Independent Review of
iRBD
Bangladesh's Development
বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2025-26

Multidimensional Risks at an Electoral Crossroads

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Contents

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The CPD IRBD 2026 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Multidimensional Risks at an Electoral Crossroads

SECTION I. INTRODUCTION

The current assessment of select macroeconomic performance indicators of Bangladesh, and what needs to be done to address some of the emerging and urgent challenges, comes at a critical juncture in Bangladesh's journey. The nation is bracing for the upcoming national elections, scheduled to be held on 12 February 2026. Citizens are genuinely concerned about and interested to have a deeper understanding regarding the socioeconomic trends in the run-up to the elections. Additionally, there is a strong interest in and concerns regarding the course the nation should take after the newly elected government assumes office.

In this context, the Centre for Policy Dialogue (CPD) has prepared the present report under its flagship programme titled Independent Review of Bangladesh's Development (IRBD). The report focuses on seven areas where specific challenges and risks have been identified for priority attention in the present context and also in going forward. These relate to public finance, inflation, agriculture, banking sector, investment scenario, power and energy sector, and external sector performance. While carrying out the assessment of the economy during the current fiscal year, latest available data from domestic and international sources have been utilised for the analysis. CPD also offered a set of recommendations, for consideration by the government and concerned stakeholders, for each sector discussed in this reading of the IRBD.

SECTION II. PUBLIC FINANCE

Key findings

- Total revenue collection recorded a 16.7 per cent growth during July-September of FY2026, implying that a 32.8 per cent growth will be required during the remainder of FY2026 if the annual target is to be achieved.
- Annual Development Programme (ADP) implementation rate against the original budget allocation reached 11.5 per cent during July-November of FY2026 – the lowest in the last ten years.
- The dependency on bank borrowing to finance the budget deficit has increased during the first three months of FY2026.

Key recommendations

- The rationale for providing tax benefits needs to be revisited on a regular basis with the view to removing those which are not generating the intended benefits.
- It will be necessary to maintain the practice of excluding non-productive initiatives from the ADP.
- Given the high cost of public investment projects, the government must review public spending and develop a plan to guarantee value for public money.

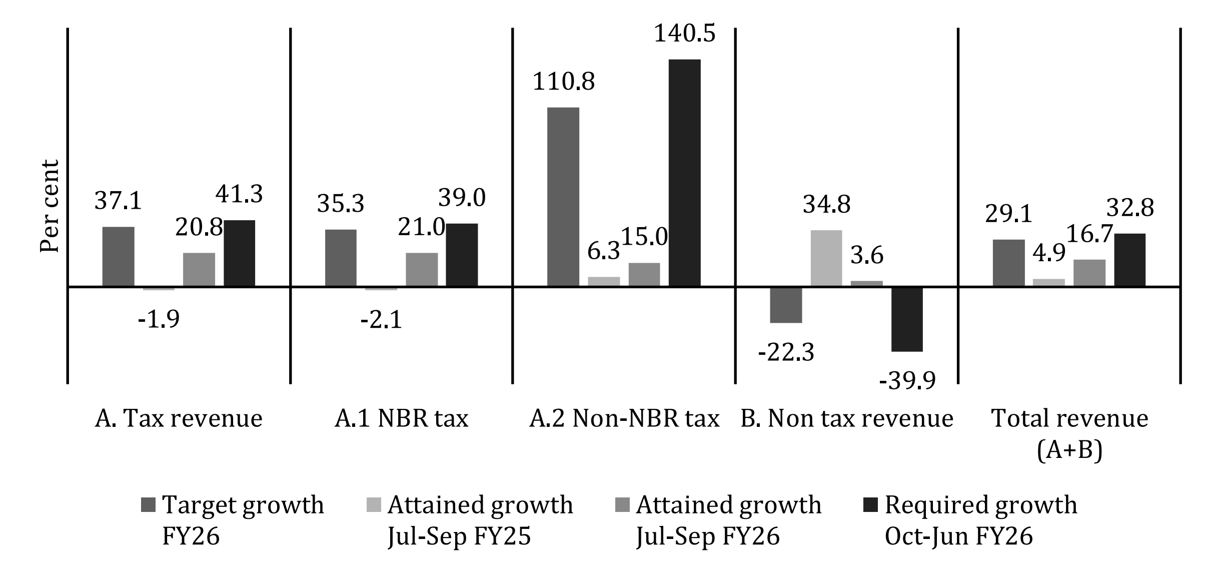
2.1 Context

The ongoing FY2026 is poised for a unique situation in terms of macro-fiscal management. While the fiscal year started under the leadership of the interim government, it is expected to conclude under the new elected government after the national elections scheduled for February 2026 takes place. Thus, the preservation of the reform momentum and continuation of policy measures will be of critical importance. Taking this into cognisance, the present section examines the current dynamics within the fiscal framework of Bangladesh and offers some recommendations for the coming days.

2.2 Revenue Mobilisation

According to the Ministry of Finance (MoF) data, total revenue mobilisation increased by 16.7 per cent during the July-September period of FY2026. This exhibits a notable uptick in performance when compared to the corresponding figure of FY2025, where total revenue collection recorded a 4.9 per cent growth (Figure 2.1). The current trend indicates that a 32.8 per cent growth will be required during the remainder of FY2026 if the annual growth target of 29.1 per cent is to be met. This is quite unlikely to happen.

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



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

As can be evinced from Figure 2.1, tax revenue, which comprises 91.8 per cent of the total targeted revenue, posted a 20.8 per cent growth during the first quarter of FY2026. Both the subcomponents of tax revenue viz. NBR tax and non-NBR tax attained notable growth during the aforementioned period[1]. The overall growth in revenue mobilisation during the July-September FY2026 period was driven by NBR tax collection. Regrettably, further disaggregated analysis is not possible due to the limited data available in MoF (2025a, 2025b).

While the MoF provides updates regarding NBR tax collection till September FY2026, NBR itself provides a more up-to-date picture. According to NBR data, tax collected by the agency increased by 15.2 per cent during the July-November period of FY2026. This is a considerable increase over the negative (-) 0.6 per cent growth recorded during the corresponding period of FY2025. The growth attained during the ongoing FY2026 was driven primarily by income tax, and VAT and SD at the local level (Table 2.1). The persisting higher price level in the domestic economy is perhaps giving a push to the collection of VAT and SD at the local level. The slow pace of annual development programme (ADP) implementation (discussed in section 2.3) despite rebound in import and depreciation of Bangladeshi Taka has perhaps resulted in a subdued performance of indirect taxes collected at the import level.

Table 2.1: Growth situation of tax collected by NBR during July-November FY2026

Components	Collection (in crore Tk.)			Growth (in per cent)	
	Jul-Nov FY24	Jul-Nov FY25	Jul-Nov FY26	Jul-Nov FY25	Jul-Nov FY26
a. Indirect taxes at import and export level	**41,155.6**	**40,713.5**	**42,910.6**	**-1.1**	**5.4**
a.1 Import duty	15,929.6	15,559.0	14,919.8	-2.3	-4.1
a.2 VAT at import level	20,749.3	20,783.9	23,266.0	0.2	11.9
a.3 SD at import level	4,476.7	4,370.6	4,724.8	-2.4	8.1
a.4 Export duty	0.0	0.0	0.0	-100.0	n/a
b. Indirect taxes at local level	**48,736.2**	**47,743.7**	**58,232.2**	**-2.0**	**22.0**

[1] According to NBR (2025a), revenue collected by NBR posted a 20.4 per cent growth during the July-September FY2026 period. This was driven by improved mobilisation of supplementary duty (SD) and value added tax (VAT) at the local level as well as by enhanced income tax collection (NBR, 2025a).

Components	Collection (in crore Tk.)			Growth (in per cent)	
	Jul-Nov FY24	Jul-Nov FY25	Jul-Nov FY26	Jul-Nov FY25	Jul-Nov FY26
b.1 Excise duty	787.9	992.5	985.0	26.0	-0.8
b.2 VAT at local level	32,776.0	31,149.4	35,586.0	-5.0	14.2
b.3 SD at local level	14,485.0	13,852.5	20,064.0	-4.4	44.8
b.4 Turnover tax	4.7	7.2	0.0	51.5	-100.0
b.5 Others	682.6	1,742.0	1,597.2	155.2	-8.3
c. Income and travel tax	**40,293.9**	**40,922.5**	**47,891.2**	**1.6**	**17.0**
c.1 Income tax	39,435.0	40,118.7	46,898.8	1.7	16.9
c.2 Travel tax	858.9	803.8	992.4	-6.4	23.5
Total NBR tax (a+b+c)	**130,185.7**	**129,379.6**	**149,034.0**	**-0.6**	**15.2**

Source: Author’s calculation based on data from NBR (2025b, 2025c).

It also needs to be mentioned that, as has been reported in the media (“Govt Raises NBR’s Revenue Collection Target”, 2025; “Govt Revises NBR's Revenue Target”, 2025), the government plans to increase the NBR tax collection target by Tk. 55,000 crore in the revised budget for FY2026. Historical trend shows that NBR tax collection falls far short of the target set during the original budget. Also, in view of the upcoming election and subdued economic momentum, chances of rapid improvement in NBR tax collection are rather thin. Hence, it remains unclear what considerations led to setting such a higher revenue target.

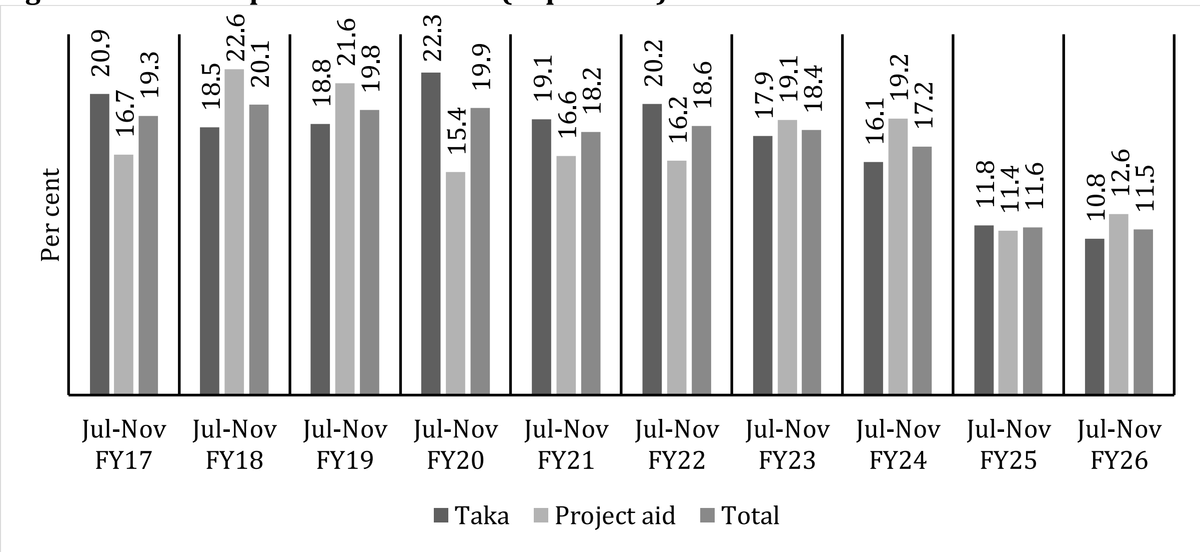
2.3 Public Expenditure

As per the MoF data, overall budget utilisation was 13.3 per cent during the July-September period of FY2026 (MoF, 2025b). The corresponding figure for FY2025 was lower – at 11.9 per cent (MoF, 2025a). Rate of ADP implementation was on the lower side – only 4.6 per cent of the allocated amount was spent during the first quarter of FY2026 (the corresponding figure for FY2025 was 4.0 per cent)[2]. However, non-ADP expenditure showed an upward trend. During July-September of FY2026, non-ADP budget utilisation reached 16.9 per cent while the corresponding figure for FY2025 was 15.9 per cent. This implies that nearly an additional Tk. 9,900 crore was spent to carry out the non-ADP activities of the budget. Once again, further disaggregated analysis remains impossible due to the data limitations of MoF (2025a, 2025b).

While the MoF provides ADP implementation related data till October FY2025, the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning provides a more recent picture. According to IMED data, the ADP implementation rate against the original budget allocation reached 11.5 per cent during July-November of FY2026 – the lowest in the last ten years (Figure 2.2).

[2] In fact, according to the MoF data, ADP expenditure declined in absolute terms – from Tk. 10,538 crore during July-September FY2025 to Tk. 10,490 crore during July-September FY2026 (MoF 2025a, 2025b).

Figure 2.2: ADP implementation rate (in per cent)



Source: Author's calculation based on data from IMED (2021, 2025).

Within the components of ADP, utilisation of 'Taka' (the part of ADP which is financed by domestic resources), reached its historical low, at 10.8 per cent, during the July-November period of FY2026. The corresponding figure for FY2025 was 11.8 per cent (Figure 2.2). On the other hand, utilisation of project aid showed some improvement – from 11.4 per cent during July-November FY2025 to 12.6 per cent during July-November FY2026. Although, in absolute value, both 'Taka' and project aid declined from their respective levels during the corresponding period of FY2025. General Economics Division (GED) of the Planning Commission has mentioned administrative bottlenecks, slow approval processes, procurement delays, and slower than anticipated fund disbursements to be the major reasons behind the sluggish pace of ADP implementation (GED, 2025). The slowdown in public investment while private investment is muted (discussed in detail in Section 6) is a matter of concern from the viewpoint of growth.

The top ten ministries/divisions receiving highest allocation account for 64.9 per cent of the ADP budget for FY2026 (the corresponding figure for FY2025 was 66.6 per cent). Of these ten agencies, the ADP implementation of six was below the average level. These include the Road Transport and Highways Division, Power Division, Secondary and Higher Education Division, Ministry of Water Transport, Ministry of Railway, and Health Services Division (Table 2.2). It is rather regrettable to observe that the trend of sub-par ADP implementation in the education and health sectors has continued in FY2026.

Table 2.2: ADP implementation situation of top ten ministries/divisions

Ministries/Divisions	FY2025		FY2026	
	Share in total ADP (%)	July-November implementation rate (%)	Share in total ADP (%)	July-November implementation rate (%)
Local Government Division	14.2	20.4	15.5	20.2
Road Transport and Highways Division	11.5	10.9	13.8	7.5
Power Division	10.8	19.0	8.7	10.1
Secondary and Higher Education Division	4.1	10.2	5.2	9.7
Ministry of Science and Technology	4.8	16.5	5.1	27.4
Ministry of Water Transport	3.8	6.3	4.0	10.6
Ministry of Water Resources	3.1	11.5	3.6	20.2
Ministry of Railway	5.0	15.9	3.3	7.4
Health Services Division	4.2	2.9	3.3	3.9

Ministries/Divisions	FY2025		FY2026	
	Share in total ADP (%)	July-November implementation rate (%)	Share in total ADP (%)	July-November implementation rate (%)
Ministry of Agriculture	Not included in the top ten		2.5	17.1
Ministry of Primary and Mass Education	5.0	13.0	Not included in the top ten	
Top ten total	**66.6**	**14.4**	**64.9**	**13.7**
Rest of the agencies	33.4	6.1	35.1	7.4
Grand total	**100.0**	**11.6**	**100.0**	**11.5**

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

2.4 Deficit and its Financing

As the MoF data shows, Bangladesh's budget balance (excluding grants) stood at a surplus of Tk. 12,153 crore at the end of September 2025. The corresponding time period of FY2025 had a budget surplus of Tk. 5,166 crore (MoF, 2025a, 2025b). This is perhaps attributable to the notable increase in revenue collection coupled with sluggish pace of ADP implementation.

Government's net borrowing from foreign sources declined from (-) Tk. 3,925 crore during July-September of FY2025 to (-) Tk. 6,408 crore during July-September of FY2026. This happened due to a higher increase in the amortisation of existing foreign loans (MoF, 2025a, 2025b).

Government's net borrowing from the banking system stood at Tk. 1,850 crore during July-September of FY2026. On the contrary, Tk. 1,064 was paid back to the banking system during the corresponding period of FY2025. Government's net borrowing from the non-banking sources decreased to negative (-) Tk. 9,390 crore during July-September FY2026 from Tk. 123 crore during July-September FY2025. Within the non-banking sources, net sale of national savings certificates experienced a sharp decline (by about 90.0 per cent). Net sale of other non-banking sources (e.g., treasury bills/bonds) remained negative during the July-September FY2026 period. Therefore, government total net domestic borrowing (both from banking system and from non-banking sources) stood at negative (-) Tk. 7,540 crore during July-September of FY2026. The government also paid back (net) Tk. 941crore during the same period of the previous fiscal year (MoF, 2025a, 2025b). Overall, the dependency on bank borrowing increased during the first three months of FY2026.

However, a number of recent developments raises the question whether the aforementioned fiscal space will continue further down the line. The government has recently injected Tk. 20,000 crore as paid-up capital into the 'Sammilito Islami Bank' ("Bank Merger: 'Sammilita Islami Bank' Receives Final Approval", 2025; "Merged Banks to be Named 'Sammilito Islami Bank'", 2025). Also, the government is gearing up to pay off more than Tk. 20,000 crore in power sector arrears to prevent summer load-shedding (Yousuf & Abdullah, 2026; "অনেক পরিশোধের পরও আবারো", 2025). Furthermore, if the new pay scale for the government employees comes into effect during the remainder of FY2026 (Byron, 2025; Kashem, 2025), it is expected to significantly increase the non-development expenditure and thus shrink the available fiscal space.

2.5 Recommendations

Based on the discussion so far, the following recommendations are put forward to be considered by the policymakers.

Finding newer avenues of revenue mobilisation
As part of this, initiatives including taxing of the growing digital economy and meaningful taxation of wealth and property should be considered. Currently, property taxes are collected by the local

government authorities based on rates which are not commensurate with property prices. These tax rates could be updated and combined with the wealth tax collected by the NBR to make a more efficient system.

Introducing complementary strategies to increase the number of taxpayers
While traditional methods of enhancing tax compliance generally relies on audits along with punitive measures for non-compliant firms, these can often be expensive and prone to opportunities for corruption. Hence, a reward based complementary strategy can be explored. As part of this, easing registration procedures, reducing registration fees, providing financial incentives dependent on registration and filing, and providing social recognition can be considered.

Reducing tax expenditures
The rationale for providing tax benefits, such as enhancing growth prospects of nascent sectors and attracting domestic and foreign investments, needs to be revisited on a regular basis with the view to removing those which are not generating the intended benefits. The decision to provide tax incentives should be based on rigorous cost-benefit analysis (i.e., expected benefits vs revenue forgone). Ad-hoc provision of tax exemptions needs to be curtailed to ensure policy consistency.

Upholding the curbing illicit financial flows (IFF) agenda
At the operational level, the tax authorities have often overlooked IFF. With the Bangladesh Financial Intelligence Unit (BFIU) serving as the coordinating agency, the National Strategy for Preventing Money Laundering and Combating Financing of Terrorism was last formulated for the 2019–2021 period. It identified 11 strategies and 137 action items involving dozens of regulatory agencies. NBR was recognised as a key agency in the first strategy that aimed towards dealing with IFF. It must be acknowledged that several of the strategy's anticipated initiatives were not carried out to the fullest extent. Addressing the IFF issue should receive due policy focus.

Preparing for LDC graduation
Although there will be efforts to mobilise additional revenue, it is important to recognise that some revenue will be lost as a result of the initiatives taken in view of Bangladesh's impending LDC graduation. It will, therefore, be necessary to play a balancing game.

Streamlining public expenditure
It must be ensured that the current austerity measures have minimal 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 practice of excluding non-productive initiatives from the ADP. Also, the ADP's infrastructure-heavy formulation will need to be reevaluated in order to provide the sectors that deal with human capital formation the attention they deserve. Additionally, it is important to keep up the efforts to limit unnecessary and costly public spending on things like government vehicle purchases and international travel. Furthermore, fiscal incentives tied to exports and remittances will require development of exit strategies.

Prioritising foreign financing
Implementing all foreign-funded ADP projects should be the government's top priority given the current foreign exchange reserve situation. Implementing projects that are almost finished (about 90–95 per cent completion rate by June 2026) should be given higher priority by the government. The government agencies' competence to design and implement ADP projects will determine whether or not foreign funding is available. Therefore, it is now imperative that these aspects be improved rapidly. Policy reform ultimately becomes the deciding factor when it comes to receiving budgetary supports. Given this, the government needs to be more accommodating.

Maintaining balance in budget deficit financing

Given the aforementioned difficulties in receiving foreign financing, the domestic sources will have to be relied upon. Achieving the non-bank borrowing targets will be difficult given the low sales volume of national savings certificates. As a result, there will likely be more pressure on bank borrowing in order to cover the budget deficit. If private sector borrowings are not to be crowded out, the government's fiscal space will be constrained.

Ensuring good governance

Even though the stakeholders have recognised the need for significant reforms, Bangladesh's political economy dynamics have often impeded them. For instance, revenue mobilisation-related reforms, such as the preparation and implementation of the new Act on VAT, income tax, customs, related automation, and tax administration reforms, have been postponed, cancelled, or reversed due in large part to political economy considerations. Additionally, given the high cost of public investment projects, the government must review public spending and develop a plan to guarantee value for public money. In this sense, it goes without saying that strong political support and effective governance are essential.

Safeguarding the interests of limited income, vulnerable and disadvantaged groups

While the need for enhanced revenue mobilisation efforts and streamlining public expenditure is recognised, the ramifications for the entire economy and equity concerns should not be overlooked. The primary goal of fiscal management in FY2026 should be to assist the limited income, vulnerable and disadvantaged groups. This must be considered when designing measures relating to revenue and expenditure.

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SECTION III. THE SUPPLY SIDE DYNAMICS OF INFLATION

Key findings

- Despite occasional easing, prices of essential commodities continued to rise due to hoarding, weak market governance, and high intermediation margins, especially for perishables.
- The persistence of inflation, particularly non-food inflation above 9 per cent, indicates deep-rooted structural pressures rather than a demand-driven shock.
- Market survey evidence shows that retailers and intermediaries capture large commission margins for vegetables, fish, and protein items, which also exhibit the highest price volatility.

Key recommendations

- Strengthen market oversight by closely monitoring dominant firms, identifying and addressing instances of market manipulation, and enforcing a zero-tolerance policy against cartels and collusive practices.
- Authentic data is required on the actual demand and production of rice, based on which, timely import decisions should be taken.
- Expand social protection through direct cash transfers and small-business stimulus while ensuring corruption-free distribution of essential commodities under the Open Market System (OMS).

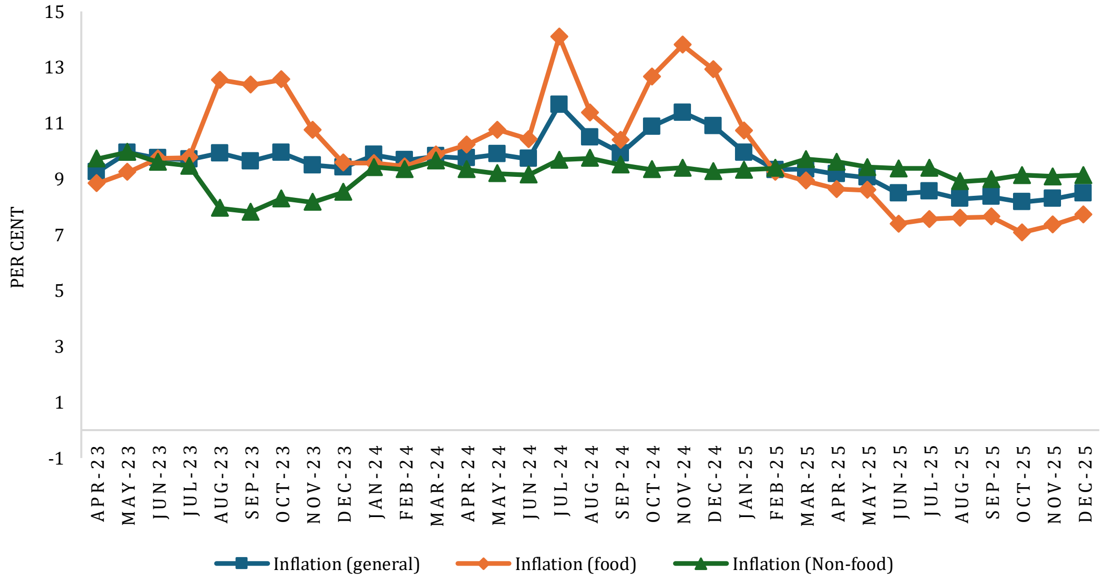
3.1 Introduction

Bangladesh has been experiencing persistently high inflation since 2023 (Bangladesh Bank 2025a), with food prices as the main driver, and overall inflation remaining well above the government's target of 6.5 per cent for FY2026 (Bangladesh Bank, 2025b). In response, the interim government has primarily relied on demand-side measures such as monetary tightening, maintaining a high policy rate, and fiscal restraint to curb aggregate demand and stabilise prices. However, these measures have shown limited effectiveness in containing food inflation, which in Bangladesh is largely driven by supply-side constraints rather than excess demand. Factors such as climate shocks, production shortfalls, rising input costs, the role of intermediaries, import dependence, and market rigidities underscore the need for stronger emphasis on supply-side interventions to achieve durable and inclusive price stability.

3.2 Changes in the Consumer Price Index (CPI)

Over the past six months (June to November 2025), prices have exhibited an overall downward trend, with marginal increases in some months. Headline inflation increased from 8.29 per cent in November 2025 to 8.49 per cent in December 2025 (BBS 2025) (Bangladesh Bank 2025a). Although this is lower than the 10.89 per cent recorded in December 2024, it remains above the government's target of keeping inflation within the 6.5 per cent ceiling for the FY2026 (Bangladesh Bank, 2025b).

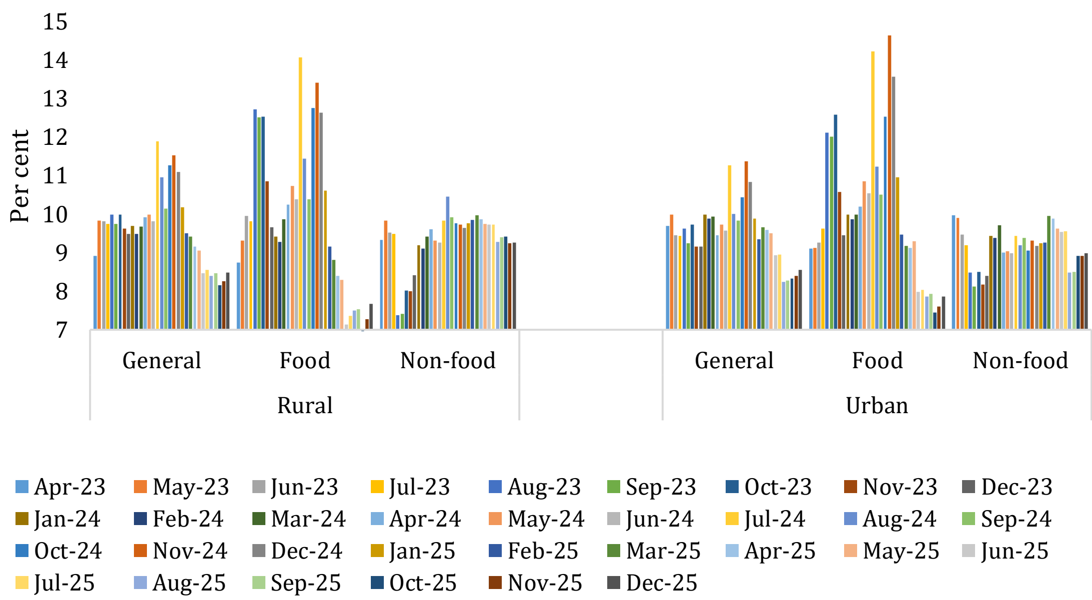
Figure 3.1: Point-to-point inflation rate (Base Index 2021-22=100)



Source: CPD's illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025), the Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank 2025a).

