due to higher prices has pressured businesses. Along with these persisting challenges, the new uncertainty created over political stability and increasing financing costs, given the increasing interest rate, has further deteriorated in recent months.

Financing Small and Medium Enterprises (SMEs): At a time when the rising financing costs affect the entire business sector, 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 3.16). Data on the level of loan disbursements to Cottage, Micro, Small, and Medium Enterprises (CMSMEs) for the latest fiscal year is unavailable. However, the available data from 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 at the beginning of FY2025, the CMSMEs, already experiencing negative growth in receiving loans in FY2024, will likely go through an even tougher situation.

Figure 3.16
**Weighted Average Interest Rate (WAIR) for SMEs and other than SMEs sector (%) edited
PKH 06.08.26**


Source: Bangladesh Bank (2025).

FDI Inflow: The net FDI data reflect 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 3.7). Furthermore, if only net inflows were considered, FDI would decline in FY2024 as well. According to Bangladesh Bank data, net FDI inflow decreased by 8.8 per cent in FY2024 compared to FY2023.

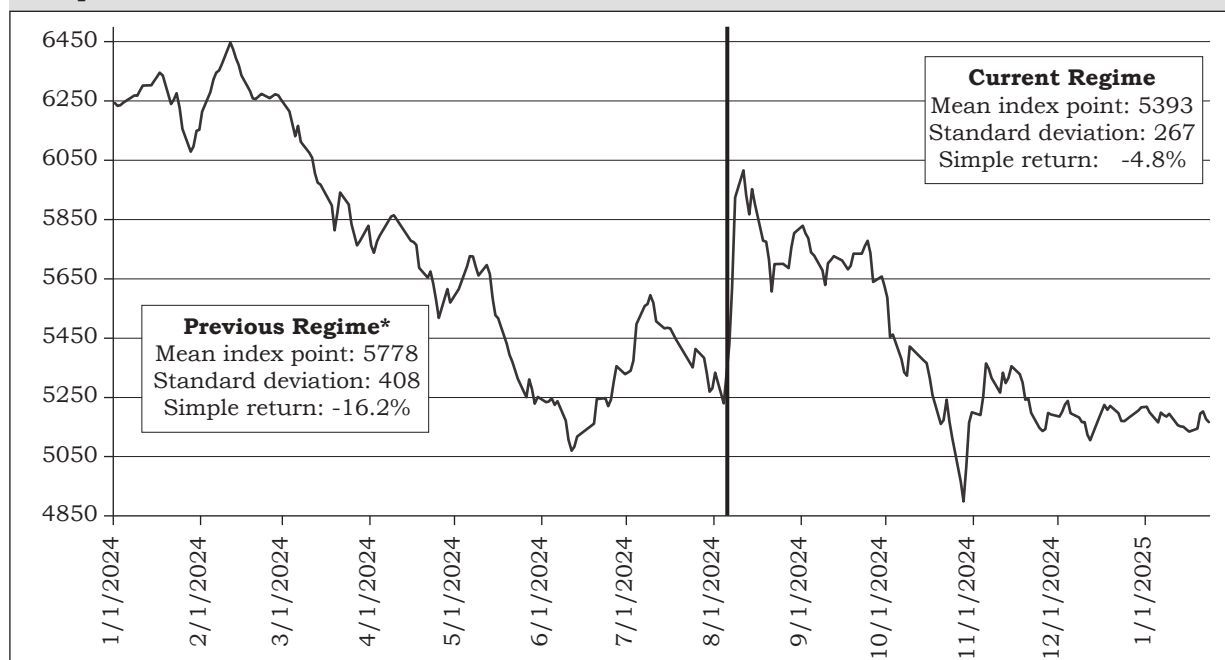
Investment in the capital market: The performance of the capital market during the first six months of the interim government remains somewhat similar, if not improved, compared to the last six months of the previous government. Although there was a significant spike in the market index initially when the government took over, a downward trend can be observed over time. Specifically, the mean DSX index point decreased to 5,393, compared to the DSX index value

Table 3.7
Foreign direct investment(net)*
(in million USD)

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 (2025).

Note: The shaded 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 & losses.

Figure 3.17**Comparison of DSEX index values****Source:** Dhaka Stock Exchange (n.d.).

of 5,778 under the previous government (the last six months) (Figure 3.17). However, in terms of market stability, the market under the current government has performed relatively well; the standard deviation of the index has reduced from 408 to 267. Despite the return from the market remaining negative during 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 3.17).

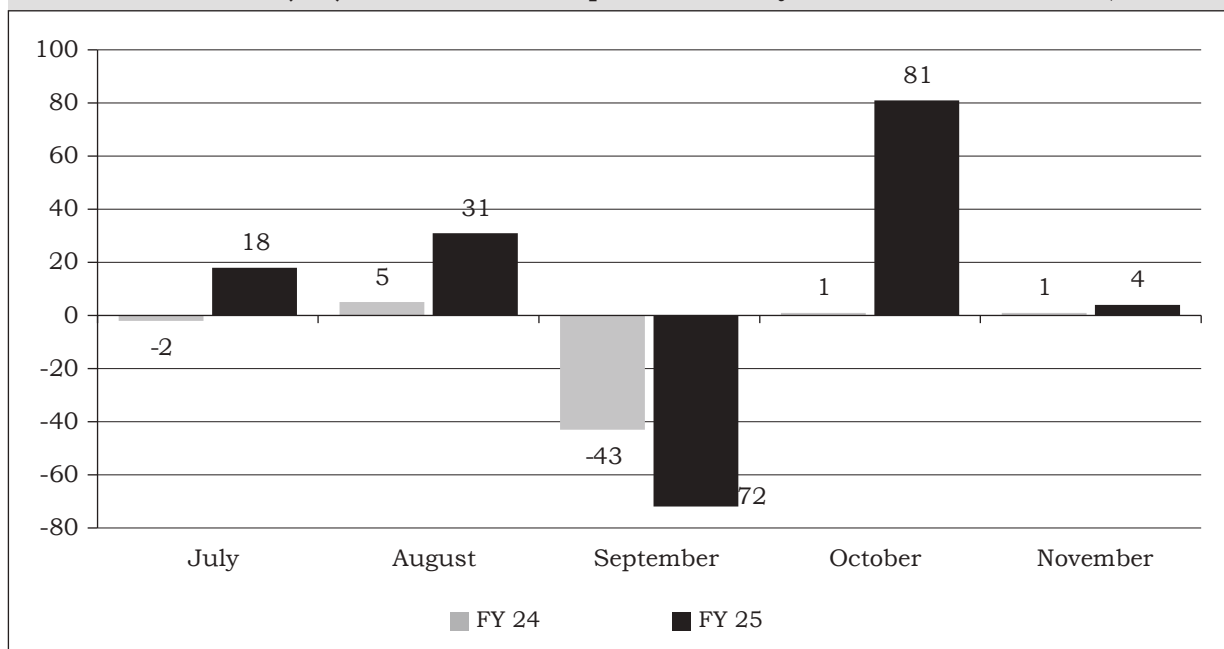
Since the interim government has replaced the previous administration, only an Initial Public Offering (IPO) of BDT 5,000 crore has been issued in the primary market. Although the capital market has yet to show significant performance improvements, net portfolio investment (investment in financial assets) has remained higher in recent months compared to the previous fiscal year (Figure 3.18). Notably, in September of FY2025, net portfolio investment reached a staggering USD 81 million—the highest recorded during this period (Figure 3.18). However, despite this substantial investment, share prices did not show notable increases during that month or subsequent months. This is likely because much of the investment was directed towards purchasing other financial assets, such as bonds, rather than stocks in the capital market.

A contrasting trend emerges when examining portfolio investments by foreigners (non-resident Bangladeshi). While the amount of portfolio investment has remained relatively consistent, ranging between USD 6 and 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 3.19). 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.

