Bangladesh Economy:
Trends, Challenges, and Policy Priorities for the Newly Elected Government

Presented by

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Presented at the Roundtable on ***"Looking into Bangladesh's Development: Priorities for the Newly Elected Government in the Short to Medium Term"***

Organised by the Centre for Policy Dialogue and the Daily Star

Dhaka: 4 March 2026

CENTRE FOR POLICY DIALOGUE

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1. Introduction

1. Introduction

Recent Macroeconomic Pressure: Bangladesh economy currently faces significant instability in recent years, marked by rising inflation, limited fiscal space, subdued private investment, monetary sector vulnerabilities, high debt, energy sector pressure, and political uncertainty during the transition period.

Post-Election Transition: Following the election, a newly elected government has assumed office with a renewed mandate to restore macroeconomic stability, strengthen institutional governance, rebuild investor and market confidence and generate employment for the youth.

LDC Graduation: The country is also preparing to graduate from LDC status in November 2026, a transition that presents both opportunities for global integration and risks related to the withdrawal of preferential benefits. The greatest risk is the loss of trade preferences, which cover **70%** of global exports and could erode competitiveness (WTO, 2022).

Critical Reform Phase: The current moment is a critical juncture for policy recalibration, where sustained macroeconomic discipline is essential to consolidate stability and ensure inclusive, resilient growth.

2. Macroeconomic Overview

2. Macroeconomic Situation: Real GDP Growth

- Real GDP growth declined from **4.2% in FY2024** to **3.49% in FY 2025**.
- GDP growth was 4.50% in Q1 FY2026, up from 2.58% in Q1 FY2025, indicating a recovery in economic activity following the stagnation observed in the previous quarter.

Figure 1a: Real GDP Growth (FY14-FY24)

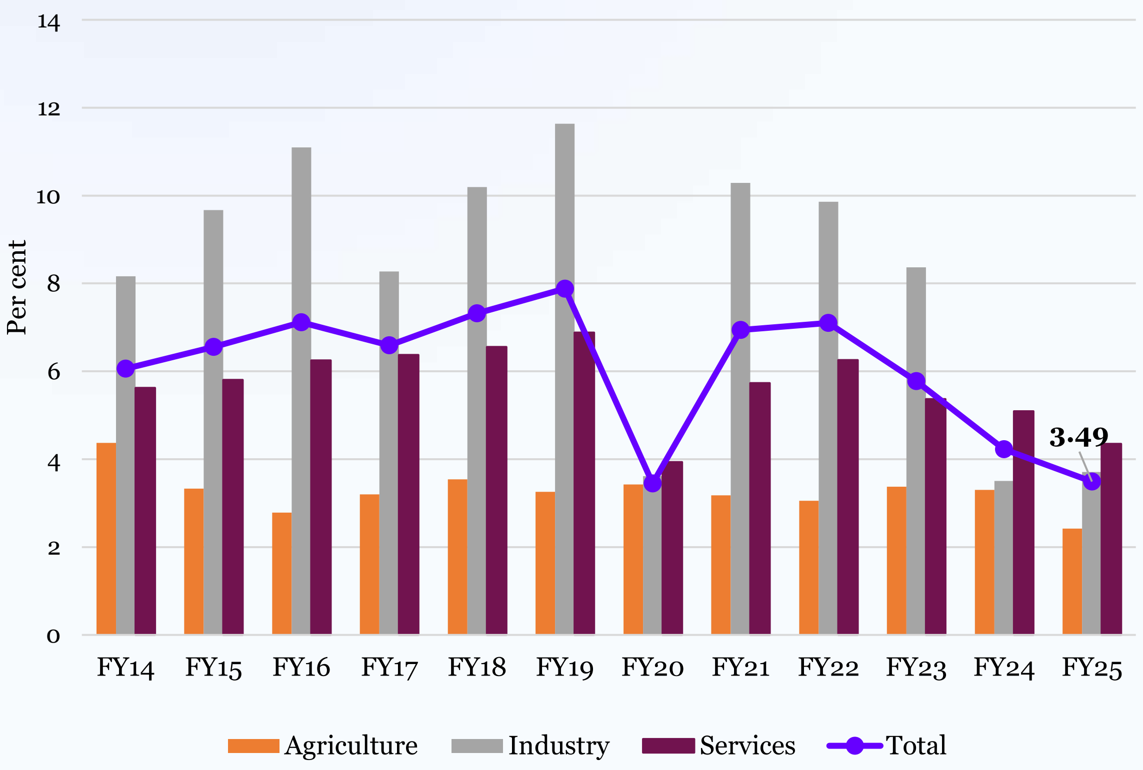
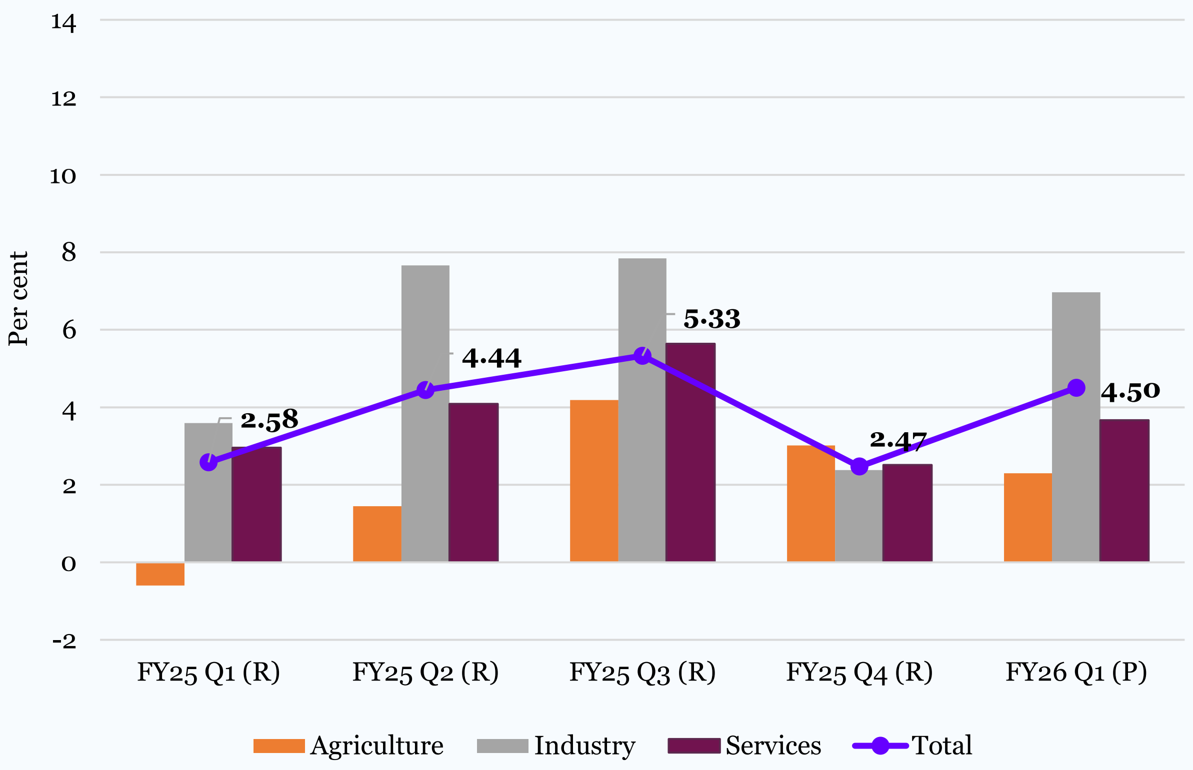


Figure 1b: Real GDP Growth (FY25 Q1 – FY26 Q1)



Source: Author's illustration based on data from Bangladesh Bureau of Statistics (2025a, 2025b).

2. Macroeconomic Situation: Trends in Inflation

- Inflationary pressure eased in January 26, with **headline inflation declining to 8.66% from 9.7% in June FY24**, driven by a slowdown in food prices, with food inflation falling to 7.79% during this period.

Figure 2a: Inflation trends (FY14-FY24)

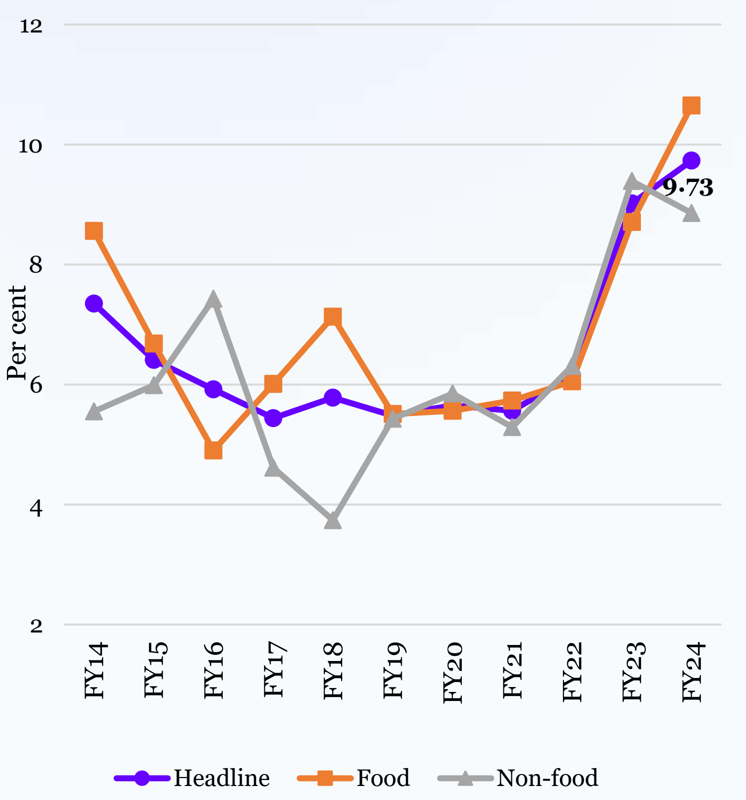


Figure 2b: Inflation trends (FY25)