From March 2025 to May 2025, food inflation hovered around 9 per cent, with a notable decrease in June 2025 when it was 7.39 per cent (BBS 2025). However, since July 2025, food prices have gradually increased, with the inflation rate reaching as much as 7.71 per cent in December 2025 (BBS 2025). Data from the Trading Corporation of Bangladesh (TCB) indicate that essential food items such as rice, flour, edible oils, lentils, and onions experienced price increases in November (TCB, 2025). This is attributed to erratic, heavy rainfall during this year's monsoon season, which persisted into October, resulting in nearly 2,500 hectares of cropland being damaged (Shabuj, 2025). Non-food inflation, on the other hand, held steady at above 9 per cent from January 2024 through December 2025 (Figure 3.1) (BBS 2025) (Bangladesh Bank 2025a).

Figure 3.2: Point-to-point general, food, and non-food CPI inflation in rural and urban areas



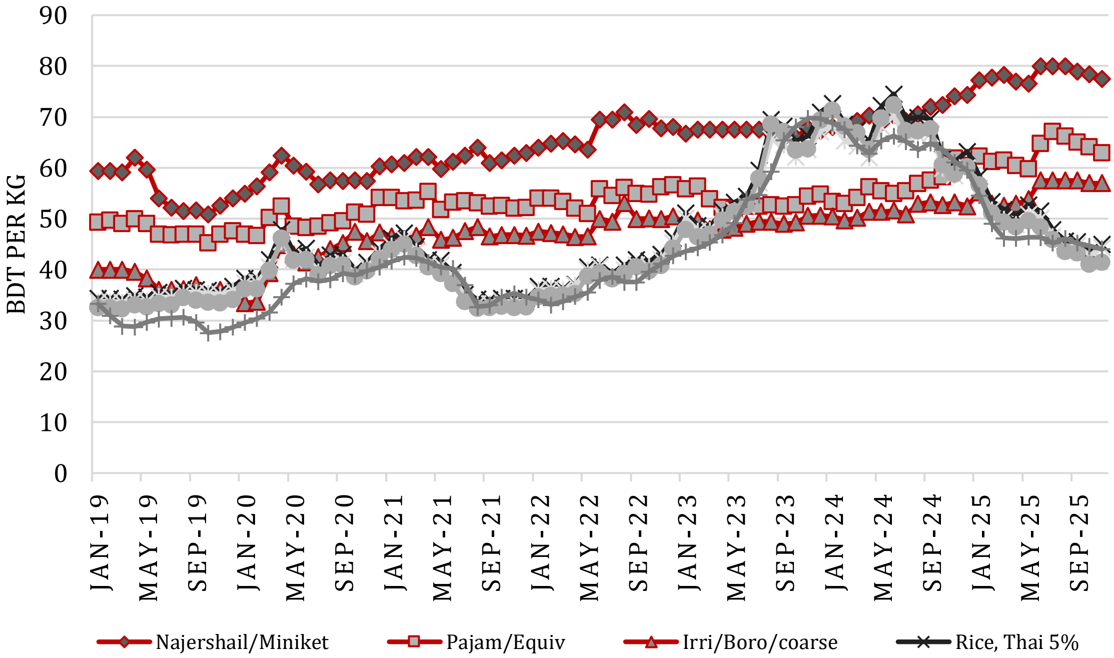
Source: CPD's illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025), the Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank 2025a).

Inflationary trends exhibited only temporary eases, with food prices fluctuating while non-food inflation remained persistently high (Figure 3.2). This persistence highlights the limited effectiveness of demand-side monetary tightening and highlights the dominant role of supply-side factors in shaping inflation dynamics. The marginal relief in food prices, both in urban and rural areas, is attributable to the central bank's supply-side initiatives, such as rationalising import duties, removing letter of credit (LC) margin requirements for key imports, and strengthening commodity stock monitoring, further reinforcing the predominance of supply-side determinants in driving inflationary outcomes.

3.3 Trends in Prices of Essential Commodities.

Bangladesh's annual rice demand is estimated at 30.7 to 30.9 million tonnes, compared to domestic production of about 44.3 million tonnes (Bangladesh Trade and Tariff Commission, 2025). Despite this apparent surplus, rice prices continue to rise, defying conventional demand–supply theory. In Bangladesh, rice prices are primarily driven by cost over scarcity (Rahman, et al., 2021) which helps explain why surplus production does not translate into lower domestic prices. Thus, the increase in rice prices can be attributed to rising production costs (Bangladesh Trade and Tariff Commission, 2025).

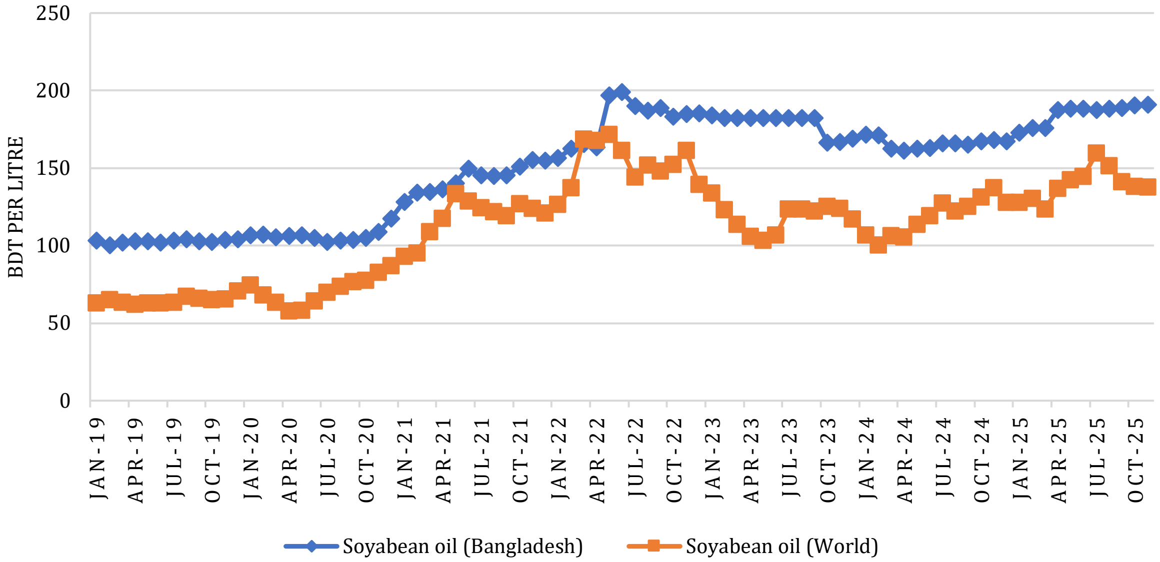
Figure 3.3: Comparison of international and Bangladesh prices of rice from January 2019 to November 2025



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.

Between September 2024 and November 2025, international rice prices fell sharply, declining by nearly 40 per cent, while domestic prices continued to rise (World Bank, 2025) (TCB, 2025) (Figure3.3).

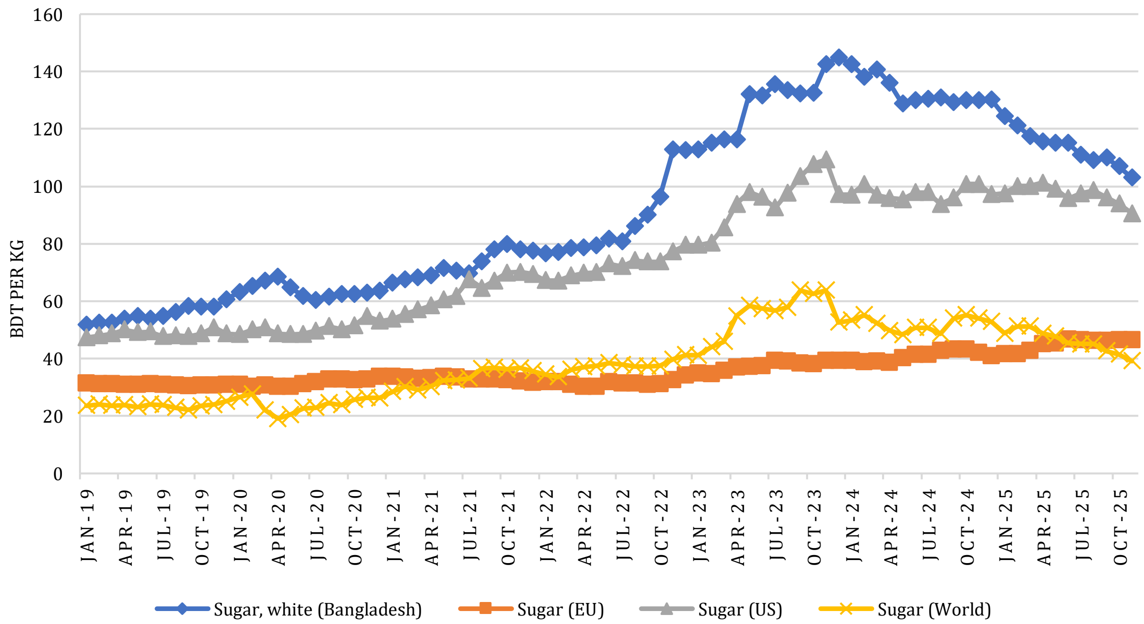
Figure 3.4: Comparison of International and Bangladesh prices of soybean oil from January 2019 to November 2025



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.

Bangladesh relies heavily on imports for edible oil, and while international soybean oil is priced at BDT 138 per litre, the domestic oil price is at BDT 190 per litre (Figure 3.4). Domestic firms adjust prices quickly when global prices rise but are slow to reduce prices when international prices fall, indicating asymmetric price adjustment (Taslim & Hossain, 2015). This suggests that factors beyond recent global price movements, such as domestic pricing structures, margins, and market dynamics, may be contributing to the sustained price differential (Ali & Fatema, 2025).

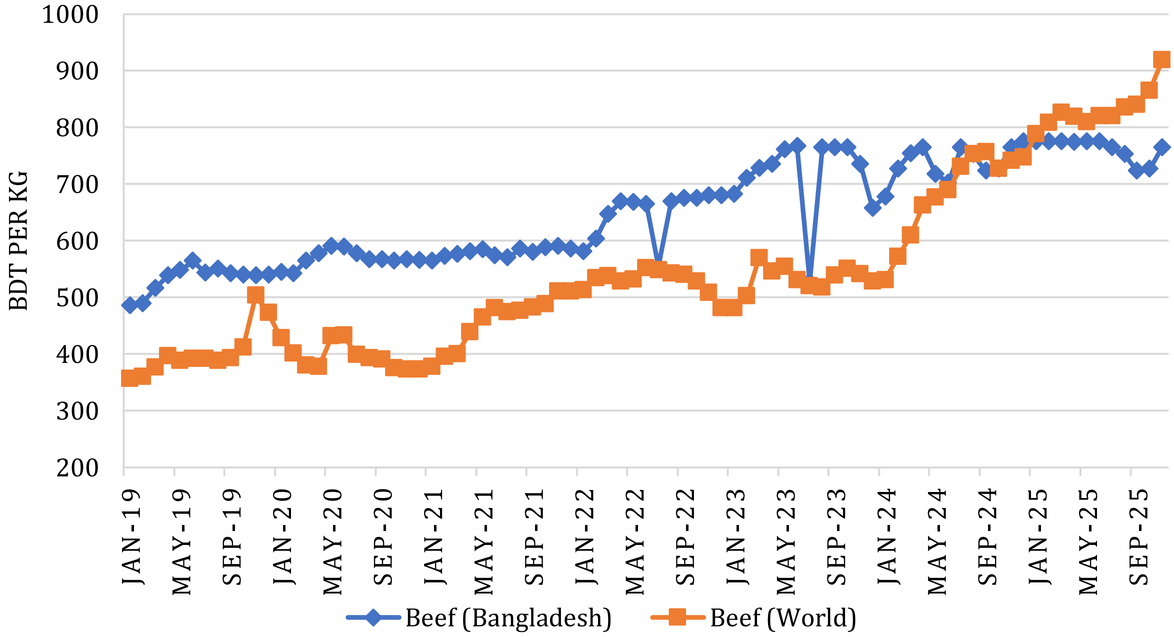
Figure 3.5: Comparison of international and Bangladesh prices of sugar from January 2019 to November 2025



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.

As of November 2025, the average price of sugar stood at BDT 46 per kg in the EU, BDT 91 per kg in the US, and BDT 39 per kg in the world, while in Bangladesh it was BDT 103 per kg (Figure 3.5) (TCB, 2025) (World Bank, 2025).

Figure 3.6: Comparison of international and Bangladesh prices of beef from January 2019 to November 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.

In FY2025, the country produced approximately 8.95 million metric tonnes of meat, surpassing the national requirement of 7.79 million metric tonnes (Department of Livestock Services, 2025) underscoring Bangladesh's self-sufficiency in meat production. This reduces reliance on imports, insulating domestic prices from BDT depreciation despite rising global beef costs. Notably, local beef remains BDT 100 per kg cheaper than international prices (Figure 3.6).

3.4 Measures taken by the interim government

The interim government implemented targeted supply-side measures to ease food price pressures, including rationalising import duties, removing LC margin requirements for essential imports, and strengthening commodity stock monitoring. Favourable domestic harvests of vegetables and Boro crops, along with stable international prices, supported supply and moderated inflation (Bangladesh Bank, 2025b). In addition, relatively benign international commodity prices during the second half of FY2025 and stable global price forecasts limited the pass-through of external price shocks to the domestic market (Bangladesh Bank, 2025b).

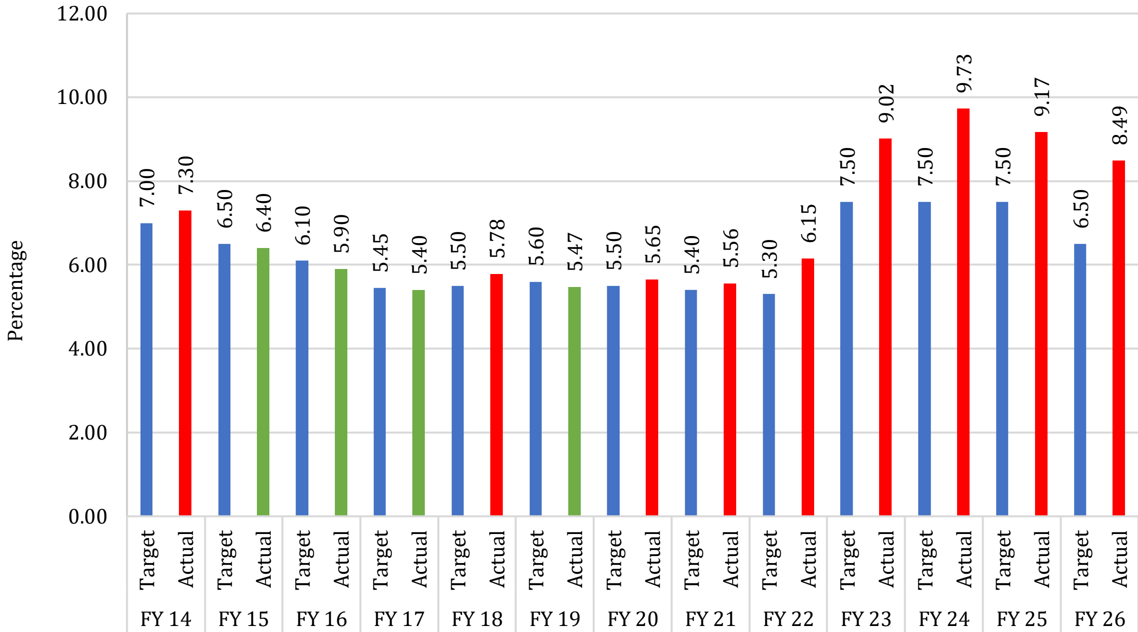
These combined supply-side efforts contributed to a visible easing of inflation in the second half of FY2025. Point-to-point inflation declined from 10.66 per cent in July 2024 to 8.48 per cent by June 2025, while food inflation fell sharply from 14.10 per cent to 7.39 per cent, and non-food inflation remained stable at 9.37 per cent (Bangladesh Bank 2025a) (BBS 2025).

Social protection spending was expanded, with food subsidies up by 20 per cent to Tk 9,663 crore and overall safety net expenditure rising to Tk 91,297 crore (Ahsan , 2025). Customs duties and targeted tax exemptions on essentials were adjusted, and fair competition and governance were promoted (GoB, 2025c).

3.4.1 Assessment of the monetary policy in curbing inflation

Bangladesh Bank intends to bring down the inflation rate below 7 per cent in FY2026 and has determined to hold the policy rate steady at 10 per cent (Bangladesh Bank, 2025b). However, Bangladesh Bank's contractionary monetary policy appears to be only weakly effective. While maintaining high repo rates to control inflation, Bangladesh Bank simultaneously provided unsterilised liquidity support to struggling banks during the second half of FY2025 to meet their daily operational needs. When the central bank continuously injects liquidity into the banking system, it expands the overall money supply, potentially weakening the transmission of contractionary monetary policy. Moreover, the limited effectiveness of monetary policy in curbing inflation reflects structural weaknesses in the monetary transmission mechanism (Wadood, 2025). In hindsight, the observed disinflation is more plausibly attributable to supply-side and administrative measures implemented in the second half of FY2025.

Figure 3.7: Inflation – Monetary policy targets vs. actual



Source: CPD's illustration based on data from the Bangladesh Bank's Monetary Policy Statement (Bangladesh Bank, 2025b).

Another critical challenge in the conduct of monetary policy lies in the formulation and credibility of inflation targets. While inflation has declined since FY2025, it still surpasses the central bank's target of 6.50 per cent by 1.99 percentage points (Figure 3.7). There is a widening gap between targeted and actual inflation rates in recent years, underscoring persistent challenges in forecasting and controlling inflation.

A crucial aspect to also consider is that supply-side factors generally drive inflation in Bangladesh, and monetary policy addresses demand-driven inflationary pressures (Abedin, 2025) (Madito & Odhiambo, 2019). This asymmetry weakens monetary transmission and shifts greater importance onto the exchange rate as a channel of inflation transmission. Exchange rate depreciation raises domestic prices by increasing import costs, particularly for food, fuel, and intermediate inputs, thereby embedding inflationary pressures directly into the supply side of the economy.

Recent moves toward greater exchange rate flexibility (Bangladesh Bank 2025c), marks a shift to a more market-driven regime but heightens vulnerability to volatility in a shock-prone, low-income economy. Between April 2023 and October 2025, the taka depreciated from BDT 102 to 122 per USD (Bangladesh Bank 2025a), coinciding with elevated inflation (BBS 2025). Food inflation showed greater volatility, while non-food inflation remained persistently high, indicating structural rigidities and weak-to-moderate exchange rate pass-through. Despite a nominal depreciation of 7.31 per cent in FY2025, the Real Effective Exchange Rate declined by only 0.45 per cent (Bangladesh Bank, 2025b), implying that high domestic inflation eroded competitiveness gains, leaving Bangladesh to absorb higher import costs without commensurate trade benefits.

3.5 Supply Chain Analysis of Essential Commodities

Rice: The rice supply chain faces oligopolistic power by millers, who set high prices and capture large margins, indicating that the rice market is not really competitive (Rahman, et al., 2021). Other constraints, such as limited suitable varieties, early floods, post-harvest losses, low paddy prices, transport and input costs, lack of irrigation, high labour costs, adulterated inputs, limited agricultural information, and labour scarcity, all reduce efficiency and profitability (Siddiquee, Sammy, & Hasan, 2019), (Rahman, et al., 2021), (Rahaman, et al., 2022).

Lentil: The lentil supply chain faces high retailer margins, climatic risks, diseases like root and leaf rot, insect infestations, limited awareness of high-yielding varieties, inadequate extension services, and rising labour costs, all constraining production and efficiency (Hajong, Rahman, Kobir, & Paul, 2020), (Choudhury & Mohiuddin, 2015).

Onion: The onion supply chain faces constraints from price manipulation by intermediaries who hoard onions, limited cold storage causing high post-harvest losses, and exposure to weather-related risks, all reducing efficiency and affecting prices (Islam, Hassan, Resmi, & Rahman, 2019), (Mila, Nahar, Amin, Culas, & Ahmed, 2022).

Potato: Prices in Bangladesh are driven by intermediaries, with retailers and bepari holding strong price power, and most margins going to retailers (Akter, Sabur, Ame, & Islam, 2022). Post-harvest losses due to poor storage and handling force farmers to sell at low prices, while consumers pay high prices. (Akter, Sabur, Ame, & Islam, 2022).

Green Chilli: Green chilli farmers earn little as traders and retailers capture most value (Alam, 2020). Losses from poor handling, rain damage, and market dominance limit returns and keep consumer prices high (Alam, 2020).

Brinjal: Brinjal prices are driven by retailers and bepari, while farmers get the largest share of profits. Losses from pests, storms, poor handling, and weak coordination among actors cause inefficiencies and price fluctuations (Uddin, Rashid, Jahan, & Akhter, 2019).

Egg: Egg prices are mainly influenced by retailers, capturing the largest margin, followed by wholesalers (Ami, et al., 2020). The egg supply chain faces technical issues such as high feed costs, limited capital, day-old chicks, training, and vaccines, while marketing constraints include price and demand volatility, poor transport and storage, broken eggs, and floods, strikes, or other disasters (Omar, Islam, Hoq, Dewan, & Islam, 2014).

Beef: The beef supply chain faces losses from cattle mortality, disease, and transport; poor market information; limited financing; weak infrastructure; lack of grading; mixed meat; and inadequate processing and Halal certification (Ahmed, Hashem, Khan, Rahman, & Hossain, 2010), (Sarma, Raha, Mia, & Jørgensen, 2017), (Kok, Soethoudt, Vernooji, & Chowdhury, 2021).

Fish (Rui): Poor infrastructure, limited capital, weak bargaining power, dominant intermediaries, low fisher literacy, and inadequate transport, reduce efficiency and profits in the rui fish supply chain (Acharjee, Alam, Gosh, Haque, & Hossain, 2023), (Haque, Islam, Rahman, Islam, & Rahman, 2021), (Islam & Habib, 2013).

Chicken: The chicken supply chain faces high costs and quality concerns for day-old chicks and feed, poor farm management, lack of credit, poultry diseases, and limited access to veterinary services, all affecting productivity, profitability, and efficiency (Islam, Begum, Hossain, & Khatun, 2017) (Raha & Sultana, 2011).

3.6 Preliminary Findings from the Market Survey

Food inflation is closely linked to poverty and inequality, disproportionately affecting low-income households as real incomes erode. Rising food prices, therefore, increase the likelihood that vulnerable populations will fall below the poverty line (Abdullah et al., 2015). Furthermore, one of the most immediate consequences of inflation is the reduction of household real income. Additionally, fluctuations in relative prices resulting from inflation can lead to inefficiencies and inequities within the economy. Considering this, CPD has conducted a market survey to understand the supply-side constraints that contribute to the high and rising prices of a few selected commodities. Among the selected markets, the study aims to conduct a supply chain analysis of 10 essential commodities listed in Table 3.1. The variety of the commodity was selected based on the higher weight assigned to it by the Bangladesh Bureau of Statistics (BBS) in the basket of goods used to calculate the CPI.

Table 3.1: List of products and corresponding varieties

Product name	Variety
Rice	Medium (Paijam)
Pulses	Lentil (Musur)
Onions	Onion (Native)
Potato	Potato
Green Chilli	Green Chilli
Brinjal	Brinjal
Egg	Hen egg (Firm)
Beef	Beef
Fish	Rui
Chicken	Hen (Broiler, Live)

Source: Data acquired from BBS.

The analysis of primary data collected from the market survey will help map the flow of each commodity along the supply chain—from the procurement of raw materials to final delivery—while examining the roles and interactions of producers, intermediaries, and distributors. A backwards-tracing method was employed, beginning with the end-market transaction at the retailer stage and systematically identifying the preceding actors in the supply chain. This iterative process continued until the point of origin was reached, particularly the farmer or primary producer of the commodity.

A simple random sampling strategy was used to select 10 markets from a sampling frame of 37 marketplaces in the Dhaka division, as identified by the BBS. This includes Puran Thana Bazar, Ghatokchar Bazar, New Market, Fakirapool Market, Palong Bazar, Mohammadpur Townhall Bazar, Bhojeshwar Bazar, Park Bazar, Shanir Akhra Bazar, and Moulvibazar. The sampling frame includes both rural and urban marketplaces, ensuring diverse market contexts within the division. However, it is important to underscore that, due to the limitations of the study, the supply chain analysis focused on retailers in the Dhaka Division and then used a backwardstracking approach to trace the most prominent supply chain from that point onward. Supply chain analysis is inherently complex, as each commodity may involve multiple supply chains that vary in length and structure across regions. As a result, the findings of this study are context-specific. Consequently, the survey results are not interpreted as nationally representative, and the findings are not generalised to other regions of the country.

In this context, the section presents some preliminary findings from the market survey based exclusively on retailers' perspectives. A total of 50 retailers were surveyed across 10 markets in the Dhaka Division for each of the 10 selected commodities, yielding 100 retail-level responses.

Table 3.2: Summary of average buying price, selling price, and gross margins (November 2025)

Commodities	Average per unit buying price (BDT)	Average per unit selling price (BDT)	Gross marketing margins (GMM) (BDT)
Rice (kg)	56	60	4
Pulses (kg)	145	153	8
Onions (kg)	89	99	10
Potato (kg)	19	24	5
Green Chilli (kg)	77	97	20
Brinjal (kg)	62	74	12
Egg (piece)	9	10	1
Beef (kg)	687	736	49
Fish (kg)	273	306	33
Chicken (kg)	140	158	18

Source: CPD market survey.

Table 3.2 presents average per-unit buying and selling prices of 10 essential food commodities for November 2025, allowing a comparison of gross margins across staples, perishables, and protein sources. Overall, gross margins vary substantially across commodities, reflecting differences in value addition, perishability, storage requirements, intermediaries' market power, and demand conditions.

