Independent Review of Bangladesh's Development

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State of the Bangladesh Economy in FY2025-26: Multidimensional Challenges During the Transition Period

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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.

State of the Bangladesh Economy in FY2025-26: Multidimensional Challenges During the Transition Period

SECTION I. INTRODUCTION

Bangladesh entered the closing phase of FY2026 amid a convergence of macroeconomic, financial, sectoral and social stresses. The pressures observed across inflation, public finance, banking, employment, energy, agriculture, the external sector and health are not isolated developments. Rather, they point to a deeper challenge of institutional fragility, weak enforcement, delayed implementation and inadequate accountability. Temporary stabilisation in some indicators has not necessarily translated into structural improvement, and in several areas apparent relief has concealed unresolved vulnerabilities.

Inflation remained a central pressure on household welfare. Point-to-point inflation rose to 9.04 per cent in April 2026, driven mainly by non-food inflation, which increased to 9.57 per cent, reflecting higher costs of fuel, transport and other essential services. Wage growth, at 8.16 per cent in April 2026, remained below headline inflation, further weakening real purchasing power. The inflationary burden has been particularly severe for low-income households, while Bangladesh's price stability has become increasingly vulnerable to external shocks, supply chain bottlenecks and intermediary-driven distortions in essential commodity markets.

Fiscal and financial-sector weaknesses have added to these pressures. Revenue mobilisation grew by only 6.9 per cent during July–March of FY2026, implying that an 84.6 per cent growth would be required during the remainder of the fiscal year to meet the annual target. ADP implementation also remained sluggish, while reliance on bank borrowing to finance the budget deficit increased, raising concerns over the possible crowding out of private investment. In the banking sector, the temporary decline in classified loans, from 35.73 per cent of total loans in September 2025 to 32.26 per cent in March 2026, reflected extensive loan rescheduling and restructuring under relaxed conditions rather than a clear improvement in asset quality. This distinction is critical, as the reported improvement may obscure deeper balance-sheet stress and weaken credit discipline.

The real economy has also remained under strain. Private-sector credit growth fell to 4.72 per cent in March 2026, constraining investment and employment generation, while factory closures, negative real wage growth, weak labour enforcement and rising youth unemployment continued to affect workers. Externally, Bangladesh's balance of payments position showed some resilience, supported by remittance inflows of nearly 20 per cent, but export performance weakened, with total exports declining by 2.02 per cent during the first ten months of FY2026 against a 14.0 per cent export growth target. This indicates that external-sector stability has been supported more by remittances and financial-account movements than by broad-based export dynamism.

Sectoral developments further reinforce the governance concern. The blockade in the Strait of Hormuz and the wider Middle Eastern energy crisis disrupted global fuel oil and LNG supply, exposing Bangladesh's vulnerability as a net energy-importing country. The domestic response revealed weaknesses in supply-chain management and the absence of a fully digitised petroleum monitoring system, while subsequent fuel price adjustments generated a short-term inflationary impulse and a more persistent output contraction. The Haor flood exposed weaknesses in early warning, harvesting logistics, loss assessment, farmer compensation and market monitoring. Similarly, the 2026 measles outbreak demonstrated that earlier health gains can be reversed when procurement, routine immunisation, workforce management and administrative responsiveness weaken. Across these sectors, the central message is clear: Bangladesh's current challenges are not only about economic shocks or resource constraints; they are also about the quality of governance, implementation and accountability.

SECTION II. PUBLIC FINANCE: REVENUE SHORTFALLS, SLUGGISH ADP IMPLEMENTATION, AND RISING FINANCING PRESSURE

Key observations

- The growth in revenue mobilisation remained modest at 6.9 per cent during the July–March period of FY2026, implying that a massive 84.6 per cent growth will be required during the reminder of FY2026, if the annual growth target is to be met.
- A significant slowdown in Annual Development Programme (ADP) implementation was observed during the first ten months of FY2026, with utilisation of both domestically financed projects and project aid remaining far below the long-term trends (from 2017 to 2024).
- The reliance on domestic bank borrowing to finance the budget deficit increased during the first nine months of FY2026, along with a shift away from non-bank and foreign sources, raising concerns over potential crowding out of private sector investment.

Key recommendations

- In the area of mobilising additional revenue, prioritise finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages should receive due importance.
- Carefully optimise the strategies for financing the budget deficit to avoid crowding out effect.
- Development expenditure should be accelerated through stronger project management and monitoring systems.

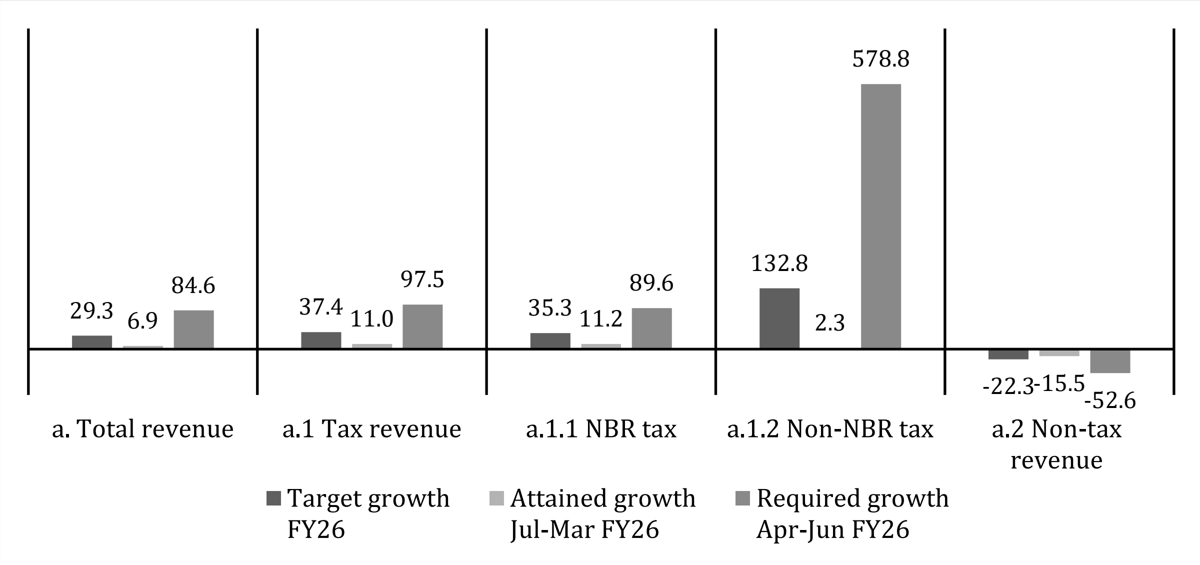
Revenue mobilisation has long been a concern for fiscal management in Bangladesh. During the period July-March of FY2026, revenue collection fell short of the target. Additionally, Annual Development Programme (ADP) implementation remains slow during the period primarily, because of stringent scrutiny in the approval of development project and government austerity measures at realigning spending with national priorities. An increasing budget deficit remains a concern for fiscal management. Financing the budget deficit relied heavily on bank borrowing, as data show a sharp increase in borrowing form banking sources during the July-March period of FY2026.

Besides, the issue of the timely availability of fiscal data continues to be a major constraining factor when it comes to the analysis of the public finance situation in Bangladesh. As of May 2026, data reported by the Ministry of Finance (MoF) is available until March 2026. While alternative sources such as the National Board of Revenue (NBR), Implementation Monitoring and Evaluation Division (IMED), and Bangladesh Bank (BB) can be timelier, they lack the accuracy and congruency of the MoF data. Fragmented reporting is also an issue, as no alternative sources provide a holistic picture of the fiscal scenario, which the MoF does. The present analyses utilise data from all the aforementioned entities but may be somewhat constricted in some instances owing to data limitations.