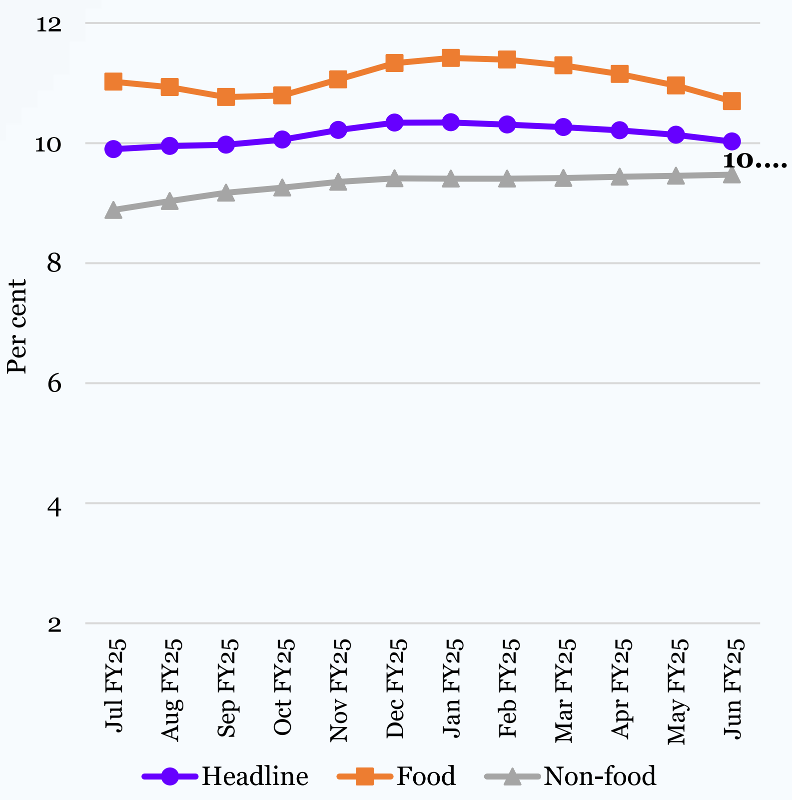
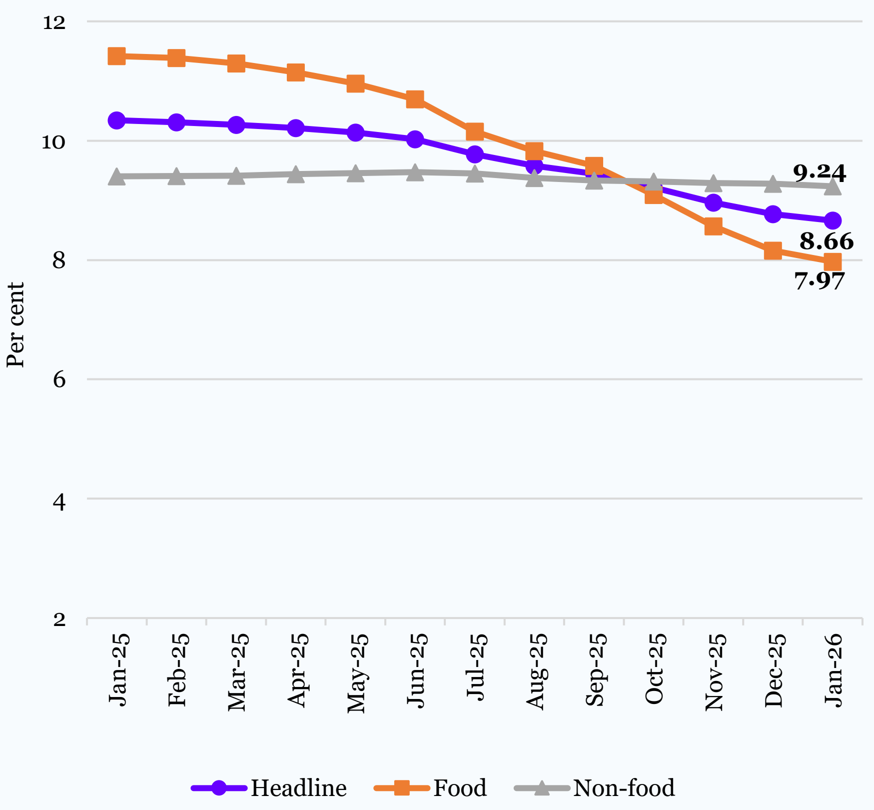


Figure 2c: Inflation trends (Jan'25 – Jan'26)



Source: Author's illustration based on data from Bangladesh Bureau of Statistics (2026).

2. Macroeconomic Situation: Growth of Wage Rate Indices

- Wage growth remained **stagnant at 8.12%** in January 2026, exerting downward pressure on household purchasing power.

Figure 3a: Growth of WRI (FY14-FY24)

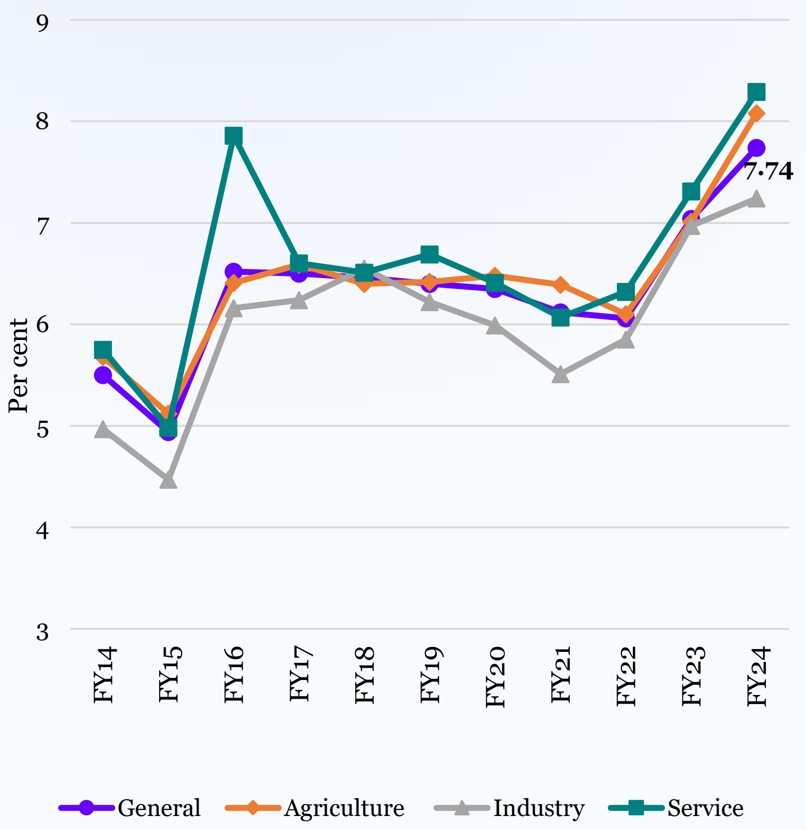


Figure 3b: Growth of WRI (FY25)

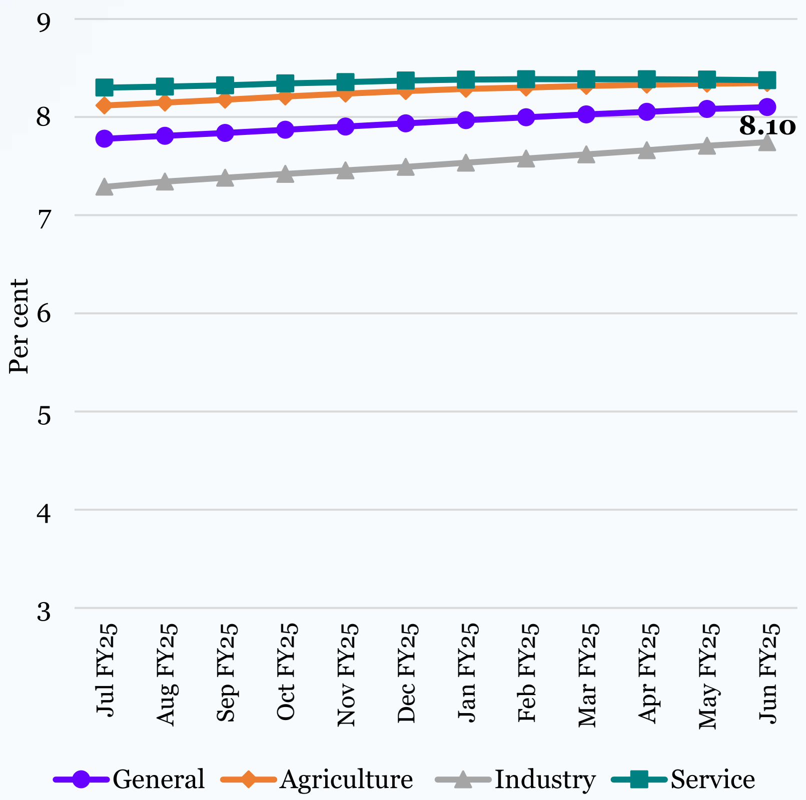
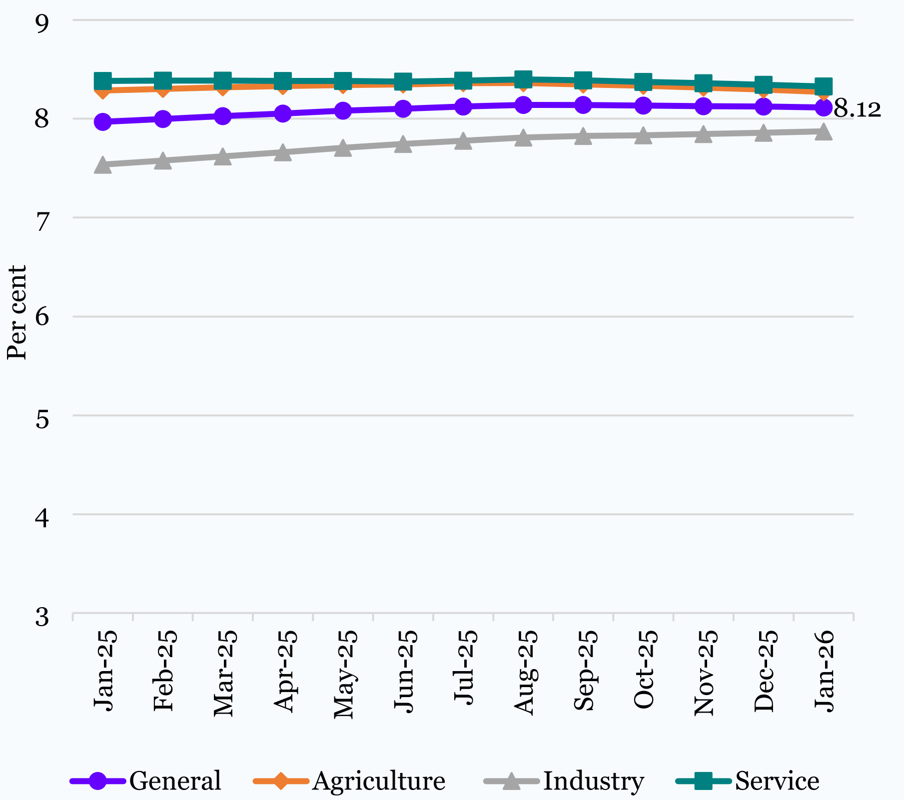


Figure 3c: Growth of WRI (Jan’25 – Jan’26)



Source: Author’s illustration based on data from Bangladesh Bureau of Statistics (2026).

2. Macroeconomic Situation: Industrial Production Growth

- Manufacturing industries recorded a positive but slow growth in recent months.

Figure 4a: Industrial production growth (FY17-FY24)

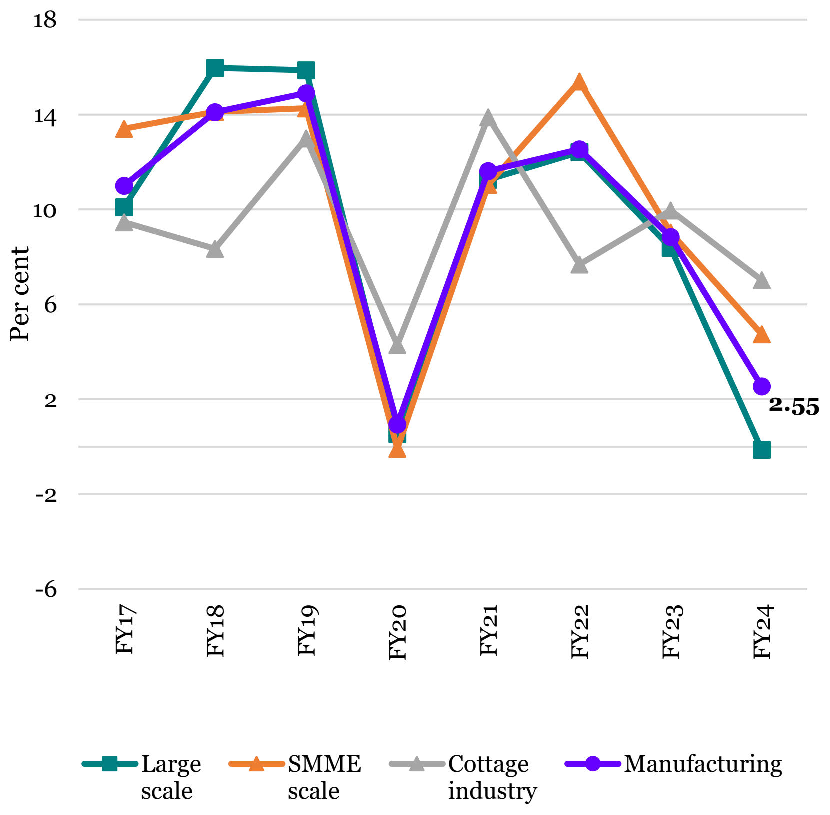


Figure 4b: Industrial production growth (FY25)