Staple foods such as rice, pulses, onions, and potatoes exhibit relatively low to moderate GMM. Rice shows the lowest margin among staples, accounting for BDT 4 per kg. Pulses and onions record somewhat higher margins, BDT 8 per kg and BDT 10 per kg respectively, which may reflect higher price volatility and greater scope for intermediation. Potatoes, despite being perishable, show a modest margin (BDT 5 per kg). Perishable vegetables such as green chilli and brinjal exhibit significantly higher GMM, particularly green chilli, which records the highest margin among vegetables (BDT 20 per kg). Brinjal also shows a relatively high margin, accounting for BDT 12 per kg. Animal protein items display the largest absolute GMM. Beef records the highest margin in absolute terms (BDT 49 per kg), followed by fish (BDT 33 per kg) and chicken (BDT 18 per kg). Eggs, by contrast, show a very low per-unit margin (BDT 1 per piece).

Commodities with higher GMM—such as green chilli, brinjal, beef, fish, and chicken—tend to be more vulnerable to sharp price increases and therefore exert a disproportionate upward pressure on food inflation. These items are highly perishable, subject to seasonal supply fluctuations, and often pass through multiple intermediaries, allowing cost increases and margins to be quickly transmitted to retail prices.

Retail prices of commodities vary across markets, reflecting differences in local supply conditions and retailer strategies. For instance, the price of rice (Paijam medium) ranges from BDT 55 to BDT 65 per kilogram, while pulses show a wider variation, with prices spanning from BDT 112 to BDT 165 per kilogram (Table 3.3). Among the surveyed commodities, green chilli and fish exhibit the highest percentage spreads, followed by onions and brinjal. Such pronounced price variability suggests that these commodities are particularly sensitive to fluctuations in supply and demand, seasonal availability, and logistical constraints, including storage and transportation. These patterns highlight the heterogeneous nature of price dynamics across essential food items and underscore the potential challenges for market stability and consumer affordability.

Table 3.3: Price spread and volatility of essential food commodities (November 2025)

Commodities	Minimum per unit selling price (BDT)	Maximum per unit selling price (BDT)	Percentage spread (%)	Coefficient of variation (%)
Rice (kg)	55	65	18	3
Pulses (kg)	112	165	47	7
Onions (kg)	65	135	108	15
Potato (kg)	18	28	56	9
Green Chilli (kg)	60	160	167	29
Brinjal (kg)	48	120	150	20
Egg (piece)	9	11	22	8
Beef (kg)	650	800	23	4
Fish (kg)	170	450	165	22
Chicken (kg)	140	175	25	5

Source: CPD market survey.

On the other hand, the coefficient of variation (CV) measured in percentage, a statistical measure of price volatility, provides additional insights into the stability of commodity prices. For staples such as rice and pulses, the CVs are low (3 per cent and 7 per cent, respectively), while chicken and beef exhibit slightly higher but still modest CVs of 5 per cent and 4 per cent, indicating that these items maintain relatively stable prices. In contrast, commodities such as green chilli (29 per cent) and fish (22 per cent) exhibit high CVs, reflecting greater price volatility. Vegetables such as brinjal and onions also show considerable variability, with CVs of 20 per cent and 15 per cent, respectively.

Overall, the data suggest that essential staples, as well as protein sources like beef and chicken, experience relatively stable pricing, likely due to established supply chains and lower sensitivity to seasonal fluctuations. Conversely, perishable items, particularly vegetables and fish, are highly responsive to market conditions, leading to greater price fluctuations and higher volatility. These patterns have important implications for household food security, market regulation, and policy interventions, as large and unpredictable price swings in perishable commodities may disproportionately affect low-income consumers.

The observed variability in retail prices and price volatility across commodities can be partly explained by the practices and constraints faced by retailers. Retailers indicated that differences in market prices arise from factors such as limited bargaining power, fluctuations in demand and supply, the dominance of intermediaries, manipulation of supply creating artificial demand, transportation costs, product quality issues, and market syndication, particularly in the case of potatoes. More than half of the surveyed retailers reported incurring additional fees or commissions beyond the purchase price when procuring commodities for retail sale, except green chili, eggs, and chicken. These payments are primarily made to wholesalers or urban aratdars, who facilitate transactions between beparis and retailers. While some retailers were unable to clearly articulate the basis of such charges, others noted that these commissions constitute income for the intermediaries. In November 2025, retailers selling rice, pulses, onions, brinjal, and potatoes reported paying a maximum commission of BDT 0.5–1.5 per unit, whereas those selling beef and fish faced substantially higher commissions of BDT 5–10 per unit.

Retailers identified the primary drivers of food inflation as supply shortages, market collusion, and hoarding, with some also highlighting the role of monopolistic pricing practices. However, the involvement of these intermediaries increases retailers' procurement costs without corresponding value addition, and these costs are ultimately passed on to consumers, contributing to upward pressure on food prices. These dynamic complements the earlier findings regarding price spreads and coefficients of variation: while staples such as rice, pulses, beef, and chicken exhibit relatively stable prices, perishable commodities—including vegetables, fish, and green chilli—experience high volatility. The combination of supply-side constraints, intermediary commissions, and market practices helps explain both the magnitude and unpredictability of price fluctuations, highlighting the complex interplay of structural and market factors that affect food affordability and household food security.

3.7 Conclusion and Recommendations

Overall, inflation in Bangladesh remains persistently high and well above the government's target, with food prices as the main driver. Demand-side measures have had limited impact, as food inflation is largely driven by supply-side constraints. Evidence from commodity price trends and market surveys further highlights the roles of intermediaries, price mark-ups, and weak supply chain coordination in amplifying price volatility. These findings underscore the need for stronger, targeted supply-side reforms complementary to monetary policy tools to achieve sustained food price stability and protect household welfare. In view of the findings from this chapter, the following policy recommendations are put forward.

3.7.1 Commodity Specific Recommendations

Rice supply chain

- Monitor markets to limit the power of intermediaries, especially millers.
- 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.

Pulses (lentil) supply chain

- Invest in Research and Development (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.

Onion supply chain

- Expand onion cultivation areas and adopt advanced production technologies to bridge demand–supply gaps.
- Monitor the market strictly to prevent hoarding and stockpiling by marketing actors.
- Invest in R&D for high-yielding and disaster-resistant onions.
- Manage adequate cold storage facilities and ensure an affordable rate.

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.

Green chilli supply chain

- Invest in R&D for climate-resilient chilli varieties.
- Improve the awareness and technical knowledge levels of farmers and traders regarding contemporary post-harvest technologies.
- Facilitate and strengthen farmer groups or producer organisations, to enhance the bargaining power of farmers against traders.

- Enhance market regulation and supervision to prevent anti-competitive behaviour by major traders to ensure adequate returns to farmers and competitive prices for consumers.

Brinjal supply chain

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

Egg supply chain

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

Beef Supply Chain

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

Rui Fish Supply Chain

- Develop storage, refrigerated transport, and market facilities with utilities such as water, ice, and drainage.
- Minimise intermediaries' role to improve efficiency and reduce costs.
- Financial support and credit facilities should be provided to fish farmers to improve capital and bargaining power.

Chicken supply chain

- Ensure the quality and fair prices of day-old chicks as well as poultry feed.
- Ensure credit facilities or financing options are available for farmers to invest in poultry.
- Improve veterinary services and establish effective disease prevention and control measures.

3.7.2 Short-Term Recommendations

- Authentic data is required on the actual demand and production of rice, based on which, timely import decisions should be taken.
- Monitor dominant market players, examine market manipulation, and take corrective measures.
- Enforce a zero-tolerance policy against cartels and collusion.

3.7.3 Medium to Long Term Recommendations

- **Competition Act 2012**
  - Revise the Act to address monopolies, add anti-trust clauses, and impose penalties for violations.
  - Ensure limited prevalence of intermediaries who extract commissions from retailers, as such practices introduce avoidable transaction costs that are ultimately passed on to consumers in the form of higher commodity prices.
- **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 through the Open Market System (OMS).

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SECTION IV. FOOD SUPPLY UNDER THE INTERIM GOVERNMENT: PERFORMANCE GAPS

Key findings

- Rice production fell short, raising import dependence; Boro procurement improved; and wheat reliance remained high.
- PFDS growth is driven by subsidised sales, while relief for the poorest declined.
- Domestic wheat prices rose despite global declines due to low stocks and supply-chain inefficiencies.

Key recommendations

- Ensure stable foodgrain supply through coordinated import planning, strengthened public stocks, and better wheat management.
- Protect vulnerable households by prioritising non-sales PFDS.
- Increase productivity and by closing yield gaps and promoting optimal fertiliser use.

Food grain availability in Bangladesh is determined by four interlinked components: domestic production, imports, public procurement, and public distribution. These components interact through public stock management and ultimately affect market price outcomes. This section examines the production of major crops (rice and wheat) and minor crops (including cereals, vegetables, fruits, flowers, cotton, and tobacco), along with their imports, public procurement, and stock levels, based on available data up to September 2025.

4.1 Crop Production

Low food production in FY2025 is yet to recover in FY2026. Table 4.1 shows different production levels of Aus, Aman, Boro, and wheat. During the interim government period in FY2025, the total production target was set at a lower level, considering the previous year's lower achievement. The target was set at 442.2 lakh MT, and actual production stood at 416.6 lakh MT, because of shortfalls in Aus and Aman crops. The target for FY2026 is set at 453.9 lakh MT, with Aus, Aman, Boro, and wheat all projected above their previous-year levels.

Table 4.1: Production of food (rice and wheat) and its achievements against the target (in lakh Metric tons)

Crop	FY2024 (Target)	FY2024 (Actual)	FY2025 (Target)	FY2025 (Actual)	FY2026 (Target)
Aus	39.8	29.7	28.6	27.9	32.2
Aman	171.8	166.6	175.4	165	181.8
Boro	222.7	210.7	226	-	227.7
Wheat	12.3	11.7	12.1	-	12.2
Total food grains	**446.6**	**418.7**	**442.2**	**416.6**	**453.9**

Source: FPMU (2025).

4.2 Import of Foodgrain

Against the backdrop of production shortfalls in FY2025, food grain imports increased by 15.8 per cent in FY2025. In FY2026, food grain import stands at 12.2 lakh metric tons as of September 2025 (Table 4. 2). Table 4. 2 also shows that food grain imports increased further during the early phase of the interim government compared to the previous government, indicating a higher import dependence in food supply.

Despite wheat accounting for the largest share of foodgrain imports, mainly through private channels, its imports declined by 7.3 per cent in FY2025 compared to FY2024. Rice imports were absent in FY2024 but were allowed in FY2025. Higher accounts of import of rice mainly to address supply shortfalls and rising prices stemming from flood damage, dollar shortages, and India's export restrictions. Imported wheat made a major contribution to the domestic food supply, although its import declined by 7.3 per cent in FY2025. During the provisional FY2026 period (July–September 2025), total food grain imports stand at 12.2 lakh metric tons. Given the production shortfalls, import is expected to increase.

Table 4. 2: Foodgrains import by public and private sources (in lakh metric tons)

Category of import	**FY2022 (Actual)**	**FY2023 (Actual)**	**FY2024 (Actual)**	**FY2025 (Actual)**	**FY2026 (Actual) (Jul-Sep'25)**
Rice					
GoB Com.	6.8	6.3	0.0	8.4	0.5
Food Aid	0.0	0.0	0.0	0.0	0.0
Private	3.0	4.2	0.0	6.9	3.7
Total Rice	9.9	10.6	0.0	15.3	4.2
Wheat					
GoB. Com.	5.5	6.8	7.8	4.7	0.0
Food Aid	0.0	0.0	0.0	0.0	0.0
Private	34.7	32.0	58.4	56.8	8.0
Total Wheat	40.1	38.8	66.3	61.4	8.0
Wheat import growth		***-3.4***	***71.0***	***-7.3***	
Food grains	50.0	49.3	66.3	76.7	12.2
Growth in foodgrains production		**-1.4**	**34.4**	**15.8**	

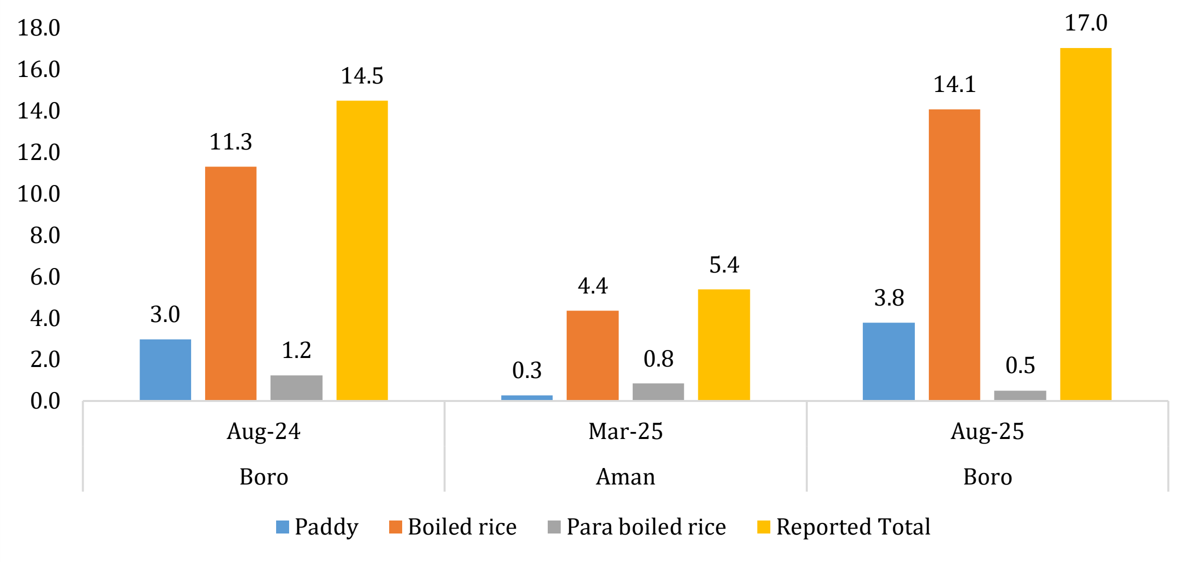
Source: FPMU (2025).

4.3 Procurement of Foodgrain

In 2025, during the Boro season (till Aug'25), the government procured a total of 17 lakh metric tons of rice. This amount was higher compared to the amount procured in the previous years (14.5 lakh m.ton). On the other hand, during the Aman season (Nov'24-Mar'25), a total of 5.4 lakh metric tons of rice were procured (Figure 4.1).

During the interim government's tenure in FY2025, boro rice procurement increased by 17.7 per cent, mainly driven by higher procurement of paddy and boiled rice.

Figure 4.1: Domestic Rice Procurement (Boro and Aman) in lakh metric ton

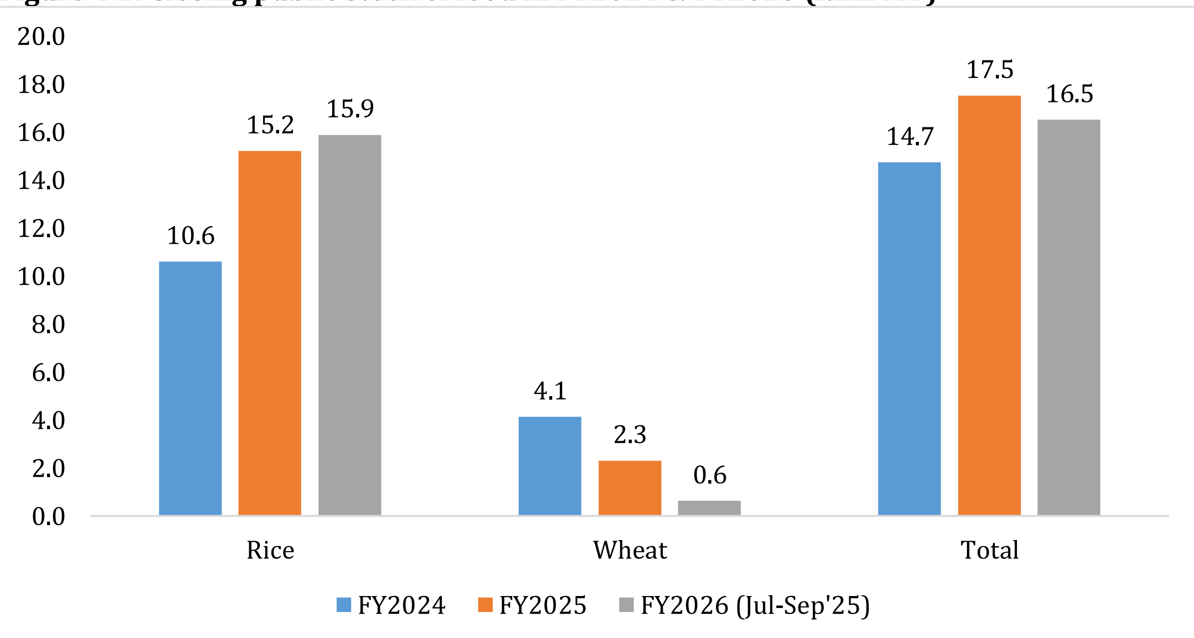


Source: FPMU (2025).

4.4 Public stock of Foodgrain

During the interim government, rice stocks increased, whereas wheat stocks declined sharply. Overall stock in FY2026 (Jul-Sep'25) is lower than the previous year. Over-reliance on rice as a food stock with a depleting stock of wheat is a major weakness in public food stock (Figure 4.2).

Figure 4.2: Closing public stock of food in FY2024 & FY2025 (lakh MT)



Source: FPMU (2025).

4.5 Public Food Distribution (PFDS)

During FY2026 (Jul-Sep'25), the distribution was only 8.2 lakh MT, which is 28 per cent higher compared to the same period in FY2025 (Jul-Sep'24). There has been a rising trend in food distribution over the past years. This overall increase was mainly due to the expansion of sales distribution channels, while non-sales relief programmes declined (Table 4.3).

Table 4.3: Channel-wise distribution of food grains (in lakh metric tons)

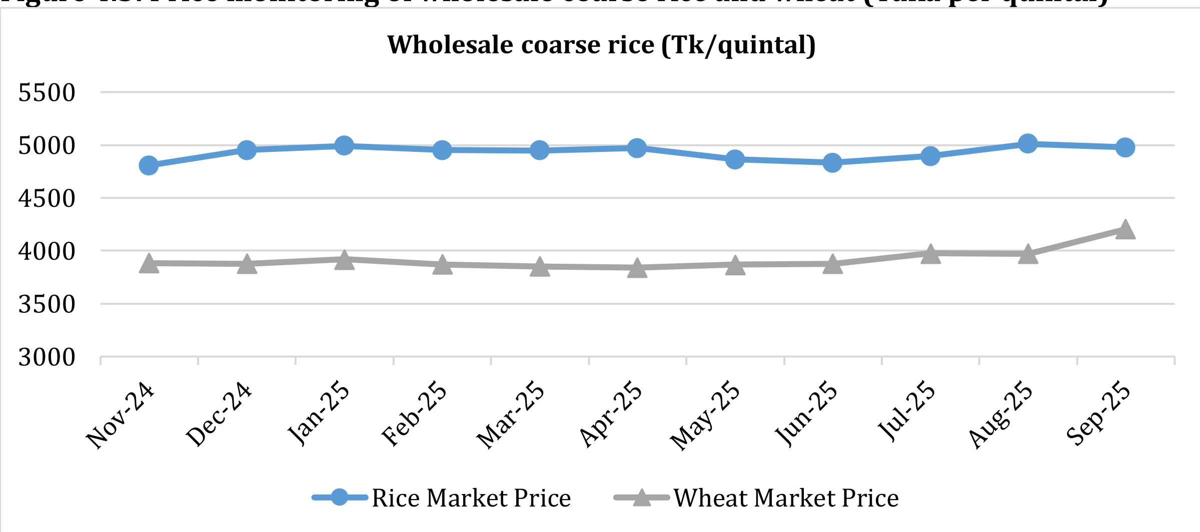
Offtake Categories	Channels of PFDS Offtake	AFY2023	AFY2024	AFY2025	AFY2025 (Jul-Sep'24)	AFY2026(Jul-Sep'25)
Sales Channels of PFDS	**EP**	3.8	3.9	3.9	0.99	1.0
	OP	0.2	0.2	0.1	0.02	0.0
	LE	0.2	0.2	0.2	0.05	0.0
	OMS	7.8	10.4	11.4	2.93	2.6
	FFP	6.6	7.3	7.4	1.43	3.2
	Sub-total	***18.6***	***22.0***	***23.1***	5.42	***6.9***
Non-sales Channels of PFDS	**FFW**	2.2	2.1	1.4	0.00	0.0
	VGF	4.0	3.0	3.1	0.10	0.0
	VWB	3.7	3.8	3.7	0.69	0.9
	GR	0.8	0.9	0.9	0.12	0.2
	HT & Others	0.8	0.8	0.9	0.07	0.1
	Sub-total	***11.5***	***10.6***	***10.0***	0.98	***1.3***
Total Public Distribution		**30.1**	**32.6**	**33.1**	**6.4**	8.2

Source: FPMU (2025).

4.6 Prices of foodgrain: Domestic and Global Comparison

In FY2025, the rice prices increased significantly in nominal terms, although in FY2026 (Jul–Sep), nominal wheat prices increased, signalling emerging price pressure, potentially linked to declining public stocks (Figure 4.3). A price volatility trend is visible for wheat. The right-hand figure shows the almost flat-line wholesale coarse rice market price throughout the months, whereas the wheat price shows an upward trend. As discussed in Figure 4.2, wheat stocks are declining, as reflected in the market price of wheat.

Figure 4.3: Price monitoring of wholesale coarse rice and wheat (Taka per quintal)



Source: FPMU (2025).

Agricultural labour wage is declining in FY2025 (Table 4.4). In Figure 4. 3 the wholesale coarse rice price remains flat, and the wheat price increases; however, the labour wage declines. The decline in wages and the flat or rising prices of food suggest that workers' overall purchasing power is weakening.

Table 4.4: Agricultural Labour Wage (National)

Name of the Month	With Food						Without Food (in TK)	
	One meal		Two meals		Three meals			
	Male	Female	Male	Female	Male	Female	Male	Female
April, 2025	578	420	535	380	532	374	622	463
May, 2025	598	435	574	385	570	360	643	473
June, 2025	564	412	523	371	518	359	610	454
Growth rate in May'25	3.5%	3.6%	7.3%	1.3%	7.1%	-3.7%	3.4%	2.2%
Growth rate in Jun'25	-5.7%	-5.3%	-8.9%	-3.6%	-9.1%	-0.3%	-5.1%	-4.0%

Source: BBS (2025a).

There is a mismatch observed between the global and local market prices of rice and wheat. Rice prices across Thailand, India, Vietnam, and Pakistan declined steadily from Feb-25 to Sep-25 (e.g., Thai rice from 460 to 394 USD/ton). Wheat FOB prices from Ukraine, the US, and Russia also decreased over the same period. Despite having a lower price of rice and wheat in the global market, as shown in Table 4.5, a higher price in the domestic market, even in nominal terms, indicates poor market management and a lack of oversight in the whole supply chain of food.

Table 4.5: Global rice price (USD/ton) and FOB wheat price (USD/ton)

	Feb-25	Mar-25	Jun-25	Sep-25
Thai 5% parboiled rice	460	447	433	394
Growth rate		***-2.8***	***-3.1***	***-9.0***
Indian 5% parboiled	406	397	376	360
Growth rate		***-2.2***	***-5.3***	***-4.3***
Vietnamese 5% white rice	409	396	390	379
Growth rate		***-3.1***	***-1.5***	***-2.8***
Pakistani 5% white rice	400	386	394	354
Growth rate		***-3.6***	***2.1***	***-10.2***
Wheat (Ukraine)		250	229	215
Growth rate			***-8.4***	***-6.1***
Wheat (US (soft red winter (SRW)))		228	218	207
Growth rate			***-4.4***	***-5.0***
Wheat (Russia)		251	226	228
Growth rate			***-10.0***	***0.9***

Source: FPMU (2025).

Domestic rice and wheat prices are rising despite lower global prices, indicating ineffective supply, poor distribution, and mismanaged imports.

4.7 Minor Crop Production

A gradual move towards higher-value, non-cereal crops is increasingly observed in minor crop products (Table 4.6). While cereals such as maize (winter) remain dominant in absolute terms (over 15 per cent of total production share), the most dynamic changes are occurring in horticulture, pulses, oilseeds, and spices, driven primarily by high yield and higher coverage of areas.

From a diversification standpoint, the most notable emerging crop is watermelon, which recorded a 120.7 per cent rise in cultivated area and 240.6 per cent rise in production between FY2024 and FY2025. This contributes to a rise in its share of total production from 2.1 per cent to over 6 per cent. This expansion highlights farmers' preference for short-duration, high-return, and profitable fruit crops.

Table 4.6: Minor crop groups and their area-wise production and growth

Crop Groups	FY2024		FY2025			
	Area (In lakh Acre)	Production (lakh M.Ton)	Area (In lakh Acre)	Production (lakh M.Ton)	Area growth rate	Production growth rate
Cereals	12.7	48.8	13.3	55.1	4.8	12.9
Condiments & Spices	10.9	40.8	11.1	48.8	1.6	19.5
Flower (Temporary)	0.0	0.4	0.0	0.4	-0.9	1.6
Fruits (Temporary)	9.5	60.9	10.2	75.2	7.5	23.5
Fiber Crops (Unit in Bale; Not In MT)	0.4	1.0	0.3	1.0	-9.3	0.5
Oil Seeds (Edible)	14.6	8.5	14.6	8.7	-0.1	2.2
OIL SEEDS (Non-Edible)	0.8	4.0	0.7	4.0	-5.0	-0.7
Other Food	1.2	8.1	1.2	11.0	0.8	35.6
Pulses	8.6	4.3	10.3	5.1	20.6	18.0
Sugar Crop	2.5	34.1	2.5	34.1	-0.9	-0.1
Tobacco	5.0	8.6	5.2	8.6	5.0	0.7
Vegetables (Summer)	3.8	17.4	3.9	18.3	0.4	4.7
Vegetables (Winter)	7.7	39.6	7.8	44.0	1.0	11.0

Source: BBS (2025b).

It seems crop diversification in Bangladesh is being moderately led by fruits (especially watermelon), pulses (mung bean), oilseeds (sunflower), and high-value vegetables, rather than by structural withdrawal from cereals.

4.8 Fertiliser Supply Crunch due to Gas Shortage

The country needs about 14.5–15.0 lakh tonnes of urea during the peak Boro season, but current gas constraints limit domestic production to only 9.24–11.0 lakh tonnes (Table 4.7). This results in a shortfall of about 3.5–5.5 lakh tonnes. The production gap exists because fertiliser factories cannot obtain the gas they require, and there is little room to increase LNG imports, as 109 cargoes have already been imported out of a total capacity of 115 cargoes per year. In response to the looming fertiliser shortage ahead of the Boro season, the government indicated plans to import additional fertiliser to bridge the production gap caused by insufficient gas allocation to domestic urea factories. This may raise fertiliser prices; thus, more subsidy allocation will be required to contain prices.