Figure 3.18

Portfolio investment (net) in the current and previous fiscal year

(million USD)

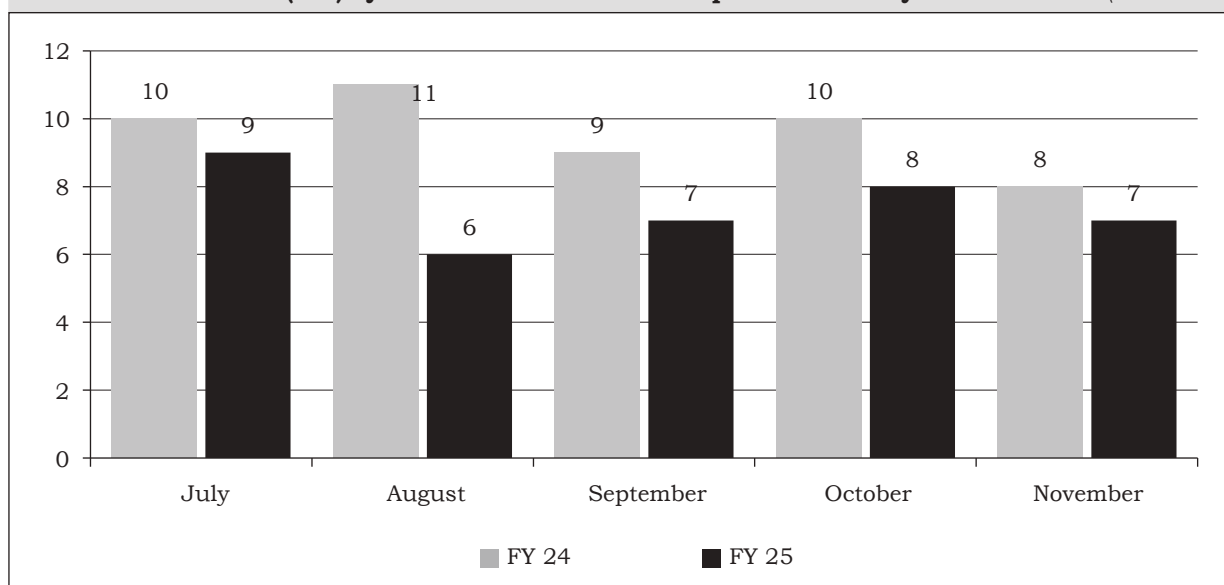


Source: Bangladesh Bank (2025).

Figure 3.19

Portfolio investment (net) by NRBs* in the current and previous fiscal year

(million USD)



Source: Bangladesh Bank (2025).

Note: *Non-Resident Bangladeshi.

3.5.3 Production and Employment Scenario

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

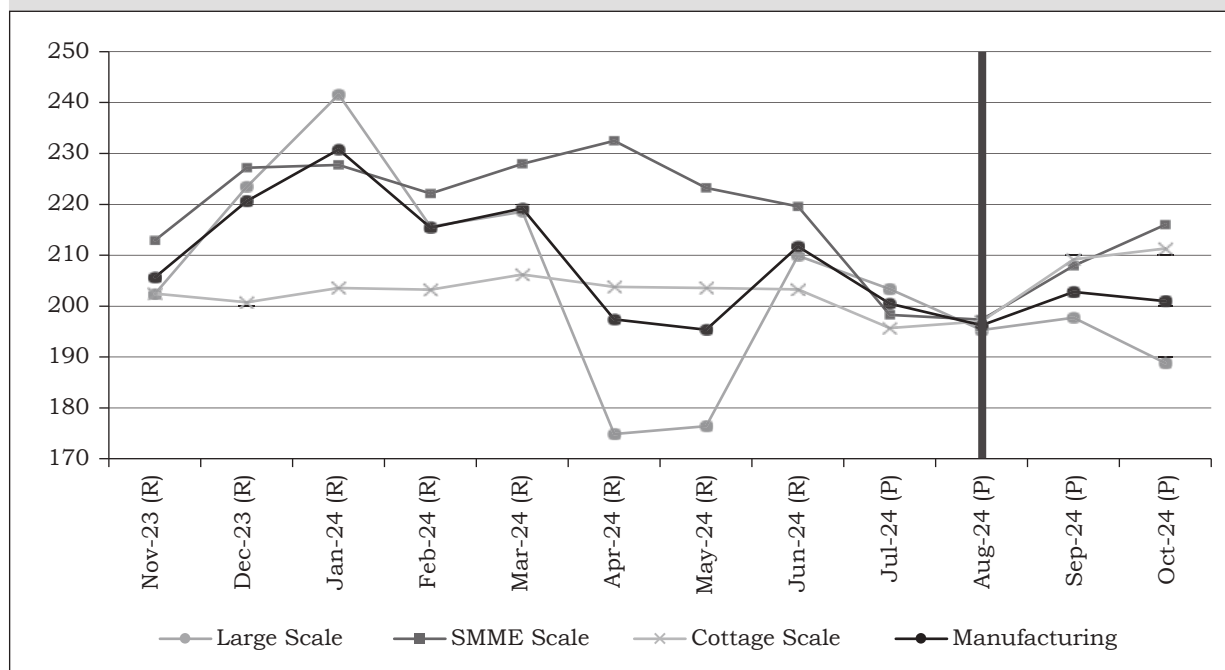
Whilst there were initial peaks in early 2024, most scales, particularly Large Scale and Manufacturing—have experienced significant declines by mid-year (Figure 3.20). Although some recovery was observed in the later months, the overall performance remains subdued, highlighting ongoing challenges in the industrial sector. It is important to note that the ongoing closure of factories, including 60 RMG factories such as Beximco and Keya Cosmetics, could hinder recovery and further exacerbate the crisis in the upcoming months.

Along with businesses, unemployment 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 3.8). Unemployment increased during this period for both male and female workers (Table 3.8).

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

Figure 3.20

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



Source: Bangladesh Bureau of Statistics (n.d.).

Note: The grey straight line indicates the month when the interim government took over the earlier government.

Table 3.8

Rate of unemployment in Bangladesh (in percentage) *

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: Bangladesh Bureau of Statistics (n.d.)

Note: *As per 19 ICLS.

3.5.4 Ongoing Challenges for Businesses

The business sector of Bangladesh was already going through difficulties during the previous regime. Government transition has introduced new challenges for businesses while intensifying many existing ones. The table 3.9 summarises major challenges that are still relevant for businesses:

Table 3.9

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
Inadequately 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.

Whilst most structural challenges need 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 these circumstances, the government must, without delay, intervene, especially for the sake of workers.

3.5.5 Initiatives Undertaken by the Interim Government

Although it has only been around six months since the interim government assumed power—arguably too short to enact drastic changes—several immediate measures have been introduced to lessen the burden on businesses and attract investments. The table 3.10 summarises the key initiatives undertaken by the interim government that could affect businesses and investment:

Table 3.10**Major initiatives undertaken by the government for businesses**

Area	Initiative
Exchange rate management	The USD rate adjusted upward to align with market demand and supply; the interbank foreign exchange transaction limit increased from 1 to 2.5 per cent to improve liquidity.
Foreign reserves	The government stopped selling USD from reserves to maintain stability instead of purchasing USD from the local market.
Energy prices	Under the automatic fuel pricing formula, diesel and kerosene prices were reduced by BDT 1.25/litre; petrol and octane prices were reduced by BDT 6.00/litre.
Reform of vulnerable banks	Boards of directors in vulnerable banks were replaced with independent directors. Accounts of potential money launderers and loan defaulters are frozen, and new loan issuance is temporarily banned to prevent mismanagement.
Credit support to banks	The liquidity crisis was addressed through the Bangladesh Bank acting as guarantor; the central bank sometimes provided direct cash support via money printing.
Inflation control	The central bank raised interest rates and adopted a contractionary monetary policy; the government announced plans to reduce spending, with a revised budget for FY2025 expected by February 2025.
Foreign investment	The interim government put effort into strengthening partnerships with international entities. EIB announced plans to double funding for Bangladesh, increasing its portfolio to €2 billion.
Reform of the banking sector	A six-member task force was created to reform the banking sector.
Reform commissions	Commissions were 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	An advisory committee was formed to reform the NBR, and a task force was to review the NBR Income Tax Act 2023.
Electricity pricing	A clause allowing electricity price increases by executive order cancelled.
Trade association reform	The interim government dissolved the FBCCI and BGMEA boards and appointed administrators. Change in leadership in BKMEA and BASIS
Semiconductor 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.

3.5.6 Recommendations for the Interim Government

Given the current situation, the following recommendations can be considered by the interim government:

Operational

- Prioritise immediate improvements in the law-and-order situation to ensure businesses can operate safely without the threat of extortion.
- Offer long-term, fixed exchange rate guarantees specifically for potential foreign investors.

- Design a subsidised credit facility with lower interest rates to support SMEs.
- Expand the coverage of the social safety net programme to provide better protection for the ongoing deteriorating employment situation.
- Explore further reductions in fuel prices using a market-based pricing model, with the potential to lower costs by BDT 10-15 per litre.
- Ensure a better supply of gas for the industry by first tracking gas exploration in the country.
- Enhance awareness of BIDA's one-stop service among stakeholders to improve accessibility.
- Quickly hold the elections for the trade bodies that administrators are managing better to raise the voice of the government and the international community.
- Avoid increasing VAT on goods without first strengthening monitoring mechanisms and digitising the process.
- Address the anomalies in the primary and secondary markets.