2.1 Revenue Mobilisation

As reported by the MoF, total revenue collection posted a 6.9 per cent growth during the July-March period of FY2026. This is a considerable decline from the corresponding figure of FY2025 (7.9 per cent). This implies that a remarkable 84.6 per cent growth will be required during the remaining period of April-June for FY2026, if the annual target for revenue mobilisation growth rate of 29.3 per cent is to be achieved (Figure 2.1). Without a doubt, this is a highly unlikely prospect. The growth in revenue mobilisation during the July-March FY2026 period was primarily driven by a sharp increase in tax collection by the NBR.

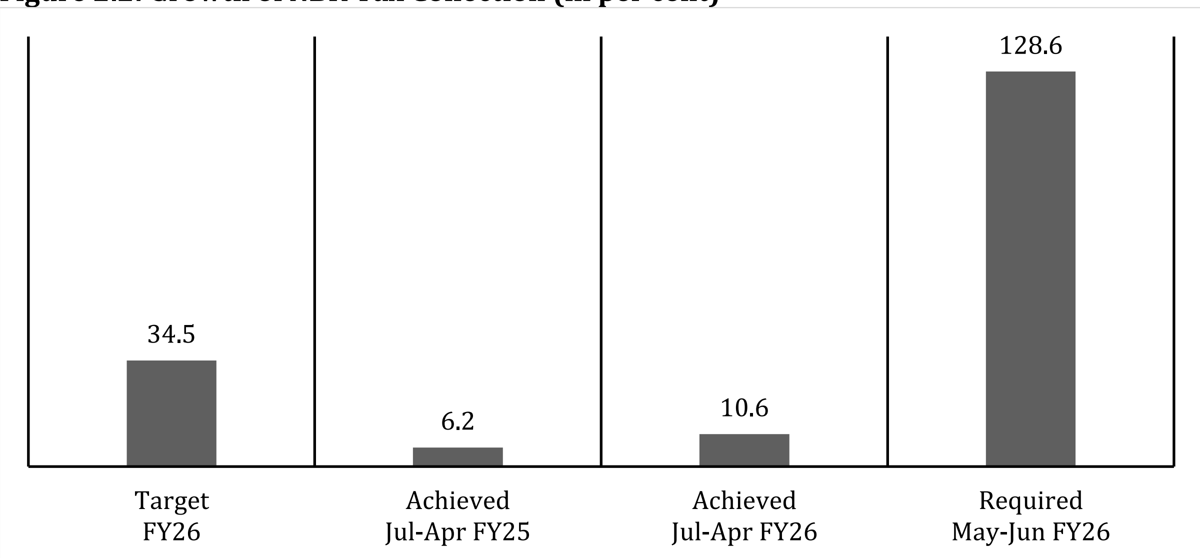
Figure 2.1: Revenue Mobilisation Growth by Sources (in per cent)



Source: Author's calculation based on data from MoF (2025a, 2025b, 2026).

According to the NBR data, tax collection increased by 10.6 per cent during the July-April period of FY2026, whereas the corresponding figure of FY2025 was 6.2 per cent (Figure 2.2). The growth achieved so far in FY2026 can be attributed primarily to the enhanced collection of income tax as well as value added tax (VAT) and supplementary duty (SD) at both the import and local levels. Despite this, the pace of tax collection during this period followed a similar trend observed in recent years, with the collection still falling short of BDT 104,533 crore to meet the revised July-April target of BDT 431,461 crore. The slowdown in the implementation of the ADP as well as the downturn in overall economic activity have perhaps contributed to the revenue mobilisation shortfall relative to the target. The annual growth target for FY2026 was set at 34.5 per cent. If the annual growth target is to be met, tax collection will need to increase by 128.6 per cent during the April-June period of FY2026. Given the present context, whether the upcoming International Monetary Fund (IMF) conditionalities concerning revenue can be met remains a question.

Figure 2.2: Growth of NBR Tax Collection (in per cent)



Source: Authors' calculation from NBR (2025, 2026).

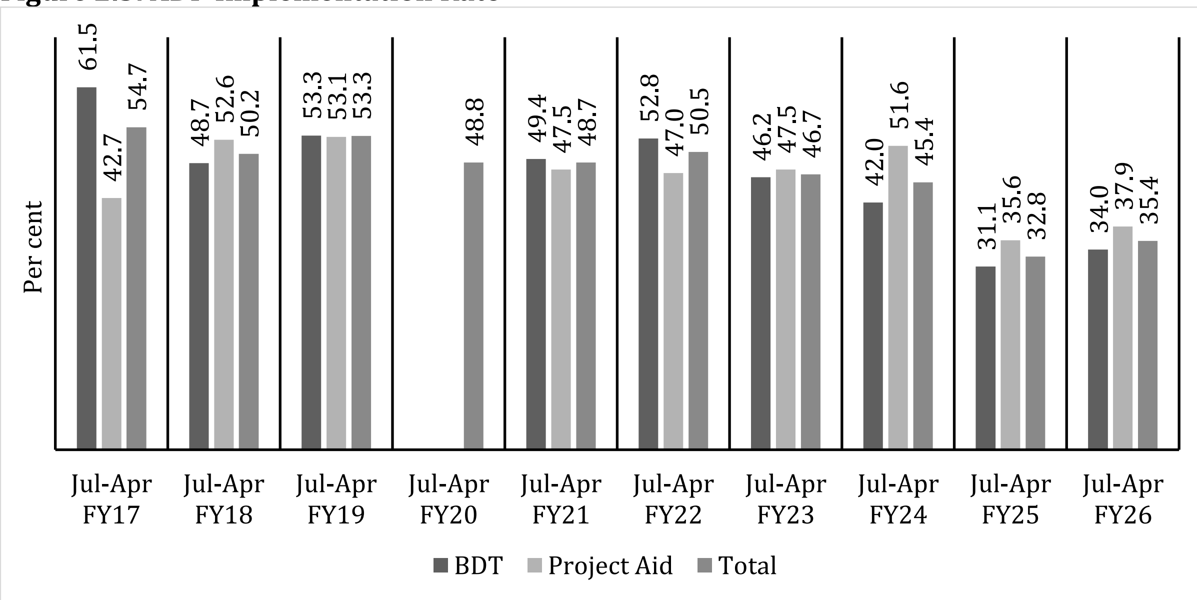
Although the introduction of mandatory electronic filing of personal income tax returns marks the progress in tax administration reform, institutional restructuring and broader tax policy reforms remain uneven. The separation of the Revenue Policy Division and the Revenue Management Division is yet to be operationalised. In addition, limited progress in implementing the Tax Expenditure Management Policy Framework continues to constrain transparency, accountability, and efficiency in the fiscal system (World Bank, 2026).

2.2 Public Expenditure

As the MoF data shows, overall utilisation of the budget stood at 51.7 per cent during the July-March period of FY2026 (MoF, 2026). The corresponding figure for FY2025 was lower —at 48.5 per cent (MoF, 2025b). ADP implementation was also on the lower side—only 24.3 per cent financial progress was achieved during the first 9 months of FY2026 (the corresponding figure for FY2025 was 25.6 per cent). This reduction in ADP spending was attributed to slow project execution, subdued revenue growth, and a deliberate shift away from high-cost mega projects (ADB, 2026). On the contrary, non-ADP expenditure showed an upward trajectory. During July-March of FY2026, utilisation of the non-ADP budget reached 63 per cent whilst the corresponding figure for the previous fiscal year was 59.9 per cent. This implies that nearly an additional BDT 34,000 crore was required to conduct the non-ADP activities of the budget.

The Implementation Monitoring and Evaluation Division (IMED) under the Ministry of Planning provides a more up-to-date picture concerning the ADP implementation scenario. According to the IMED data, the ADP implementation rate against the original budget allocation reached 35.4 per cent during July-April of FY2026 which was far below the long-term trend (Figure 2.3). ADP implementation rate for the corresponding figure for FY2025 was 32.8 per cent. Although ADP implementation for FY2026 shows a slight improvement compared with the corresponding figure of FY2025, the number remains way below the growth rate recorded for previous years from FY2017 to FY2024. The primary reason for this setback is the strict scrutinisation of development project and government austerity to realign with national priorities. The mid-year political transition is also another reason of lower ADP implementation rate as new administrative reshuffling causing the slow release of the project allocation.