Table 4.7: Boro Urea Fertiliser: Demand vs Production Shortfall

Indicators & Unit	Quantity
Urea demand (peak Boro season) (lakh ton)	14.5–15.0
Domestic urea production (current gas allocation) (lakh ton)	9.24–11.0
Production shortfall (lakh ton)	3.50–5.50

Indicators & Unit	Quantity
Required urea imports (to meet demand) (lakh ton)	3.5–5.5
Gas required for four factories (mmcfd)	197
Gas authorised for fertiliser plants (mmcfd)	140
Unmet gas allocation (mmcfd)	57
LNG import capacity (annual) (cargoes)	115
LNG cargoes already imported (cargoes)	109

Source: The Business Standard (2026).

4.9 Recommendations

A number of reforms and regular initiatives have already been undertaken by the interim government, including the digital management of fertiliser allocation, promotion of optimal fertiliser uses in Haor districts, expansion of family cards for the Open Market Sale (OMS) programme, and improvement of crop storage facilities.

The Task Force Committee (2025) also recommended several measures for the agriculture sector, with key priorities including the promotion of climate-resilient crop varieties to increase productivity, support for agricultural mechanisation through relaxed conditions and subsidised machinery, adoption of efficient irrigation technologies such as alternate wetting and drying (AWD), encouragement of crop diversification, and improvements in storage, logistics, and transport infrastructure to reduce post-harvest losses. Building on these initiatives and recommendations, CPD proposes a set of further measures to ensure a stable and adequate foodgrain supply.

a. ***Adopt a Predictive and Coordinated Foodgrain Import Strategy:*** A forward-looking import framework based on early production forecasting, diversified sourcing, and better coordination between public and private import is important. Aligning import decisions with global price cycles and domestic stock positions can reduce costs and stabilise markets.
b. ***Rebalance PFDS to Protect the Poor:*** The expansion of sales-based PFDS channels reduced access to food for the poorest households. A rebalanced PFDS is required during periods of high inflation and income erosion.
c. ***Strengthen Public Stock Management with Greater Emphasis on Wheat:*** Public food stock management remains heavily rice-centric, while wheat stocks have declined sharply, contributing to emerging price pressures. A proper demand estimation of foodgrain is needed for production and import planning.
d. ***Improve Market Functioning and Price Transmission:*** Domestic rice and wheat prices remain increased despite declining global prices, indicating inefficiencies in import logistics, distribution, and market oversight. Policy focus should shift toward improving port clearance, reducing logistical bottlenecks, strengthening competition monitoring, and enhancing real-time price surveillance. Better price transmission would help ensure that global price declines benefit consumers without undermining farmer incentives.
e. ***Reduce Input-Side Vulnerabilities through Higher Import of Fertiliser:*** The fertiliser supply crisis needs to be addressed with a higher amount of import and subsidy on fertiliser.
f. ***Close Yield Gaps:*** Production shortfalls in Aus and Aman remain a vulnerability, increasing reliance on imports. Priority should be given to scaling rice varieties and ensuring timely access to quality seeds and fertiliser.

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SECTION V. NAVIGATING THE BANKING SECTOR CRISIS IN BANGLADESH: STRUCTURAL FRAGILITIES, REFORM INITIATIVES, AND THE POLITICAL ECONOMY OF IMPLEMENTATION

Key findings

- Profitability indicators such as return on assets (ROA) in Bangladesh's banking sector fell to –0.58 in 2025, while return on equity (ROE) dropped to –16.11per cent, the lowest in nearly three decades. These declines were driven by deteriorating asset quality, higher provisioning requirements, and compressed interest margins.
- Despite rising assets, the aggregate Capital-to-Risk Weighted Assets (CRWA) ratio dropped to 4.47 in Q3 of FY2025 from 6.74 in the previous quarter. Negative capital in specialised banks reflects technical insolvency, revealing vulnerabilities that threaten sector stability and demand urgent corrective action.
- Classified loans now account for 35.73 per cent of total outstanding credit, highlighting deep structural weaknesses. This high level of non-performing loans undermines banks' lending capacity, erodes public confidence, and constrains broader economic growth.

Key recommendations

- The newly elected government, in coordination with Bangladesh Bank, should ensure the consistent and rigorous enforcement of key banking sector reforms.
- The institutional capacity of banks, specialised courts, and regulatory bodies should be strengthened through enhanced operational systems to ensure robust oversight of the financial sector.
- Transparent communication with all stakeholders needs to be ensured, and periodic progress reviews need to be conducted in order to monitor implementation, identify and address bottlenecks and overcome resistance from vested interests.

5.1 Introduction

The banking sector crisis reflects the cumulative effects of long-standing structural weaknesses, governance failures, and regulatory forbearance, which have gradually eroded financial resilience. Loan rescheduling, repeated regulatory relaxations, and periodic recapitalisation, particularly of state-owned banks, weakened incentives for reform. As macroeconomic conditions tightened, latent fragilities surfaced across capital adequacy, asset quality, liquidity, and profitability, transforming what had been perceived as isolated institutional problems into a system-wide challenge. Recognising the gravity of the situation, Bangladesh Bank initiated a comprehensive reform agenda in 2025 to restore transparency, strengthen governance, and establish credible resolution mechanisms.

This chapter examines the current health of the banking sector, analyses the underlying causes of its distress, discusses the scope of the ongoing reform initiatives, and assesses the challenges that may undermine their implementation.

5.2 Current Health of the Banking Sector

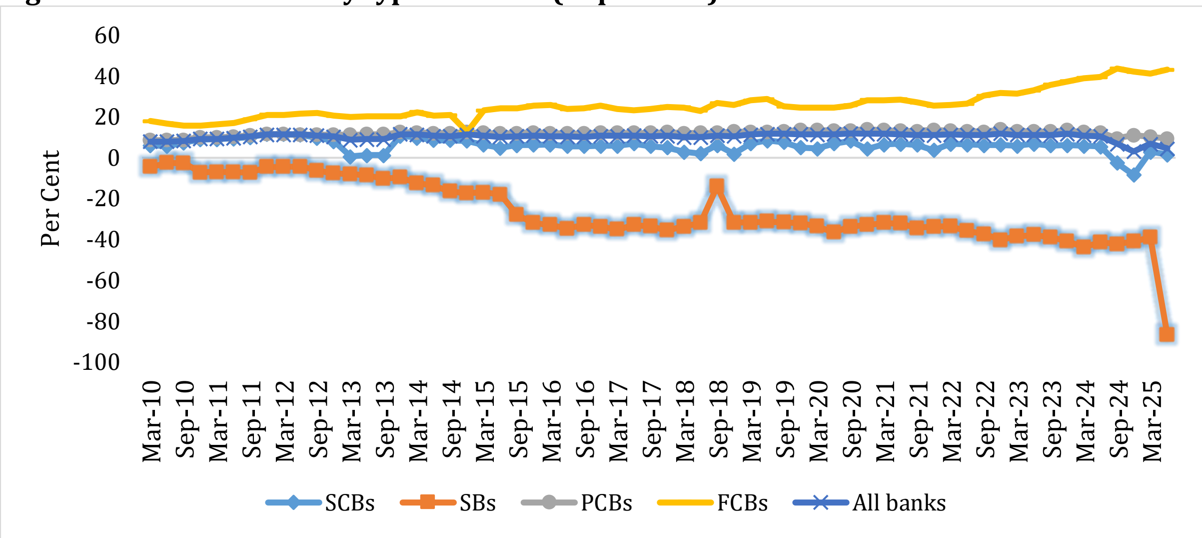
5.2.1 Capital adequacy situation reflects erosion of shock-absorbing capacity

Capital adequacy remains one of the critical weaknesses in Bangladesh's banking sector. Despite formal alignment with Basel III standards, the aggregate capital-to-risk-weighted asset (CRWA) ratio declined sharply by mid-2025 (Bangladesh Bank 2025a), falling well below the regulatory minimum. This erosion signals a diminished capacity to absorb credit losses and heightens systemic vulnerability.

State-owned commercial banks (SCBs) continue to face chronic capital shortfalls, reflecting weak governance, politically influenced lending, and repeated recapitalisation without commensurate reforms. More concerning is the situation of specialised banks (SBs), where negative capital positions indicate technical insolvency (Bangladesh Bank, 2025b). These institutions pose heightened systemic risks. Figure 5.1 presents the trend of CRWA by bank types.

Weak capital positions constrain credit expansion, undermine depositor confidence, and amplify sensitivity to shocks. Without decisive corrective action, capital inadequacy risks weakening financial stability.

Figure 5.1: CRWA ratios by type of banks (in per cent)



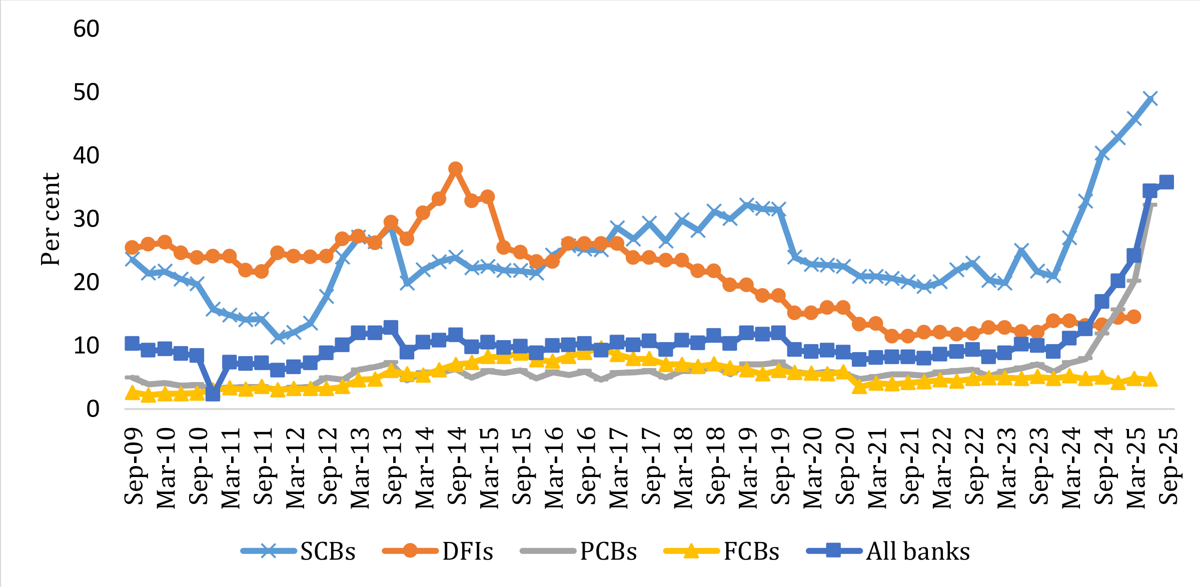
Source: CPD illustration based on data from the Bangladesh Bank (Bangladesh Bank, 2025b).

5.2.2 Non-performing loans and poor asset quality constitute structural crises

The accumulation of non-performing loans (NPLs) is the most visible manifestation of distress in Bangladesh's banking sector. These classified loans accounted for more than one-third of the total outstanding credit. The share of classified loans to total outstanding loans of all banks has risen to an alarming 35.73 per cent (Bangladesh Bank, 2026), as shown in Figure 5.2, reflecting deep-seated structural weaknesses in the financial sector. As a result, the bank's lending capacity and public confidence are adversely affected, dampening border economic growth.

As illustrated in Figure 5.2, SCBs have the highest NPL ratios (Bangladesh Bank, 2025b), driven by weak credit appraisal, limited accountability, and political interference. However, the sharp rise in NPLs among PCBs indicates that asset-quality problems are systemic, driven by connected lending, regulatory arbitrage, and weak enforcement. By contrast, Foreign Commercial Banks (FCBs) maintain relatively low NPL ratios, underscoring the importance of governance quality, internal controls, and supervisory discipline. Moreover, reported NPL figures likely understate the true extent of distress because of extensive rescheduling, restructuring, and write-offs over time, indicating deeper balance-sheet vulnerabilities.

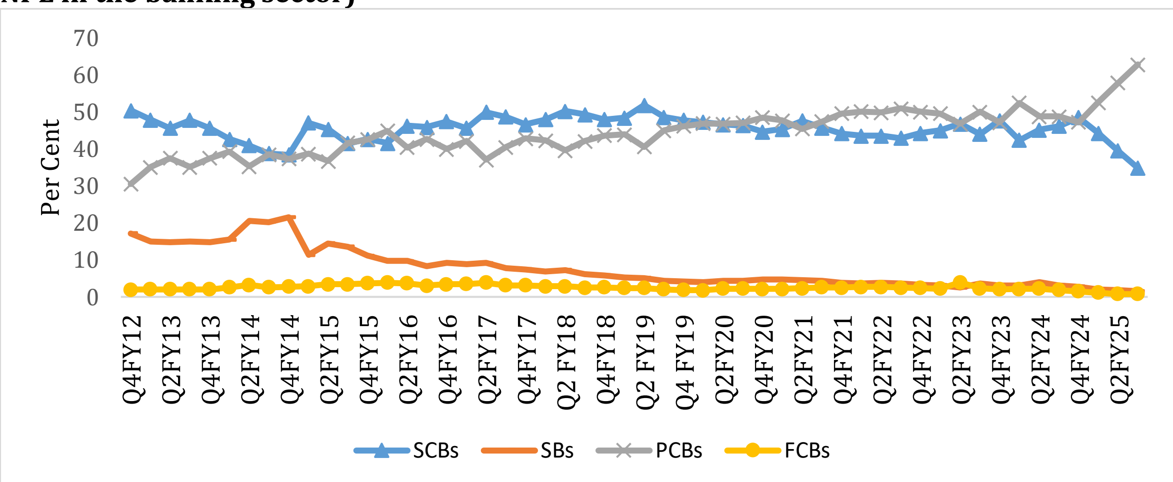
Figure 5.2: Gross NPL ratios by bank type (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

According to the Bangladesh Bank, loans classified as Sub-Standard (SS), Doubtful (DF), and Bad/Loss (B/L) are considered classified loans. Subsequently, these are treated as NPLs (Bangladesh Bank, 2024). Classified loans as a share of total loans were 63 per cent in private commercial banks (PCBs), while state-owned commercial banks (SCBs) recorded a classified loan ratio of 35 per cent in Q3FY25 (Bangladesh Bank, 2025b)(Figure 5.3). These figures indicate severe deterioration in asset quality across the banking system, with the situation particularly acute among PCBs. Moreover, the reported ratios likely understate the true extent of credit distress, as a substantial volume of loans has been written off over time. In the absence of such write-offs, the share of classified loans would be significantly higher.

Figure 5.3: Distribution of classified loans (NPLs) by type of bank (as a percentage of total NPL in the banking sector)

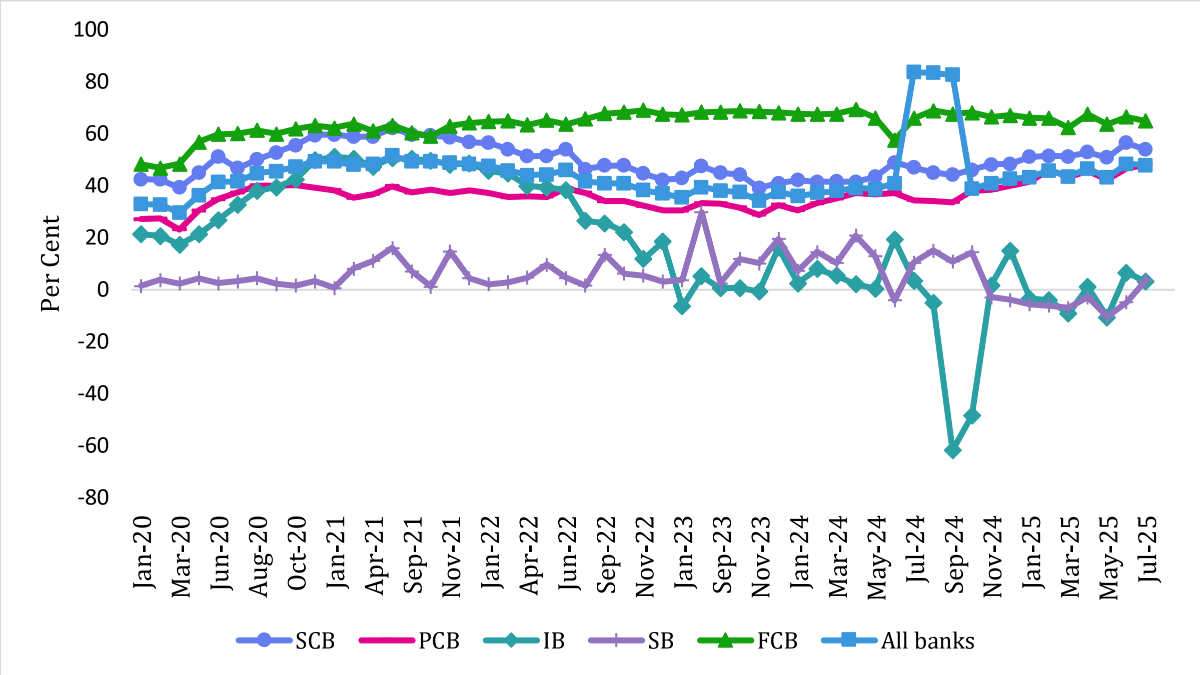


Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

5.2. 4 Liquidity conditions demonstrate excess liquidity amid weak credit intermediations

Liquidity conditions reveal significant divergence across bank types. FCBs hold substantial excess liquidity, while several Islamic and specialised banks struggle to meet minimum requirements (Bangladesh Bank, 2025c)(Figure 5.4). At the system level, declining advance-to-deposit ratios reflect subdued credit demand rather than improved financial health. High interest rates, economic uncertainty, and weakened borrower balance sheets have dampened loan demand, even as higher deposit rates encourage savings mobilisation. This liquidity-credit disconnect weakens monetary transmission, constrains private investment, and slows growth. In this context, excess liquidity reflects risk aversion rather than strength. High interest rates, economic uncertainty, and weakened borrower balance sheets have dampened loan demand, even as higher deposit rates encourage savings mobilisation. This liquidity-credit disconnect weakens monetary transmission, constrains private investment, and slows growth. In this context, excess liquidity reflects risk aversion rather than strength.

Figure 5.4: Excess liquidity (as a share of total liquid assets)



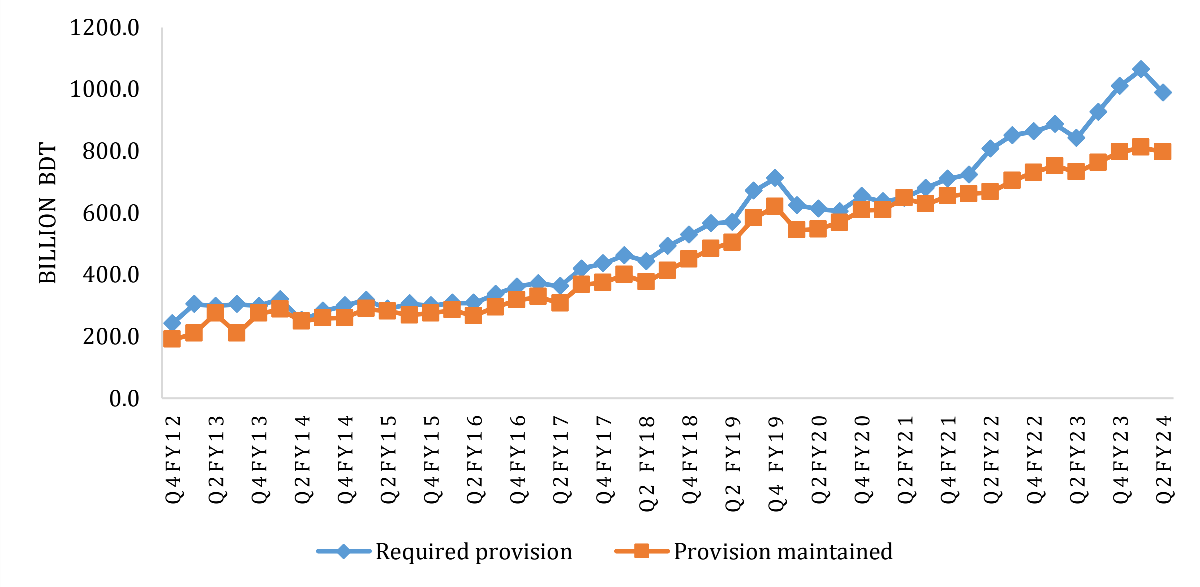
Source: Major Economic Indicators (Bangladesh Bank, 2025c).

5.2.5 Loan loss provisioning represents hidden vulnerabilities and transparency gaps

Adequate provisioning is essential for transparency and resilience. However, as of Q3FY25, the required loan loss provisioning was BDT 2751.0 billion, whereas the actual loan loss provisioning was only BDT 1044.5 billion, representing 38 per cent of the requirement (Bangladesh Bank, 2025b)(Figure 5.5). Notably, the recent surge in the overall loan loss provisioning shortfall in the banking sector has been driven by the shortfall in loan loss provisioning in the PCBs (Figure 5.6). Notably, the recent surge in the overall loan loss provisioning shortfall in the banking sector has been driven by the shortfall in loan loss provisioning in the PCBs.

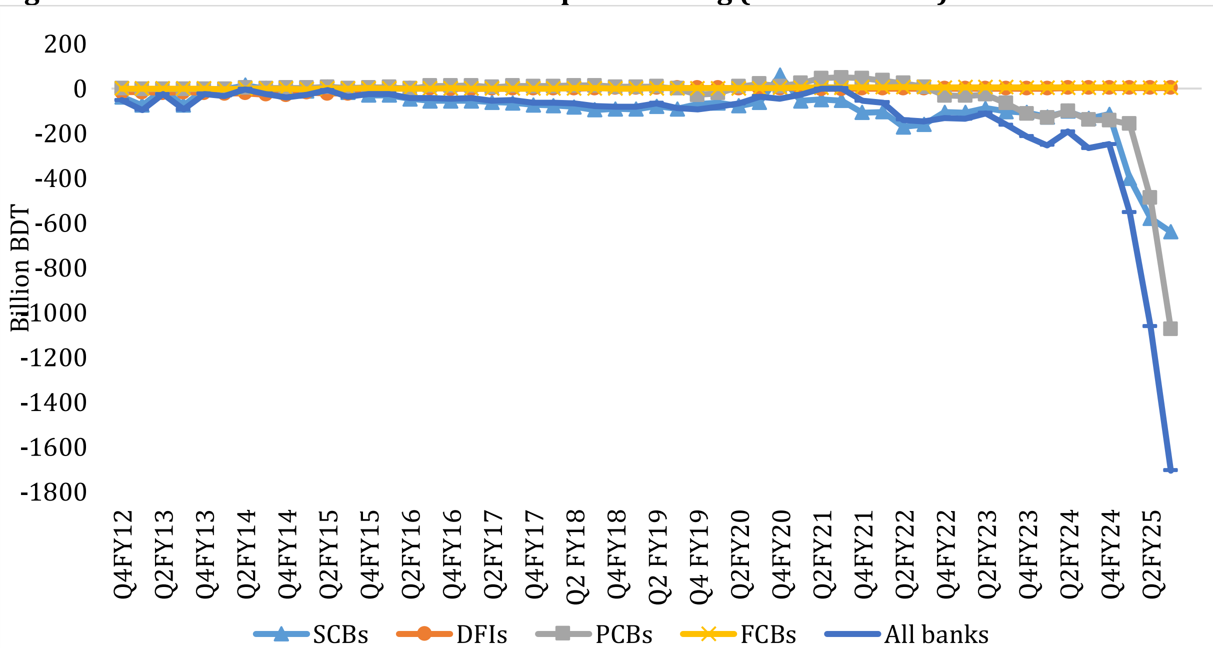
Inadequate provisioning inflates reported profitability and capital, delays corrective action, and increases future adjustment costs. Persistent gaps reflect supervisory constraints and a history of regulatory forbearance, undermining market discipline and confidence.

Figure 5.5: Loan loss provisioning (in Billion BDT)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

Figure 5.6: Excess or shortfall in loan loss provisioning (in billion BDT)

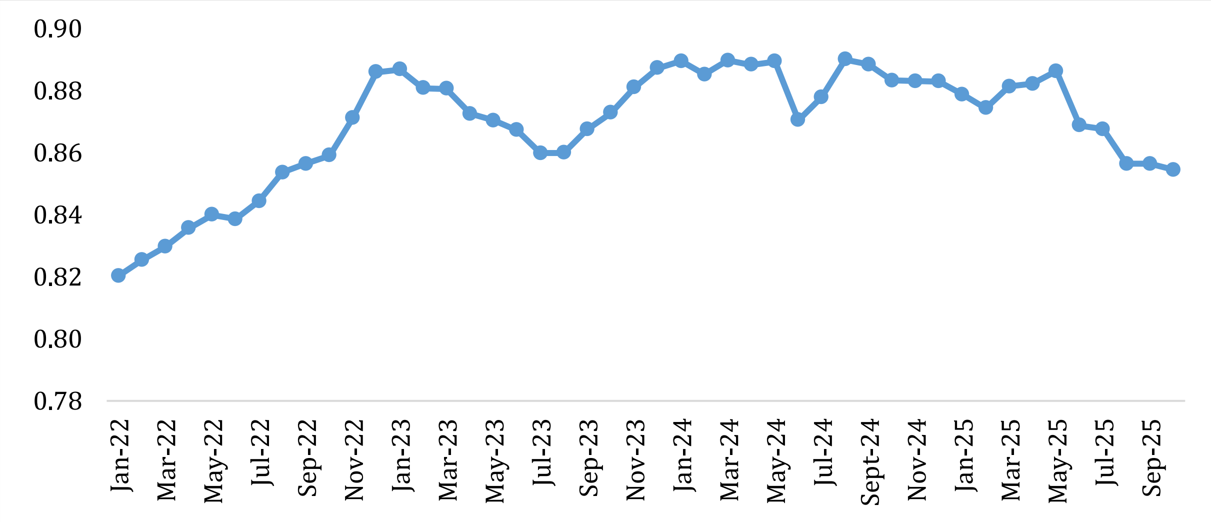


Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

5.2.6 Slower lending amid cautious borrowing and rising savings

The decline in the advance–deposit ratio (ADR) points to easing liquidity pressure in the banking system, mainly because loan demand has weakened. Ongoing economic uncertainty and high borrowing costs have made businesses and households more cautious about taking new loans. At the same time, higher deposit interest rates have increased savings, supporting steady growth in bank deposits. As a result, loans have grown more slowly than deposits, causing the ADR to fall from 0.89 in May 2025 to 0.84 in October 2025 (Bangladesh Bank, 2025d)(Figure 5.7). While this has helped reduce immediate liquidity stress for banks, it also reflects slower credit expansion, which could weigh on investment and overall economic activity if the trend continues.