Structural

- 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.
- The revenue generation focus should be more on tax justice, increasing dependency on direct and property taxes.

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3.6 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, which amounts to 3.78 lakh metric tonnes.

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.

3.6.1 State of Crop Sector during H1 of FY2025

Production of Rice and Wheat

Crop production, especially rice and wheat, has increased at a steady rate over the last several years (Table 3.11). 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 tons of Boro production for FY2025, which is 7 per cent higher than last year's production (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 Wardad (2024), 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

Table 3.11

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
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.

(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.

Import of Rice and Wheat

Given the production shortages, rice imports have 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 (Table 3.12). 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 were almost half last year, further destabilising 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 3.12

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).

Procurement of Rice and Wheat

The government has set a target for procuring Aman paddy, parboiled rice, and Atap rice, which amounts to 10 lakh metric tons (mt) (Table 3.13). This target is significantly higher than the procurement of Aman rice in FY2024 (6.6 lakh mt). To achieve the target, the government has increased the prices of all types of rice by about 7-10 per cent per kg. Despite this, the procurement is far behind the targeted amount – to date, only 37.8 per cent of rice has been procured (3.78 lakh mt). Procurement is relatively better in the case of parboiled and Atap rice (55 per cent), but it is significantly lower in the case of Aman paddy (only 4.3 per cent). One of the major reasons for low procurement is the standards set for procured rice, such as the moisture content level, the share of broken rice, etc., which farmers find difficult to comply with. These are the reasons for selling rice at the open market.³ 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.

³The condition for procurement of Aman rice states that the paddy must have a moisture content below 14 per cent to be procured.

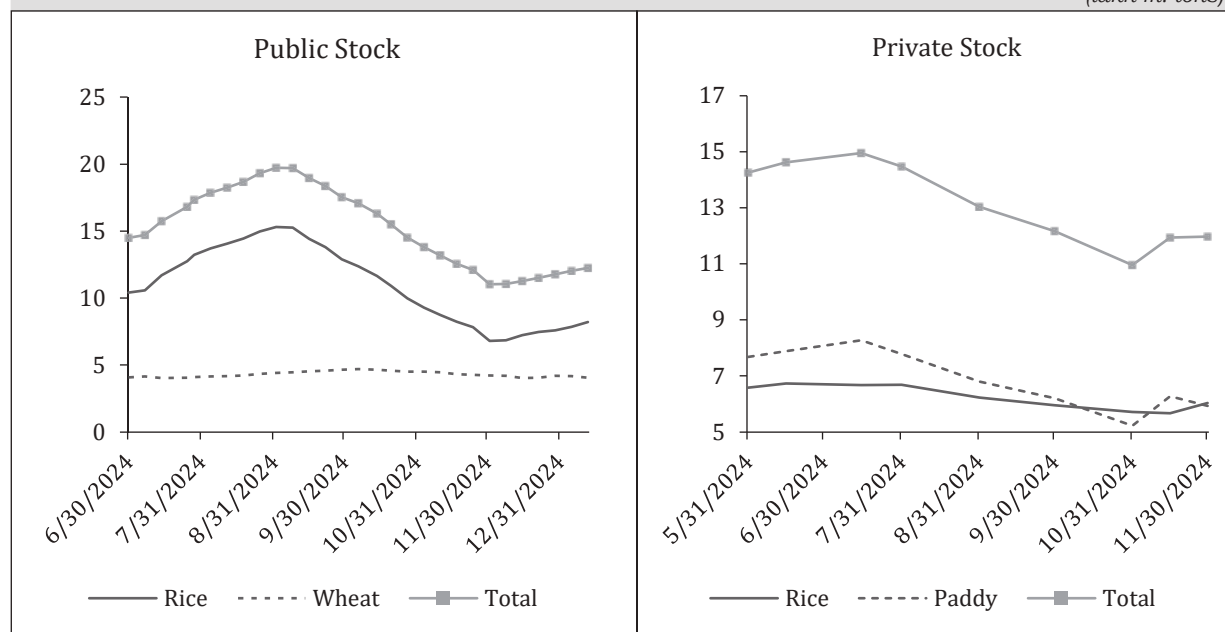
Table 3.13**Aman procurement targets and achievements during FY2025 (till date)**

Aman Rice Types	Prices (BDT/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 'Good Aman yield, fair prices delight Rangpur, Sylhet farmers', 2025; 'Aman paddy procurement only 8.75% of target despite price hike', 2025.

Public Stock of Rice and Wheat

The public food stock of rice and wheat is considered a major indicator of domestic food availability during a specific period, signalling market prices, import requirements, and potential production increases in the following season, among other factors. Figure 3.21 shows that both public and private rice and wheat stocks gradually declined in recent months and reached their bottom in October-November 2024. Public food stock on 1 December 2024 was only 11 lakh mt, while private stock reached 10.95 lakh mt on 31 October 2024. Such a decline in food stock is mainly attributed to a fall in the stock of rice, while wheat stock remained steady 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 3.21**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).

Public Food Distribution System (PFDS)

In the first half of FY2025, PFDS is lower than in FY2024 (Table 3.14). A lower food stock forced the government to reduce the food distribution. As of December 2024, the total public stock of foodgrains is 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 3.14

Public stock and public food distribution by the government

(in lakh metric tons)

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 analysis based on FPMU (2025).

Table 3.15

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

(Table 3.15 contd)

(Table 3.15 contd)

Types	Sub-sectors	1 Jul'24 - 9 Jan'25			1 Jul'23 - 11 Jan'24		
		Rice	Wheat	Total	Rice	Wheat	Total
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
	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 analysis based on FPMU (2025).

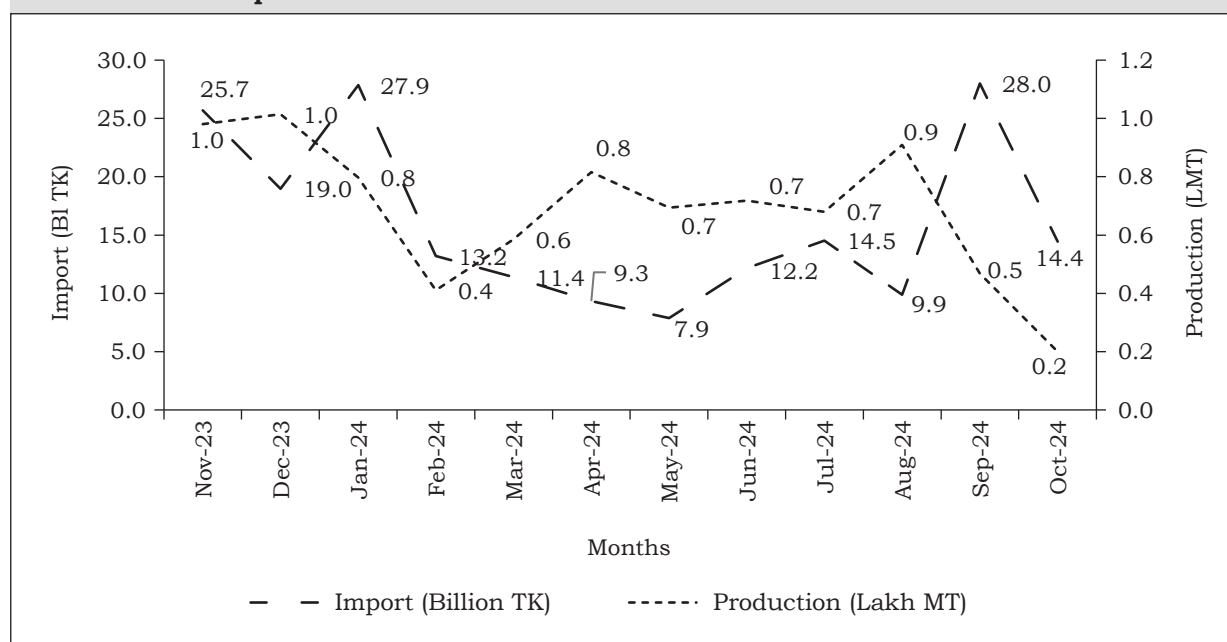
The public food distribution system (PFDS) comprises two broad sectors: sales and non-sales (relief). Relief activities such as Food for Work and Vulnerable Group Development (VGD) programmes have seen a reduction in PFDS allocations (Table 3.15). Whilst rice distribution has increased, there has been 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).