Figure 2.3: ADP Implementation Rate



Source: Author's calculations based on data from IMED (2020, 2026).
Note: For the July-April FY2020 period, IMED changed its data reporting format due to the COVID-19 pandemic. Hence, 'BDT' and 'Project aid' components are not available.

Within the components of ADP, utilisation of both 'BDT' (the part of ADP that is financed by domestic resources), and project aid remained substantially below the long-term trend during the first 10 months of FY2026. While the implementation rate of the former reached 34 per cent, for the latter this rate was 37.9 per cent. The corresponding rates for FY2025 were 31.1 per cent and 35.6 per cent, respectively. As mentioned in the previous section, the slowdown in ADP implementation has adversely impacted revenue mobilisation and may have negative connotations for the achievement of a healthy economic growth.

Of the original ADP allocation for FY2026, the top 10 ministries/divisions receiving the highest allocation account for 64.9 per cent of the total (the corresponding figure for FY2025 was 66.6 per cent). Among the 10, the ADP implementation of six was below the average level. These include the Road Transport and Highways Division, the Power Division, the Secondary and Higher Education Division, the Ministry of Water Transport, the Ministry of Railway, and the Health Services Division (Table 2.1). As can be seen, the trend of poor ADP implementation in the education and health sectors has continued in FY2026. It is also a matter of concern that the average ADP implementation rate of government ministries/divisions outside the top 10 remained significantly low at 23.1 per cent during July–April FY2026 (Table 2.1).

Table 2.1: ADP implementation situation of top 10 ministries/divisions

Ministries/Divisions	FY2025		FY2026	
	Share in total ADP (%)	July-April implementation rate (%)	Share in total ADP (%)	July-April implementation rate (%)
Local Govt Division (Including Block Allocation)	14.2	52.4	15.5	59.3
Road Transport and Highways Division	11.5	28.3	13.8	25.1
Power Division	10.8	47.2	8.7	40.0
M/O Primary and Mass Education	5.0	41.1	Not included in the top 10	
Secondary and Higher Education Division	4.1	25.2	5.2	23.1
M/O Science and Technology	4.8	48.4	5.1	81.9
M/O Water Transport	3.8	21.2	4.0	23.1
M/O Water Resources	3.1	60.1	3.6	79.1
M/O Railway	5.0	25.9	3.3	21.0
Health Services Division	4.2	7.6	3.3	9.3
M/O Agriculture	Not included in the top 10		2.5	42.5
Top 10 Ministry Total	**66.6**	**38.3**	**64.9**	**42.1**
Rest of the Ministries	33.4	21.7	35.1	23.1
Grand Total	**100**	**32.8**	**100**	**35.4**

Source: Author's calculation based on data from IMED (2025, 2026).

2.3 Budget Deficit and Its Financing

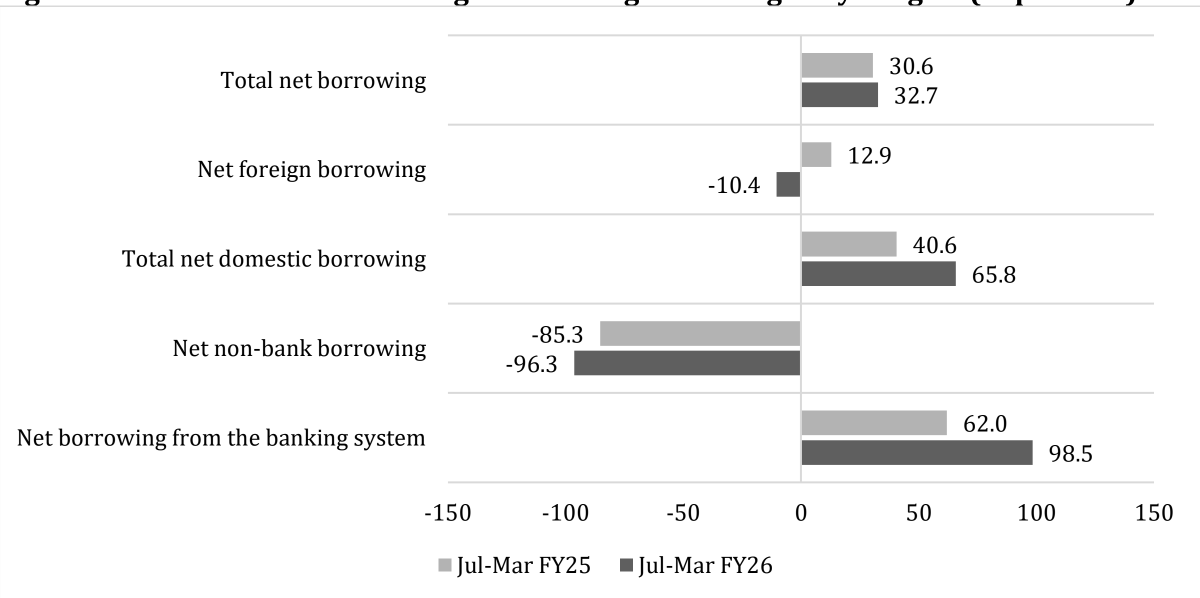
According to the MoF data, the budget deficit increased marginally during the July-March period of FY2026. The budget balance (excluding grants) stood at a deficit of BDT 77,164 crore at the end of March FY2026, compared to BDT 76,708 crore during the corresponding period of FY2025 (MoF, 2025b, 2026). During the July-March period of FY2026, total net borrowing reached 32.7 per cent of the annual budgetary target, compared to 30.6 per cent during the corresponding period of FY2025 (Figure 2.4). This is perhaps attributable to the combination of a substantial increase of non-ADP expenditure and a moderate increase in revenue collection.

Government's net borrowing from foreign sources declined significantly during the first 9 months of FY2026. Net foreign borrowing stood at (-) 10.4 per cent of the annual budgetary target during this period, compared to 12.9 per cent during the corresponding period of FY2025. This decline was mainly due to the reduced inflow of foreign funds along with increased amortisation payments on existing foreign loans. In actual terms, government net foreign borrowing decreased by BDT 21,705 crore during the July–March period of FY2026.

Government's net borrowing from the banking system increased substantially during the July–March period of FY2026. Borrowing from the banking system reached 98.5 per cent of the annual budgetary target by the end of March FY2026, compared to 62.0 per cent during the corresponding period of FY2025. In actual terms, government net borrowing from the banking system stood at BDT 102,442 crore during July–March FY2026, whereas the corresponding figure for FY2025 was BDT 85,298 crore (MoF, 2025b, 2026). This increase in bank borrowing may limit the availability of funds to the private sector (Mannan & Iqbal, 2025; Tasnim et al., 2026).

On the other hand, non-bank borrowing declined during the July-March of FY2026 period. Net non-bank borrowing accounted for (-) 96.3 per cent of the budgetary target during the first 9 months of FY2026, compared to (-) 85.3 per cent during the same period of FY2025. In actual terms, government borrowing from non-banking sources decreased by BDT 261 crore by the end of March FY2026. Within the non-banking sources, the net sale of National Savings Certificates (NSCs) experienced a sharp decline. During the July-March period of FY2026, the government repaid (net) BDT 2,176 crore to the people, whereas the government sold NSCs worth (net) BDT 1,710 crore during the same period of the previous fiscal year. Overall, a shift in borrowing patterns from non-bank and foreign sources to the banking system was observed during this period. Such heavy reliance on borrowing from scheduled banks to finance fiscal deficit could result in crowding out of private sector investment.

Figure 2.4: Government Borrowing Situation Against Budgetary Targets (in per cent)



Source: Author's calculations based on data from MoF (2025a, 2025b, 2026).