Figure 5.7: Advance-deposit ratio



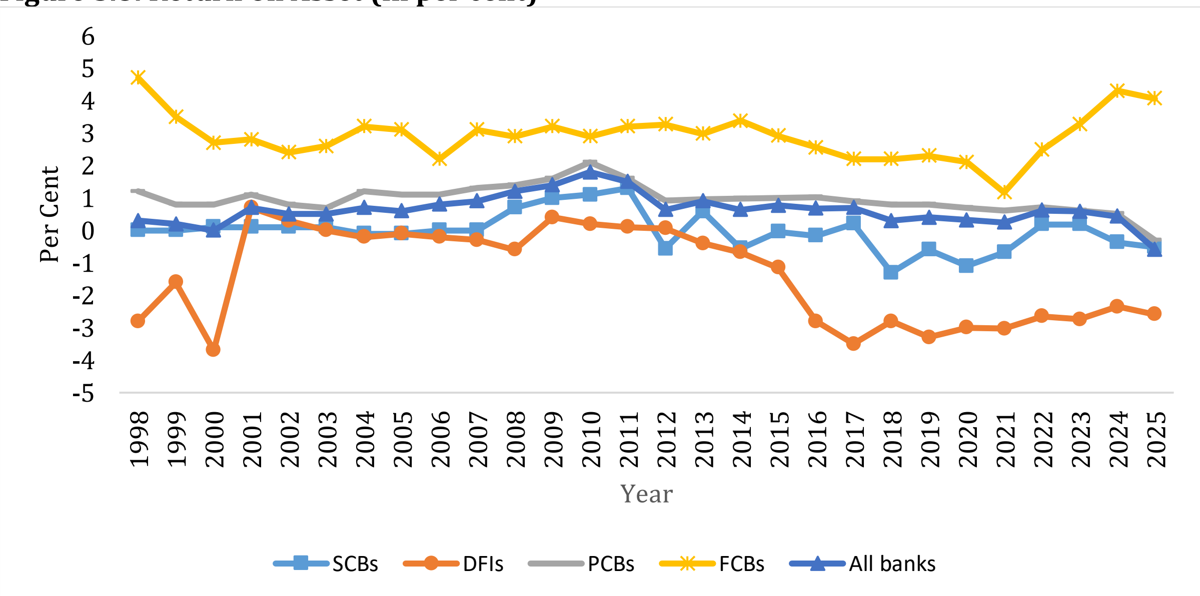
Source: Bangladesh Bank Monthly Economic Trends (Bangladesh Bank, 2025d).

5.2.7 Profitability and financial sustainability

The combined effects of deteriorating asset quality, rising provisioning requirements, and compressed interest margins have led to a substantial decline in the banking sector's profitability. Negative returns on assets (ROA) and return on equity (ROE) in 2025 represent the weakest performance in nearly three decades (Bangladesh Bank, 2025b)(Figure 5.8).

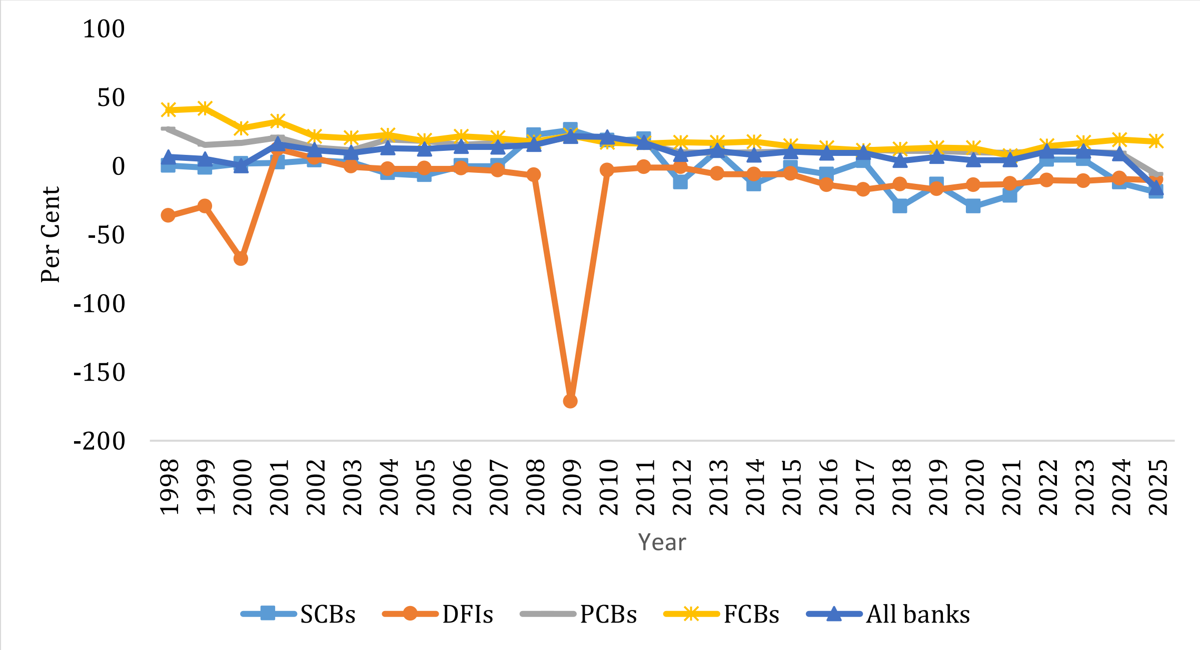
Similarly, ROE fell sharply to (–)16.11 per cent, the lowest level recorded in nearly three decades, underscoring the severe erosion of shareholders' returns (Bangladesh Bank, 2025b)(Figure 5.9). This reflects not only operating losses but also capital depletion stemming from sustained erosion in asset quality. Consequently, these trends highlight a profound weakening of the banking sector's profitability, with adverse implications for capital adequacy, financial stability, and banks' ability to support economic activity.

Figure 5.8: Return on Asset (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

Figure 5.9: Return on Equity (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank, 2025b).

5.3 Recent Initiatives and Key Reforms

Banking sector reform was a top priority for Bangladesh Bank in 2025 under the Interim Government. One of the first steps taken by Bangladesh Bank was to restructure the composition of the bank's board of directors and senior management to restore credibility, increase public confidence, and strengthen internal controls. However, given the deteriorating health of the banking sector as a whole, Bangladesh Bank has revised several relevant policies and initiated reform measures to strengthen the regulatory and institutional framework and to reinforce confidence in the financial sector. Some of these are briefly discussed below.

5.3.1 Asset Quality Review (AQR) revealed hidden vulnerabilities of some banks

To improve financial reporting transparency and assess the capital adequacy of affected banks, Bangladesh Bank announced that it would conduct a comprehensive Asset Quality Review (AQR) of 17 banks, prioritising weaker and Islamic banks. The objective was to establish a credible picture of the banks' actual financial health, including balance sheets, capital shortfalls, hidden non-performing assets and credit risks, and governance failures (Bangladesh Bank, 2025e). These AQRs were intended to follow best international practices and to be conducted with support from external experts. To ensure efficient implementation and execution of these reviews, task forces were established within the Bangladesh Bank (Bangladesh Bank, 2025f).

AQRs of six private banks were completed in the first phase by mid-2025. These are: First Security Islami Bank, Global Islami Bank, Union Bank, Exim Bank, Social Islami Bank, and ICB Islami Bank (BSS News, 2025). This review revealed that these banks have NPLs that are significantly higher than their reported figures. The remaining reviews were scheduled for completion by the end of 2025 (The Daily Star, 2025). A second phase, covering three additional banks, was subsequently initiated.

5.3.2 The Bank Resolution Ordinance, 2025 aims to resolve bank distress in an orderly manner without undermining depositor confidence

The Bank Resolution Ordinance, 2025 introduces, for the first time in Bangladesh, a formal legal framework for dealing with weak and failing banks in an orderly and transparent manner (Bangladesh Bank, 2025e). Until now, bank distress has been addressed through ad hoc measures such as regulatory forbearance, repeated liquidity support, or forced merger. This often delays solutions, increases risks, and weakens discipline in the banking sector. The new ordinance aims to replace this approach with a rule-based resolution system aligned with good international practice.

Under the ordinance, Bangladesh Bank is designated as the resolution authority. It is empowered to intervene early when a bank becomes non-viable, prepare resolution plans, place banks under special administration, restructure assets and liabilities, facilitate mergers, or allow an orderly exit where recovery is not feasible. The focus is on maintaining financial stability while ensuring that failing banks do not continue operating indefinitely at the expense of the broader economy (Bangladesh Bank, 2025e).

A central feature of the ordinance is depositor protection. In line with Bangladesh's deposit insurance framework, insured depositors are entitled to up to BDT 200,000 per depositor per bank in the event of a bank failure (Bangladesh Bank, 2025g). By prioritising small and insured depositors and ensuring continuity of essential banking services, the ordinance aims to reduce panic, prevent bank runs, and maintain public confidence in the financial system. At the same time, it limits moral hazard by requiring shareholders and, where applicable, unsecured creditors to bear losses before any public funds are used.

The ordinance also complements ongoing reforms, including Asset Quality Reviews and governance strengthening. Diagnostics alone cannot fix weak banks; a credible resolution regime provides the enforcement mechanism needed to address under-recognised bad loans, capital shortfalls, and persistent governance failures (Bangladesh Bank, 2025e).

5.3.3 The proposed reform of the Bank Company Act, 1991 will help address some of the challenges

The Bank Company Act, 1991, is a significant regulatory act governing the establishment, regulation, and operation of a banking company, and it assigns Bangladesh Bank the vital role of regulating and supervising banks in Bangladesh (Bangladesh Bank, 1991). For over two decades, the Bank Company Act has been repeatedly changed to suit the interests of political and influential entrepreneurs; it has been driven less by stability and institutional requirements.

The Bank Company (Amendment) Act proposed in late 2025 aims to decrease the dominance of political and family dynasties, improve governance, and attract foreign investment. Limiting both the number and tenure of family directors on bank boards can curb unfair control and dominance and protect the economy from the systemic consequences of bank failure (New Age, 2025) Moreover, if the proposed Act is enacted, it will not permit any political figures to serve on the bank boards. Consequently, these reforms reflect a broader policy intent to address surging loan defaults, preferential lending, and regulatory oversight.

5.3.4 The Bangladesh Bank Ordinance 2025 introduces reforms to build a more independent, accountable, and credible central bank aligned with global best practices

The Bangladesh Bank Ordinance 2025 amends the Bangladesh Bank Order, 1972, to strengthen Bangladesh Bank as a more independent, accountable, and effective central bank, aligned with international best practices. The ordinance grants Bangladesh Bank clear legal authority to intervene in failing banks through temporary administration, restructuring, and asset-liability transfers, to protect depositors and preserve financial stability (Bangladesh Bank, 2025e). By reducing political interference in supervisory decisions, it seeks to limit discretionary bailouts and enable the orderly resolution of distressed banks through a more forward-looking, risk-based supervisory framework, including stricter capital and liquidity requirements.

The ordinance also significantly enhances institutional independence by introducing a merit-based process for appointing the Governor and Deputy Governors, reducing government representation on the board, and increasing the presence of independent professional members. It provides greater autonomy over core functions such as regulation, supervision, and policy decisions, and strengthens safeguards against the arbitrary dismissal of the Governor (Bangladesh Bank, 2025e). Overall, the reform positions Bangladesh Bank as a stronger and more credible supervisor, aligns the country's central banking framework with Basel and global resolution standards, and aims to bolster investor confidence and cross-border credibility.

5.3.5 The draft Insolvency and Bankruptcy Ordinance 2025 introduces a structured approach to insolvency that helps distressed firms reorganise, protects creditors, and reduces prolonged legal disputes

The draft Insolvency and Bankruptcy Ordinance 2025 has been introduced because Bangladesh's existing bankruptcy laws were outdated and no longer suited to the needs of today's businesses and the banking system. Weak insolvency rules have long caused delays in loan recovery and uncertainty over creditors' rights, which in turn have harmed the health of banks and the wider economy.

Unlike the 1997 Bankruptcy Act, which mainly focused on shutting down troubled companies, the new ordinance prioritises saving viable businesses. It allows financially distressed firms to enter a formal insolvency process to reorganise their finances, continue operations, and remain productive contributors to the economy, rather than being forced into liquidation (Bangladesh Bank 2025h).

The ordinance introduces a modern, unified insolvency framework with clearer roles for courts, insolvency professionals, and creditor committees. District Courts will handle insolvency cases, helping to create a more specialised and efficient process. The draft also sets clear timelines for debt recovery, facilitates cooperation with foreign jurisdictions in cross-border insolvency cases, and ensures stronger oversight to improve accountability and speed up resolution (Bangladesh Bank 2025h).

A key feature is a temporary period of legal protection, or a moratorium, during which creditors cannot pursue legal action or recover debts. This gives struggling businesses time to restructure and plan their recovery (Bangladesh Bank 2025h). Overall, the ordinance aims to preserve viable firms, improve loan recovery, reduce lengthy court disputes, and replace loopholes in the old law with a faster, fairer, and more effective insolvency system.

5.4 Challenges for Implementing Reforms

Although the legislative intent of these reforms is clear, the ultimate success of these Acts will depend largely on consistent enforcement by the government and Bangladesh Bank, political commitment, and institutional capacity.

Following the completion of the AQR, the merger of five banks has been finalised (Bangladesh Bank 2025i). The merger reform has faced resistance from bank directors and shareholders due to its impact on profitability and dividends. Consolidating balance sheets also presents significant operational complexities. Therefore, close monitoring by the central bank is required to overcome the challenges.

Given the sector's dominance by multiple stakeholders with long-standing, powerful interests, the approval and implementation of the Bank Company (Amendment) Act will be challenging. Even after approval, implementation and compliance will depend on the enforcement capacity of the Bangladesh Bank and will require significant judicial support.

There are substantial limitations in the capacity of institutions in Bangladesh, including the courts, insolvency professionals, and insolvency tribunals. Additionally, the lack of trained personnel and technical expertise within these institutions may impede the resolution of insolvency cases and diminish the effectiveness of the Ordinance. Conversely, while the Insolvency and Bankruptcy Ordinance 2025 align with modern international standards, it may pose challenges for banks, creditors, and corporate entities unaccustomed to these procedures and rules. Moreover, the adaptation period may require significant retraining and process restructuring, which could create temporary operational and financial inefficiencies.

Furthermore, achieving common ground and support on the Bangladesh Bank Ordinance 2025, between all the stakeholders, such as the political actors, the finance ministry, and the financial institutions, will be a significant hurdle for the central bank. Further, conflicting interests among stakeholders, such as the upcoming government's political priorities versus the bank's risk concerns, may complicate consensus-building and delay effective implementation.

5.5 Recommendations and Conclusions

The policy and reform initiatives to strengthen the banking sector are a positive step by Bangladesh Bank. However, these must be approved at the highest policy level. The next elected government will need to implement these proposed regulations. The revised Banking Company Act, 1991 and the Bangladesh Bank Ordinance 2025 have to be approved by the government.

Implementing the reform proposals will not be easy and will require preparation across multiple fronts. Effective resolution, as proposed in the Bank Resolution Ordinance, 2025, requires strong institutional capacity, legal coordination, political support, and transparent communication. Resistance from vested interests may delay action. Therefore, the Bank Resolution Ordinance, 2025, should be applied consistently and fairly to play a crucial role in restoring discipline, protecting depositors, and strengthening confidence in Bangladesh's banking system.

For instance, to ensure the smooth implementation of the Insolvency and Bankruptcy Ordinance, 2025, it is recommended that specialised insolvency courts be established and that practitioners, professionals, and judges be trained on the new guidelines. Periodic reviews to assess progress and identify bottlenecks are also crucial. Successful implementation of these reforms will be pivotal in strengthening the banking sector and safeguarding financial stability in Bangladesh.

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SECTION VI. STATE OF PRIVATE INVESTMENT: DISARRAY PERSISTS

Key findings

- Investment-related indicators deteriorated further during the period of the interim government.
- The deterioration can be attributed to political uncertainty, transitional governance, energy shortages, high financing costs, weak contract enforcement, persistent corruption, along pre-existing barriers.
- The interim government advanced reforms to promote investment through BIDA, established Commercial Courts, restructured the NBR, launched an e-refund system, and implemented measures such as the Bangladesh Business Portal, simplified licensing, trade and logistics improvements, SME support, and sustainable investment initiatives.

Key recommendations

- The newly elected government should prioritise the appointment of experienced private-sector leaders to key investment-related institutions, including the Bangladesh Investment Development Authority (BIDA), Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Economic Zones Authority (BEZA), the Ministry of Commerce (MoC), the Ministry of Industries (MoI), and the National Board of Revenue (NBR). Also, the authorities for the capital market, including Bangladesh Securities Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), the Chattogram Stock Exchange (CSE), Financial Reporting Council (FRC) etc.
- As Bangladesh has already formulated a Smooth Transition Strategy (STS) for LDC graduation, the newly elected government should ensure its continued implementation and effective operationalisation to minimise adjustment costs and sustain investment momentum in the post-LDC period.
- The incoming government must ensure the continuity of reforms initiated by the interim administration targeting investment generation. If any major policy reversal is found to be necessary, investors must be provided with substantial advance notice and a clear transitional period to adapt. The newly elected government should also provide a dedicated focus on the digitalisation and automation of all the services required for investment and capital market monitoring.

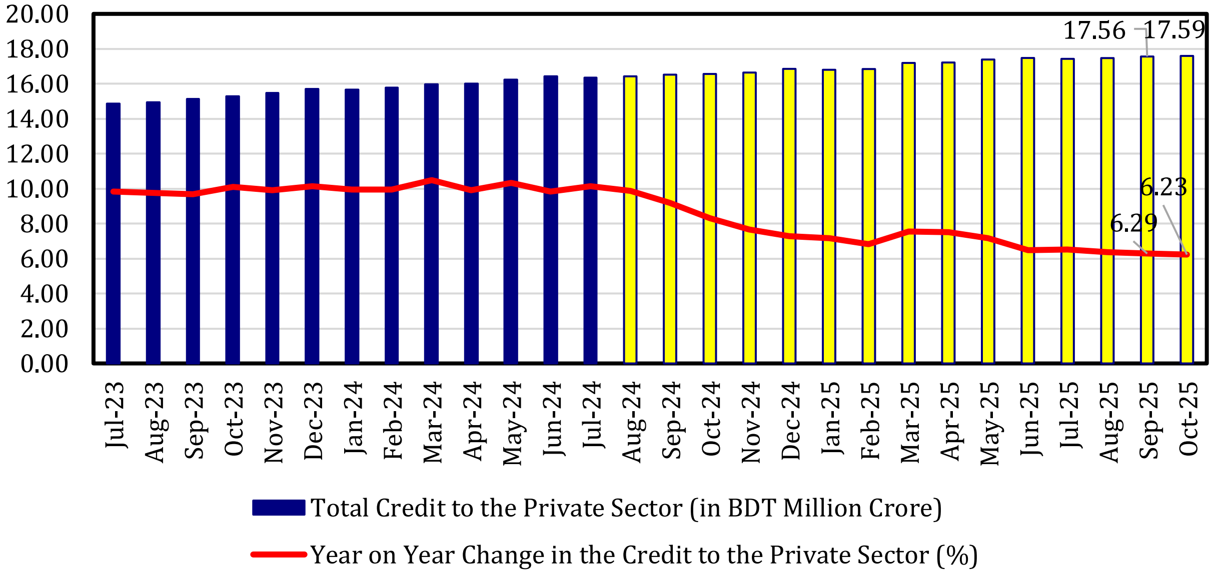
6.1 Context

The interim government assumed office at a time when the economy was experiencing heightened pressures on macroeconomic stability. Accordingly, a key mandate of the transitional administration was to facilitate macroeconomic recovery. Under these circumstances, coupled with the inherent uncertainty associated with transitional governance, the scope for strong investment inflows during this period was naturally limited. After more than a year in office, the interim government is now preparing to hand over authority to an elected administration in February, at a critical juncture as Bangladesh awaits graduation from the Least Developed Country (LDC) category. In the post-LDC and post-election context, attaining higher and more sustainable levels of investment will be essential for sustaining growth and supporting structural transformation. It is therefore imperative to assess the investment landscape to be inherited by the newly elected government from the interim administration, with particular attention to investment flows, trends, and overall performance during the interim period, especially in the context of Bangladesh's forthcoming graduation from LDC status. This chapter sheds light on these issues.

6.2 Trends in Investment-related Indicators

Investment-related indicators deteriorated further during the period of the interim government. The weakness in private investment is reflected in the data on credit to the private sector. During the months in which the interim government has been in office, the growth of private sector credit has declined consistently (Figure 6.1), indicating a slowdown in the flow of finance to businesses for new investment and expansion.

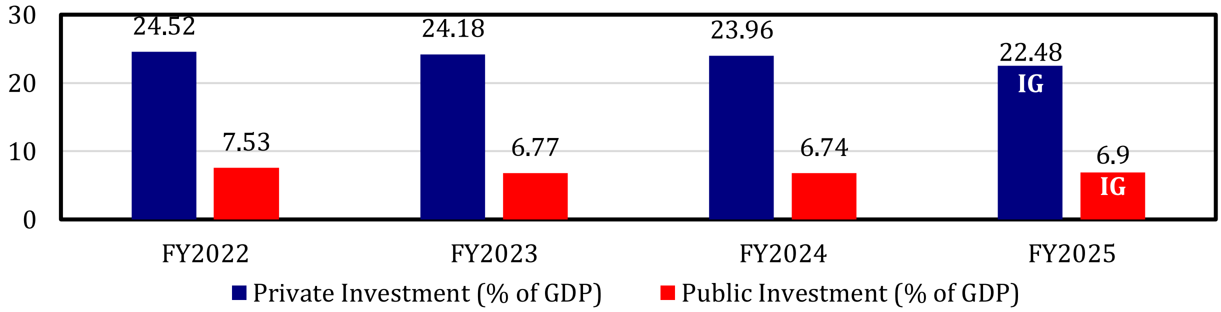
Figure 6.1: Total credit to the private sector and its year-on-year change rate



Source: Bangladesh Bank (2026).
Note: The Yellow shaded areas are the period of the interim government.

Domestic investment also fell to historically low levels during the period of the interim government. Data indicate that while the public investment increased slightly in FY2025 compared to previous fiscal years (to 6.9 per cent of the GDP), growth of private domestic investment decelerated to 22.48 per cent of the GDP, a record low in recent years (Figure 6.2).

Figure 6.2: Disaggregated Domestic investment (per cent of GDP)

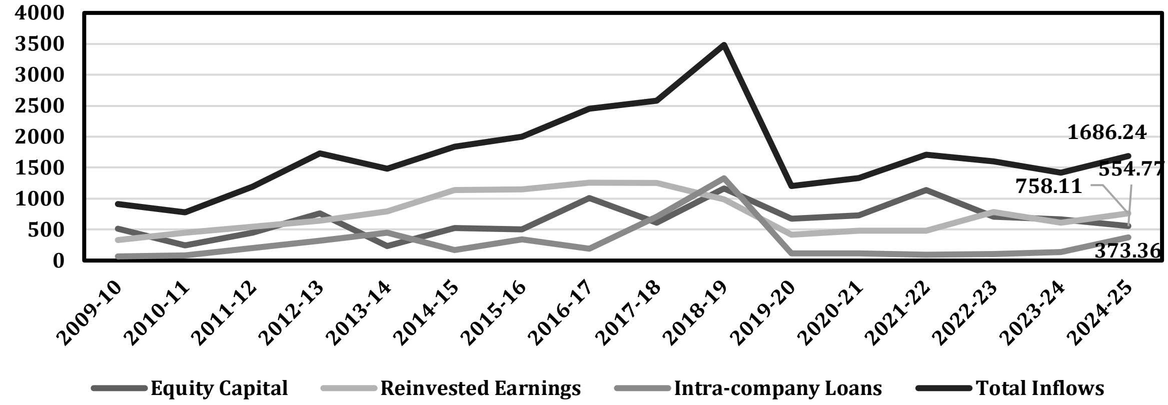


Source: Bangladesh Bank (2026).
Note: IG = Period of Interim Government.

Although figures on FDI inflows suggest a positive trend in the completed fiscal year, a closer examination of the components reveals a more nuanced picture (Figure 6.3) The increase in inflows was driven primarily by reinvested earnings and intra-company loans, indicating that existing foreign firms continued to finance their operations and manage liquidity internally

By contrast, equity capital declined, implying limited entry of new foreign investors and a weakening pipeline of greenfield or expansion projects

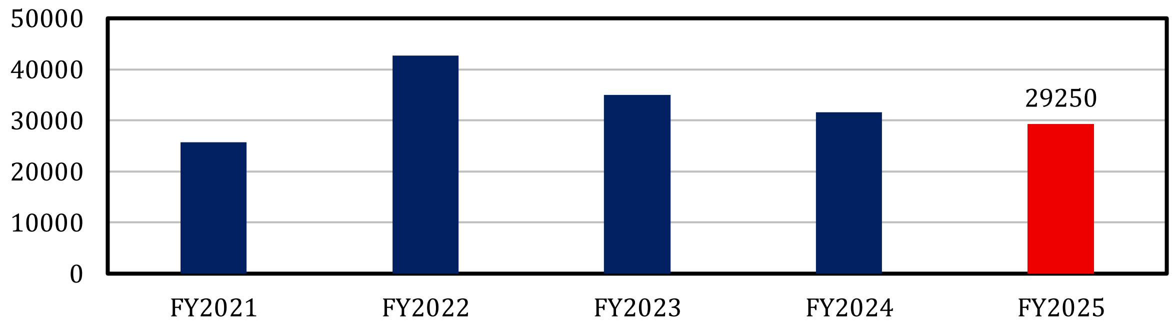
Figure 6.3: FDI inflow during the latest and previous fiscal years (BDT Crore)



Source: Bangladesh Bank (2026).
Note: Red-shaded bar is the period of the interim government.

Imports of capital machinery, which were already on a declining trajectory in the preceding fiscal years, fell further during the recently concluded fiscal year governed by the interim administration (Figure 6.4). Although imports of capital machinery increased in the early months of FY2026 (July–October) relative to the same period of the previous fiscal year, this recovery remains modest; the level of imports is still lower than that observed in the final fiscal year of the previous regime (Table 6.1).

Figure 6.4: Imports of Capital Machinery (in BDT Crore)



Source: Bangladesh Bank (2026).
Note: Red-shaded bar is the period of the interim government.

Table 6.1: Current and Previous Fiscal Years' Imports of Capital Machinery

Period	Imports of Capital Machinery
FY2024 (July-October)	10936
FY2025 (July-October)	9264
FY2026 (July-October)	9758

Source: Bangladesh Bank (2026).