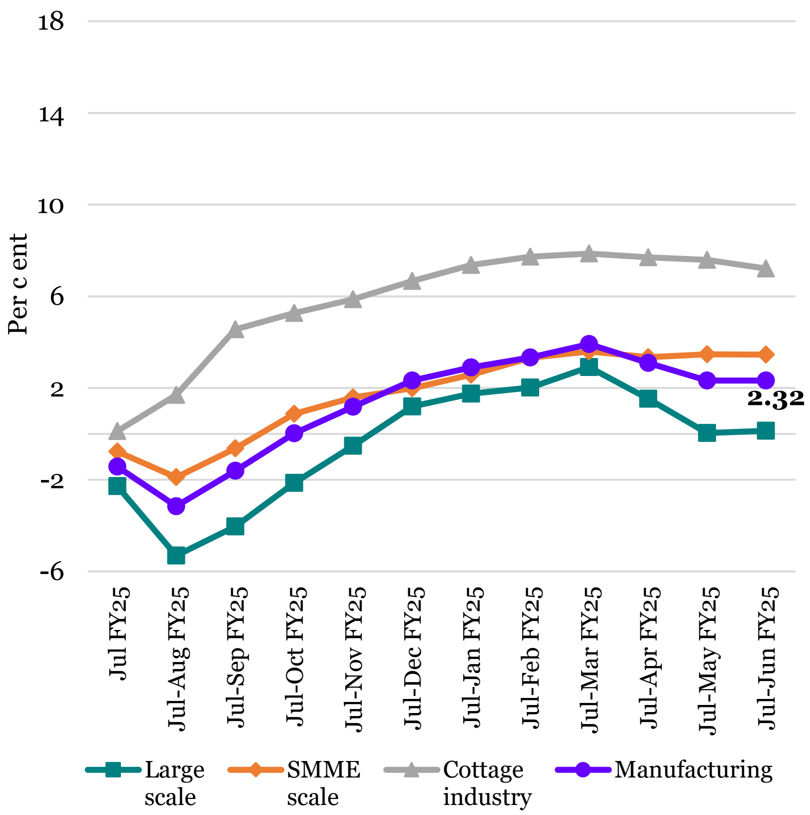
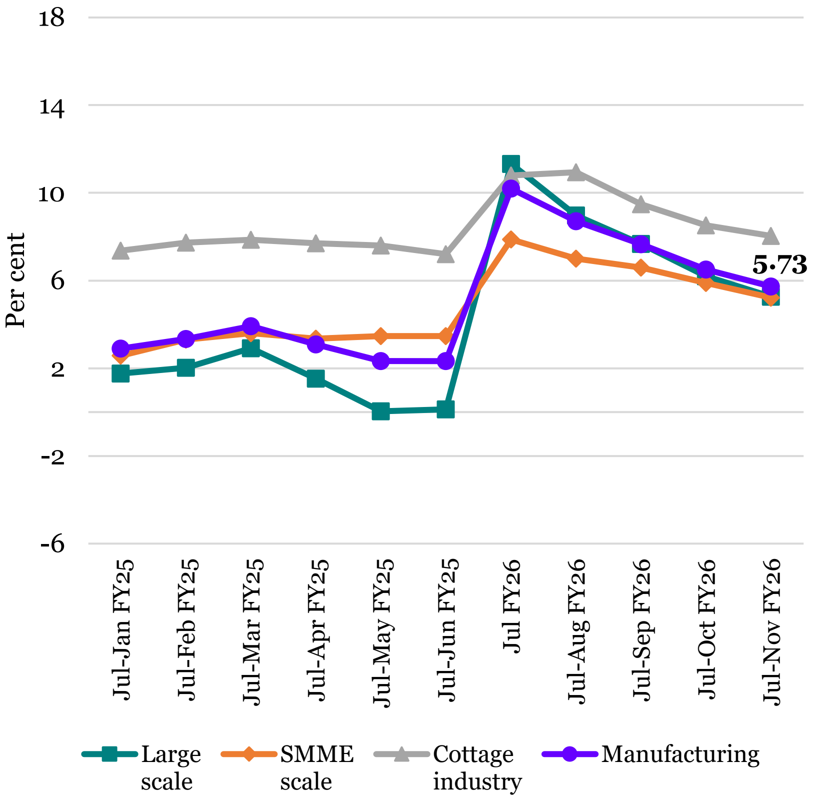


Figure 4c: Industrial production growth (Jul-Jan FY25 – Jul-Nov FY26)



Source: Author's illustration based on data from Bangladesh Bureau of Statistics (2025c).

2. Macroeconomic Situation: Private Sector Credit Growth

Figure 5a: Private Sector Credit Growth (FY14-FY24)

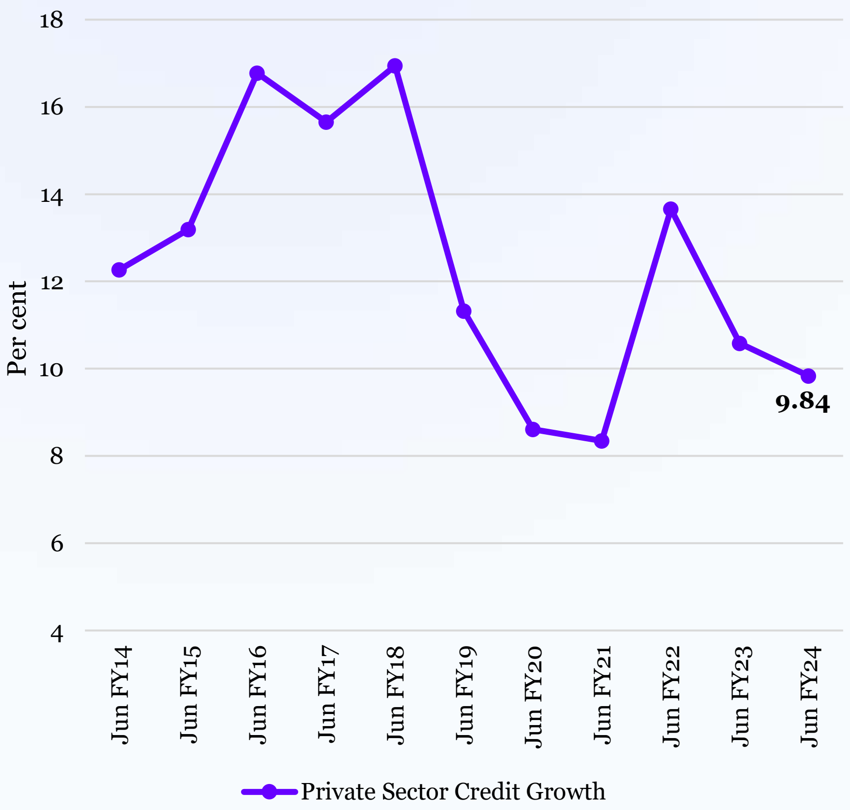


Figure 5b: Private Sector Credit Growth (FY25)

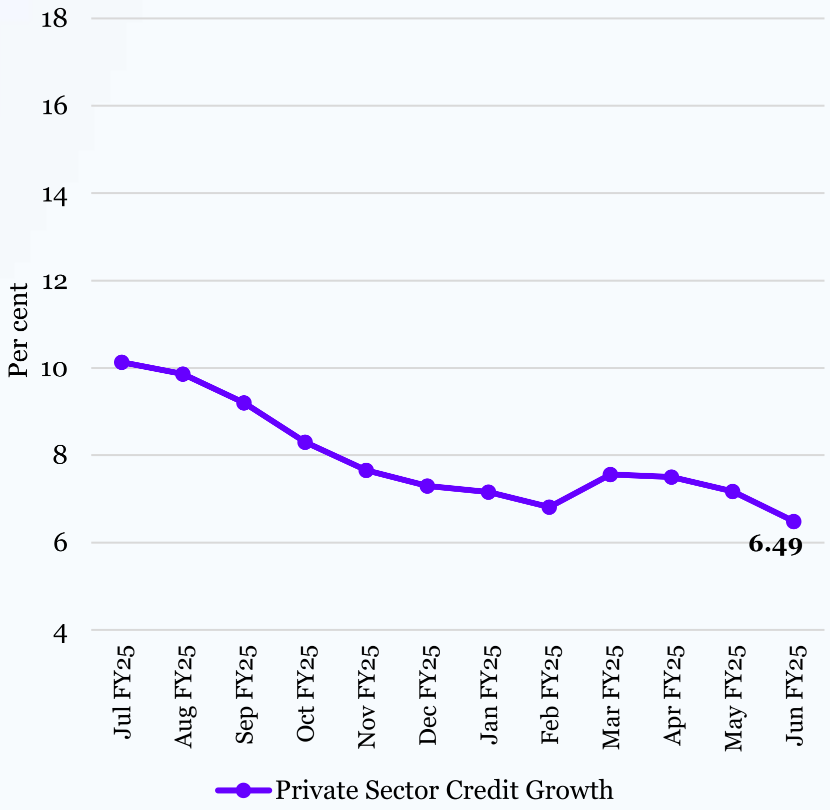
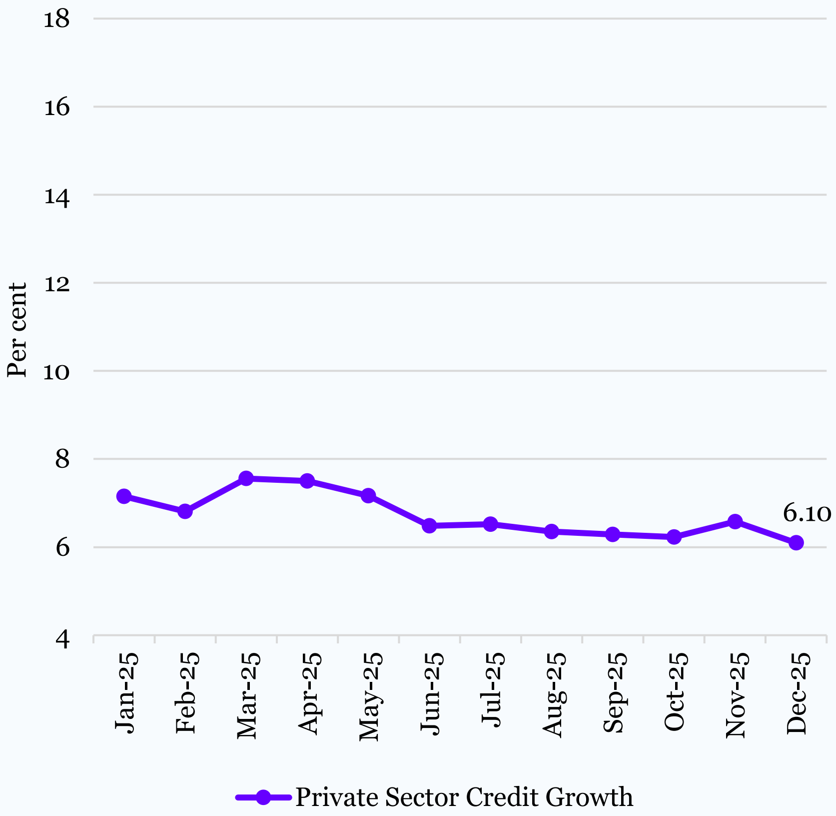


Figure 5c: Private Sector Credit Growth (Jan'25 – Dec'25)



Source: Author's illustration based on data from Bangladesh Bank (2026a).

- Private sector credit growth dropped to a record low of **6.10%** in December 2025, reflecting persistent investment weakness.