While the analysis reflects growing pressure from increased government borrowing to finance the budget deficit, the government's decision to implement the recommendation of the Ninth Pay Commission may further widen the fiscal deficit. To implement the Ninth Pay Commission, the government would need an additional cost of BDT106,000 crore which is 13.4 per cent of annual budget for FY2026. Given the current trend of deficit financing, government may opt to finance the gap through domestic borrowing. However, this may further put pressure on banking system as there is an increase of net borrowing from the banking system.

2.4 The Path Ahead

The analysis shows that the economy is currently facing the issue of narrowed fiscal space (due to limited revenue mobilisation and increased government borrowing from domestic sources) and slow ADP implementation rate. To achieve the target of revenue mobilisation, a significant growth rate of 84.6 per cent is required within the remaining 3 months of the current fiscal year which is highly unlikely. The lower growth rate of revenue mobilisation further puts pressure on budget deficit, leading to increased domestic borrowing from banking system. Additionally, slow ADP implementation may stifle economic growth and delay development expenditures. Amid such fiscal stress, a careful balance of fiscal management is required.

To improve the revenue mobilisation, initiatives such as taxing the growing digital economy and meaningful taxation of wealth and property can be considered. When it comes to enhancing the efficiency of existing efforts, analysing the current tax exemptions in-depth with thorough data analysis has become an urgency. As part of sealing the leakages, curbing illicit financial flows (IFF), limiting tax evasion, and tax avoidance should be high on the government’s agenda.

Careful optimisation of strategies for financing the deficit will be required if private sector borrowings are not to be crowded out, given the commercial banks' liquidity situation and the government's decision not to borrow from the central bank. Selling of NSCs can be an option for the government to deficit financing.

The public expenditure framework will need to address the persistently high prices of necessities. It needs to be ensured that the low and limited income, vulnerable and disadvantaged groups are supported through both revenue and expenditure centric fiscal measures. Besides, ADP implementation for social sectors’ (such as health services division, education, etc.) should be prioritised for faster implementation rate.

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SECTION III. DRIVERS OF INFLATIONARY PRESSURES

Key Observations

- Rising energy prices are transmitting broadly across transport and household fuel costs, compounding the overall inflationary burden on low-income households.
- The CPD primary market survey finds that retailers rely heavily on urban aratdars for at least six key commodities, exposing the food supply chain to intermediary-driven price distortions and market vulnerabilities.
- According to the findings from an Event Study analysis, the Middle East conflict, which first began in October 2023, led to statistically significant short-term price increases for selected food commodities.

Key recommendations

- Low-income households should be supported through social protection schemes in light of the recent hikes in LPG and transportation prices.
- Strengthen market monitoring and regulatory oversight of intermediaries, particularly aratdars and wholesalers, to curb collusive practices and price manipulation in essential commodity markets.
- Bangladesh should resolve supply chain bottlenecks to prevent price spikes, especially during global shocks such as conflict, war, or the pandemic.

3.1 Introduction

Inflation has long constituted a profound structural burden on Bangladesh's economy, with its adverse consequences disproportionately borne by those most exposed to poverty and income vulnerability. Sustained price increases erode household purchasing power, raise the cost of essential goods and services, and thereby compress living standards and overall welfare. A principal impediment to effective inflation management has been the absence of adequate policy coordination, whereby monetary, fiscal, and administrative interventions have tended to operate in a fragmented rather than mutually reinforcing manner. Compounding this challenge is the inherent difficulty in accurately identifying the sources of inflationary pressure, given that demand-side factors, supply-side disruptions, and external shocks may operate simultaneously and interact in complex ways. Against this backdrop, the government bears a critical responsibility to achieve durable price stabilisation, as macroeconomic stability, household welfare, and the prospects for sustained economic growth are each contingent on restoring a low and predictable inflationary environment.

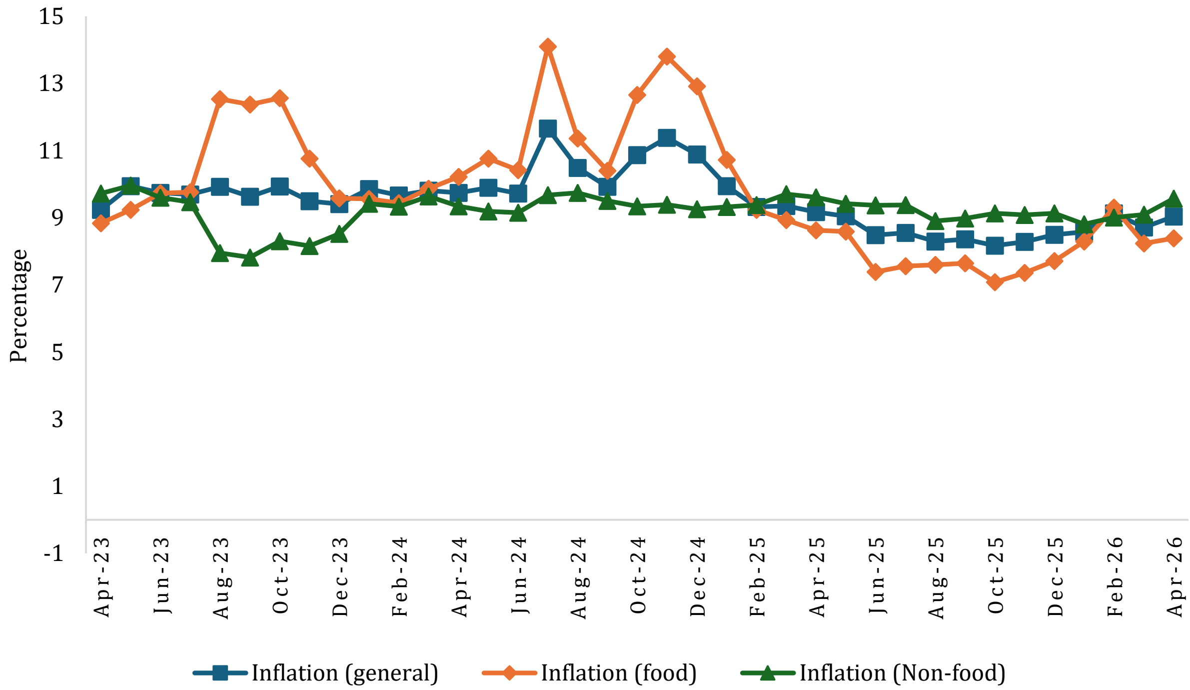
3.2 Trend in Inflation in Bangladesh

Inflationary pressures showed a downward trend from January 2025 to June 2025, after which they fluctuated marginally but remained above 8 per cent (figure 3.1). However, in April 2026, point-to-point inflation increased to 9.04 per cent, driven primarily by a sharp rise in non-food inflation to 9.57 per cent from 9.09 per cent. This is indicative of sustained increases in the costs of fuel, transport, and other services.

This burden is rendered acutely visible when wage growth fails to keep pace with rising prices. In April 2026, point-to-point wage growth stood at 8.16 per cent against a headline inflation rate of 9.04 per cent, meaning that inflation outpaced wages by 88 basis points, leaving workers with less real purchasing power than the year prior. For households already operating at the margins, this gap between earnings and prices is not a statistical abstraction but a lived deterioration in economic well-being (BBS 2026).

On the other hand, food inflation also rose marginally, from 8.24 per cent to 8.39 per cent. The renewed price pressures can be attributed to higher fuel prices and rising import costs, as the aftereffects of the Middle East crisis are transmitted to domestic prices.