6.3 Existing and Emerged Investment Barriers

The investment climate in Bangladesh has historically been constrained by several structural and macroeconomic barriers that continue to negatively affect both foreign and domestic investment. Pre-existing challenges such as inadequate infrastructure, policy uncertainty, bureaucratic red tape, burdensome tax policies, high cost of finance, and weak contract enforcement have long discouraged new investment and limited the expansion of existing businesses (MCCI, 2024, Moazzem & Chowdhury, 2024). After assuming office, the interim government undertook several reform initiatives (see subsequent sections), which are expected to yield positive outcomes in the long term. However, several critical investment barriers remained unaddressed during this period, while simultaneously several new factors emerged.

The political uncertainty associated with transitional governance intensified risk perception among investors due to potential policy reversals after the leaving of the Interim Government (MCCI and Policy Exchange, 2025). Foreign investors, in particular, responded cautiously due to concerns over policy continuity and economic stability, while domestic investors exhibited a wait-and-see approach, further dampening overall investment momentum during the period. As such, in November 2024, Moody's downgraded Bangladesh's credit rating, citing political instability and economic uncertainty (Belayet, 2025). The announcement of the election date by the interim government represents a positive institutional signal; however, a smooth and credible transition to a democratically elected government will be essential to further strengthen political stability and improve the overall investment climate in the upcoming years.

While the interim government, by its very nature, was inherently associated with political and policy uncertainty and therefore had limited scope to fully mitigate such uncertainty, several issues within its mandate were partially addressed, if not remained unaddressed. Similar to the previous regime, interruption of the energy supply to the industries, particularly gas, remained a major constraint, adversely affecting business operations and limiting investment prospects. Overall gas production continued to decline in FY2025. Although gas supply to the industry has increased (by 2.2 billion cubic feet) in FY2025, compared to the previous fiscal year, it is still well below the expected level (Table 6.2).

Table 6.2: Distribution of Gas in Bangladesh (billion cubic feet)

FY	2020-21	2021-22	2022-23	2023-24	2024-25
Total Production	1104.1	1080.4	1002.6	991.7	974
Electricity	425.8	402	389.8	392.5	372.3
Captive	169.1	175.7	164.2	153.6	149.8
Furnace	64.7	60.4	50.1	50.4	56.7
Industry	181.7	191	178.8	168.2	170.4
Tea & Garden	0.9	1.1	1	1.17	1.1
Commercial	6	6	5.8	5.2	5.6
Household	134.2	127.8	100.6	100.2	97.8
CNG	35.1	37.3	42.3	45.1	46.7
Total Consumption	1017.5	1001.3	931.21	916.4	900.4

Source: PetroBangla (2025).

In addition to supply shortages, increases in energy prices have imposed additional cost pressures on existing businesses, thereby weakening prospects for new investment. During its tenure, the interim government raised gas prices to BDT 40-42 per cubic metre (Table 6.3). Given the continued heavy reliance on imported Liquefied Natural Gas (LNG) by the interim government, similar to the previous regime, upward pressure on energy prices is likely to persist, potentially necessitating further price adjustments.

Table 6.3: Sector-wise Gas Price in 2024-2025 (BDT/cubic meter)

Sectors	Price (BDT/cubic metre, 2024)	Price (BDT/cubic metre, 2025)
Electricity (Govt, IPP, rental plants)	30	40
Captive power (Small, commercial power plants)	30	42

Large Industries	30	40
Medium Industries	30	40
Small, cottage, others	30	40
Commercial (Hotels, restaurants)	30	40

Source: PetroBangla (2025).

Although prices of all types of fuel were marginally reduced during the interim government's tenure (Table 6.4), these adjustments remain limited when assessed against declining global oil prices and the pricing mechanism applied by the Bangladesh Petroleum Corporation (BPC). According to Moazzem, Preoty and Quaiyyum, (2025), current fuel oil retail prices in Bangladesh could be reduced while still maintaining a Bangladesh Petroleum Corporation (BPC) margin of 3–5 per cent, provided that the price-setting mechanism is corrected. As a result, despite the nominal reductions, fuel prices continue to exceed their potential cost-reflective levels, imposing additional cost burdens on firms and weakening industrial competitiveness and investment incentives.

Table 6.4: Price of different fuels in FY2025 (BDT/cubic meter)

Fuel type	Diesel	Octane	Kerosene	Petrol
Jun 24	108	131	108	127
Jul 24	106.75	131	107.75	127
Aug 24	106.75	131	107.75	127
Sept 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) Gazettes.

A key achievement of the interim government, relative to the previous regime, has been the gradual improvement in the foreign exchange reserve position, which is expected to stabilise if the current trend is sustained (see Chapter 8 for details)[3]. However, this improvement has come partly at the cost of allowing continued depreciation of the exchange rate. While the depreciation has enhanced price competitiveness in export markets, it has simultaneously increased input costs for import-dependent firms, particularly those oriented towards the domestic market. The resulting rise in production costs has compressed profit margins and constrained firms' investment capacity. Exchange rate depreciation has reduced returns for existing foreign investors and increased exchange rate risk, increasing investment uncertainty for foreign investors.

In an effort to contain inflation, the central bank had to maintain a relatively high policy interest rate of 10 per cent. This stance has increased the cost of finance, thereby constraining new investment and raising operating costs for businesses. Despite the prolonged tight monetary

[3] Bangladesh's foreign exchange reserves stood at USD33.79 billion as of 7 January 2025 according to Bangladesh Bank

policy, the targeted inflation rate (below 7 per cent) has yet to be achieved. Consequently, firms face a dual burden of elevated financing costs and persistently high production costs, alongside weakening demand driven by the erosion of consumers' purchasing power.

The limited progress of all the committed reforms of the interim government has also hurt the foreign investment prospects. According to a recent statement by the US Department of State (2025), most reform initiatives undertaken by the interim government, including in the judicial sector, remain at an early stage of implementation. Consequently, weaknesses in alternative dispute resolution mechanisms continue to impede the timely enforcement of contracts and the fair resolution of commercial disputes, thereby discouraging foreign investment. The statement further notes that limited progress in reforms related to intellectual property rights (IPR) protection and the effectiveness of labour rights enforcement continues to adversely affect the country's foreign investment prospects. Moreover, despite the interim government's efforts to address corruption, it remains pervasive in public procurement, tax and customs administration, and regulatory bodies. The incidence of extortion has risen sharply, with media reports documenting 2,325 cases over the past 15 months since November 2025.[4]

With the conduct of a fair and credible election and the formation of an elected government, political uncertainty is likely to ease significantly and thus boost investment to a certain degree. However, with the macroeconomic challenges outlined above remaining largely unaddressed, achieving substantial and sustained investment in a post-LDC Bangladesh appears unlikely. It is important to note that the existing duty-free and quota-free privileges, which attracted many investors to invest in Bangladesh in the past, will be lost with the graduation from the LDC category.[5]. Meaning that exert pressure on Bangladesh in the post-LDC period, with the challenge of addressing several fundamental barriers to enable investment, at the same time competing directly with peer non-LDC nations that are already implementing bold reforms to attract foreign investors.

6.4 Reforms of the Interim Government Targeting Investment Generation

Measures Targeting Investment Promotion: The reform effort of the interim government can be marked by a higher focus on the promotional part. Private-sector and investment professionals have been appointed to effectively lead the Bangladesh Investment Development Authority (BIDA). Since the appointment, BIDA has undertaken several investment promotion activities, including the arrangement of the Bangladesh Investment Summit 2025, Bangladesh Startup Connect 2025 (within the Investment Summit), The Standard Chartered Investor Roadshow, 8th Adriatic Sea Defence and Aerospace Exhibition, China-Bangladesh Conference on Investment and Trade, etc.

Measures Targeting Investment Facilitation: Although the promotional part has been a key focus, efforts have been made towards investment facilitation as well. The one-stop service of BIDA has been made fully functional and investor-friendly. The interim government undertook a range of initiatives, including the restructuring of institutions that directly or indirectly influence investment. Multiple reform commissions were established to drive broad institutional reforms across sectors such as elections, the judiciary, and public administration. The government has already established specialised Commercial Courts in Bangladesh to ensure the timely and efficient resolution of commercial disputes above a specified threshold (minimum BDT 50 lakh), thereby promoting investment, supporting economic growth, and improving the overall business environment. The enabling Ordinance provides for pre-institution mediation, dedicated

[4] See: https://www.daily-sun.com/politics/841253/unstoppable-extortion-under-political-identity

[5] However, Bangladesh will retain duty-free, quota-free (DFQF) access to major export markets, including the EU and the UK, until 2029, according to a 2024 WTO decision. The country is negotiating to extend this preferential access through the EU's GSP+ program, which requires implementing 27 international conventions on labour and human rights, environmental protection, and good governance.

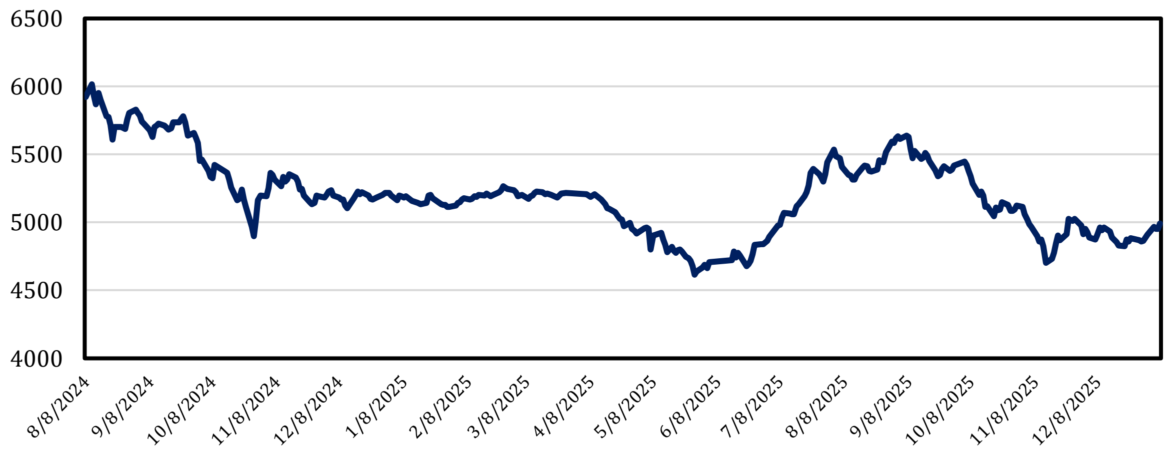
commercial benches, fast-track procedures, appellate mechanisms, and enhanced transparency through systematic data reporting. The National Board of Revenue (NBR) also underwent significant restructuring, the most notable of which was its division into two major units: the Revenue Policy Division (RPD) and the Revenue Management Division (RMD). Most recently, the NBR launched an e-refund system for value-added tax (VAT), allowing refunds to be transferred directly to taxpayers' bank accounts. Moreover, a labour reform commission has been formed that has recommended key measures to ensure workers' rights in the workplace.

The interim government has introduced several practical reforms to reduce business delays and costs and improve the overall investment environment. These include the launch of the Bangladesh Business Portal as a single digital gateway for investors, the establishment of single-entry service points in major cities, and steps to simplify business registration and licence renewal. Trade and logistics processes have been improved through port decongestion measures at Chittagong Port, new container yards, faster customs clearance supported by digital risk management systems, and closer coordination between port authorities and tax agencies. Import and export operations are being eased through planned policy changes, including the removal of free-of-charge import quotas for export-oriented firms and improvements in foreign payment and banking services. At the same time, the interim government has strengthened investment monitoring and promoted environmentally sustainable investment. The interim government has also introduced targeted support for SMEs, including digital marketplaces, bank-mediated foreign payment systems, and strengthened coordination through the SME Foundation, to enhance their efficiency, market access, and role as drivers of employment and innovation.

6.5 The State of the Capital Market

Overview of the market performance: During the period following the assumption of power by the interim government, the DSEX index shows a volatile but generally weak trend, marked by an initial sharp decline, a prolonged phase of low and sideways movement, a brief recovery, and a renewed correction (Figure 6.5).

Figure 6.5: DSEX index during the period of the interim government



Source: Dhaka Stock Exchange (2026).

This downgrade in indexes indicates that both local and foreign investors adopted a more cautious stance amid political transition, subdued stock market performance, regulatory uncertainty, and slow progress in institutional and capital-market reforms and thereby their fragile confidence.

Key issues impeding the market's improvement: Despite a number of enforcement actions under the interim government, a wide range of structural and institutional weaknesses in

Bangladesh's capital market remain largely unaddressed. These include persistent problems in attracting quality IPOs, weak market surveillance and information disclosure, ineffective oversight of IPO issuers, inadequate KYC requirements for BO accounts, limited regulatory authority of key institutions such as CDBL and FRC, continued reliance on paper-based shares, and insufficient preparedness for modern settlement systems. In addition, the underdeveloped role of institutional investors, lack of professional fund management, unresolved negative equity, and deep-seated governance and cultural barriers continue to undermine market depth, transparency, and investor confidence, indicating that comprehensive and coordinated reforms are still urgently needed to restore the credibility and long-term stability of the capital market.

6.6 Recommendations for the Newly Elected Government

Considering an elected government will assume office in Bangladesh within the next month, the following recommendations may be considered by the new government to enhance the facilitation of both domestic and foreign investment, especially in the post-LDC graduation period. These recommendations are drawn from the findings of this report, alongside recent publications by the Centre for Policy Dialogue (CPD) focusing on investment.

Overall:
1. The newly elected government should prioritise the appointment of experienced private-sector leaders to key investment-related institutions, including the Bangladesh Investment Development Authority (BIDA), Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Economic Zones Authority (BEZA), the Ministry of Commerce (MoC), the Ministry of Industries (MoI), and the National Board of Revenue (NBR). Also, the authorities for the capital market, including Bangladesh Securities Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), the Chattogram Stock Exchange (CSE), Financial Reporting Council (FRC), etc.
2. As Bangladesh has already formulated a Smooth Transition Strategy (STS) for LDC graduation, the newly elected government should ensure its continued implementation and effective operationalisation to minimise adjustment costs and sustain investment momentum in the post-LDC period.
3. The incoming government must ensure the continuity of reforms initiated by the interim administration targeting investment generation. If any major policy reversal is found to be necessary, investors must be provided with substantial advance notice and a clear transitional period to adapt.
4. The newly elected government should provide a dedicated focus on the digitalisation and automation of all the services required for investment and capital market monitoring.

Reformation of Tax Structure:
1. Replace the current sector-specific minimum tax with a progressive structure that reflects variations in business size, turnover, and profit margins, thereby enhancing fairness and equity.
2. Consolidate the existing eight VAT slabs into a simplified three-tier system comprising Standard, Reduced, and Zero rates, with a long-term objective of transitioning to a two-tier structure. Consider reducing the standard rate alongside measures to broaden the tax base and strengthen enforcement.
3. Establish an expert committee comprising tax professionals, accountants, and business representatives to regularly review and update allowable deductions, expenditure caps, and definitions of taxable income, ensuring alignment with contemporary business practices.
4. Require all businesses to submit tax returns digitally and expand accessible tax-paying services through local Upazila Digital Centres to support small and medium enterprises.
5. Create a multi-stakeholder oversight committee to review and resolve disputes over disallowed expenditures consistently. Additionally, develop a dedicated digital tribunal to

ensure the timely resolution of tax disagreements, targeting a resolution timeframe of 30–45 days.
6. Establish a separate, dedicated entity to manage tax refunds efficiently, independent of the National Board of Revenue (NBR). Remove advanced tax payment requirements for small businesses to prevent financial constraints from obstructing access to judicial recourse. Continue implementation of the E-VAT refund initiative.
7. Implement a fully integrated tax administration system centred on a universal Taxpayer Identification Number (TIN) to enhance operational efficiency and data coordination.
8. Introduce incentives for new and small taxpayers, including voluntary registration windows, simplified filing procedures, quarterly return options, and access to free digital record-keeping tools.
9. For revenue generation focus should be more on a tax justice perspective, increasing dependency on direct tax and property tax.

Reform Bureaucratic Process:
1. Keep increasing the inclusion of newer services in BIDA's OSS (such as language service, online payment facilitation, etc.). Provide real-time application tracking for the investors.
2. To create a seamless digital interface for investors, the government must mandate that all relevant agencies, including BIDA, the Ministry of Commerce, the National Board of Revenue (NBR), the Registrar of Joint Stock Companies (RJSC), Ministry of Industries (MoI), Department of Environment (DoE), Bangladesh Energy Regulatory Commission (BERC), Ministry of Civil Aviation & Tourism (MoCAT), Ministry of Shipping (MoS), the Bangladesh Bank etc., regularly update their official portals with clear, step-by-step guides, comprehensive FAQs, and binding procedural timelines. This should be complemented by an integrated, 24/7 central support hotline and AI chatbot capable of routing queries to the correct agency and providing real-time, accurate information on the full spectrum of regulatory and compliance processes.
3. Introduce a fully digital platform for tender submission and tracking to improve accessibility, reduce reliance on physical documentation, and attract a broader pool of bidders. Establish a systematic notification mechanism to inform bidders of application status (e.g., pre-qualification) and incomplete submissions to ensure fairness and build trust.
4. Reduce barriers related to high land costs by expanding permissible allocation, allowing alternative site proposals, and enabling investors to secure land before bidding. Explore public-private collaboration to identify and prepare suitable land parcels for development.
5. Implement the proposed measure of the national committee to significantly raise limits on foreign investors' capital and profit repatriation without requiring prior central bank approval, thereby improving investor confidence and the attractiveness of the investment climate.

Risk mitigation and ease of access:
1. Introduce guarantees or insurance mechanisms to protect investors against project cancellation, delays, or regulatory changes.
2. Consider a partial government-backed risk-sharing fund to cover early-stage losses in case projects are terminated.
3. Amend the Companies Act and associated rules to remove or significantly lower the minimum paid-up capital and turnover thresholds for OPCs, allowing smaller local and foreign entrepreneurs to form OPCs easily and thereby boosting formal investment.
4. Introduce clear and updated statutory provisions for M&A within the Companies Act (or accompanying rules), including definitions of mergers/acquisitions, streamlined procedures, protective mechanisms for minority shareholders, and regulatory oversight guidelines, to reduce legal uncertainty and facilitate more efficient transactions.
5. Explore further reductions in fuel prices using a market-based pricing model, with the potential to lower costs by BDT 10-15 per litre, as suggested by CPD in its recent study.
6. Ensure a better supply of gas for industry by first tracking gas exploration in the country

7. If inflation eases in the post-election period as uncertainty declines and macroeconomic stability improves, the central bank under the new government may consider adopting a more accommodative monetary stance by lowering the policy rate to reduce the cost of finance.

Institutional reforms:

1. In view of Bangladesh's graduation from Least Developed Country (LDC) status and the phased withdrawal of transition flexibilities, intellectual property legislation should be gradually modernised in line with TRIPS obligations and international best practices. This process should be supported by a parallel strengthening of administrative capacity to ensure faster registration, effective monitoring, and timely prosecution of IPR violations.
2. Strengthen anti-corruption agencies with prosecutorial independence, adequate funding, and protection from political interference.
3. Speed up reforms in commercial courts by introducing digital case management, electronic filing, and clear deadlines for resolving disputes. At the same time, strengthen arbitration and mediation through specialised centres, mandatory use in certain cases, better training for judges and lawyers, and reliable enforcement of arbitral awards in line with international standards to build investor confidence.

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SECTION VII. STATE OF THE POWER AND ENERGY SECTOR: YET TO BE RECOVERED AND READY FOR ENERGY TRANSITION

Key findings

- Interim government has made its mark in the sectoral policy reform with the discontinuation of Quick Enhancement of Electricity and Energy Supply (Special Provision) Act, adoption of Public Procurement Act and Rules, amendment of BERC Act, revision of Renewable Energy Policy and Integrated Energy and Power Master Plan.
- Despite having the good intentions and policy instruments, interim government has failed to attain notable progress in the renewable energy integration.
- As interim government will be passing down the power to the elected government, sectoral financial crunch still remains as a persisting challenge.

Key recommendations

- Right after taking the office of MoPEMR, the elected government should come up with an institutional reform plan to ensure institutional readiness for energy transition.
- The upcoming elected government must execute and implement the National Solar Rooftop Programme with atmost priority.
- The new government must put a stop in over interest and over emphasis on LNG import and emphasis on exploring 100 gas wells (BSS, 2025).

After the 1.5 years of interim government regime, the power and energy sector is standing with a bittersweet feeling with its moderate policy reformations, operational reformations, slow progress in renewable energy policy shift and spiralling financial burden. It was expected that the interim government will work on the priority areas to perform necessary sectoral reforms within their timeline and help facilitate the renewable energy transition in Bangladesh. However, it is only logical to rate the success of interim government below average. As the political power transition is on its way, the newly elected government will have to take responsibility not only the outcome of interim's activities but as well as new plans to rapidly move towards energy transition while sustaining the sectoral growth.

7.1 Current State of Power and Energy Sector

7.1.1 Power Sector and fuel mix: The state of the power sector in terms of statistical numbers remained quite unchanged compared to that of prior to interim regime (July 2024). Table 7.1 demonstrates how that sectoral statistics were when the interim government took over and how the present condition is in December 2025. The interim government has been able to shift the focus from the over expansion of fossil fuel grid-based electricity to both utility and distributed renewable energy-based power generation. However, the capacity could have been reduced further by phasing out the scheduled power plants, which is why electricity reserve margin is still as high as 42 per cent. Two particular positive developments can be observed in case of expansion of transmission (12.5 per cent) and distribution line (1.5 per cent) and doubling the actual renewable energy generation (103 per cent) in last 1.5 years.

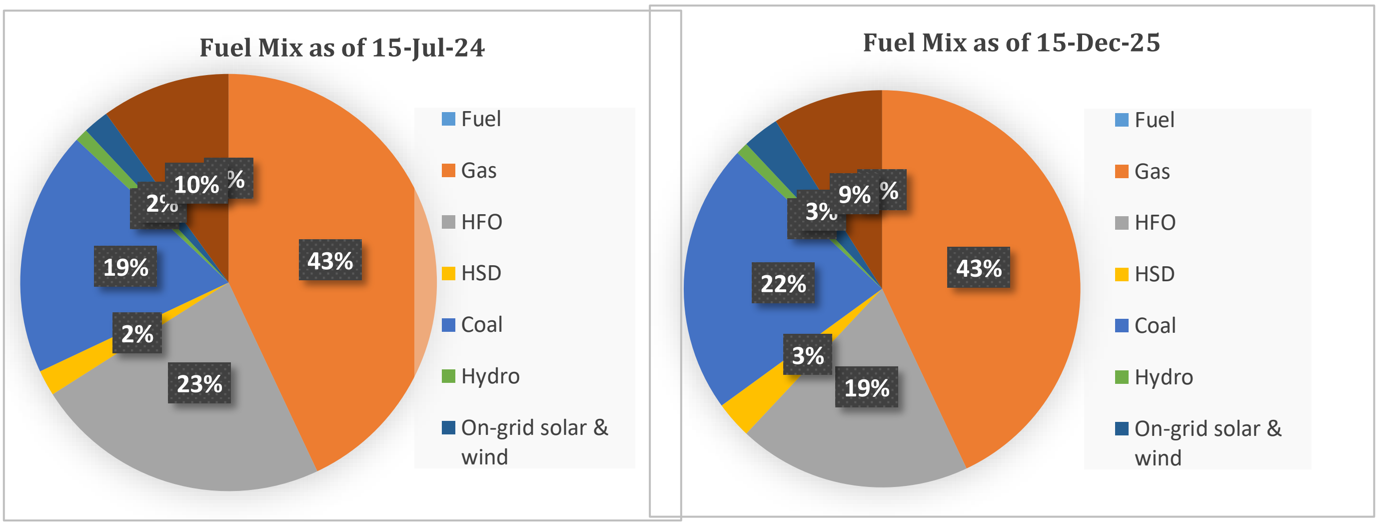
Table 7.1: State of Power Sector July'24 vs Dec'25

Issues	Status (till July,2024)	Status (till Dec,2025)	Absolute Change	Percentage change
Power				
Power Generation Capacity (Grid)	28,098 MW	28,949 MW	851 MW	3%
Highest Power Generation (Grid)	16,477 MW	16,794 MW	317 MW	1.9%
Actual Generation (Renewable Energy)	1,126 MkWh	2,287 MkWh	1161 MkWh	103%
Reserve Margin	41%	42%		1%
Total Transmission Lines	15,624 circuit km	17,581 circuit km	1957 circuit km	12.5%
Total Distribution Lines	643,000 km	652,325 km	9325 km	1.5%
Access to Electricity (including renewable energy)	100%	100%	0	0.0
Per Capita Electricity Consumption	602 MW	661 MW	59 MW	9.8%

Source: BPDB and SREDA.

The fuel mix of power generation has also remained more or less same in the current scenario except for two fuel sources (Figure 7.1). The usage of liquid fuel oil (HFO and HSD) has been reduced given the high cost of electricity generation of it. Surprisingly, the share of coal in electricity generation mix has increased by 3 per cent (1165 MW) in last 1.5 years. From an environmentally conscious government with the agenda of zero emissions, such increment in coal use raises serious questions about the willingness to transit from fossil fuels. It was expected that fossil fuel will be replaced by renewable energy sources, mainly solar, however, the share of solar and wind cumulatively has increased by only 1 per cent.

Figure 7. 1: Power generation fuel mix in July'24 vs Dec'25



Source: BPDB.

7.1.2 Domestic Gas and LNG: The gas sector has been most highlighted during the interim regime given the prioratisation of LNG imports. The government has been trying to keep gas supply level up by either domestic gas exploration but mostly through imported LNG (table 7.2).

Table 7. 2: State of Natural Gas Sector July'24 vs Dec'25

Issues	Status (till July,2024)	Status (till Dec,2025)
Gas		
Total Gas Supply	2634.0 mmcfd	2587 mmcfd
Total LNG Supply	605.3 mmcfd	892.1 mmcfd
Domestic Proven Gas Reserve (tcf)	28.89 tcf	29.74 tcf
LNG Infrastructure	2 LNG FSRU" (Length: 554 m, Width: 88 m, Draft:25 m)	No new LNG infrastructure
Gas Tariff (Captive Power)	BDT 30.75/cubic meter	BDT 42/cubic meter
Gas Tariff (Other sectors)	BDT 30/cubic meter	BDT 40/cubic meter
Deficit in Gas Supply	1,066 mmcfd	1,000 mmcfd

Source: Bangladesh Economic Review FY2024, FY2025 and BAPEX.

Oil, Gas and Mineral Corporation (Petrobangla) has planned to intensify and extend domestic gas exploration programme by drilling 50 wells by 2025-26 and 100 well by 2026-28. Currently Petrobangla is underway to explore 11 wells which will enhance the gas supply by 143 mmcfd[6]. Most of the wells will be drilled under an international tender through a one-stage, two-envelope procurement method on a turn-key basis following the Public Procurement Rules, 2006. However, it has been suggested that Petrobangla can use up its own resources and resources from Gas Development Fund (GDF) to expedite the exploration of 100 wells. There is a huge amount of money that has been allocated for the LNG import in 2026, which can be redirected for the speedy implementation of domestic gas exploration. Petrobangla has planned to import a total of 115 LNG cargoes to address the gas supply shortage in FY2026 costing around BDT 580 billion[7]. Interim government has been seen to excessively prioratising import of LNG not only by signing and extending the LNG MoUs and contracts in long term and spot market, but also by motivating LNG through VAT exemption in the national budget. As the USA has signed key LNG Memorandums of Understanding (MOUs) and deals with Bangladesh, focusing on long-term supply to meet energy demands, the energy transition growth is said to be backtracked. Instead, technical and financial assistance regarding domestic gas exploration should have been on the table of discussion with USA.