Supply of Fertilisers

Domestic production of fertiliser has been increasingly facing challenges. Fertiliser production has declined over the years - from 11.4 lakh MT in FY2010 to 6.6 lakh MT in FY2024. During

Figure 3.22

Production and import of fertiliser



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

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 3.22). The sluggish trend in fertiliser production has forced the government to import fertiliser. However, the domestic fertiliser supply 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 3.16), significantly lower than the previous year (28.7 lakh m. ton). Failure to allocate sufficient dollars to import fertiliser, higher import costs and delays in import payments forced them to import less than the requirement. Because of the limited availability of fertiliser, farmers report that BDT 2-11 is a higher price than the official price for one kilogram of urea and non-urea fertiliser during this season.

Table 3.16

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 'Govt sets a target to produce 2.26cr tonnes boro rice in FY25', 2024.

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. Some escalated costs are associated with imported inputs where the devalued BDT against USD increased the import cost.

Table 3.17

National average market price of Rice and Wheat

Product name	2019	2020	2021	2022	2023
Received by farmers (BDT/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 (BDT/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 (BDT/kg)					
Rice (coarse)	30	55	43	45	47
Rice (medium)	37	43	51	54	56
Rice(fine)	48	48	60	66	68
Wheat (BDT/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).

It is unclear how much the farmers can accommodate the higher production cost during the sales in the harvest seasons. It is reported that farmers received BDT 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. 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 3.17, where the farmer's margin is lower than that of wholesalers and retailers.

3.6.2 Initiatives Undertaken by the Interim Government

The interim government has undertaken several measures to increase rice and wheat production and stabilise fertiliser supply, etc. First, the government has tried to maintain fertiliser stock to avoid shortages until January 2025. It has tried to keep a supply in the pipeline to meet the requirements in the 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 BDT 2,500-3,000 crore annually. Third, the government plans to invest in modern storage and transportation infrastructure to handle fertiliser better. Real-time tracking and monitoring systems are also introduced to ensure timely fertiliser distribution. However, the government needs to take measures to improve production and reduce the production cost of rice and wheat.

3.6.3 Recommendations Regarding 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 rice consumption as reported in BBS's Household Income and Expenditure Survey (HIES); 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 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 the 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, harvesting, and 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 prices to provide early warnings on domestic food stock in the public and private sectors, and necessary initiatives to be undertaken urgently. A permanent commission led by renowned agriculture economists could be set up to monitor and give suggestions to the ministries concerned on food production, import and market price-related issues.

Fifth, the procurement system needs to be done more efficiently, including setting procurement prices. 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 must 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 BDT against the USD. A better reserve would facilitate fertiliser importers to supply the required amount during the season.

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3.7 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 end soon.
- Initiatives such as approval of LNG import from the USA and spot markets have raised concerns regarding the government’s intention to reduce import costs and enhance domestic resources and renewable energy.
- The fact that there is still a barrier to the disclosure of the PPA and other public agreements of the power plants shows that the interim government is not doing enough to keep up with its commitments.

Key Recommendations

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

3.7.1 Background

Bangladesh has entered a new political phase with the start of the operation of an interim government on 8th August 2024. As major reforms are needed in key economic sectors, especially the power and energy sectors, it is expected that the new government will work on the priority areas of reforming the sector within its 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 substantial 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 burdens. The fiscal and financial stress caused by the power and energy sector is considered one of 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 a huge financial burden to the users of electricity and energy.

The Head of the Interim Government, Professor Yunus, has articulated a vision of creating a world of three zeros—one of which aligns with the country’s energy transition: achieving ‘zero net carbon emissions. The adviser in charge of the power and energy sector had long experience working as a top bureaucrat in 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 a faulty maintenance strategy. Overall, the interim government is expected to work in line to ensure energy transition whilst addressing the current fiscal and financial challenges.

3.7.2 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 phasing out of some of the fossil fuel-based power plants. No further extension of fossil fuel-based and quick rental power plants has been observed during the last six months (Table 3.18). 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, the share of fuel oil has been reduced by 2 per cent as the demand has been lower than usual due to seasonal variation, and expensive fuel oil was avoided to lower the cost of electricity generation. Otherwise, the fuel mix remains the same as the previous regime, dominated mainly by gas or LNG (43 per cent of the total share). The share of renewable-based power generation is still insignificant (4 per cent).

A considerable rise in transmission and distribution lines has been 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, renewable energy integration has not improved much in the last 6 months. Delays in the commercial operation date of those power plants are still prevailing in the case of renewable energy power plants. The decision to cancel the Letter of Intent (LoI) cancellation of the 35 solar power plants has put the renewable energy transition in the backseat.

Table 3.18

Overall changes in the power and energy sector

Indicator	Status on 1 August 2024	Status on 15 January 2025
Installed capacity (MW, on-grid and off-grid)	31,520 MW	31,144 MW
<i>Fuel mix</i>		
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 (2025).

Table 3.19 demonstrates the state of the total gas consumption at two different time points. 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 led to a sharp increase in the share of imported LNG supply to meet the domestic gas demand.

Table 3.19**State of Gas and LNG supply**

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

Source: Petrobangla daily gas data.

b. Institutional changes

The interim government has been working on institutional reformation of the power and energy sector since it took power. Immediately after taking over the power, the interim government announced that the Bangladesh Energy Regulatory Commission (BERC) would determine the prices of fuel oil, gas and electricity through public hearings, not by the government. However, the government still sets the fuel oil price, which does not even reflect the international market price. Furthermore, a significant initiative has yet to be taken by the interim government to reform the Sustainable and Renewable Energy Authority (SREDA). On a brighter note, the chief adviser has instructed incorporating a separate renewable energy cell within the organigram of all the power and energy sector government institutions. This praiseworthy initiative can help institutions become more sensitive to energy transition in the country, mainly related to operational issues. However, this initiative must be followed through with more actions and pro-renewable energy decisions at the ministry and department levels. The activities taken against the institutional reform banner's commitments have not demonstrated much significant progress.

c. Operational changes

The initiatives taken and activities carried out mostly relate to the operational issues. These include opening tenders under the Public Procurement Act and Public Procurement Rules, LNG import, gas exploration, review of controversial Power purchase Agreements (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's hydropower plants, which will be imported for five months from June to November (SASEC, 2025).

There is a plan to drill 35 gas wells nationwide by 2025, for which three key projects have been approved. The projects are the procurement and installation of a 60 mmscf/d capacity process plant for the Bhola North gas field, drilling of the Rashidpur-11 (exploratory) well project and a 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 ('BIDA clarifies LNG deal with US firm', 2025). However, the drilling of only one well has begun, and the survey process for another well has started. The pace of work raises questions regarding completing the necessary well during the remaining 5 months after the fiscal year. The Interim Government approved resuming spot LNG imports after seven months, authorising nearly two dozen firms to supply LNG and enhance competition (S&P Global 2024). Recently, the BIDA chairman signed approval for LNG imports from the USA ('BIDA clarifies LNG deal with US firm', 2025). Such initiatives have raised concerns regarding the government's intention to reduce import costs and enhance domestic resources and renewable energy. Progress has been made regarding the expediting 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 six months, the current government is mainly active in reforming the legal issues of the power and energy sector. *First*, the finalisation of the repealing of the Quick Enhancement of Power and Energy Act 2010 is a remarkable stepping stone towards a fair and competitive procuring 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 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.

Table 3.20

CPD's Application at the RTI of the MoPEMR

Activities		Date	Details
The information requested for 28 power plants: • Power Purchase Agreement • Project Proforma • Implementation Agreement • Energy Supply Agreement	1st Application	11/12/2024	Suggested to Reapply
	Response	17/12/2024	
	2nd Application	19/12/2024	Denied providing information by showing the following reasons: The requested information will • Endanger Bangladesh's security, integrity, sovereignty • Hinder relationships with foreign states, international and regional organisations or alliances • Breach Copyright • Divulge secret technical and scientific research information
	Response	31/12/2024	
	Appeal	7/01/2025	In the Hearing, the following reasonings were presented on CPD's behalf • The requested documents are administrative, commercial and developmental, 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 so, sharing those documents for transparency and research does not constitute copyright infringement, as it is not for commercial purposes 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: Outcome of CPD Power and Energy Studies RTI application.

Fifth, the government has also decided to review and revisit the Integrated Energy and Power Master Plan (IEPMP) and reevaluate the Renewable Energy Policy, 2025 (MoPEMR, 2023) to align with sustainable development goals. *Sixth*, along with these policy reformations, a restoration action will come 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 ('10yr tax exemption for renewable power producers going commercial between 2025-30', 2024). Overall, the initiatives to make an impact in the policy and legal domain of the sector are much appreciated compared to the previous domains. That 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 PPAs will be made public, the PPA and other agreements have still not been disclosed for public consumption. This shows a lack of transparency under the interim government. Recently, CPD has applied for the power purchase agreement, project proforma, fuel supply agreement, and implementation agreement for some power plants under RTI for research purposes. However, CPD's application was refused by showcasing the reasons for national security, integrity, sovereignty, and hindrance to relationships with foreign states, international organisations, and others. Table 3.20 details the status and reasoning for the rejection.