2. Macroeconomic Situation: Public Sector Credit Growth

Figure 6a: Public Sector Credit Growth (FY14-FY24)

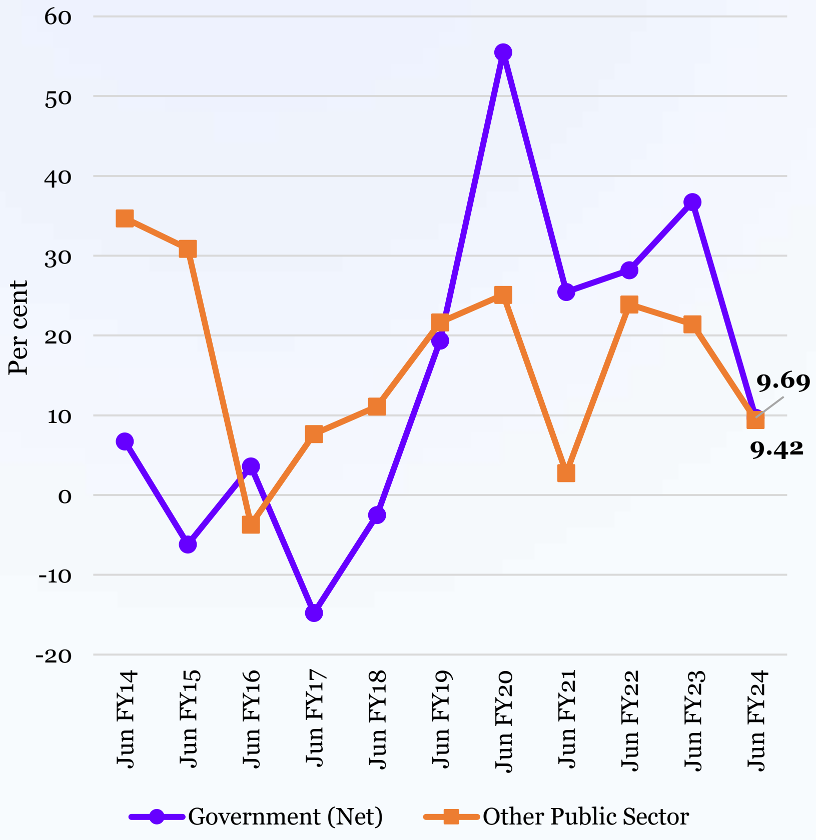


Figure 6b: Public Sector Credit Growth (FY25)

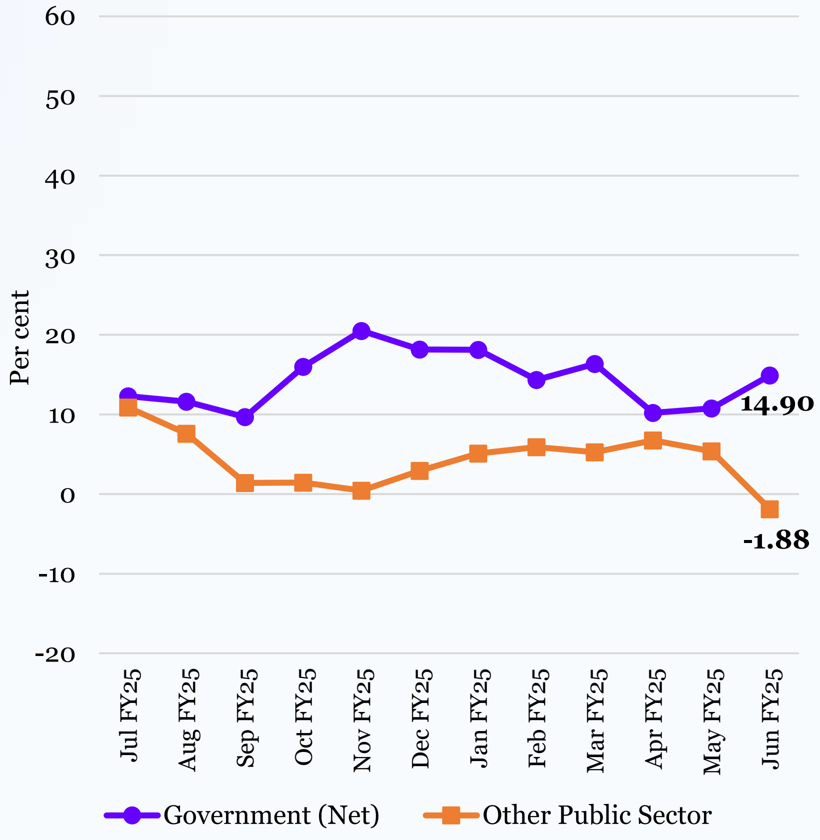
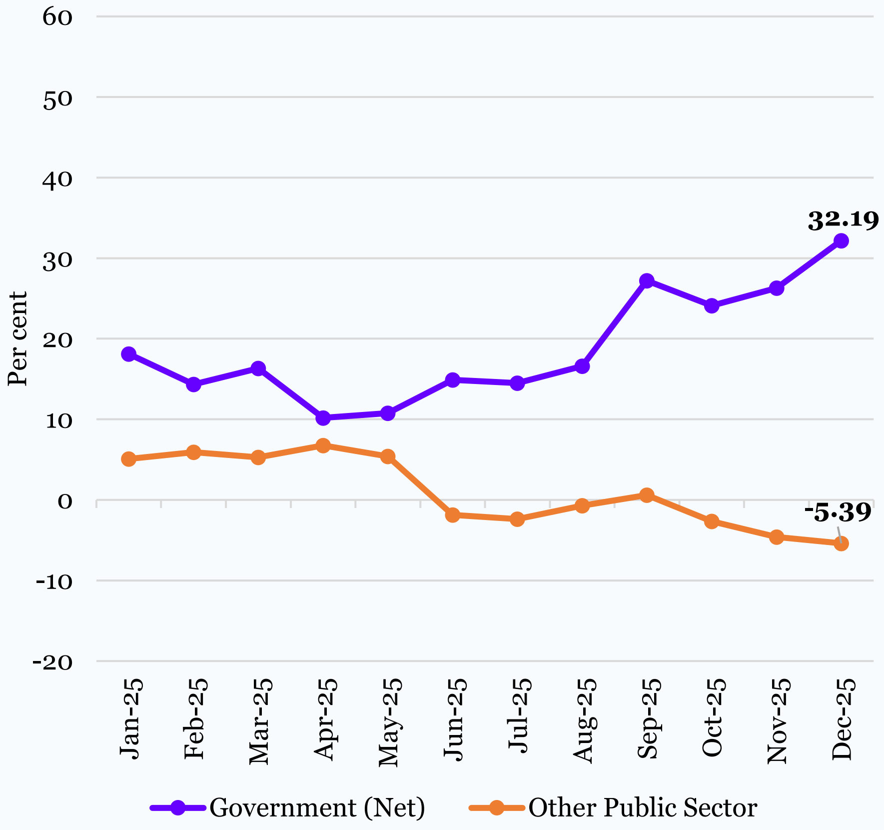


Figure 6c: Public Sector Credit Growth (Jan'25 – Dec'25)



Source: Author's illustration based on data from Bangladesh Bank (2026a).

- The public credit growth for the government increased rapidly to **32.19%** in December 2025, reflecting a sharp rise in government borrowing.

3. Fiscal Discipline and Public Debt Sustainability

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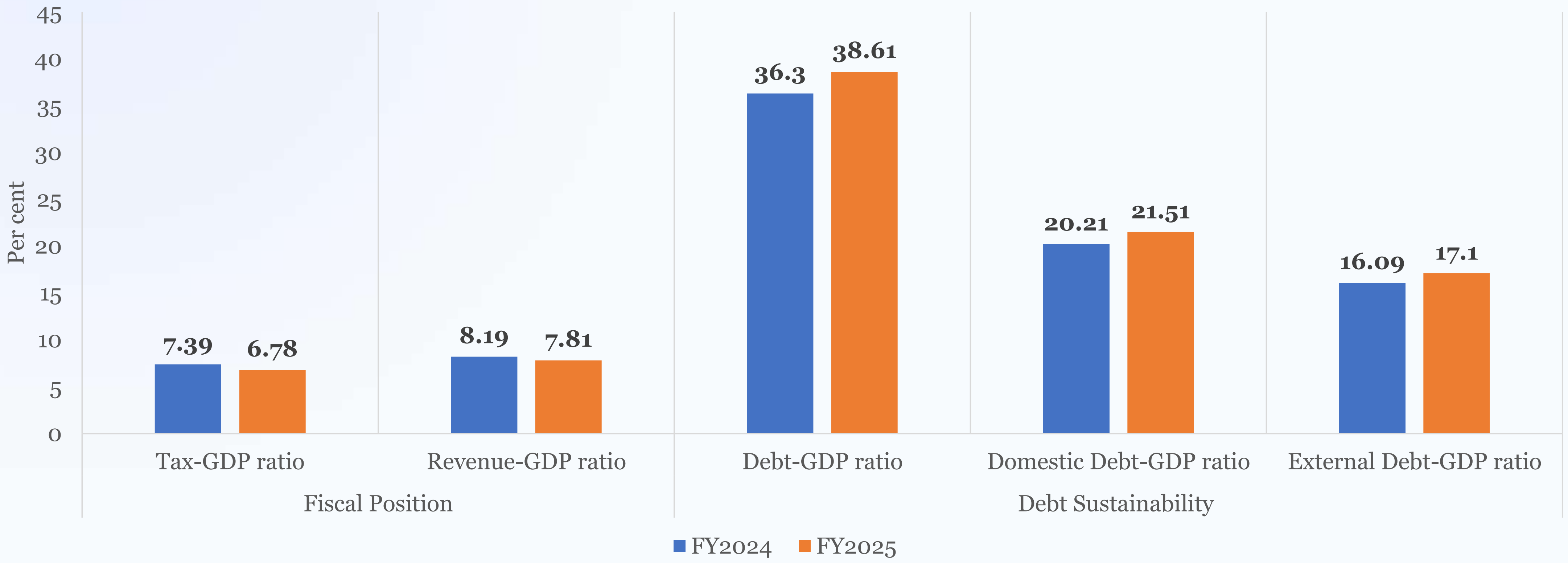
Figure 7: Revenue & Debt to GDP ratio Comparison between FY24 and FY25



Source: Author's illustration based on data from Ministry of Finance (2025a, 2025b).

- The tax-to-GDP and revenue-to-GDP ratios fell to **6.78% and 7.81%, respectively, in FY25** compared to the previous fiscal year, suggesting weak revenue mobilisation.
- Total debt-to-GDP increased to **38.61%** in FY25 driven by rises in both domestic and external debt, reflecting greater reliance on borrowing and rising medium-term sustainability pressures.

3. Fiscal Discipline: Total Revenue Growth

Figure 8a: Total Revenue Growth (FY14-FY24)

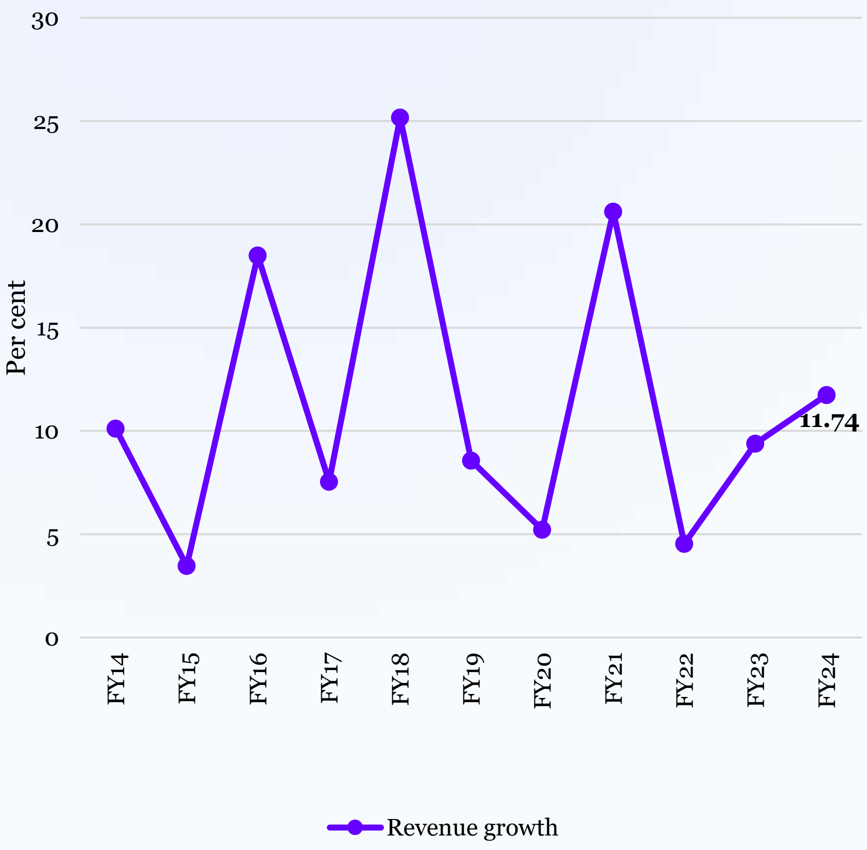


Figure 8b: Total Revenue Growth (FY25)