7.1.3 State of Renewable Energy Expansion*:* Both the biggest challenge and opportunity of this government was to achieve visible progress in renewable energy expansion at all levels. But not much progress has been made. Only significant achievement is that this government has been successful to increase the number of Net Metering Rooftop Solar System. Currently there are 4,533 NEM Rooftop Solar system in Bangladesh with the capacity of 210.285 MWp. In fact, the first nail of the energy transition coffin was the LoI cancellation of the 34 renewable energy-based power plants. Such decision has made attracting investment in renewable energy much more complicated, which was later reflected in the slow progress in tender bidding of 55 solar power plants with the capacity of 5,238 MW. Interim government has initiated some new programmes and has made new policies. However, the implementation process is taking so much longer than needed. For example, implementation of solar rooftop programme is still to make visible progress. On top of that, the number of renewable energy-based power plants connecting to the national grid is depleting with time. During the last quarter (Oct- Dec'25), no new power plant has started its scheduled operation. Such circumstances only indicates that it was nothing but government's wishful thinking to establish Three Zeros in Bangladesh, specially, zero carbon emission.

[6] https://www.bssnews.net/news/331221
[7] https://en.bonikbarta.com/business/GhvsuSyHdEovnsMx

7.2 Reform in Policies, Laws and Acts Related to the Power and Energy Sector

Interim government has shown most significant shift in policies, laws and acts in the power and energy sector. The government has mostly repealed, updated, amended or revised the policies/ laws/acts/plans which were hindering the sustainable energy transition and financial health of the sector. During August'24, CPD had suggested the reform measures needed to initiate for the existing policies/laws/acts/plans and what new plans, policies, laws can be drafted to ensure the reform. Table 7.3 chalks out the reform measures suggested by CPD and reforms done by the interim government in the last 17 months.

Table 7.3: Key Policies/Laws/Acts/Plans: Major reform suggested and reforms done

Policies/Laws/Acts/Plans	Reform Measures suggested by CPD	Reforms Done by Interim Govt.
Quick Enhancement of Electricity and Energy Supply (Special Provision) Act, 2010	Immediate Repealing	Immediately repealed the Act
Public Procurement Act and Rules	To be Updated and Practiced	Updated and in Practice now
Amendment of Bangladesh Energy Regulatory Commission (BERC) Act, 2003	Immediate Amendment	Immediately amended
Integrated Energy and Power Master Plan (IEPMP)	Revision of the Plan	Revision undergoing.
Mujib Climate Prosperity Plan (MCPP)	Updating	No update
Nationally Determined Contributions (NDCs)	Revision and Updating	Updated NDC3.0,
Perspective Plan 2041 (PP 2041)	Updating of the Plan	No update
National Energy Policy 1996	To be Revised	No update
Renewable Energy Policy (Draft) 2022	Revision of the Policy	Has been revised
Net Energy Meeting Guidelines	To be Updated	Has been updated aligning with the solar rooftop programme
Energy Conservation Act	To be Formulated	Not initiated
Energy Audit	To be Designed	Not initiated
Centralised Database	To be Built	Not initiated
Pricing and Investment Policy	To be Designed	Not initiated
Competitive Bidding	To be Initiated	Initiated
Just Transition Network	To be Designed	Not initiated
FiT Scheme	To be Designed and Practiced	Not initiated
Request for Quote and Request for Proposal	To be Initiated	Not initiated
Auction Guidelines	To be Designed and Practiced	Not initiated
National Solar Rooftop Programme	-	New programme has been initiated
Merchant Power Policy	-	New policy has been taken but not in implementation yet

Source: Authors' Illustration.

The most controversial act to support fossil fuel, the Quick Enhancement of Energy and Power Supply Act 2010, has been discontinued by interim government as soon as the energy advisor took the office. No new power plants have been built under this act, however, the existing power plants commissioned under this act have been operating as usual. Stating the absence of the competitive bidding of the contract awarding of the power plants, interim government has canceled the LoI of 39 power plants under the Quick Enhancement of Electricity and Energy Rapid Supply Enhancement (Special Provisions) Act, 2010. Of these, 34 were planned to generate electricity using solar energy, and the remaining 5 were gas-based. Instead, interim government has started to adopt the Public Procurement Act and Public Procurement Rules 2006 to select and award the new power plant tenders. Under the PPA and PPR, the Ministry of Power Energy and Mineral Resources (MoPEMR) has invited tender of 55 solar power plants of size ranging from 10 MW to 250 MW in four lots since December 2024.However, the experiences of conducting the contracts under PPA and PPR have not been much pleasant as the participation in the latest solar tenders has been low reflecting the structural weaknesses and procedural uncertainties in the overall procurement process (Moazzem and Shazeed, 2025). Table 7.4 demonstrates the positive and negative aspects of PPR and PPA.

Table 7.4: Analysis of the PPA and PPR

Positive Aspects	Negative Aspects
1. Improvement in transparency in paper 2. Improvement in accountability in paper 3. Fall in the tariff 4. The officials are required to properly maintain the documentation in the procurement process and provide it during audit 5. Standard Tender Documents (STDs) available to all bidders under equal terms	1. Poor transparency, accountability and efficiency of the procurement system under PPA and PPR in practice 2. Very pessimistic participation in the solar tender 3. Usage of discouraging terms 4. Strict financial criteria 5. Transparency Issues in the tender 6. Accountability issues in the tendering process 7. Low level of efficiency in the process 8. Multiplicity of approvals and institutional delays

Source: Moazzem and Shazeed, 2025.

The interim government had taken a major initiative to revise key policies and plans related to power and energy sector. In this connection, Power Division approved a policy called 'Renewable Energy Policy 2025' in June 2025. The Renewable Energy Policy 2025 is a timely initiative, but it needs major revision to make it compatible with country's long-term commitment for renewable energy transition (Moazzem et al., 2025). The policy needs to revisit its long-term targets for power generation capacity unlike the exaggerated target sets in the Integrated Energy and Power Master Plan (IEPMP). The IEPMP is also under revision as it requires more realistic demand forecast, methodological rigor, renewable and clean energy target setting, clean and advanced technologies to be adapted for renewable energy expansion (Moazzem and Preoty, 2024). Within the first month of taking office, the interim government issued an ordinance to repeal the previous amendments that allowed the government to adjust electricity and gas prices directly, by passing BERC's mandatory public hearings, citing "special circumstances". Through repealing the ordinance, the BERC has been re-empowered to set energy prices through public hearings.

In addition to the amendment of the existing laws/acts/rules/policies, the interim govt. has also launched a new National Solar Rooftop Programme 2025 to achieve 3000 MW of solar power. The programme includes government buildings, educational institutes and clinics. Quite a few government offices, schools, colleges and clinics have initiated the installation of rooftop solar through signing the MoU, awarding the tender, even some has started the installation and power generation. Another newly introduced policy titled "Enhancement of Private Participation in the Renewable Energy-based Power Generation", allows private firms to produce and sell power independently. In order to yield benefits, the entire market operation should be ensured competitive, and grid stability should also be maintained as the distributive nature of the variable renewable energy will cause instability.

The MoPEMR has freshly drafted and presented a new Power Sector Strategic Plan (PSSP) outlining the strategic plan for the next 25 years. The newly proposed strategic plan aims to provide reliable, affordable, and sustainable energy for all through optimal use of domestic resources, energy security, efficiency improvements, and environmental responsibility. The plan seems to address the most critical critic regarding the estimation of electricity demand projection that has been revised to 59,000 MW by 2050 from 70,500 MW said to be in IEPMP 2023. The plan incorporates cleaner and more efficient technologies, cutting emissions per megawatt-hour from 0.62 to 0.35 tonnes of carbon dioxide which will reduce 64.5 million tonnes of carbon dioxide annually and a total of 1,600 million tonnes by 2050[8]. Priority projects in the first phase include offshore exploration, increased gas production, LNG supply security, refinery capacity expansion, and strategic energy storage development. However, long-term strategic projects include the introduction and expansion of hydrogen and ammonia-based power generation structure which is not acceptable at all. CPD will conduct a thorough analysis of this plan in sooner future.

While other important documents such as Nationally Determined Contribution 3.0 have been updated, revision and formulation of many crucial policies such as Perspective Plan, Mujib Climate Prosperity Plan, National Energy Policy, Energy Conservation Act has not being initiated.

7.3 Reforms in Government Bodies related to the Power and Energy Sector

Another challenge for interim government was to perform significant operational reforms related to the government bodies. Such reforms were also suggested by CPD while the interim government took over. Table 7.5 presents the required reform measures suggested by CPD for government bodies to ensure efficiency of those authorities and what working progress has been made against those by the interim.

Table 7.5: Key government bodies: Major reforms required vs major reforms made

Institutions	Reforms needed	Reforms done
Sustainable and Renewable Energy Development Authority (SREDA)	Institutional Overhauling and Upgradation	SREDA is still operating as a weak authority with minimal to no overhauling power
Bangladesh Energy Regulatory Commission (BERC)	Amendment including Reinstating Earlier Responsibilities and More Functionality	The BERC Act has been amended and now BERC is practicing the energy and fuel price setting authority
Bangladesh Petroleum Corporation (BPC)	Strengthening Dhaka Office with human resources and Accessibility	No visible progress has been made
Establishing New Institutes for Renewable Energy Transition	• Renewable Energy Laboratory • Office of Energy Efficiency and Renewable Energy • Office of Scientific and Technical Information on Energy • Energy Information Administration • Council for Environmental Qualble Energy Laboratory	No visible initiative has been made

Source: Authors' Illustration.

The only dedicated renewable energy authority SREDA has been struggling with limited authority and capacity from the very beginning. Such inefficiency and non- capacitated institutional set up has appeared to be one of the key challenges of delayed renewable energy expansion. Despite much discussion, interim government has failed to improve the reputation of SREDA within their tenure. Similar observation can be made for BPC as well. The lack of skilled manpower, their irregularity of the presence of Dhaka office and heavily depending on the operational issues from the Chittagong office has raised serious concerns regarding their successful operations. On a positive note, BERC has regained its legal authority to set the price of fuel oil, electricity and gas.

[8] https://www.thedailystar.net/news/bangladesh/news/power-energy-govt-unveils-new-25-year-master-plan-4075896

BERC's institutional capacity has also been enhanced as it has expanded its institutional base by hiring more manpower. To complement these existing bodies, establishment of new institutions dedicated to renewable energy was proposed by CPD. Even though no new energy transition focused institution has been established yet, establishing a renewable energy wing in every sectoral organisation has been made mandatory by the interim government.

7.4 Recovering from the Spiraling Financial Crisis

The major challenge for the interim government when they took over the energy office was the overwhelming sectoral debt of BDT50,000 crore from electricity generation and LNG, and oil import[9]. This included outstanding dues to be paid to domestic IPPs, rentals and quick rentals, India's Adani Group, Chevron, long term and spot market LNG suppliers. Since interim government took office, it has repaid BDT 29,000 crore of that debt by April 2025. Despite these payments, however, the backlog owed to local power producers continues to rise as private power companies are currently owed at least BDT 20,000 crore by the Bangladesh Power Development Board (BPDB). Among the private power producers, those operating furnace oil–based plants are owed around BDT 6,000–7,000 crore, while the rest of the payable belong to gas- and coal-based power plants. BPDB has cleared USD 30 million due in November 2025 to Adani Power against Adani's claim of USD 495 million outstanding bills. From BPDB's end it was confirmed that the outstanding bill is around USD 256 million. Despite continuing payments and repayments made by the government, the power debt trap seems nothing but never ending and spiraling pattern. This has also appeared to be true as the financial accounts of the regulatory authorities continue to be in red, especially BPDB. Despite the increasing subsidy and tariff adjustment, BPDB still cannot come out of loss. On the other hand, BPC is making profit from consecutive years. In 2024 BPC made a total profit of BDT 3943 crore and in 2025 it was BDT 4316 crore.

On a positive note, the interim government successfully paid off the foreign debt of fuel oil and LNG import during their tenure. Despite that, it has been continuously failing in the debt loop. The reason being that the interim government failed to address the root cause and carried with the short-term fixes such as continuing to clear the electricity bills instead of tariff negotiations, opting high priced LNG import instead of focusing on the gas exploration, lagging in structural reforms to attract more investment in renewable energy. Initially negotiating the power tariff while reviewing the contracts and gradually planning to phase out the fossil fuel-based generation as well as moving towards renewable energy would have actually solve the endless cycle of debt.

7.5 Recommendations for the Elected Government

Previously CPD proposed activities and initiatives that needed to be taken by interim government in short to medium terms, dividing them into first three phases of the energy transition. Many of the proposals from Phase 1: Assessment and Planning for immediate implementation have been carried out by the interim government. CPD will propose another 2 phases: short to medium terms reform agenda for the upcoming elected government which will help them to reinstate the pace of energy transition in Bangladesh in the next 2-3 years. The short-term reform activities must be taken within the 100 days of taking the power and energy ministry office.

7.5.1 Recommendation for Phase 1 (Short Term)

a) Right after taking the office of MoPEMR, the elected government should come up with an institutional reform plan to ensure institutional readiness for energy transition. A whole

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[9] https://www.tbsnews.net/bangladesh/energy/govt-faces-tk50000cr-power-and-energy-dues-plans-special-bond-payment-relief

government approach is required to make a substantial shift in the existing institutional base.

b) MoPEMR should be considered and treated as a specialised institution and all the positions should be occupied with the appropriate professionals with specialisation. From the top to the lower level of the hierarchy specialised manpower to be hired and associated with the right position.

c) The upcoming elected government must execute and implement the National Solar Rooftop Programme with atmost priority. By doing so, atleast 3000MW of electricity will be generating from solar energy.

d) Given the prevailing weaknesses, IEPMP needs to be revised immediately. All the new plans and policies to me drafted according to the IEPMP targets and goals.

e) The newly elected government should prioratise the identification and assessment of renewable energy resources such as solar, wind, and hydro across different regions of Bangladesh. A thorough satellite mapping can be carried out by the government to help the country understand the best locations for installing solar panels.

f) The new government must put a stop in over interest and over emphasis on LNG import. Continuing in the path of LNG will ultimately result in the repeating financial debt trap. In the next budget, the zero VAT imposition on LNG import must be withdrawn.

g) Gradually priority should be shifted from LNG import to domestic gas exploration to successfully drill 100 gas wells by 2028. ADP allocation from the budget to be increased and to be utilised to drill gas wells. Petrobangla should invest its own resources in gas drilling projects. BAPEX should even take loan to allocate resources for gas exploration for the gas wells that are supposed to be explored.

h) Competitive bidding processes should be implemented and ensure all procurement plans and proposals are publicly available. The interim government has failed to make these documents public questioning the transparency, risk of favouritism, and foster public trust in energy transition projects.

i) Disclosure of procurement contracts and data of the power plants. 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.

j) The rentals and quick rentals that have already finished their lifetime and exhausted their potential should be stopped immediately. The inefficient power plants with very low annual plant factor should be phased out at the earliest possible. A specific plan should be declared regarding the year wise gradual phase out of these power plants.

k) The elected government must quickly complete the review of the cancelled LoIs under the PPR and PPA. Doing such will allow the power producers to review the contracts and tariffs under competitive process.

l) To reduce the subsidy burden, the new government should renegotiate the electricity purchase prices through BPDB from the IPPs which were contracted unsolicited under the special Act at a higher price compared to the market price.

m) The non- transparent public accounts and mismatch regarding the financial accounts within the different public documents have raised the credibility question of the financial reporting. The accounts of BPDB, BPC and PetroBangla must be reassessed by the big four international audit firms to find out the actual scenario of their loss profit.

n) No further discussion on domestic coal extraction should be brought up by the newly elected government. The new government must immediately put a hold on the discussion and initiative as it will only put the energy transition of Bangladesh backtrack. Rather it should have a firm commitment to stop such agenda and look for ways to phase out existing coal-based power plants.

o) The MoPEMR needs to design a five-year financial payment plan with a view to gradually reducing all overdue to concerned divisions and departments to zero. Such a plan will require gradual phase out of fossil-fuel based power plants after their current contracts are over. Moreover, such a plan will require withdrawal of 'capacity payment' clause from renewed PPAs as well as PPAs to be signed for new fossil-fuel based power plants.

p) The new government must focus on prioritising and investing in advanced grid technologies, including smart grids and automated systems, while strengthening the capacity of transmission and distribution networks is crucial to achieving energy transition goals. Modernising the grid will support the integration of large-scale renewable energy projects. Additionally, upgrading the grid will enable the implementation of smart metering systems, improving energy management and reducing billing inaccuracies

q) The new government needs to end the pro fossil fuel incentive structure by withdrawing the corporate tax exemption for all types of fossil fuel- based companies for all the upcoming power plants. A minimum of 5 per cent custom duty along with surcharge and carbon tax should be imposed on the import of all the machineries and steel structure of fossil fuel-based power generation companies.

r) The government should eliminate these taxes on all renewable energy goods to reduce costs and boost adoption. For any renewable energy-related HS Code where the Customs Duty (CD) exceeds 5 per cent, it should be reduced to 5 per cent or less than 5 per cent. It is also recommended to reduce the VAT to 10 per cent from 15 per cent.

7.5.2 Recommendations for Phase 2 (Medium term)

a) The institutional structure of SREDA needs a major overhaul which is better suited to take a lead role in energy transition in the power sector. SREDA should be operated under the Prime Minister's Office. As SREDA is a specialised technical institution, professional and technical personnel should be in position of authority and leadership. SREDA needs to play a major role in coordinating the green energy transition by working closely with other relevant ministries responsible (such as the Ministry of Finance, Ministry of Agriculture, and Ministry of Industries).

b) Dedicated research institutions such as the Renewable Energy Laboratory and the office of Energy Efficiency and Renewable Energy to focus on innovation in renewable energy technologies should be established. These institutions should work on developing solutions tailored to Bangladesh's specific geographic and economic conditions.

c) An Office of Scientific and Technical Information on Energy to serve as a central repository for energy research and data should be set up. This office should facilitate collaboration among research institutions and industry players, enhancing Research and Development for Energy Transition.

d) Pilot projects and feasibility studies in selected regions to test and demonstrate the viability of various renewable energy technologies should be launched. These projects should be closely monitored, and the results should be made publicly available to inform future large-scale implementations.

e) Several policies and operational decisions taken during the interim government have made a dent in the foreign investment in renewable energy. The new government must take bold initiatives to attract more foreign direct investment. The priority for now should be attracting investors by restoring law and order and improving the economic situation, including the reserve scenario.

f) To scale up renewable energy projects the government must ensure speedy and timely completion of the domestic renewable energy projects. The tax and incentive structure needs to be revised for an equitable and just business environment for renewable energy-based power generation.

g) As the fossil fuel-based power plants have been and will be phased out in the coming days, there will be a pool of stranded assets in Bangladesh. The government should look for opportunities to retrofit or contract new renewable energy power plants on those lands and assets.

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SECTION VIII. EXTERNAL SECTOR PERFORMANCE: A TALE OF TWO TALES

Key findings

- Bangladesh's exports continued to remain volume-driven rather than price-driven, underpinned, in large part, by increased competition not only in the US but also in the EU market in response to Trump Reciprocal Tariffs.
- While Balance of Payment position has improved significantly, this was driven by positive changes in debt-carrying Financial Account Balance, drawing attention to the growing importance of ensuring robust returns on borrowed external finance.
- The exchange rate of the BDT remains somewhat depreciated primarily because of Bangladesh Bank's intervention through open market operations, indicating the prospect of appreciation of the BDT once exchange rate is made fully market-determined.

Key recommendations

- Drawing on necessary lessons from its experience from the recently-concluded bilateral negotiations with Japan, Bangladesh should aggressively pursue initiatives to deepen regional economic cooperation and go for comprehensive economic partnerships.
- The upcoming fourteenth WTO Ministerial Conference (WTO-MC14) will be the last Ministerial before Bangladesh graduates out of the group of LDCs in November 2026, in view of which Bangladesh should take serious preparations to advance its interests at MC14 as a graduating LDC.
- Against the backdrop of comfortable levels of forex reserves, Bangladesh Bank may consider making the exchange rate of the BDT fully market-determined, taking cognisance of the involved trade-offs.

8.1 Introduction

As the Fiscal Year 2025-26 crosses its halfway mark, Bangladesh's external sector exhibits two contradictory signals. On the one hand, one observes commendable resilience of the external sector which imbued some stability to the macroeconomic situation against the backdrop of high levels of inflation (in spite of downward trends in recent months), subdued investment and the consequent adverse impact on the job market. On the other hand, thanks to robust remittance flows and high foreign loan disbursement, foreign exchange reserves experienced continuing rise which helped to withdraw earlier restrictions imposed on imports, while exchange rate stability contained imported inflation. However, as the economy enters the second half of FY2026, a number of developments ought to be seen as reasons for concern.

This section of the IRBD focuses on the performance of some of the key external sector correlates of Bangladesh economy during the first few months of the FY2026, and draws attention to a number of major challenges facing the economy over the near-term future.

8.2 Export Performance: Disquieting Outlook

Export performance during the first half of FY2026 has been quite dismal, with a 2.2 per cent dip compared to the corresponding period of FY2025 (USD 24.0 billion against USD 24.5 billion). Exports started with a robust month on month growth of 24.9 per cent in July 2025 but ended with a negative growth of 14.0 per cent in December, with secular decline in growth in between. This would indicate that the high targets set for export of goods in the budget for FY2026, at 13.8

per cent, is unlikely to be achieved since exports will need to reach an impractically high growth of 30.2 per cent over the next six months of FY2026.

Table 8.1: Bangladesh's Export Performance by Major Sectors

Products	FY2025 (Jul-Dec) (Million USD)	FY2026 (Jul-Dec) (Million USD)	% change (FY2026 Jul–Dec over FY2025 Jul–Dec)	Net Export Earnings (July-Dec)	Contribution to the Negative Incremental Export (%)
RMG	19,887.70	19,365.43	-2.63	10,812.06	97.32
Knitwear	10,837.37	10,488.07	-3.22	6,817.25	65.09
Woven Garments	9,050.33	8,877.37	-1.91	3,994.82	32.23
Non-RMG	4,645.80	4,631.44	-0.31	3,705.15	2.68
Total	24,533.50	23,996.87	-2.19	14,517.21	100.00 (-536.63)

Source: EPB (2026).
Note: 1. Value additions for Net Export have been estimated by using the following coefficients- knit-RMG: 0.65; Woven-RMG: 0.45; Others: 0.80.
2. Figure in parenthesis is in million USD.

Table 8.1 shows export earnings performance over the July-December, FY2026 period. Two inferences can be drawn from the data. First, export earnings were pulled down by the lower than projected exports of the dominant RMG sector (-2.6 per cent), though non-RMG export performance was also discouraging (-0.3 per cent). Secondly, since knit-RMG, with its higher domestic value retention, did worse than the woven-RMG, the growth of *net export earnings* was even lower than what the performance of *gross export earnings* would indicate. This, in turn, would indicate that the contribution of export earnings to foreign exchange reserves in this period was notably lower than the corresponding period of the preceding fiscal year.

Table 8.2: Factors Driving RMG Growth of Bangladesh and Selected Competitors in EU and US Markets

Market	Change in Prices (%)			Change in Volume (%)			Change in earnings value (%)		
	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam
US Market (Jul-Sep)	+1.94	-26.25	-8.28	+6.66	-27.28	+17.27	+8.63	-46.37	+7.56
EU Market (Jul-Oct)	-7.85	-13.69	+2.96	+6.47	+14.03	+1.06	-1.89	-1.58	+4.06

Source: Estimated from Database Eurostat and Dataweb USITC (2025).

Table 8.2 presents information on key export markets, with export earnings disaggregated by *price effect* and *volume effect*. During the July-November period, shares of Bangladesh's earnings from apparels exports to the EU and the US market were 48.6 per cent and 20.0 per cent, respectively. In the US market, for the first quarter of FY2026, exports posted a rise of 8.7 per cent. This may appear to be encouraging. However, digging deeper, a decomposition of the earnings growth reveals the continuing feature of volume-driven (6.7 percentage points), and not price-driven (1.9 percentage points), growth of export earnings.

There are signs of growing competition as some exporters have tended to shift from the RT-imposed US market to other markets, primarily to the EU market. During July-October period of

FY2026, Bangladesh's export earnings in the EU market have come down, posting a negative growth of 1.9 per cent. Decomposition shows average prices coming down by 7.9 per cent, with volume growth of 6.5 per cent not being sufficient to compensate for this, resulting in the overall fall in export earnings. EU market performance appears to be the 'collateral damage,' indicating tough times ahead.

8.3 Import Performance: Slow Pick Up Against Depressed Consumer and Investment Demand

Thanks to the continuing rise in foreign exchange reserves, Bangladesh Bank has withdrawn various restrictive measures on imports put in place earlier. Following a depreciation of almost 35.0 per cent over the last couple of years, the BDT has now stabilised against major currencies. However, imports failed to post significant rise, with growth of only 4.5 per cent over the first four months of FY2026 compared to the corresponding period of the preceding FY2025. Consumer goods posted negative growth (-1.2 per cent), while growth of intermediate goods was also rather subdued (+4.3 per cent). On an encouraging note, payments for capital machineries posted a rise of 15.6 per cent, while other capital goods registered a growth of 4.6 per cent.

Table 8.3: Global Average Price of Selected Commodities

Items	Unit	Jan-Dec, 2024	Jul-Nov, 2025	Change (%)
Crude Oil, average	USD/bbl	78.7	65.6	-16.70
Crude Oil, Brent	USD/bbl	80.7	67.1	-16.90
Cotton	USD/kg	1.91	1.7	-10.68
Rice, Thailand 5%	USD/mt	588.4	373.0	-36.61
Wheat, U.S., HRW	USD/mt	268.7	235.3	-12.42

Source: Based on World Bank Prospects Group (2026).

Some impact of price effect cannot be ruled out in this context. As shown in Table 8.3, global commodity prices have experienced downward trend over the past several months. Average crude oil price came down from USD 78.7/bbl (January-December 2024) to 65.6 (average for July-November 2025), a decline of about 16.6 per cent. Similarly, cotton prices came down over the corresponding period from USD 1.9/kg to USD 1.71/kg, i.e. 10.7 per cent lower; one would expect a knock-on lower price effect on yarn and fabrics prices as a consequence of this.

Bangladesh's import payments for raw cotton during the July-October, FY2026 came down by about 16.5 per cent, those for textiles and articles thereof came down by 0.7 per cent, and for back-to-back L/C openings in July-November, FY2026 (mostly cotton, yarn and fabrics) came down by 12.4 per cent. However, import payment figures ought to be interpreted with some caution against the backdrop of falling cotton prices noted above.