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

Bangladesh's energy sector faces severe financial strain; the earlier regime is solely responsible. 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 electricity and gas supply. This mounting debt seriously threatens the stability of the country's energy infrastructure, jeopardising essential services. While BPDB and Petrobangla face much higher arrears, the state-owned Bangladesh Petroleum Corporation (BPC), responsible for importing and supplying fuel oil, has a relatively better financial position. Despite some accumulated dues, BPC has maintained a more stable financial standing than BPDB and Petrobangla. Table 3.21 demonstrates the financial situation of the public authorities. It is clear from the table that the financial situation of BPDB especially will hardly support it in clearing its debt or loans because BPDB itself is in red. The situation is the same for Petrobangla as well. Only BPC is in a better position as it has constantly increased fuel oil prices.

Table 3.21

Financial situation of public authority

(In BDT Crore)

Situation	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 ('10yr tax exemption for renewable power producers going commercial between 2025-30', 2024). If left unresolved, these power plants may struggle to continue production due to the inability to import necessary fuel.

Much of the BPDB's outstanding debt is owed to power plants, particularly Adani's power plant in Jharkhand, India. According to The Business Standard (2025), the BPDB owes Adani's plant approximately USD 845 million (BDT 8,400 crore) (Abdullah & Kashem, 2024), making it the single largest outstanding debt in the power sector. The Adani plant, 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.

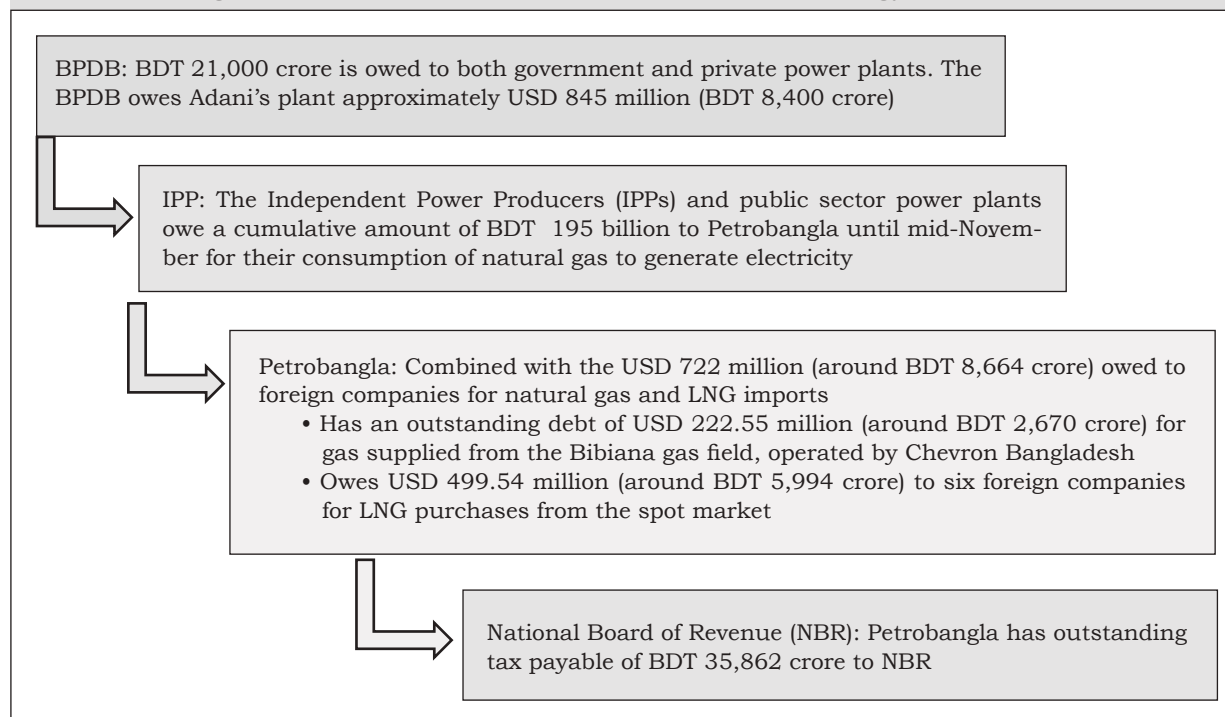
If these debts are not settled soon, Bangladesh could face severe power shortages. At present, Adani supplies only half of the total agreed capacity. The BPDB's plea for an urgent fund of BDT 80 billion from the government underscores the gravity of the situation (Abdullah & Kashem, 2025). The funds 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 (BPC) was financially struggling in 2024. The BPC adopted the market-based pricing system and raised the dual oil price to come out of the crisis. Despite these efforts, the corporation 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 (Islam, 2024).

In contrast to its previous financial struggles, during which BPC's outstanding dues had reached nearly USD 50 million under the last 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 (Mohiuddin, 2024).

The figure 3.23 shows the outstanding debt and financial crisis within the Power and Energy Sector.

Figure 3.23**The outstanding debt and financial crisis within the Power and Energy Sector**

Source: Authors' representation from Mohiuddin, 2024; Byron, 2024 and (Addullah & Kashem, 2024).

Bangladesh Oil, Gas and Mineral Corporation (Petrobangla)

Petrobangla, the state-run Bangladesh Oil, Gas and Mineral Corporation, faces severe financial strain due to substantial outstanding dues accumulated across various sectors. This has placed significant pressure on 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 BDT 2,670 crore) for gas supplied from the Bibiana gas field, operated by Chevron Bangladesh. Additionally, Petrobangla owes USD 499.54 million (around BDT 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 BDT 8,664 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 BDT 5.0 billion subsidy from the Ministry of Finance to pay the outstanding gas bills (Kabir, 2024). However, Petrobangla continues to face liquidity issues that hinder its ability to promptly meet its tax and VAT obligations.

The government has intervened in Petrobangla's foreign debt management to alleviate some of the financial strain. By early September 2024, Petrobangla's total outstanding debt had been reduced to USD 400 million, down from USD 515 million (The Business Standard, 2024). This reduction was

made possible through swift government action, but challenges remain, particularly concerning further payments for gas supplies from Chevron and Tullow and LNG imports.

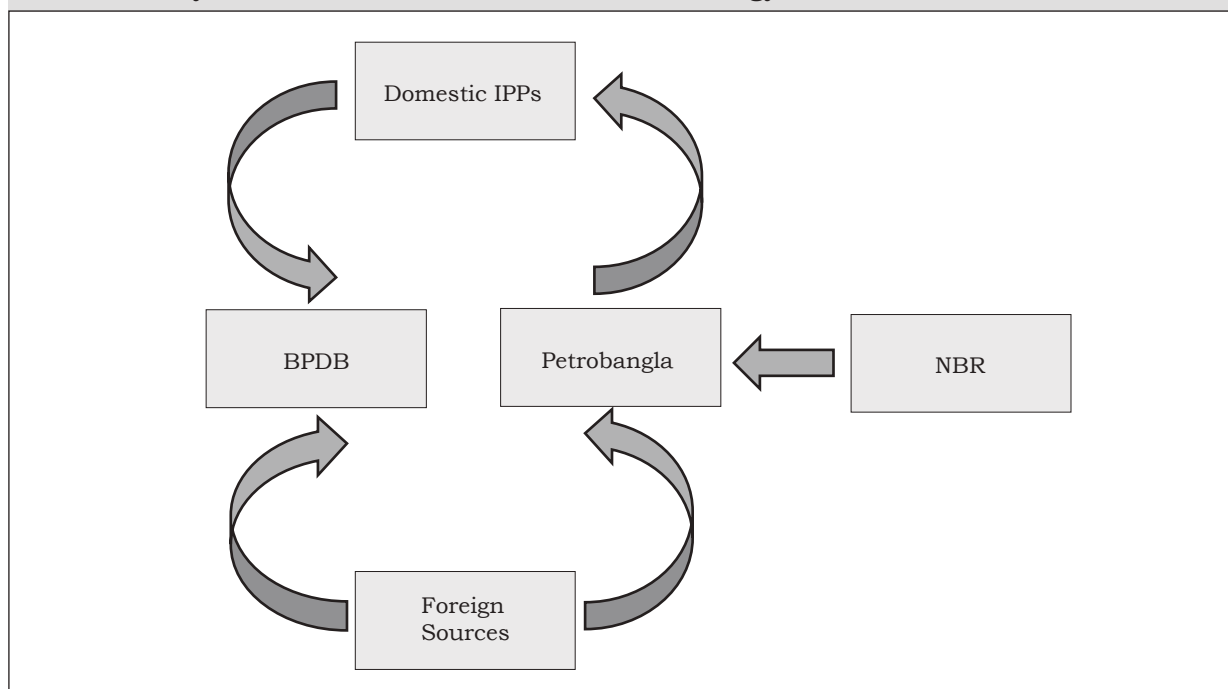
National Board of Revenue (NBR)

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 BDT 350 billion (), further jeopardising the corporation's financial stability. The corporation's mounting tax liabilities reflect a dire liquidity situation, preventing Petrobangla from fulfilling its obligations to the NBR.