Figure 3.1: Point-to-point Inflation Rate (Base Index 2021-22=100)



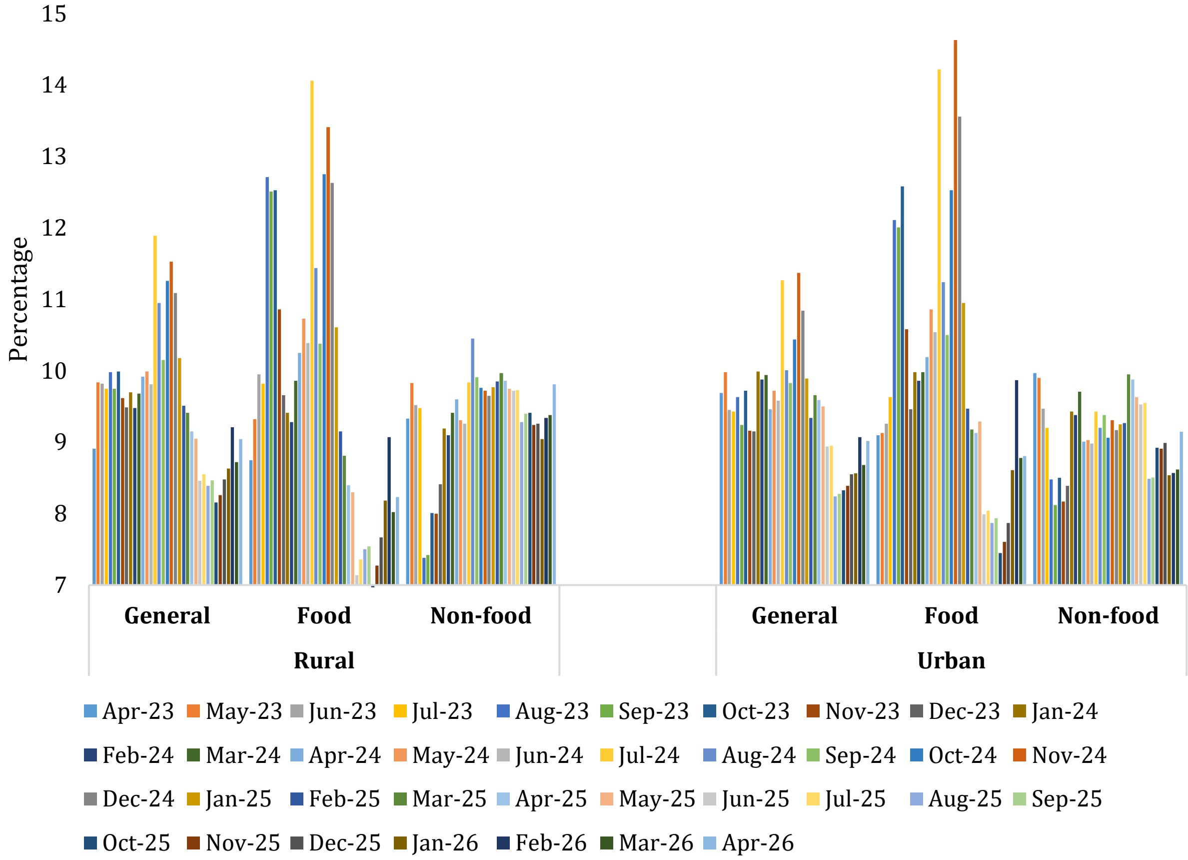
Source: CPD's illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2026), the Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank 2026).

Since January 2026, rural general inflation has fluctuated but remained elevated, rising from 8.63 per cent to 9.21 per cent in February 2026 (figure 3.2). This rise appears to have been driven by both food and non-food inflation, which increased by 0.89 percentage points and 0.30 percentage points, respectively. In the subsequent months, March and April 2026, rural general inflation declined to 8.72 per cent in March, then rose again to 9.05 per cent in April.

Food inflation declined sharply from 9.07 per cent in February to 8.02 per cent in March 2026 but rose again to 8.23 per cent in April 2026. In contrast, non-food inflation continued to rise, reaching 9.81 per cent in April 2026 (Figure 3.2).

A similar pattern is observed in urban inflation. General inflation increased from 8.57 per cent in January 2026 to 9.07 per cent in February, then declined to 8.68 per cent in March before rising again to 9.02 per cent in April 2026. Food inflation mirrored these fluctuations, whereas non-food inflation rose consistently, ending at 9.15 per cent in April 2026 (Figure 3.2).

Figure 3.2: Point-to-point General, Food, and Non-food CPI Inflation in Rural and Urban Areas



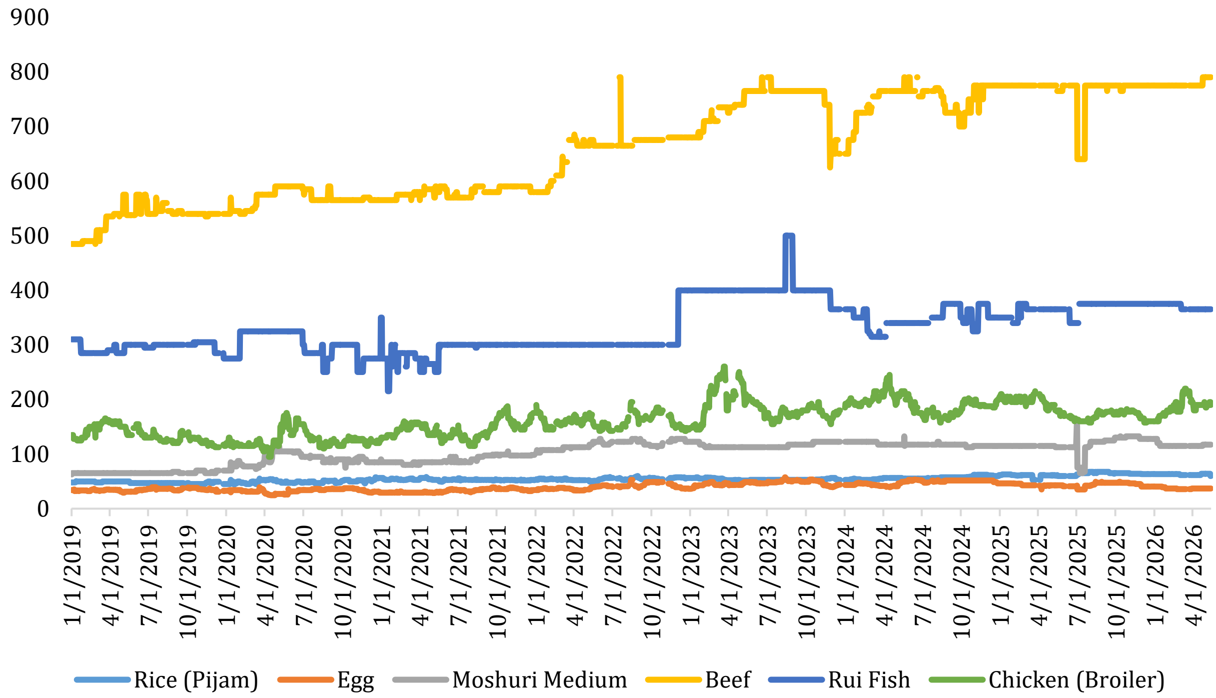
Source: CPD's illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2026), the Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank 2026).

Rural general inflation was slightly higher than urban inflation throughout most of the January–April 2026 period. Urban food inflation in February 2026 (9.87 per cent) exceeded rural food inflation (9.07 per cent), suggesting stronger food price pressures in urban areas during that month. In contrast, rural non-food inflation remained persistently higher than urban non-food inflation by April 2026 (9.81 per cent vs 9.15 per cent) (Figure 3.2). The continued increase in non-food inflation in both rural and urban areas suggests that inflationary pressures in early 2026 were increasingly driven by non-food components rather than temporary food price fluctuations. Another notable point is that urban and rural general inflation during January-April 2026 remained above the levels observed in most of the second half of 2025. This may be driven by the ongoing energy crisis linked to the conflict in the Middle East.