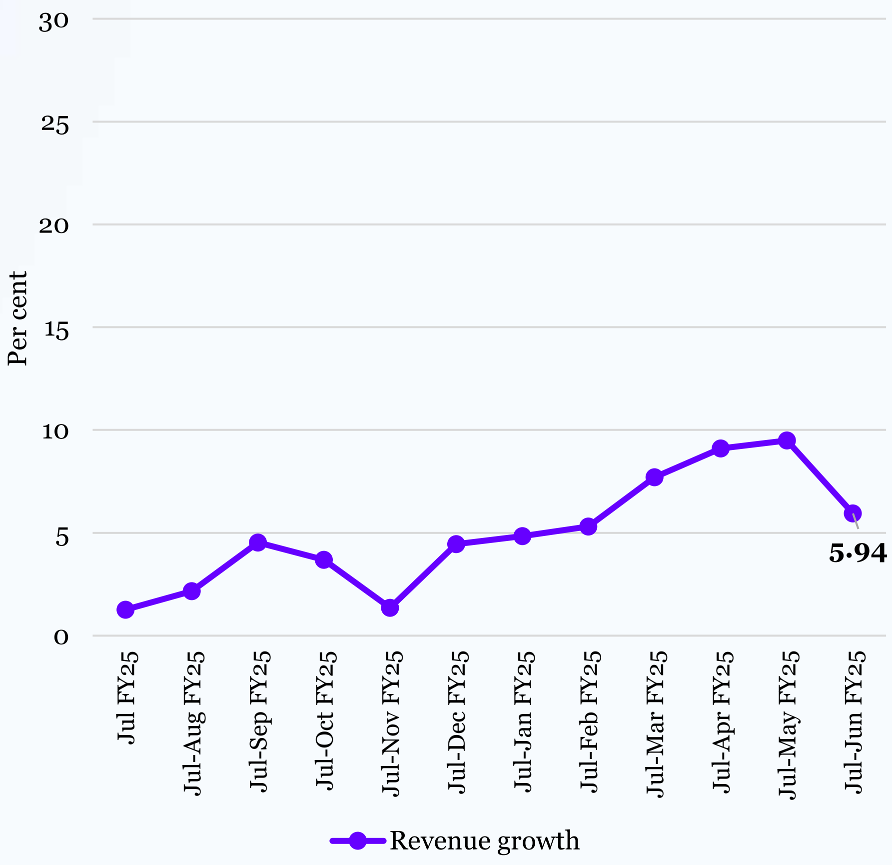
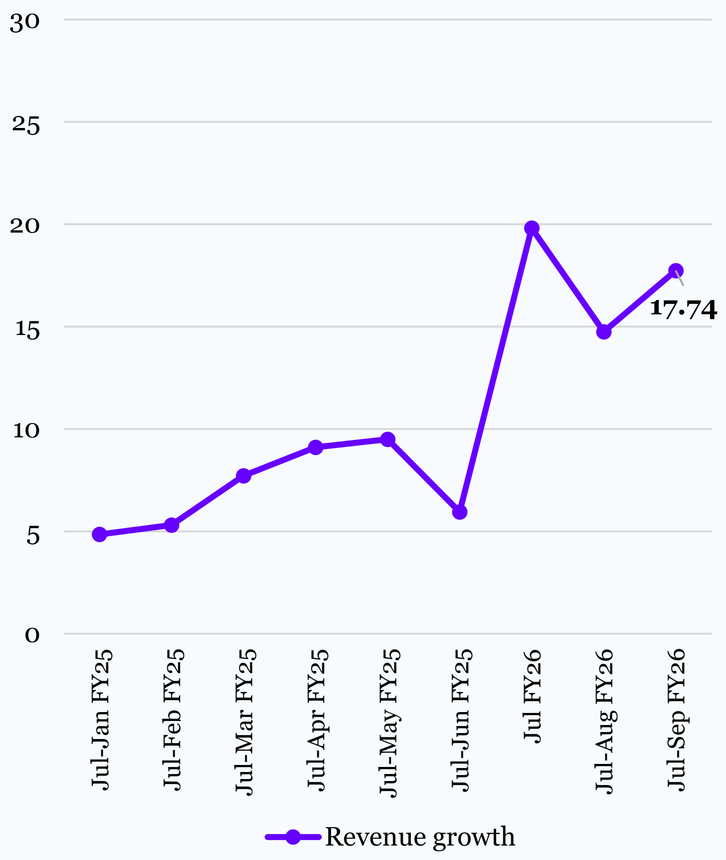


Figure 8c: Total Revenue Growth (Jul-Jan FY25- Jul-Sept FY26)



Source: Author's illustration based on data from Ministry of Finance (2025a, 2025c).

- Total revenue growth recorded at **17.74% during July-September FY26**, reflecting a positive shift in revenue mobilisation compared to the corresponding period of previous fiscal year.

3. Fiscal Discipline: Public Expenditure Growth

Figure 9a: Expenditure Growth (FY14-FY24)

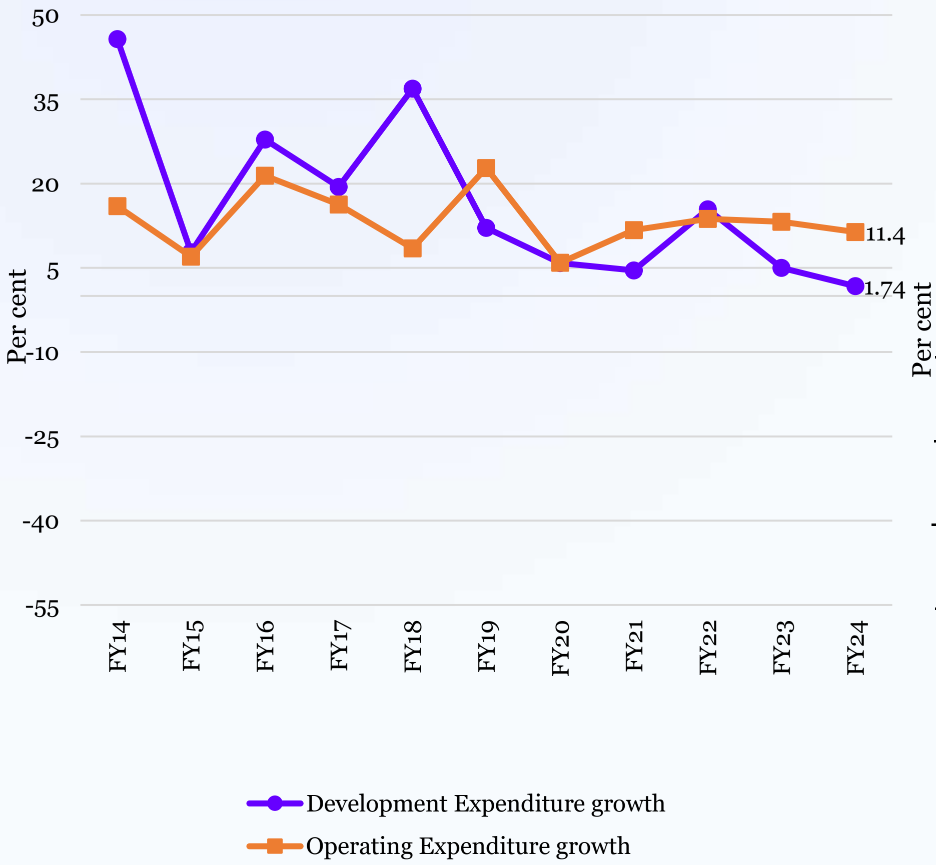


Figure 9b: Expenditure Growth (FY25)

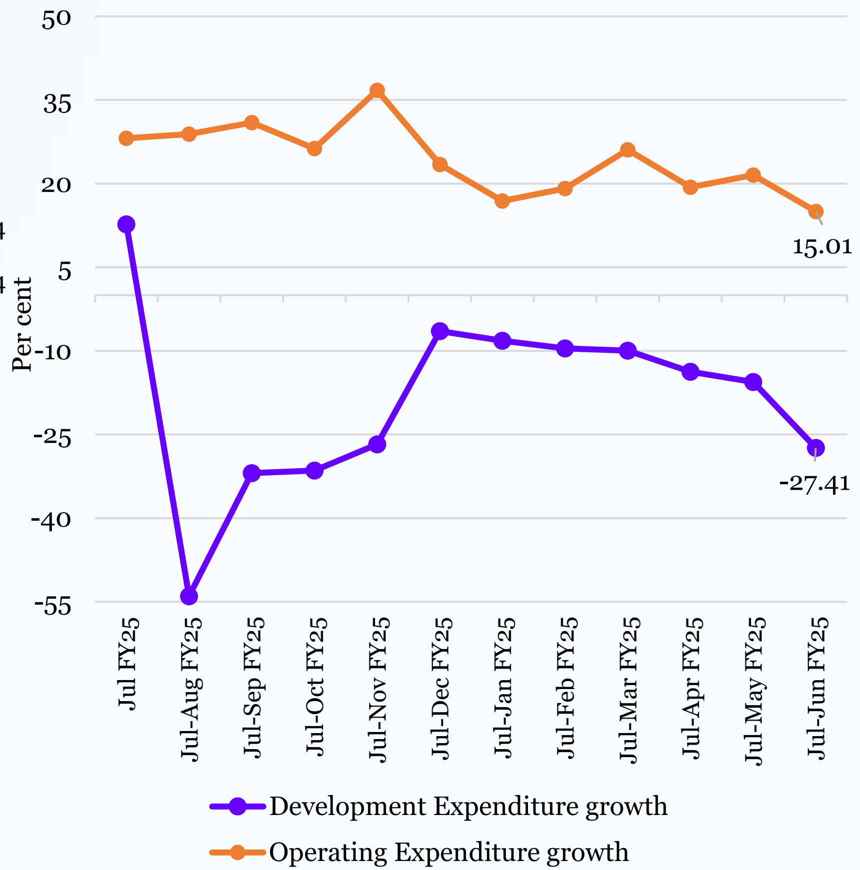
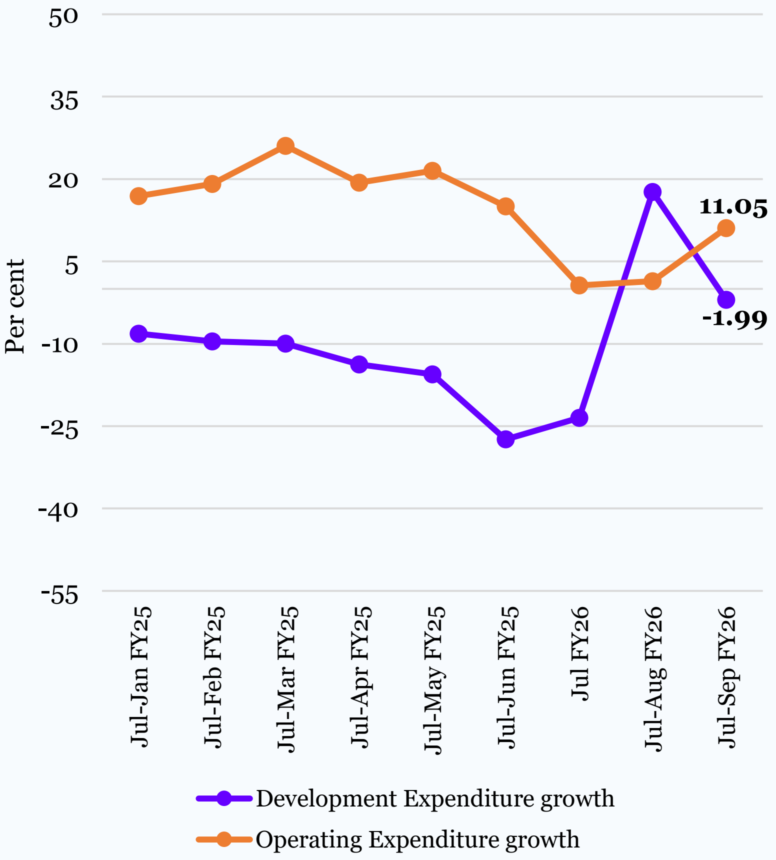


Figure 9c: Expenditure Growth (Jul-Jan FY25- Jul-Sept FY26)



Source: Author's illustration based on data from Ministry of Finance (2025a, 2025c).