The figure 3.24 shows the vicious cycle of debt and dues of the Power and Energy Sector

Figure 3.24

The Vicious Cycle of Debt and Dues of the Power and Energy Sector



Source: Authors' illustration.

On the revenue front, the NBR has sent a letter to the Ministry of Finance requesting the collection of outstanding revenue of BDT 35,862 crore from Petrobangla. In response, the Ministry has extended an interest-free loan to Petrobangla, to be disbursed over three fiscal years, to facilitate the repayment of these obligations. These loans will amount to BDT 5,000 crore in the fiscal year 2023-24, BDT 5,000 crore in 2024-25, and BDT 3,278 crore in 2025-26 (Mia, 2024).

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 BDT 25.17 billion in December 2023, rising sharply to BDT 46.47 billion by June 2024, reflecting a nearly 85 per cent increase in just six months (Byron, 2024). These rising debts are another indication of the significant financial strain Petrobangla is under.

3.7.4 Recommendations

A short to medium-term crash plan is required to make a way out of the public authorities' vicious cycle of debt. 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: The BPDB has been in the red for consecutive years, mainly due to the high power generation costs from the IPPs and 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 operating costs by not purchasing electricity at unreasonably high rates. Instead, it needs to generate more electricity from its power plants or public power plants, which are mostly gas-based. BPDB needs to phase out the inefficient and old fossil fuel power plants, as these power plants require more fuel to run and 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 energy expenses. A plan needs to be made to repay the money from bonds and the interest used by the Ministry of Power, Energy and Mineral Resources for immediate debt repayment.

BERC should be responsible for ensuring the fair pricing of electricity and fuels: As the government has restrained the BERC's institutional power by the book and by law, now it is time to 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 fights to end the debt spiral. BERC, as an authority, can investigate power plants and other energy companies for financial auditing and reporting. A firm stand from BERC's end can help these institutes prevent 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 cannot be passed on to the consumers.

Petrobangla should shift its priority from LNG import to domestic gas exploration: The target 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 is very disappointing. Bangladesh Petroleum Exploration and Production Company Limited (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 reference and the conditions 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 the international market at spot purchase and long-term agreements. Such initiatives will help reduce the pressure of the import bills of LNG import from both spot market purchases 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 especially BPDB, BPC and Petrobangla must be reassessed. The non-transparent public accounts and the mismatch regarding the financial accounts within the different public documents have raised doubts regarding the credibility of financial reporting. The accounts of BPDB, BPC and Petrobangla must be reassessed by leading international audit firms to find out their actual profit loss scenarios.

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 devise a solution that will help assure the investors that their time and money have not been wasted. If the unfair and non-competitive tariff was the issue, the government could discuss and negotiate the matter with the power producers. Even the board and management of the LOIs could be reshuffled to make them efficient and competent.

Prioritising identifying and assessing 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. The government can carry out a thorough satellite mapping to help the country understand the best locations for installing solar panels. This could help private consumers and government offices realise how much they should consider solar panel installation.

Disclosure of procurement contracts and data of the power plants: There is still a barrier to the disclosure of the PPA and other public agreements of the power plants, which shows that the interim government is not doing enough to keep up with its 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 and the decision to withdraw the coal importation ban: In different policy documents such as Integrated Energy and Power Master Plan and platforms, the former government mentioned extracting coal from domestic coal mines. The interim government must immediately put a hold on this discussion and initiative, as it will only derail the energy transition of Bangladesh. Instead, it should commit to stopping such an agenda and look for ways to phase out existing coal-based power plants. Also, the decision to withdraw any ban on coal imports from the international market must be reconsidered.

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

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3.8 AGENDA FOR BANKING SECTOR REFORM

Key Findings

- The Capital-to-Risk Weighted Asset ratio (CRWA) has recently declined. The overall CRWA declined from 10.64 per cent in June 2024 to 6.86 per cent in September 2024.
- High non-performing loans (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 country's total outstanding loans.
- 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.

3.8.1 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 immediate results. The central bank is posed with the challenge of safeguarding 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 to have a sustained effect.

3.8.2 Brief Overview of the Performance of the Banking Sector

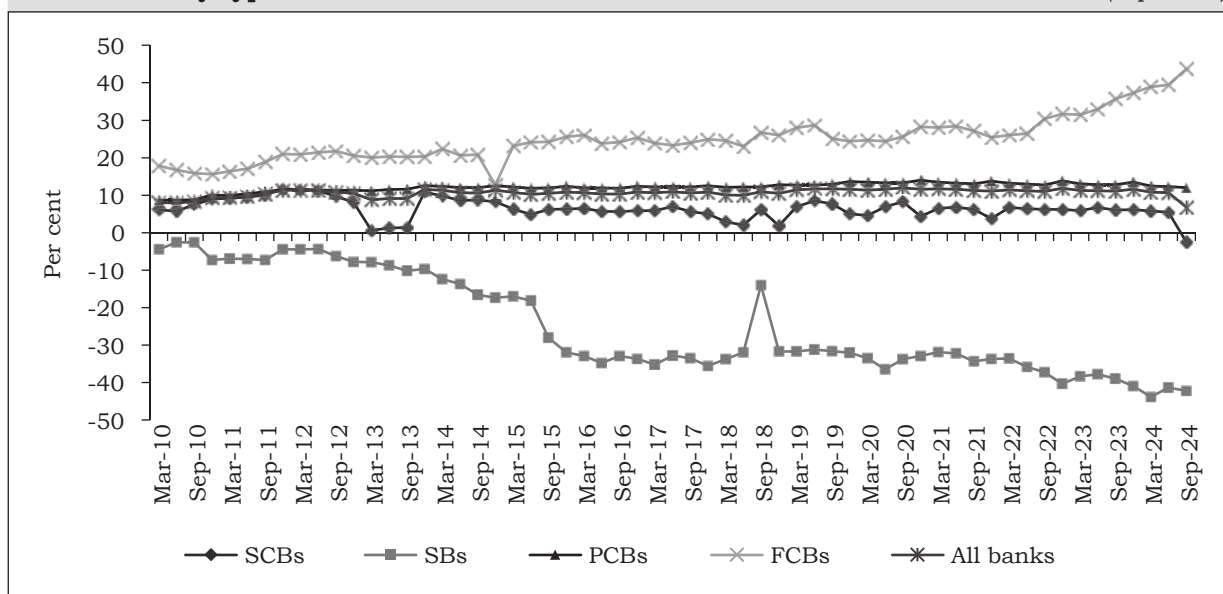
The Capital-to-Risk Weighted Asset ratio (CRWA) has declined in recent months. The overall CRWA declined from 10.64 per cent in June 2024 to 6.86 per cent in September 2024 (Bangladesh Bank, 2024a). This indicates that the ability of banks to absorb unexpected shocks has declined. According to the Bangladesh 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 3.25).