3.3 Trends in Prices of Essential Commodities

Across the observed period, all selected food commodities exhibited a persistent upward price trajectory, albeit with varying degrees of intensity and volatility (Figure 3.3). Beef recorded the most pronounced inflationary trend, with prices rising sharply from early 2022 and stabilising at an elevated plateau approaching BDT 800, reflecting substantial and sustained cost pressures in the red meat segment. Rui fish exhibited the greatest price instability, oscillating between BDT 250 and BDT 350 for much of the early period, followed by an anomalous spike to BDT 500 in 2023, then settling at a structurally higher baseline relative to the 2019–2020 benchmark.

Figure 3.3: Trends in Prices of Essential Commodities



Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB 2026).

Chicken prices followed a moderately volatile but discernible upward trajectory, transitioning from the BDT 100–150 range in 2019 to consistently higher levels of BDT 150–200 in more recent years. Pulses (moshuri medium) exhibited the most gradual yet unrelenting inflationary pattern, with its steady price escalation carrying disproportionate welfare implications for lower-income households that depend heavily on it as a primary protein source (Figure 3.3). Rice and eggs, by contrast, remained the most price-stable commodities, maintaining the lowest prices throughout the period and showing only marginal increases, with no significant volatility, thereby retaining their status as the most economically accessible staples in the basket. Collectively, the broad-based and persistent upward price displacement across all commodity categories constitutes a compelling indicator of the progressive erosion of household purchasing power over the period under review.

3.4 Energy Crisis and Inflationary Pressures

The ongoing energy crisis has become a major driver of inflationary pressures in Bangladesh, particularly affecting the food and transportation sectors. According to the Quarterly Report of Bangladesh Bank on Inflation Dynamics, energy inflation rose to 14.90 per cent in Q3FY26 from 14.40 per cent in Q2FY26. More specifically, in March, energy inflation stood at 14.75 per cent (Bangladesh Bank 2026).

Subsequently, the Energy and Mineral Resources Division issued a gazette notification on 18 April 2026, announcing an upward revision of domestic fuel prices. Under the revised pricing structure, diesel increased from BDT 100 to BDT 115, kerosene from BDT 112 to BDT 130, octane from BDT 120 to BDT 140, and petrol from BDT 116 to BDT 135 (EMRD, 2025; EMRD, 2026a). These prices were further revised upwards on 31 May 2026, to BDT 135 for kerosene, BDT 140 for petrol, and BDT 143 for octane, with diesel prices remaining unchanged (EMRD, 2026b). These adjustments represent increases of approximately 15 per cent for diesel, 20.05 per cent for kerosene, 20.08 per cent for octane, and 20.07 per cent for petrol compared to previous prices prior to April (EMRD, 2025; EMRD, 2026a).

DIESEL	OCTANE	PETROL	KEROSENE
15.00%	20.08%	20.07%	20.05%
price increase	price increase	price increase	price increase

Energy inflation is transmitted to both transportation and food prices through multiple channels. Oil price increases primarily affect food prices by raising transportation costs (Dillon & Barrett, 2016), while sustained high crude oil prices contribute to persistent commodity price inflation (Baffes, 2007). In oil-import-dependent developing economies, rising oil prices are found to increase domestic food prices in the long run (Chen et al., 2024). For Bangladesh specifically, higher energy and oil prices are strongly linked to both food and aggregate inflation (Saha, 2013; Kabir et al., 2025). Overall, energy price increases operate through multiple inflationary transmission channels.

The pass-through effects of these fuel price adjustments were swiftly reflected in the transport sector. Following the original fuel price adjustments in April, the Road Transport and Highways Division revised public transport fares. The fare for intracity buses in Dhaka and Chattogram increased from BDT 2.42 per km to BDT 2.53 per km (RTHD, 2026). For inter-district and long-distance buses, fares rose from BDT 2.12 per km to BDT 2.23 per km, while for minibuses operating within Dhaka, Chattogram, and the surrounding areas under the Dhaka Transport Coordination Authority (including Narayanganj, Munshiganj, Narsingdi, Gazipur, Manikganj, and Dhaka), fares increased from BDT 2.32 per km to BDT 2.43 per km (RTHD, 2026). These adjustments correspond to fare increases of approximately 4.55 per cent, 5.19 per cent, and 4.74 per cent, respectively. This increase in public transport fares is likely to place additional pressure on consumers. These transportation fares may increase further following the recent increase in fuel prices.

	BEFORE		AFTER	
Intracity Buses Dhaka & Chattogram	BDT 2.42/km	→	BDT 2.53/km	+4.55%
Inter-District & Long-Distance	BDT 2.12/km	→	BDT 2.23/km	+5.19%
Minibuses Dhaka, Chattogram & DTCA areas (Narayanganj, Munshiganj, Narsingdi, Gazipur, Manikganj)	BDT 2.32/km	→	BDT 2.43/km	+4.74%

In addition, the price of a 12 kg LPG cylinder rose from BDT 1,341 in March 2026 to BDT 1,940 in May 2026, representing a 44.67 per cent increase within just two months (BERC, 2026a; BERC, 2026b). As LPG is widely used for household cooking, transportation, small-scale commercial activities, and food production, higher LPG prices directly increased the cost of living for households and raised production and distribution costs across sectors. Consequently, the surge in LPG prices not only reduced consumers' purchasing power but also contributed to broader cost-push inflationary pressures within the economy. These pass-through effects of energy price adjustments to transport and household fuel costs indicate a broader transmission of energy inflation, thereby exacerbating the overall burden of inflation on consumers. However, the prices of 12 kg LPG cylinders, along with 12 other LPG cylinder sizes, were revised on 2 June 2026. Under the revised pricing structure, the price of a 12 kg LPG cylinder was set at BDT 1,885, representing a decrease of BDT 55 compared to the price in May (BERC, 2026c). The new price reflects an approximately 3 per cent reduction in the price of 12 kg LPG cylinders and 12 other cylinders of different sizes relative to the previous month, which may provide some relief from inflationary pressures. Nevertheless, the newly adjusted price remains 40.57 per cent higher than the March price, which was set after the formation of the newly elected government.

3.5 Challenges in Moderating Essential Commodity Prices

Persistent inflation in essential commodities reflects a combination of supply-side constraints and structural weaknesses within commodity markets. Hence, CPD conducted a market survey to examine the principal drivers and distributional impacts of inflation in Bangladesh. A total of about 1,000 market agents were surveyed for 10 selected commodities. The 10 selected commodities include rice (medium-paijam), pulses, onion, potato, green chilli, brinjal, egg, beef, rui fish, and chicken (broiler). 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 will continue until the point of origin is reached, particularly the farmer or primary producer of the commodity.

Dominant role of urban aratdars: Retailers in Bangladesh overwhelmingly rely on urban aratdars to procure essential commodities like onions, potatoes, green chillies, brinjals, eggs, and Rui fish. This heavy dependence on a single intermediary group exposes structural weaknesses in the agricultural marketing system, leading to market concentration, unequal bargaining power, and pricing inefficiencies. Because the distribution network is so concentrated, any operational disruptions, strategic hoarding, or collusive behaviour by aratdars can disproportionately trigger supply shortages and retail price volatility. These vulnerabilities highlight an urgent need for stronger regulatory oversight, increased supply chain transparency, and direct market linkages between producers and retailers to curb intermediary-driven market distortions.

***Price controls by urban* aratdars:** Urban aratdars hold dominant market power, directly dictating both procurement and retail prices for essential staples like rice, onions, potatoes, vegetables, and fish. This pricing control, supported by wholesalers and beparis, restricts market competitiveness and creates structural vulnerabilities. The concentration of power enables anti-competitive practices like hoarding, collusion, and artificial supply manipulation, allowing intermediaries to capture excessive profit margins. If left unaddressed, these entrenched distribution distortions will continue to drive artificial price inflation independently of broader macroeconomic conditions.