- **Operating expenditure** growth remained positive at **11.05%,** while **development expenditure was negative** and volatile during July-September FY26.

4. Banking Sector Stability

4. Banking Sector Stability

Indicator	Unit	June 2024	January 2026	Source
Advance deposit ratio	Per cent	80.2 (As of Jun FY24)	78.3 (As of Sept FY26)	Bangladesh Bank
Liquidity coverage ratio	Per cent	157.9 (As of Jun FY24)	185.3 (As of Sept FY26)	Bangladesh Bank
Broad money growth	Per cent	7.7 (Jun FY24)	9.6 (Dec FY25)	Bangladesh Bank
Reserve money growth	Per cent	7.8 (Jun FY24)	9.2 (Dec FY26)	Bangladesh Bank
Interest rate spread (banks)	Per cent	6.0 (Jun FY24)	5.7 (Dec FY26)	Bangladesh Bank

4. Banking Sector Stability (Cont.)

Figure 10: Trends in NPL ratio (Jun FY24 – Dec FY26)

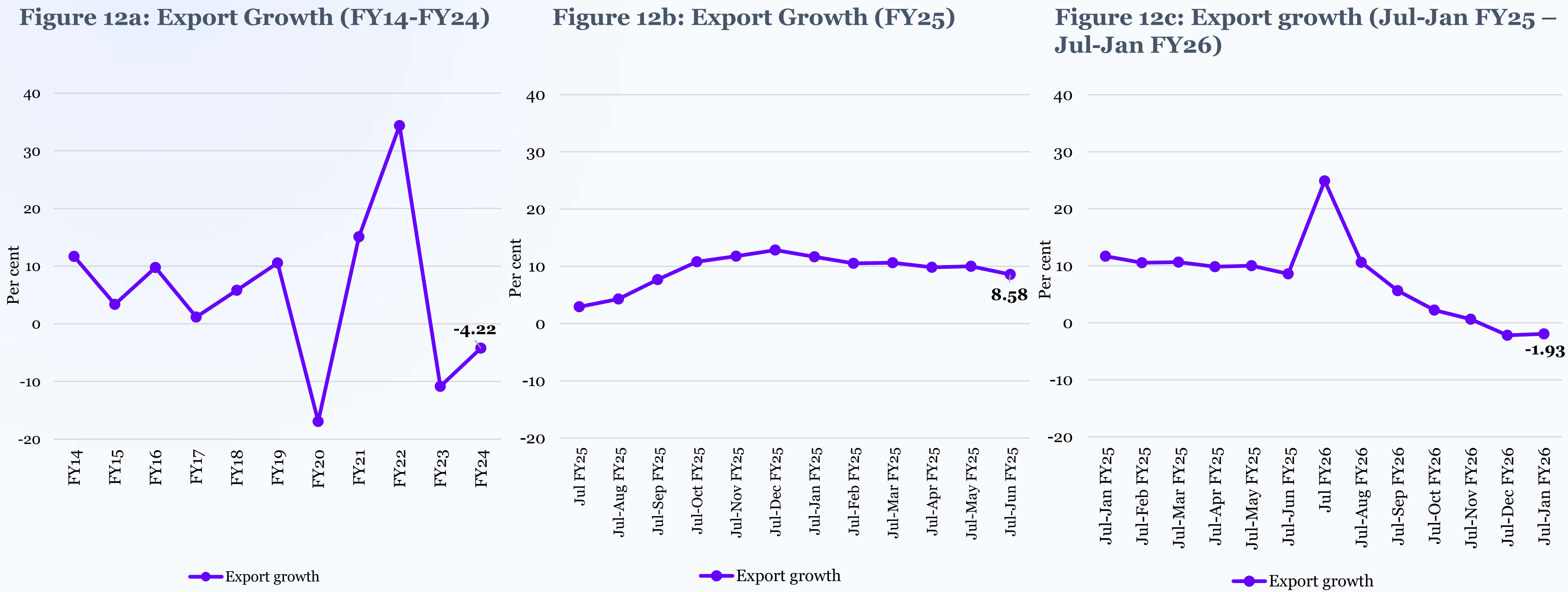
Period	NPL ratio
Jun-24	12.56
Sep-24	16.93
Dec-24	20.20
Mar-25	24.13
Jun-25	34.40
Sep-25	35.73
Dec-25	30.60

Source: Author's illustration based on data from Bangladesh Bank (2025).

- The NPL ratio increased from **12.56% in June 2024** to **35.73% in September 2025**, primarily due to the adoption of internationally aligned loan classification standards that brought previously unrecorded or under-classified loans into the NPL category, rather than a sudden deterioration in asset quality.
- In December 2025, the NPL ratio **declined to 30.60%,** largely due to an extensive loan rescheduling drive conducted under more relaxed central bank policies.

5. External Sector Performance

5. External Sector Performance: Export growth



Source: Author's illustration based on data from Export Promotion Bureau (n.d.).

- Export performance deteriorated during July–January FY2026, registering **a negative year-on-year growth** of **(-)1.93%**, mainly due to a slowdown in RMG exports.

5. External Sector Performance: Import growth

Figure 13a: Import Growth (FY14-FY24)

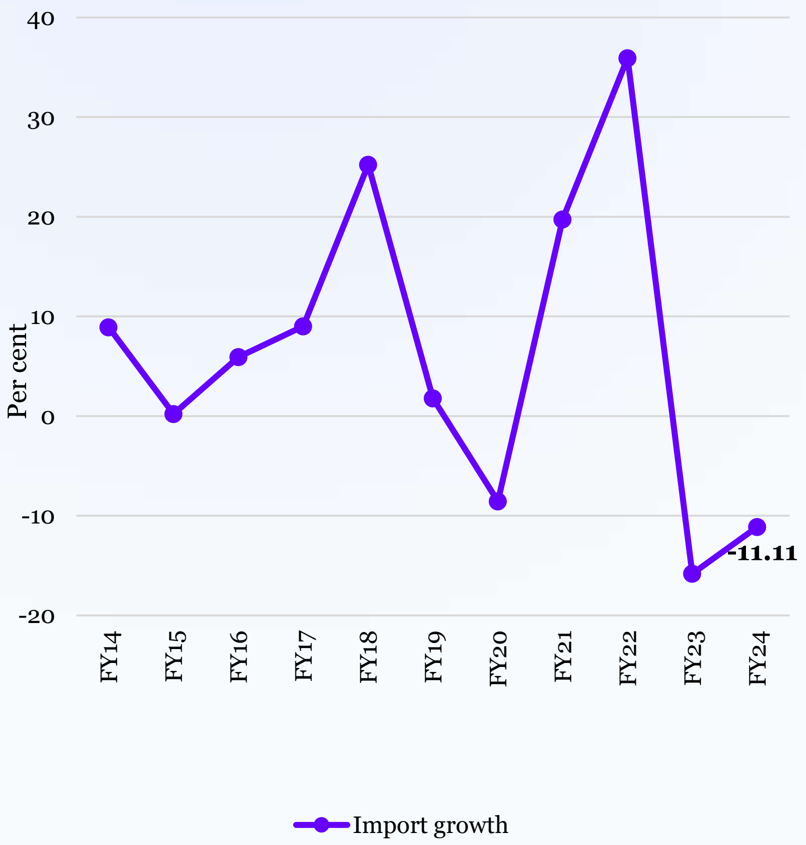


Figure 13b: Import Growth (FY25)

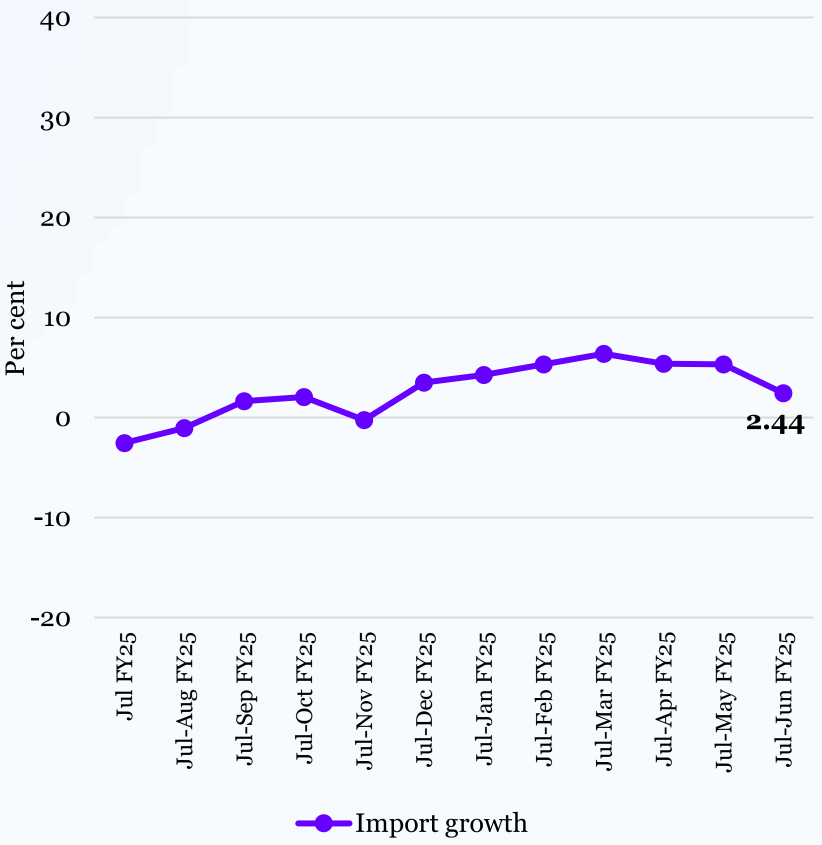
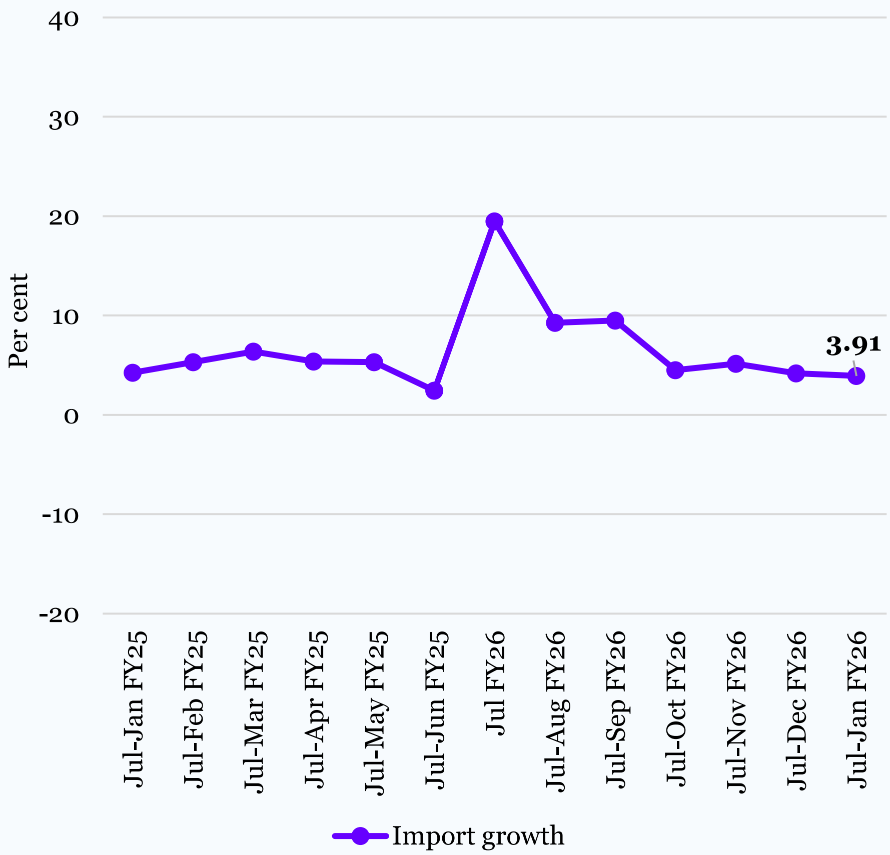


Figure 13c: Import growth (Jul-Jan FY25 – Jul-Jan FY26)



Source: Author’s illustration based on data Bangladesh Bank (2026a).