High NPLs have impacted asset quality and the liquidity situation in banks. The total amount of the non-performing loans (NPLs) reached BDT 2,84,977 crores in September 2024, accounting

Figure 3.25

CRWA ratios by type of banks

(in per cent)



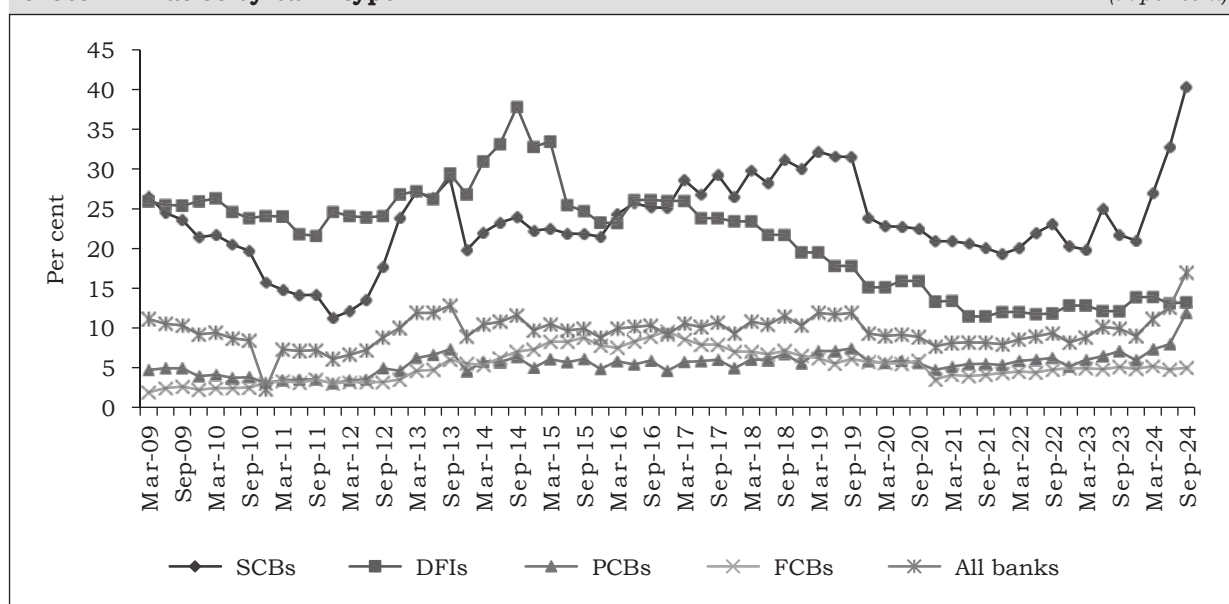
Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2024a).

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 3.26).

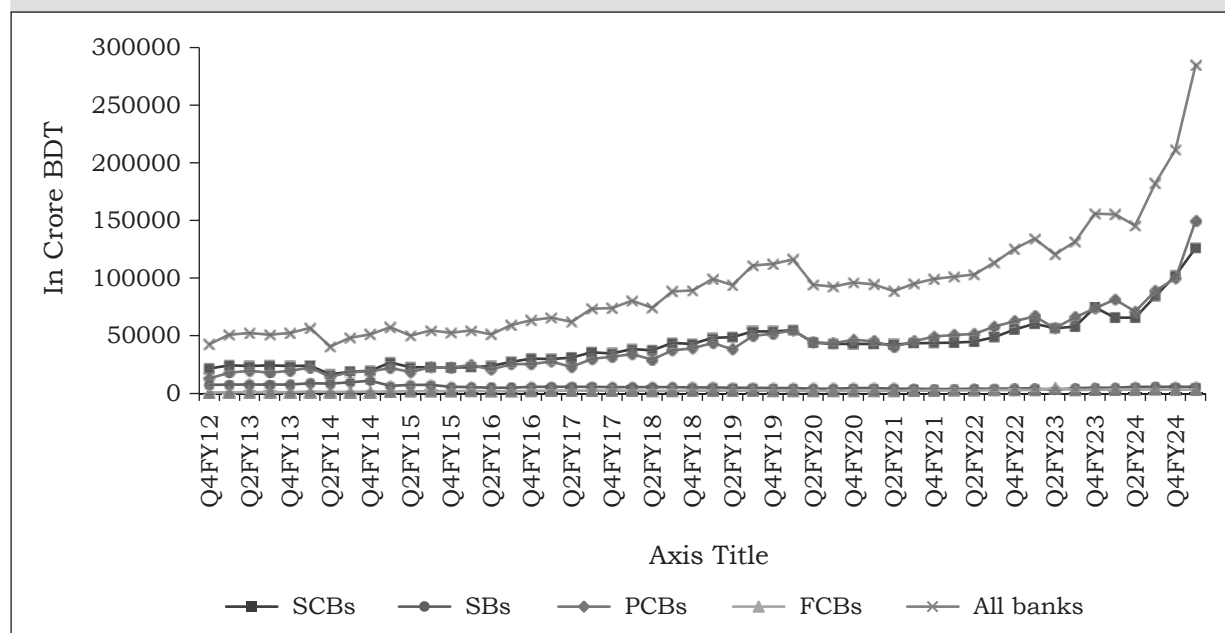
Figure 3.26

Gross NPL ratios by bank type

(in per cent)



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

Figure 3.27**Total classified loans**

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

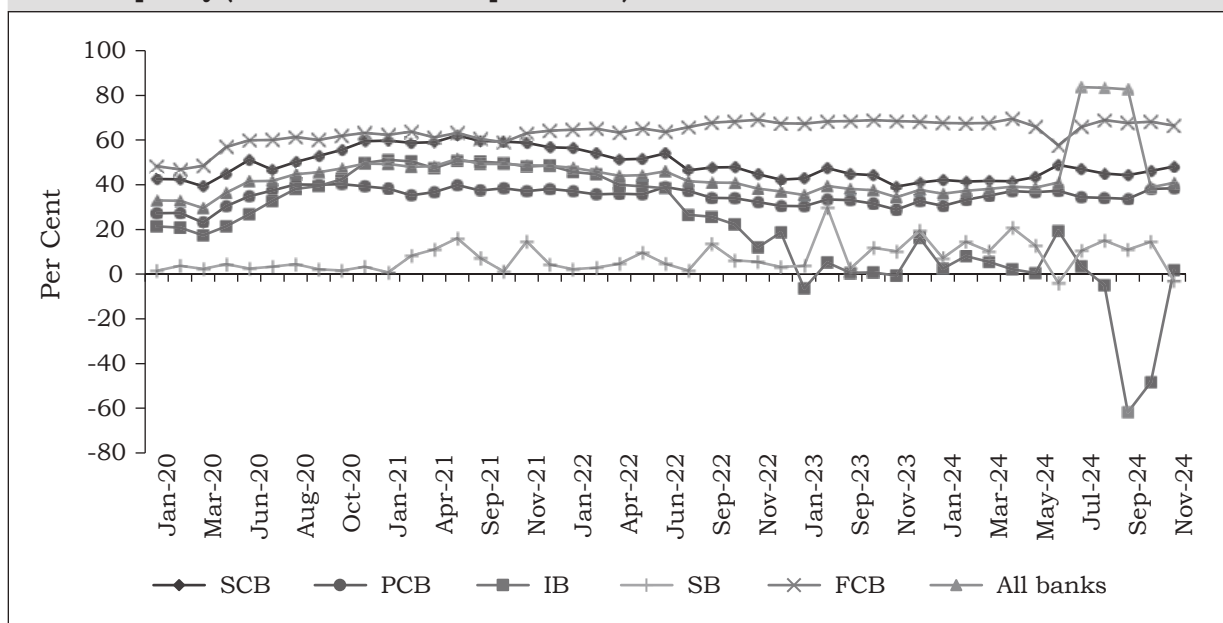
NPLs refer to loans either in default or on the verge of default (Bangladesh Bank, 2017). Sub-standard loans (SS), doubtful (DF), and bad/loss (B/L) are considered classified loans. Subsequently, these are treated as NPLs (Bangladesh Bank, 2024b). All banks' classified loans increased by more than six 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 3.27).

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 sufficient 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 3.28 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, these banks have even failed to maintain the minimum required liquid asset levels 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