Supply chain length and price escalation: Intermediaries heavily inflate final consumer prices of high-demand agricultural products as they move from the farm gate to retail markets. Among the surveyed commodities, green chillies saw the highest surge at 116 per cent (more than double the farm-gate price), followed by onions (87 per cent), pulses (78 per cent), and brinjals (72 per cent). In contrast, livestock and products like eggs, chicken, beef, and fish see much narrower price increases due to their shorter distribution networks and fewer market agents. Ultimately, the total number of intermediaries in a supply chain is a critical determinant of whether the final cost of essential goods is inflated or moderated.

3.6 Impact of External Shocks on the Prices of Food

As mentioned previously, food inflation is a key driver of headline inflation in Bangladesh. While numerous domestic factors, such as extreme weather conditions, seasonal effects, and supply chain disruptions caused by collusive behaviour, affect food prices, external and unprecedented shocks also play a significant role. To evaluate how external shocks drive food inflation in Bangladesh, an event-study analysis examines the marginal effects of three major global disruptions: (i) the COVID-19 outbreak (23 January 2020), (ii) the Russia–Ukraine war (24 February 2022), and (iii) the Middle East conflict (7 October 2023). Using daily time-series data from 2019 to May 2026, sourced from the Trading Corporation of Bangladesh (TCB), the study tracks price adjustments for key commodities, including rice, eggs, pulses, onions, beef, fish, and chicken.

The framework operates in three primary steps:

- Event Identification: Isolating major external shocks capable of disrupting local markets.
- Event Window Selection: Defining a critical timeline surrounding each event to observe where its real-world impact materialises.
- Abnormal Returns (AR) Estimation: Calculating actual price growth against a counterfactual expected return (Brown & Warner, 1985). The difference reveals the isolated impact of the event, which is aggregated into Cumulative Abnormal Returns (CAR) and statistically validated using a standard t-test.

Econometric Model:

The normal or expected returns, $\mathbf{K_{it}}$ is calculated using the data for the estimation window.

$$\mathbf{K_{it} = a_i + b_iR_{mt}}$$

Here, i represents the price of the selected food commodities over the time period t, and R_{mt} is the return on the price benchmark.

To calculate the actual return in the prices of food commodities-

$$\mathbf{R_{it} = Ln(P_{it}/P_{it-1})}$$

To calculate the abnormal returns-

$$\mathbf{AR_{it} = R_{it} - K_{it}}$$

Where AR_{it} is the abnormal returns, and essentially the difference between the observed and predicted returns. It is the difference between the return conditional on the event and the expected return unconditional on the event.

To find the cumulative abnormal returns for the time period t_1 and t_2

$$\mathbf{CAR\ (t_1, t_2) = \sum_{t1}^{t2} ARit}$$

The event window for the shock analysis is defined as 5 days prior to and 30 days following the event to capture potential information leakage and post-event adjustment effects, consistent with event study methodology. The estimation window is taken to be 120 days, which is adequate for constructing a benchmark for normal returns when working with daily data (MacKinlay, 1997; Sayed & Eledum, 2021) Moreover, it is important to note that agricultural and food commodity prices often exhibit price stickiness, implying slower adjustment to shocks (Cincinelli et al., 2025) (Foster & Dalheimer, 2026).

3.6.1 Main results

The event study results reveal statistically significant CAR for selected food commodities following the onset of COVID-19, with the direction, magnitude, and persistence of price deviations varying considerably across products (Table 3.1). For beef, a statistically significant negative CAR of -0.92 per cent ($p<0.01$) is observed over the [-5, 20] event window. The expected return during this period was zero, implying that under normal market conditions, beef prices would have remained stable with no systematic movement. However, the observed abnormal return of -0.0092 over the [-5, 20] event window results in a statistically significant negative CAR, indicating that beef prices declined relative to this stable baseline. This suggests a transitory demand-side contraction, consistent with reduced consumer purchasing power and mobility restrictions during the early pandemic period, which dissipates over time, indicating market self-correction over the longer term.

Chicken (Broiler) exhibits a statistically significant positive CAR of +1.87 per cent ($p<0.05$) over the [-5, 10] window, reflecting short-run demand substitution as consumers reallocated expenditure toward more accessible retail protein sources amid supply chain disruptions, with the effect losing statistical significance in extended windows as supply-side adjustments restored equilibrium. Moshuri (medium) (pulses) record the most statistically robust short-term price deviation, with a highly significant positive CAR of +1.90 per cent ($p<0.001$) over the [-5, 10] window, consistent with precautionary stockpiling behaviour characteristic of crisis-onset periods for non-perishable staple commodities.

Rice (Pijam) exhibits a highly significant negative CAR of -3.39 per cent ($p<0.001$) in the immediate post-event window [-5, 10]. The expected returns during this window were consistently negative, indicating that, under normal historical conditions, rice prices would have declined over this period. The negative CAR for rice is largely attributable to a sharp pre-event price decline that had already driven the CAR deeply negative before the event date, rather than reflecting a post-event COVID-19-induced shock. Following the event date, prices actually exhibited a gradual recovery, with positive abnormal returns accumulating in the immediate days after the event date, suggesting that the pandemic onset did not immediately destabilise the rice market and may have even been associated with a brief stabilising effect, consistent with the role of government intervention in dampening panic-driven price movements. However, this recovery was abruptly reversed on day 10 by a notable price decline, pulling the CAR back into negative territory and ultimately producing the statistically significant negative CAR reported for the full window. Taken together, the findings suggest that the negative CAR is better understood as the combined outcome of pre-existing market weakness and a late-window price correction rather than a sustained COVID-19-driven price suppression throughout the event period.

Most notably, Rui Fish records the largest and most persistent abnormal price deviation in the dataset, with highly significant positive CARs of +18.95 per cent and +19.81 per cent ($p<0.001$) over the [-5, 20] and [-5, 30] windows, respectively. The expected returns for Rui fish were negative during this period, implying that, under normal circumstances, Rui Fish prices were expected to decline, perhaps reflecting seasonal fishing patterns or harvest cycles. COVID-19 completely reversed this trajectory. Instead of the expected seasonal price decline, prices surged, indicating a severe supply-side disruption stemming from the acute vulnerability of perishable fish supply chains to mobility restrictions, given their dependence on daily transportation networks linking rural aquaculture and riverine fisheries to urban consumption centres.

Table 3.1: Impact of COVID-19 on Prices of Selected Food Commodities

Product	Event Window	CAR
Beef	[-5, 10]	0
Beef	[-5, 20]	-0.009216655**
Beef	[-5, 30]	0
Chicken (Broiler)	[-5, 10]	0.018658699*
Chicken (Broiler)	[-5, 20]	0.030320385
Chicken (Broiler)	[-5, 30]	0.041982072
Egg	[-5, 10]	0.020250831
Egg	[-5, 20]	-0.012212835
Egg	[-5, 30]	-0.04680895
Moshuri Medium	[-5, 10]	0.019031782***
Moshuri Medium	[-5, 20]	-0.050825998
Moshuri Medium	[-5, 30]	-0.058163421

Product	Event Window	CAR
Rice (Pijam)	[-5, 10]	-0.033933264***
Rice (Pijam)	[-5, 20]	-0.050681216
Rice (Pijam)	[-5, 30]	-0.089860872
Rui Fish	[-5, 10]	0.013783981
Rui Fish	[-5, 20]	0.189453053***
Rui Fish	[-5, 30]	0.198068041***

Source: CPD's estimation based on data from the Trading Corporation of Bangladesh (TCB) (TCB 2026).
Note: *1% significance, **5% significance. ***10%significance

When assessing the impact of the Russia-Ukraine war on the same basket of food, the results show that only beef and egg experienced significant CAR, with beef showing an immediate +4.01 per cent ($p<0.10$) and egg a +3.80 per cent ($p<0.05$) spike in abnormal price deviation within 10 days of the event date (Table 3.2). The Russia-Ukraine war had a strong, consistent, and highly significant impact on beef prices across all time windows, with a notable CAR of 10.10 per cent ($p<0.10$) by [-5, 30] window. This suggests that the Russia-Ukraine conflict, a major global grain and fertiliser exporter, has a deeper, more structural impact on livestock-related costs, likely through feed grains such as maize and wheat (AL-Rousana et al., 2024). It should be noted that beef prices worldwide increased by 4.87 per cent during the same period (World Bank 2022).