- Import payments continued to rise during July-January FY2026, with **a year-on-year growth of 3.91%**, driven primarily by **higher imports of intermediate goods**.

5. External Sector Performance: Wage Earner’s Remittance

Figure 14a: Remittances Growth (FY14-FY24)

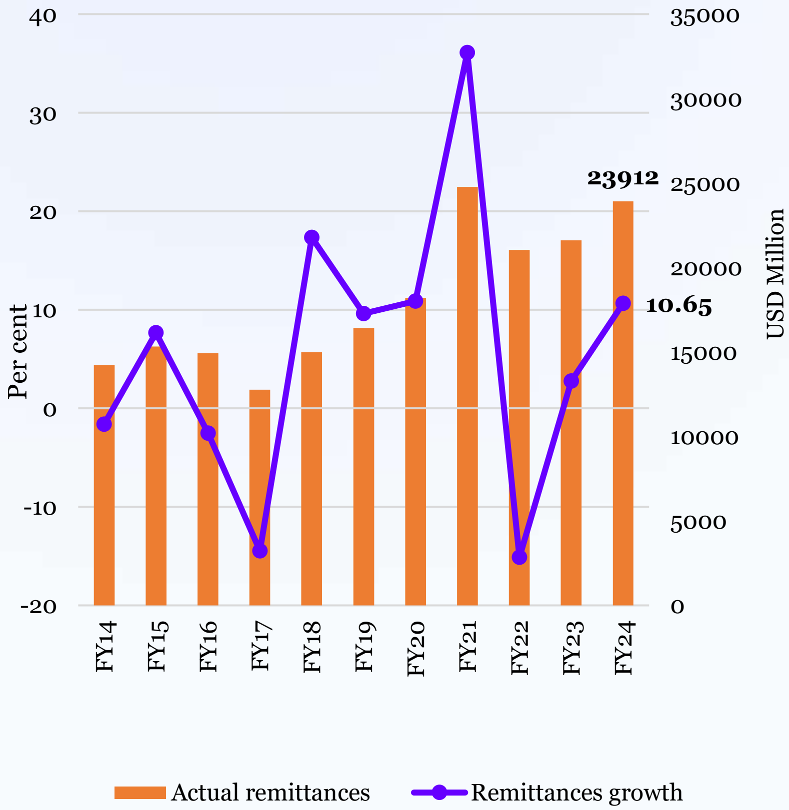


Figure 14b: Remittances Growth (FY25)

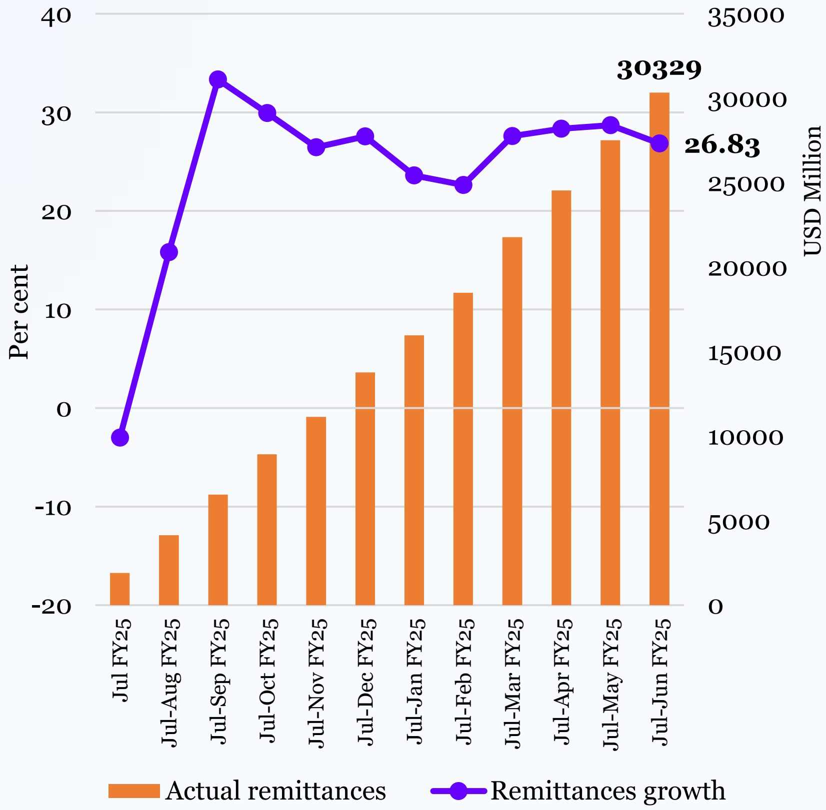
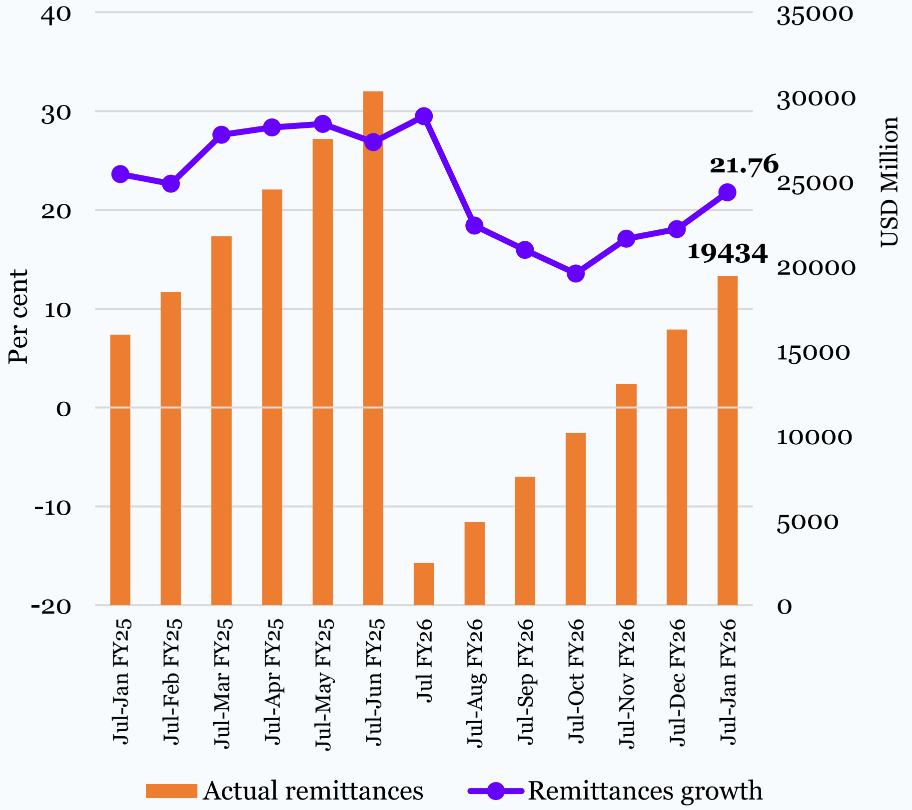


Figure 14c: Remittances Growth (Jul-Jan FY25 – Jul-Jan FY26)



Source: Author’s illustration based on data from Bangladesh Bank (n.d.).
Note: Data for actual remittances is presented on the right vertical axis.)

- Remittance inflows stood at **USD 19.43 billion** during July-January FY2026, **a 21.76% year-on-year increase**, playing an important role in stabilising the balance of payments.

5. External Sector Performance: Overseas Employment Growth

Figure 15a: Overseas Employment Growth (FY14-FY24)

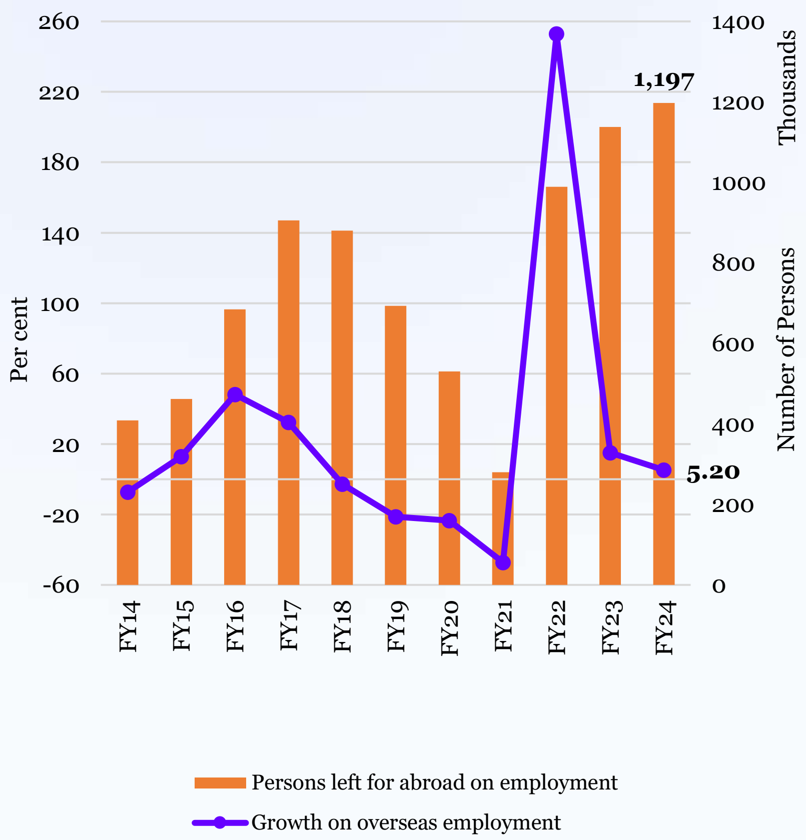


Figure 15b: Overseas Employment Growth (FY25)