Table 8.4: Break-up of Opening and Settlement of Import LCs for Capital Machineries

Items	L/C Opening	L/C Closing
	(% growth during July-November of FY2026 over FY2025)	
Capital Machineries	29.40	-16.75
Textile machinery	-21.79	-40.03
Leather / tannery	70.60	-19.24
Jute industry	-91.48	-90.37
Garment industry	-20.66	-9.34
Pharmaceutical industry	6.69	7.23
Packing industry	279.64	50.43
Other industry	48.80	-16.95
Machinery for miscellaneous industries	30.08	10.61

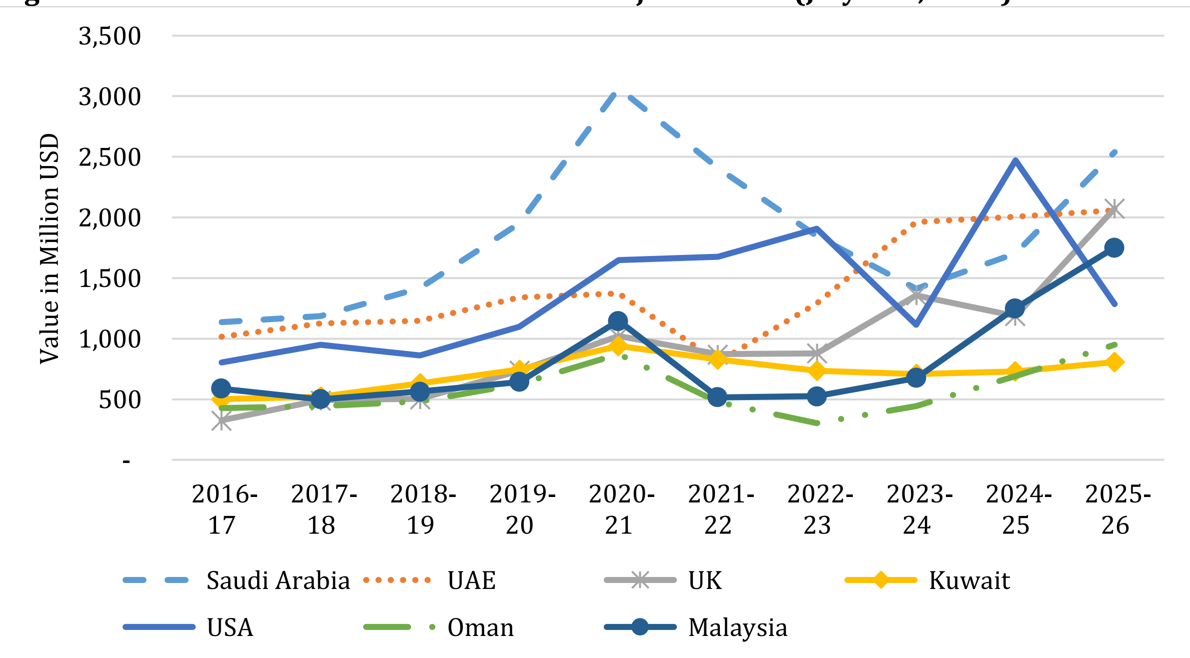
Source: Bangladesh Bank (2025).

L/C opening for capital machineries during July-November 2025 posted a rise of 29.4 per cent compared to the corresponding period of FY2025. This contrasts with the comparable L/C settlement figures for these items which registered a negative growth of 16.8 per cent over the corresponding period of FY2025. Whilst this may augur well for domestic investment in the coming months, the composition needs to be carefully examined (Table 8.4). L/C openings for imports of machineries for RMG industries fell by 20.7 per cent and that of textile industry by 21.8 per cent over the corresponding period (in line with trends for L/C settlement figures for these items). Policymakers will need to monitor the likely implications of the above for the investment scenario over the second half of FY2026.

8.4 Robust Remittance Flows: The Saviour, Once Again!

The high pace of remittance flows during the July-December, FY2026, at the back of the high growth of the preceding corresponding period, has been a welcome relief for Bangladesh and its external sector. This manifested itself in the form of greater domestic aggregate demand, higher foreign exchange reserves and stabilisation of BDT exchange rate. A depreciated BDT, incentives on remitted money, high number of migrant workers travelling overseas and, most possibly, a shift from informal hundi/howla channels to formal channels, have contributed to the robust growth of 19.4 per cent during the first six months of FY2026 compared to the corresponding period of the previous fiscal year. To note, this was achieved against the backdrop of the high growth of 27.4 per cent during the matched period of FY2025.

Figure 8.1: Remittance Inflow from Selected Major Sources (July-Dec, 2025)



Source: Bangladesh Bank (2026).

Over the last five years (January 2021 to December 2025), about 5.2 million workers left Bangladesh for overseas job, of which more than half (56.6 per cent) went to Saudi Arabia. Indeed more than two-thirds of migrant workers travelled to the Middle East. Whilst the impact of stocks and flows of migrant workers remain an issue, volatility as regards sources of remittance flows remains rather intriguing. This is clearly discernible from Figure 8.1 which shows that remittance flows, particularly from Saudi Arabia, UAE, USA and UK, have been particularly volatile over recent years.

Table 8.5: Country-wise Contribution to Incremental Remittance Inflows (in percentage)

Period	Saudi Arabia	UAE	UK	USA	Malaysia	Other Countries	Total
2021-22	23.39	20.12	5.29	-1.79	22.39	11.93	100.00 (-2,818.68)
2022-23	-4,206.73	3,620.02	69.31	-130.95	62.96	825.38	100.00 (13.36)
2023-24	-78.70	120.99	86.07	-213.75	27.44	66.91	100.00 (553.81)
2024-25	10.04	1.51	-5.81	43.91	19.64	19.16	100.00 (2,933.04)
2025-26	31.69	2.09	33.67	-43.47	18.93	45.79	100.00 (2,638.55)

Source: Bangladesh Bank (2026).
Note: Figures in parenthesis are absolute incremental remittance flows in million USD.

More than 45.0 per cent of incremental remittances coming from 'other countries' is also something that needs to be investigated (Table 8.5). The significant surge in the number of migrant workers has eased pressure on domestic labour market to a notable extent. More proactive measures are needed towards aligning the skills of migrant workers with shifting demands of the global job market, both with respect to skills, and in view of new market opportunities particularly in countries of Eastern Europe, Japan and South Korea.

8.5 Balance of Payments: Significant Improvement

Table 8.6: BoP Position and Structure of Change (July-October, in Million USD)

Items	FY2025 (Jul-Oct)	FY2026 (Jul-Oct)	Change
Trade Balance	-6,680	-7,570	-890
Services	-1,474	-1,960	-486
Primary Income	-1,636	-1,580	56
Secondary Income	9,150	10,362	1,212
Of which: Workers' remittances inflows	8,937	10,148	1,211
Current Account Balance	-640	-749	-109
Financial Account	-499	2,172	2,671
Errors and omissions	-1,214	-430	784
Overall Balance	-2,190	1,088	3,278

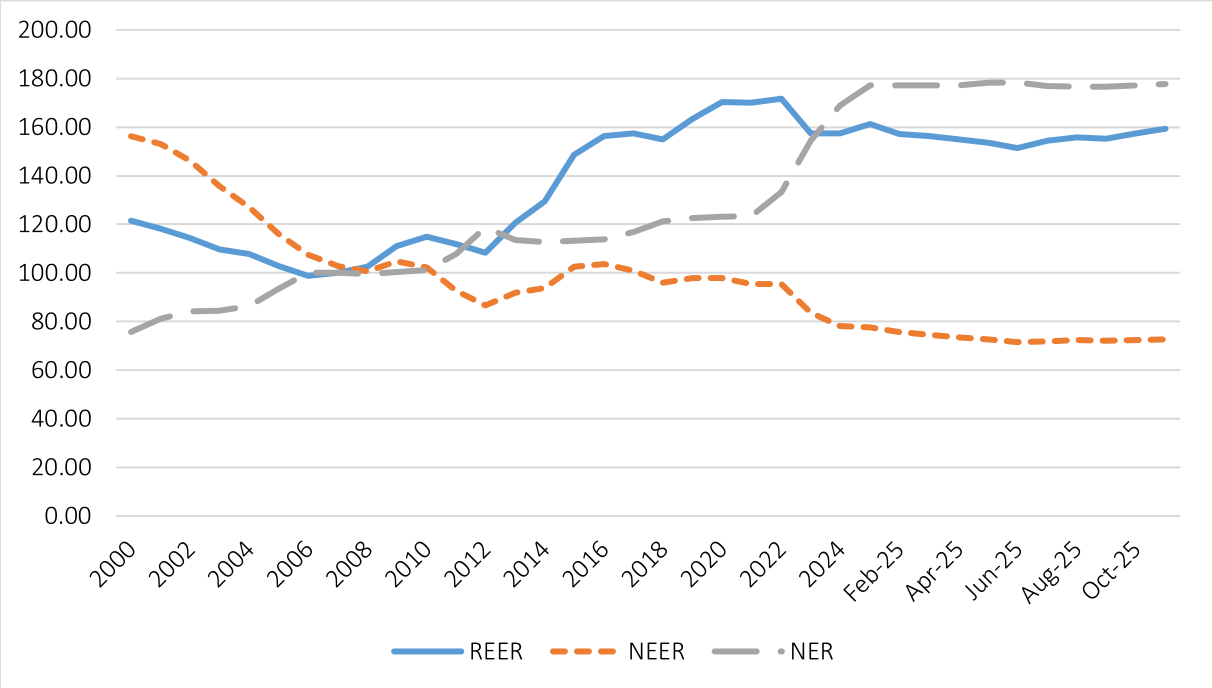
Source: Bangladesh Bank (2025).

During the July-October period of FY2026, the *Balance of Payments* position improved noticeably compared to the corresponding period of FY2025 (Table 8.6). *Overall Balance* crossed over to positive terrain, from USD (-) 2.2 billion to USD (+) 1.1 billion, an improvement of about USD 3.3 billion. This was underpinned largely by the positive change *Financial Account*, from USD (-) 0.5 billion to USD 2.2 billion. The negative in the trade balance suffered a further fall (against the backdrop of stagnant export and some rise in imports), and in spite of the robust remittance growth, the *Current Account Balance* experienced some decline.

From a compositional point of view, the overall improvement in the Balance of Payments position is not reassuring in the sense that the positive shift has come against the backdrop of debt-creating Financial Account Balance, and not from improvements in the Current Account Balance.

The improvement in the Overall Balance, as was to be expected, had positive impact on the country's forex reserve situation. On 30 December 2025, the forex reserves crossed USD 33.0 billion, which is equivalent to 6.2 month's of imports. According to BPM-6 reserves, the two figures are USD 28.5 billion and 5.3 months. By any measure, this is a remarkable turnaround. Keeping the foreign exchange reserves robust is no doubt important – to underwrite imports and service external debt-related payments. One also understands the need to maintain stability of the BDT and keeping the currency at a level that is favourable to exporters and remitters. However, the interests of importers and consumers also need to be taken in cognisance. No doubt, important *trade-offs* are involved here.

Figure 8.2: Movement of REER, NEER, and NER of BDT



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

Bangladesh Bank's publication 'Major Economic Indicators: Monthly Update (November 2025)' states that 'Exchange rate of Bangladesh Taka against USD appreciated marginally by 0.45 per cent at the end of November 2025 compared to the end of June 2025.' Our analysis of the movements of NEER, REER and NER of BDT, presented graphically in Figure 8.2, also indicates that the BDT remains somewhat appreciated, albeit not by a significant margin. This is also corroborated by Bangladesh Bank's own estimates. Bangladesh Bank may like to reflect what stance to pursue under the current circumstances keeping in purview the trade-offs involving consumer and producer welfare, competitiveness of exporters, incentivisation of remittance flows and overall macroeconomic interests of the country.

8.6 Anticipated Challenges In Going Forward

As FY2026 enters into the second half, a number of anticipated developments need to be carefully monitored and acted upon accordingly.

Preparing in Anticipation of LDC Graduation

The issue of whether to make a submission to the UN for deferment of LDC graduation will, in all possibility, be left to the elected government which will assume power following the February 12, 2026 national elections. If the government so decides, it will need to mobilise the required support at the UN. Solidarity of neighbouring powerful UN members such as India and China will be crucial if and when Bangladesh so decides. A coordinated effort in this connection with the two other graduating LDCs – Nepal and Lao-PDR – will enhance the likelihood of success of Bangladesh's endeavours in this regard, if Bangladesh so decides.

However, highest emphasis will need to be put on implementing the *Smooth Transition Strategy* (STS) that the Interim Government has formulated, with timelines and responsible agencies. The *High Level Expert Group* (HLEG) has identified a number of priorities: these include putting in place a the *Single Window* system at customs, implementation of the *National Logistics Policy 2025*, getting the *Active Pharmaceutical Ingredients Park* off the ground, enhancement of environmental-friendly production capacity of Savar leather park, renewed efforts at product and market diversification through intra-RMG diversification (shift to higher-end items and man-made fibre-based apparels) and by moving into non-RMG sectors such as assembling plants, light-engineering, IT-enabled services and electronics, along with traditional sectors with proven competitive strength such as leather products and environment-friendly jute items.

Preparing for the Upcoming MC-14

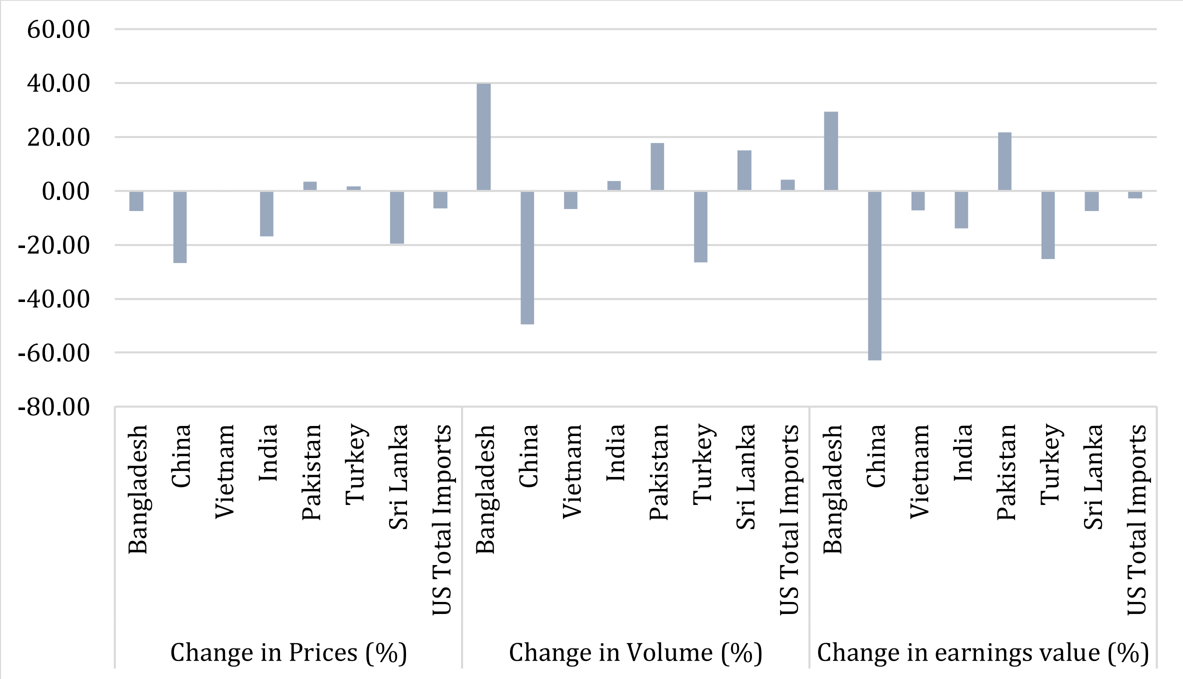
The upcoming fourteenth Ministerial Conference of the WTO (WTO-MC14) will be an important milestone for Bangladesh, for several reasons. This will be the last MC prior to Bangladesh's graduation which is slated for November 2026. It will be in Bangladesh's interest to keenly follow and actively take part in the discussion on international support measures favouring the *Graduating LDCs* (GLDCs).

To be true, the WTO has come under serious attacks in recent times, on many fronts. A number of its founding principles such as *consensus-based decision-making process*, *single undertaking* (nothing is agreed unless everything is agreed) and *national treatment*, have come under question. At the same time, it is likely that regional trading arrangements will become increasingly powerful in the coming days. South-South cooperation and pan-Global South integration will likely gain growing traction. Bangladesh should remain alert to the developments as regards *WTO reforms* and try to secure its interests as a GLDC and as a future developing country and, at the same time, pursue a proactive policy to be a member of various regional initiatives in order to take advantage of market opportunities.

Dealing with Trump Reciprocal Tariffs

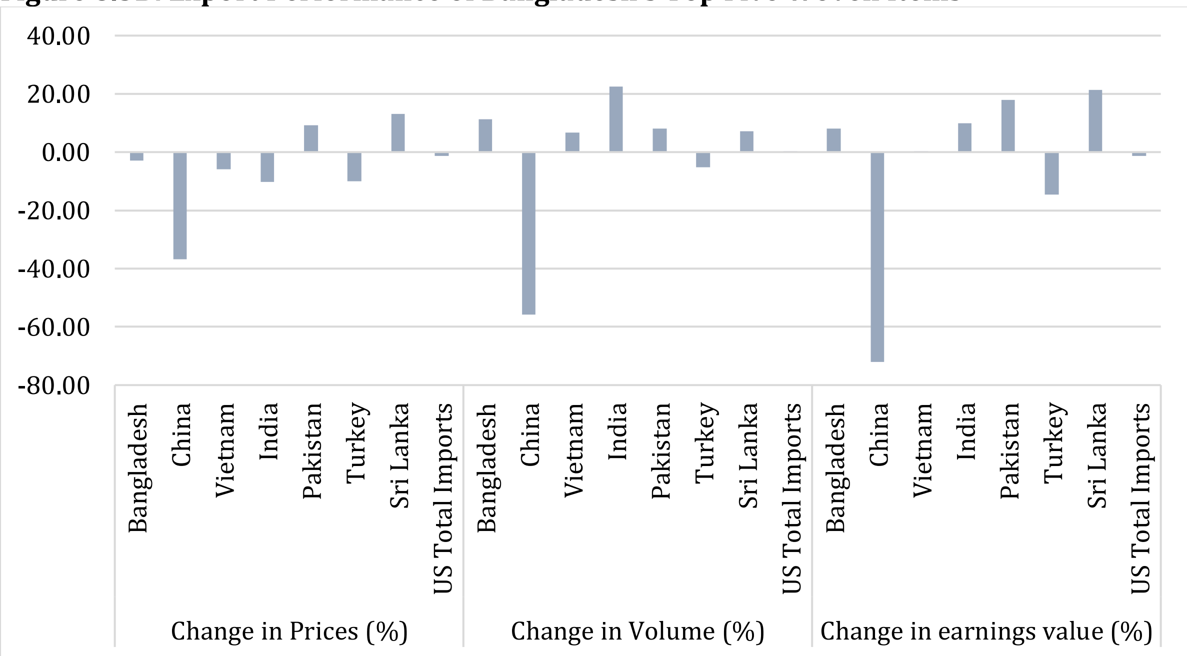
To what extent the Trump RTs that came into effect on August 9, 2025 will play out in terms of export performance of various countries still remains to be seen. But early signals (August-September, 2025) are both indicative and instructive. A number of observations may be made on the basis of the first quarter data: imports of apparels by the US contracted by 6.1 per cent (in dollar terms), while average unit price rose insignificantly, by 0.6 per cent, and the volume of import declined by 6.6 per cent. This would indicate that demand of apparels was shrinking in the US which remains Bangladesh's major market. Export remained mainly volume-driven. These general trends are also corroborated by the performance of Bangladesh's apparels sector in this market.

Figure 8.3: Drivers of RMG Export Performance in the US (September 2025)
Figure 8.3A: Export Performance of Bangladesh's Top Five Knit Items



Source: Estimated from Dataweb USITC (2025).

Figure 8.3B: Export Performance of Bangladesh's Top Five Woven Items



Source: Estimated from Dataweb USITC (2025).
Note: 1. Percentage changes are calculated from U.S. import data for the selected top five HS-10 knit/woven RMG items of Bangladesh exports to the US market.
2. 'US Total Imports' refers to the import-weighted aggregate change in price, volume and earnings across all exporting countries supplying these HS-10 level items to the U.S. market.

Disaggregated analysis of US imports of apparels from Bangladesh for the month of September, 2025 transmits some important early signals (Figure 8.3). As Figure 8.3A indicates, in September 2025, import of top 5 knitwear items of Bangladesh by the US (from all countries) declined by 2.6 per cent; for top 5 woven items, imports declined by 1.2 per cent. What is to be noted is that growth of Bangladesh's export earnings was robust, at 29.3 per cent, while the growth of export earnings was negative for China (-62.9 per cent), Viet Nam (-7.1 per cent) and India (-13.9 per cent). The export earnings growth of Bangladesh was driven mainly by high growth in volume, of about 39.7 per cent.

As Figure 8.3B indicates, for the top 5 woven items (of Bangladesh), prices came down for all major exporting countries. Bangladesh's export earnings for these items rose by 8.0 per cent in September 2025 (month on month). Here also, this was possible thanks to growth in volume of exports, by 11.4 per cent.

A number of insights can be discerned from the analysis of the September, 2025 US data: firstly, as far as major apparels export items are concerned, Bangladesh is holding its foothold in the US market. Second, the export growth is predominantly volume-driven. Third, a major trade diversion is taking place from China. Fourthly, there are signs that Viet Nam is shifting to the upper-end and MMF segments of the apparels market. Fifthly, Bangladesh's major competitor India is making aggressive moves to raise its share in the global apparels market.

Interviews with concerned stakeholders indicate that the additional 20 per cent duties have been borne more or less equally by brands and buyers on the one hand, and producers and exporters on the other, with retail prices not experiencing notable change.

Thus, to remain competitive, and maintain its market share in the US, Bangladesh's exporters will need to go for productivity growth at the enterprise level, and Bangladesh's policymakers will need to extend the necessary support to the exporters to help them bring down the cost of doing business and reducing lead time through policy support, needed infrastructure and institutional efficiency.

8.7 Concluding Remarks

Bangladesh's external sector has proved to be a pillar of strength during the first half of FY2026, against the backdrop of subdued macroeconomic performance. Robust remittance flows, rising forex reserves, derestriction of imports and exchange rate stability have been the hallmarks of this period. However, some of the telltale signs should give reasons for concern as the economy enters the second half of the current fiscal year.

It is highly unlikely that any positive result will emerge from the upcoming MC14 of the WTO in terms of support towards sustainable LDC graduation of the GLDCs. Consequently, all efforts must be put on implementing the STS. Performance of the Bangladesh economy will no doubt critically hinge on the capacity of the next elected government to successfully navigate the emergent challenges.

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SECTION IX. CONCLUSIONS AND WAY FORWARD

The first reading of CPD's IRBD 2025-26 has examined Bangladesh's current macroeconomic and structural challenges through the lenses of public finance management, inflation and food security, agriculture and supply chains, banking sector stability, private investment, the power and energy transition, and external sector performance. Together, these interconnected domains define the country's immediate reform agenda and will shape the trajectory of economic recovery, resilience, and inclusive growth in the coming years. A few key messages can be reiterated.

First, at the core of Bangladesh's current economic management challenge lies the need to restore fiscal discipline while safeguarding growth and social stability. Strengthening revenue mobilisation, improving the quality and pace of development expenditure, and maintaining a prudent and balanced approach to deficit financing must be the central pillars of fiscal policy. In the sensitive pre- and post-election context, policy continuity, institutional credibility, and good governance will be decisive in preserving macroeconomic stability and investor confidence.

Second, inflation has emerged as a structural concern rather than a temporary shock. Monetary tightening alone cannot resolve a problem that is increasingly rooted in supply-side rigidities, market distortions, and weak competition. The reform of food supply chains must therefore become a national priority. Investment in transport, storage, and cold-chain infrastructure is essential to reduce post-harvest losses and seasonal price volatility. Reliable data on food demand and production must guide procurement and import decisions, including timely rice imports when domestic supply gaps emerge. Stabilising food prices is not only an economic necessity but also a social and political imperative.

Third, the food security challenge further underscores the urgency of reforming agricultural and food-grain management systems. Structural weaknesses in procurement, storage, distribution, and coordination continue to undermine the efficiency of the system. Food security must be recognised as a macroeconomic and governance issue, closely linked to social protection, political stability, and poverty reduction. Rapid institutional reform and stronger inter-agency coordination are indispensable to building a resilient and responsive food system.

Fourth, the banking sector remains one of the most fragile pillars of the economy. Years of weak governance, political interference, repeated loan rescheduling, and regulatory forbearance have eroded capital buffers, inflated non-performing loans, and weakened profitability. Without decisive reform, the sector will continue to constrain private investment and economic recovery. The swift enactment and implementation of reform legislation, restoration of Bangladesh Bank's independence and authority, and consistent application of the bank resolution framework are essential. A modern insolvency regime, supported by specialised courts and trained professionals, must be operationalised to resolve distressed assets efficiently. Equally important is transparent public communication and an unequivocal political commitment to reform, without which confidence in the financial system cannot be restored.

Fifth, private investment continues to be hampered by persistent uncertainty. For Bangladesh to remain competitive in the post-LDC graduation era, the policy focus must shift decisively towards investment facilitation and job creation. Simplifying the tax and VAT regimes, fully digitalising investment-related services, ensuring reliable access to gas and electricity, gradually easing interest rates as macro-stability improves, and strengthening anti-corruption and legal reforms are all critical. Rebuilding investor confidence, both domestic and foreign, will be essential for sustaining growth and absorbing the country's expanding labour force.

Sixth, in the power and energy sector, recent reforms have produced mixed outcomes. While some policy and administrative improvements have been made, progress towards renewable energy remains slow, and financial pressures continue to mount. The next phase of reform must focus on accelerating investment in renewable energy, reducing excessive dependence on imported LNG by strengthening domestic gas exploration, phasing out inefficient and high-cost power plants, modernising the national grid, and ensuring transparency and accountability in sectoral financial management. A credible energy transition is not only vital for fiscal sustainability but also for long-term competitiveness and climate resilience.

Seventh, the external sector provided an important anchor of stability in the first half of FY2026. Supported by robust remittance inflows, higher reserves, and a stable exchange rate, the external sector helped cushion the economy amid domestic and global uncertainty. However, weak export performance, rising debt-service pressures, and a challenging global trade environment pose significant risks. Sustaining external-sector resilience will require a strategic push for export diversification, productivity enhancement, and reductions in business costs and lead times. A coherent, sustainable transformation strategy, backed by skilled human resource development and stable remittance channels, will be essential for navigating the post-LDC graduation landscape.