Figure 3.28

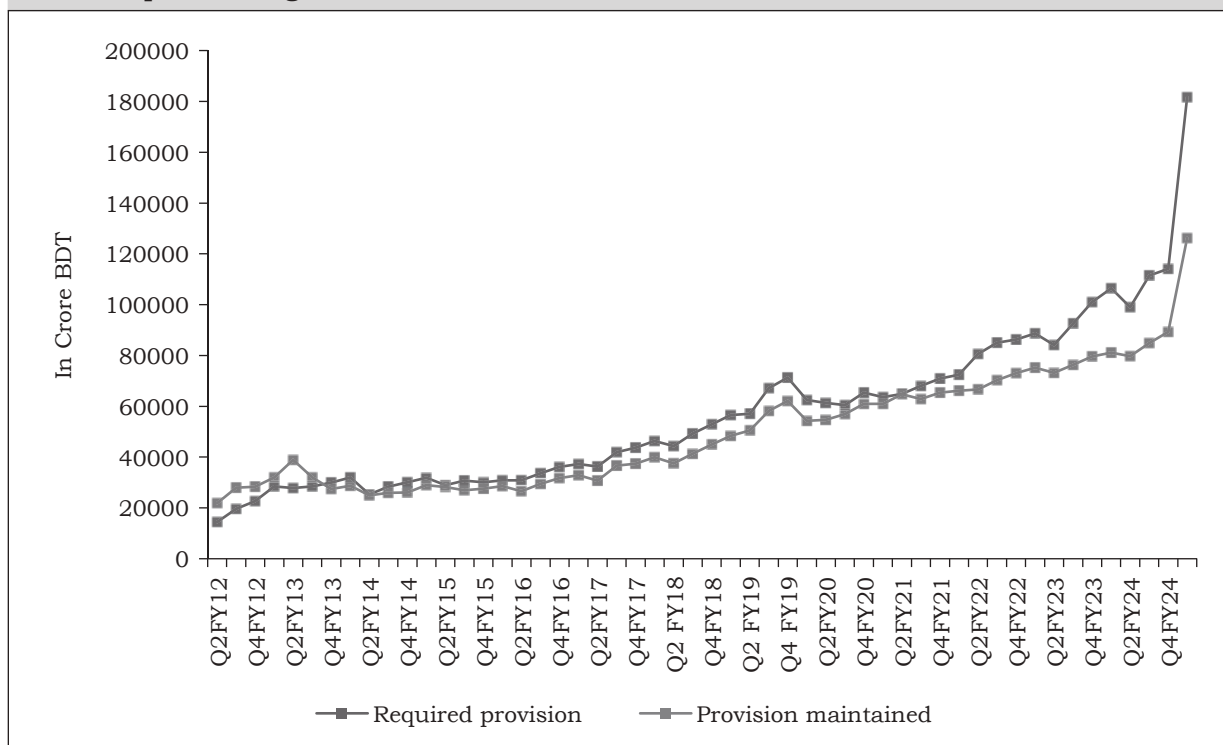
Excess liquidity (as a share of total liquid assets)



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

Figure 3.29

Loan loss provisioning



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

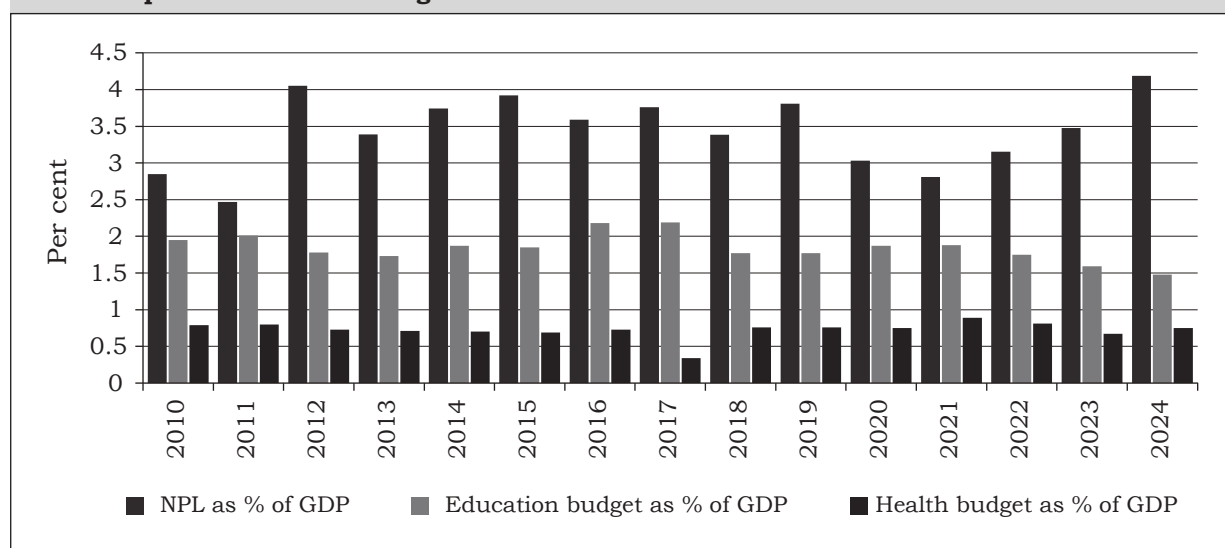
make riskier investments (Kato & Tsuruga, 2016) (Acharya & Naqvi, 2012) (Ahmad, Ahmad, & Shaharuddin, 2022).

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 3.29). 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).

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 exceed 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 the 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 the education budget in GDP was 1.48 per cent, and the share of the health budget in GDP was 0.75 per cent in FY2024 (Figure 3.30).

Figure 3.30

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.

3.8.3 Barriers for Improving the Banking Sector Governance

Bangladesh's banking sector has weakened 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 the poor performance of several banks. Board members of banks, particularly SCBs, were selected based on political connections and loyalty rather than competence and experience. The Ministry of Finance controlled 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, resulting 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 lack skilled human resources in SCBs, which limits their ability to address emerging risk management and compliance challenges.

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 the economic rationale for issuing licences for new banks. Political influence was exerted to recapitalise SCBs burdened by NPLs as these suffer from poor performance and lack of fiscal discipline. Governance further deteriorated through the control of Islami Bank ('The government initiates a coup at Bangladesh's biggest bank', 2017), other PCBs ('S Alam Group: 'Govt looking into fund sources, 2017), and unresolved issues such as the Bangladesh Bank heist. The 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 favouring 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 evidenced by 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).

3.8.4 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 to establish a state-owned AMC under the Ministry of Finance. However, this raised concerns regarding a state-owned AMC's governance, efficiency, and transparency.

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. In contrast, asset-purchasing-type AMCs purchase NPLs at a discount using government-backed bonds, allowing troubled banks to continue operating. However, the government's initial equity in AMCs is often treated as a sunk cost 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 without a developed bond market.

To ensure success, AMCs must operate with strict transparency, regularly publish 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 stabilise the banking sector.

The merger of weak and 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 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 roadmap for the 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 the efficiency of employees, must be addressed for successful mergers and to establish customers' confidence.

Whilst 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 the 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 et al., 2011). Whilst asset recovery remains arduous, these global efforts provide a useful roadmap for Bangladesh to strengthen its fight against corruption and reclaim stolen money.

3.8.5 Specific Recommendations

Several reform measures have been initiated since August 2024 to improve the banking sector's health, and 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 dissolution 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 agendas to be implemented in the short, medium, and long terms is presented below to address the challenges of the banking sector in Bangladesh.

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 the 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 compatibility with the Application Programming Interface (API) 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.

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 licences:** No more licences 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:** The MoF's FID should be shut down to remove dual regulation and stop political influence. The Bangladesh Bank can perform the functions of the FID.

- **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.

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.
- **Reinstate 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 disobeying 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.

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.

3.8.6 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 policymakers' inertia in addressing the sector's problems. 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 for undertaking the massive task of reforming a sector where stakeholders have become powerful. Hence, only through sustained and politically committed efforts can the banking sector achieve its full potential and contribute to the economic development of Bangladesh.

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3.9 CONCLUSIONS

The 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. Improving the fiscal framework requires careful management and reforms to support the country's sustainable development.

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. At the same time, in the rice sector, dominance by warehouse operators and millers distorts pricing, which is why 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, reflected by 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.

Bangladesh's power and energy sector 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 cancelling the 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 the sector's long-term sustainability.

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 licencing decisions, have undermined the sector's performance. Weak internal controls, ineffective risk management, and inadequate legal frameworks exacerbate NPLs, while defaulters exploit legal loopholes and delays in the judicial system. The Banking Company Act has often been amended to favour vested interest groups. Implementing comprehensive reforms through short, medium and long-term measures is critical to restore the stability and efficiency of the banking sector. However, these reforms must be backed by political commitment from the highest level.

Given the ongoing economic situation, a coordinated approach is needed to overcome the multifaceted challenges, stabilise the economy, and protect the vulnerable, low- and limited-income households. 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.



Under its Independent Review of Bangladesh's Development (IRBD) programme, the Centre for Policy Dialogue (CPD) has been preparing analyses of the major macroeconomic performance indicators of Bangladesh economy, on an ongoing basis, for two decades now. Following is a list of publications that have been brought out by the CPD under the CPD-IRBD programme:

- Bangladesh Economy in FY2023–24: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2022–23: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2021–22: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2020–21: Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy and National Elections 2018: Priorities for Electoral Debates
- Bangladesh Economy in FY2017–18: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2016–17: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2015–16: Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2014–15: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2013–14: Third Interim Review of Macroeconomic Performance
- Bangladesh Economy in FY2012–13: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2011–12 and Outlook for FY2012–13
- Bangladesh Economy in FY2011–12: Third Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in FY2010–11 and Outlook for FY2011–12
- Bangladesh Economy in FY2010–11: Second Interim Review of Macroeconomic Performance
- State of the Bangladesh Economy in 2009–10 and Outlook for 2010–11
- বাংলাদেশের অর্থনীতি পর্যালোচনা ২০০৮–০৯
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- State of the Bangladesh Economy in FY2007–08 and Outlook for FY2008–09
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