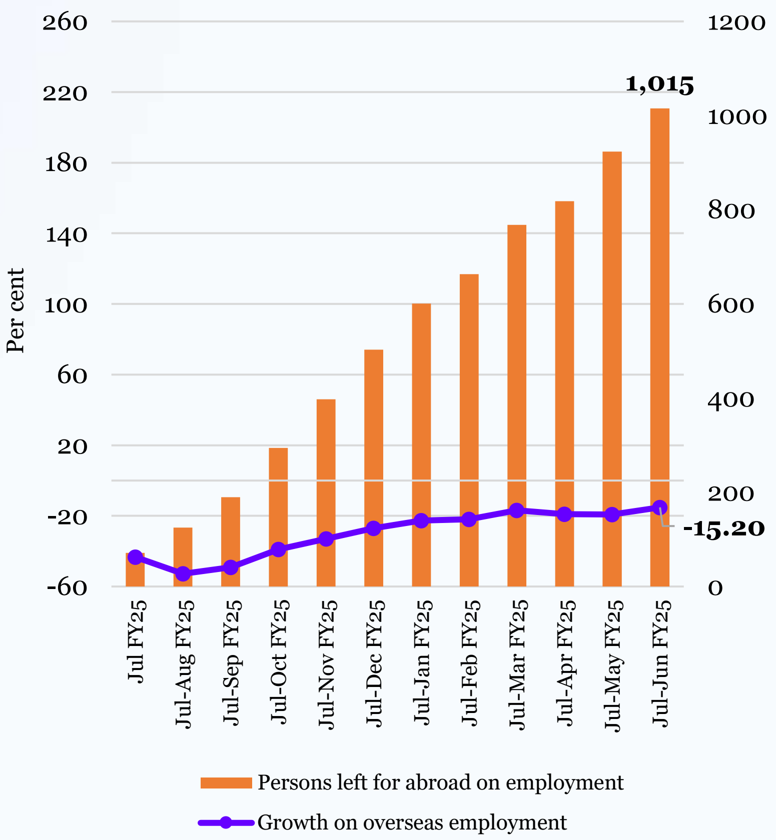
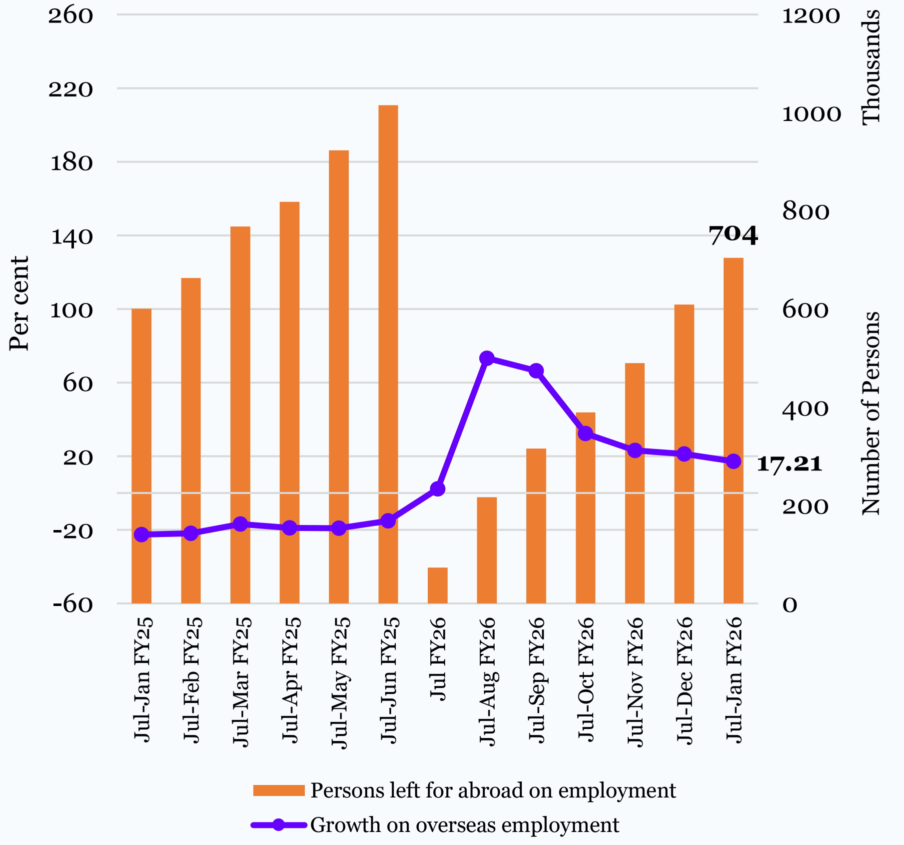


Figure 15c: Overseas Employment Growth (Jul-Jan FY25 – Jul-Jan FY26)

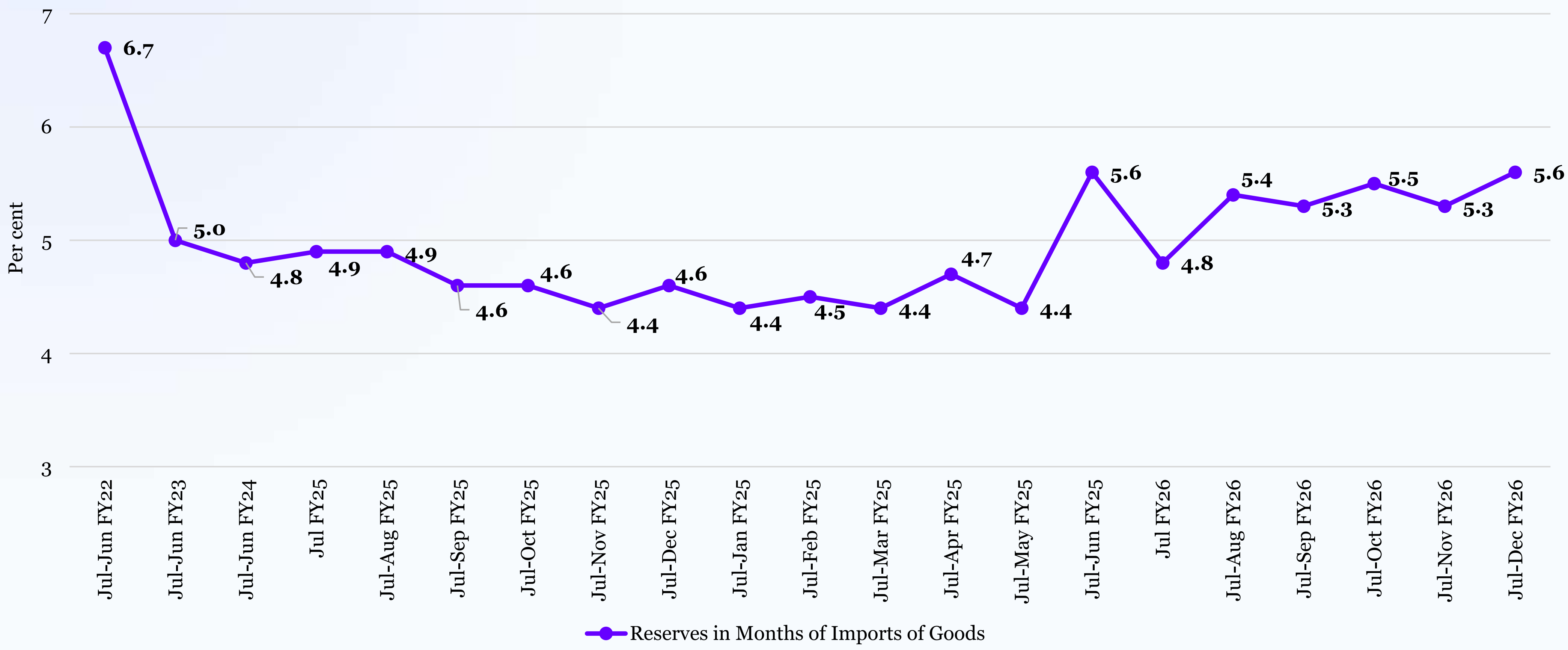


Source: Author's illustration based on data from Bangladesh Bank (2026a).
Note: Data for number of persons is presented on the right vertical axis.

- Overseas employment **increased by 17.21%** during July-January FY2026, likely leading to a further boost in remittance inflows.

5. External Sector Performance: Reserves in Months of Imports

Figure 16: Trends in Reserves in Months of Imports of Goods



Source: Author's illustration based on data from Bangladesh Bank (2026b).

- Foreign reserves provided 5.6 months of import cover as of December FY26, indicating an improved external position.
- As of 26 February 2026, gross reserves reached USD30.36 billion

6. Policy Priorities for Macroeconomic Stability and Economic Recovery

6.1 Containing Inflation and Ensuring Price Stability

- **Ensure coordinated monetary and fiscal policy discipline.** Align interest rate policy, exchange rate management, and prudent fiscal spending to contain demand pressures and anchor inflation expectations.

- **Address supply-side bottlenecks and strengthen food security.** Invest in storage, transport, and distribution systems, and build strategic reserves to manage seasonal shortages and supply shocks.

- **Stabilise the exchange rate to reduce imported inflation.** Maintain a market-reflective and stable exchange rate to limit price pressures from fuel, food, and industrial imports.

- **Strengthen market monitoring and competition enforcement.** Enhance price surveillance, prevent hoarding and collusive practices, and ensure effective market regulation to curb artificial price hikes.

- **Strengthen targeted social protection.** Expand well-targeted cash transfers and essential commodity support (e.g., OMS) to protect vulnerable households.

6.2 Creating an Enabling Environment for Private Investment

- **Ensure affordable and timely access to finance for productive sectors.** Banks should prioritise lending to manufacturing, SMEs, and export-oriented industries to stimulate private investment and employment generation.
- **Invest in infrastructure, skills, and technology.** Strategic public investment in energy, transport, logistics, human capital, and innovation is essential to enhance productivity and long-term industrial competitiveness.
- **Improve investment climate.** The government should ensure transparent regulations, reduced regulatory hurdles, policy consistency, and political stability to attract domestic and foreign investment.
- **Strengthen the financial system and deepen capital markets.** Improved banking-sector governance and supervision, and the development of bond and equity markets, are essential for efficient resource allocation and for providing diversified, long-term financing for productive investment.
- **Ensure policy and tax predictability.** Avoid abrupt changes in tax rates, duties, and regulatory requirements, and provide a clear medium-term policy direction to strengthen investor confidence and encourage sustained private investment.

6.3 Improving Fiscal Discipline: Revenue and Expenditure Management

- **Broaden the tax base to strengthen domestic resource mobilisation.** Expand the tax net by formalising small businesses, integrating informal sector activities, and ensuring that high-income and wealthy individuals are effectively brought into the tax system.
- **Strengthen tax administration and governance.** Improve audit systems, rationalise tax exemptions, and curb evasion through stronger enforcement and greater transparency to ensure that all due revenues are fully collected.
- **Accelerate the digitalisation of revenue systems.** Modernise tax administration through integrated digital platforms, e-filing, data sharing, and streamlined VAT policies to enhance efficiency, equity, and compliance.
- **Enhance public expenditure efficiency.** Rationalise spending, reduce leakages and waste, and prioritise high-impact development expenditure to improve fiscal discipline.
- **Strengthen fiscal transparency and accountability.** Improve budget reporting, monitoring, and independent oversight to build public trust and ensure responsible fiscal management.

6.4 Restoring Stability and Confidence in the Banking Sector

- **Continue and deepen banking sector reforms**. Improve governance in financial institutions through strong oversight and strict enforcement of legal and regulatory frameworks.

- **Resolve non-performing loans (NPLs) and recover stolen assets.** Implement time-bound strategies for loan restructuring, asset recovery, and legal action to restore discipline and rebuild confidence in the financial system.

- **Safeguard the independence of Bangladesh Bank.** Ensure that regulatory and monetary policy decisions remain free from political interference to enhance credibility and financial stability.

- **Approve and effectively implement the Bangladesh Bank Ordinance 1972 (amended 2025).** Strengthen institutional autonomy, transparency, and accountability to reinforce central bank authority.

- **Enhance transparency and accountability in the banking system.** Improve disclosure standards, conduct regular asset quality reviews (AQRs), and strengthen external audits to rebuild public trust and ensure sound financial practices.

6.5 Strengthening External Sector Resilience and Competitiveness

- **Make export diversification a strategic national priority.** Reduce overdependence on readymade garments by expanding into higher-value-added and emerging sectors to enhance resilience to external shocks.

- **Provide targeted support to emerging export sectors**. Direct policy incentives, investment facilitation, and technology upgrading towards agro-processing, pharmaceuticals, ICT services, light engineering, and the blue economy to broaden the export base and strengthen long-term competitiveness.

- **Reduce domestic trade and logistics bottlenecks.** Improve port efficiency, customs clearance, inter-agency coordination, and digital trade facilitation to lower transaction costs and enhance export reliability.

- **Prepare proactively for LDC graduation.** Implement the Smooth Transition Strategy (STS) to sustain export competitiveness, secure preferential market access, and strengthen the investment climate.

- **Enhance external sector stability.** Strengthen foreign exchange reserve management, promote remittance flows through formal channels, and encourage the repatriation of export earnings to support balance-of-payments stability.

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