Table 3.2: Impact of Russia-Ukraine War on Prices of Selected Food Commodities

Product	Event Window	CAR
Beef	[-5, 10]	0.040166042***
Beef	[-5, 20]	0.040166042***
Beef	[-5, 30]	0.101253734***
Chicken (Broiler)	[-5, 10]	0.038011987
Chicken (Broiler)	[-5, 20]	0.093022023
Chicken (Broiler)	[-5, 30]	0.095005715
Egg	[-5, 10]	0.038088818**
Egg	[-5, 20]	0.010054896
Egg	[-5, 30]	-0.032695996
Moshuri Medium	[-5, 10]	-0.013048871
Moshuri Medium	[-5, 20]	0.024257959
Moshuri Medium	[-5, 30]	-0.006370441
Rice (Pijam)	[-5, 10]	-0.023154846
Rice (Pijam)	[-5, 20]	-0.025944042
Rice (Pijam)	[-5, 30]	-0.028733238
Rui Fish	[-5, 10]	0
Rui Fish	[-5, 20]	0
Rui Fish	[-5, 30]	0

Source: CPD's estimation based on data from the Trading Corporation of Bangladesh (TCB) (TCB 2026).
Note: *1% significance, **5% significance. ***10% significance.

Finally, the event study results examining the impact of the Middle East conflict on selected food commodity prices in Bangladesh reveal statistically significant CAR values for a subset of commodities (Table 3.3).

Chicken (Broiler) records a statistically significant positive CAR of +5.38 per cent ($p<0.05$) over the [-5, 10] window. The expected returns calculated during this period were mostly negative, while the actual returns were mostly positive. This suggests that the conflict generated an immediate upward price shock in the poultry market, which otherwise would have experienced a price decline. This was most plausibly attributable to elevated feed input costs, with the effect dissipating over longer windows as domestic market adjustments absorbed the initial shock. Egg prices exhibit a highly significant positive CAR of +7.32% per cent (p<0.01) over the [-5, 10] window, the largest short-term deviation among all commodities in this event. Moshuri (medium) also recorded a statistically significant positive CAR of +3.05 per cent (p<0.01) over the [-5, 20] window.

Rice (Pijam) exhibits a statistically significant positive CAR of +2.82 per cent (p<0.05) over the [-5, 30] window, representing the only commodity for which the significant effect emerges exclusively in the long-run window, suggesting a gradual and delayed transmission mechanism potentially linked to sustained energy cost pressures on domestic milling, transportation, and distribution.

These findings align with existing literature (Buheji, 2026) attributing food inflation to fertiliser supply constraints. The statistically significant abnormal price increases in chicken, eggs, Moshuri (medium), and rice observed in the windows following the chosen start-of-conflict date reflect the market's immediate response to heightened geopolitical uncertainty and anticipated supply chain disruptions.

Table 3.3: Impact of Middle East Conflict on Prices of Selected Food Commodities

Product	Event Window	CAR
Beef	[-5, 10]	0
Beef	[-5, 20]	0
Beef	[-5, 30]	0
Chicken (Broiler)	[-5, 10]	0.053849812*
Chicken (Broiler)	[-5, 20]	0.048569178
Chicken (Broiler)	[-5, 30]	0.029312589
Egg	[-5, 10]	0.073227959
Egg	[-5, 20]	0.016226064
Egg	[-5, 30]	-0.012722436
Moshuri Medium	[-5, 10]	-0.006888731
Moshuri Medium	[-5, 20]	0.030478509**
Moshuri Medium	[-5, 30]	0.026173053
Rice (Pijam)	[-5, 10]	0
Rice (Pijam)	[-5, 20]	0.018868484
Rice (Pijam)	[-5, 30]	0.028170877*
Rui Fish	[-5, 10]	0
Rui Fish	[-5, 20]	0
Rui Fish	[-5, 30]	0

Source: CPD's estimation based on data from the Trading Corporation of Bangladesh (TCB) (TCB 2026).
Note: *1% significance, **5% significance. ***10%significance.

The event study analysis indicates that future inflation in Bangladesh will remain highly vulnerable to global shocks, with external crises generating more persistent and volatile inflationary pressures due to the country's dependence on imported energy, food, fertiliser, and fuel. Because inflation is becoming increasingly shock-driven rather than purely demand- or supply-driven, conventional monetary policies alone will have limited effectiveness. Managing this volatility will require a broader policy mix that combines monetary, fiscal, trade, and supply-side strategies with targeted structural reforms, including strengthening domestic value chains, diversifying energy sources, stabilising the exchange rate, and improving overall supply-chain resilience.

3.7 Policy Recommendations

Based on the previous discussion and analysis, this section suggests a few recommendations in the short and medium term

- Maintain strategic buffer stocks of essential food items and release them during supply shocks to stabilise prices and contain inflation.
- Monitor markets accurately to streamline supply chains by reducing excessive layers of intermediaries, especially in essential commodities, to minimise the disparity between farm-gate and retail prices and improve market efficiency.
- Strengthen market monitoring and regulatory oversight of intermediaries, particularly aratdars and wholesalers, to curb collusive practices, and artificial price manipulation in essential commodity markets.
- Support low-income households through social protection schemes in light of the recent hikes in LPG and transportation prices.
- Resolve supply chain bottlenecks to prevent price spikes, especially during global shocks such as conflict, war, or the pandemic, to protect the domestic market.
- Publish energy inflation data regularly.

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SECTION IV. OVERCOMING STRUCTURAL FRAGILITIES AND EXPEDITING REFORMS IN THE BANKING SECTOR

Key Observations

- The stability of the banking sector has deteriorated over time, as evidenced by persistently high gross non-performing loan (NPL) ratios, inadequate capital adequacy levels (CRAR is -2.93 per cent), weak credit demand, and declining profitability and earnings performance.
- Although the gross NPL ratio decreased from 35.73 per cent of total loans in September 2025 to 32.26 per cent in March 2026, NPLs are still significantly high, indicating continued asset quality stress. The decline was primarily attributable to loan restructuring and relaxed loan write-off policies.
- The governance index is a strong determinant of non-performing loans (NPLs). Better governance—measured through indicators such as control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability—is strongly associated with lower NPL levels, particularly when financial stress is high.

Key Recommendations

- Strengthen prudential regulation and risk management by enforcing strict loan classification and provisioning standards, phasing out regulatory forbearance measures, and enhancing oversight of large borrower concentration risks to reduce excessive exposure to a small number of borrowers or business groups.
- Enhance supervisory oversight and banking sector resilience by strengthening commercial banks through closer monitoring of non-compliant institutions and ensuring compliance with Basel III standards and other regulatory requirements.
- Accelerate banking sector reforms by ensuring the full and timely implementation of all proposed reform measures to improve governance, transparency, and financial stability.

4.1 Introduction

The stability of the banking sector has deteriorated over the years. In response to prolonged liquidity shortages across several commercial banks, concealed levels of non-performing loans (NPLs), and allegations of financial irregularities. By the end of 2025, the NPL ratio was 30.6 per cent, while the aggregate capital adequacy ratio declined to -2.93 per cent. However, the reported asset position remains overstated due to significant loan rescheduling and write-off across the banks. Financial distress and capital shortfalls are primarily concentrated among state-owned commercial banks and specialised banks. These conditions highlight the urgent need for comprehensive and credible banking sector reforms to restore financial stability and strengthen institutional confidence. While Bangladesh Bank has introduced a number of policy amendments and initiated important legal and regulatory reforms under the Interim Government, implementation challenges, policy reversals, and enforcement delays continue to constrain the effectiveness of corrective measures. Persistent weaknesses in governance, risk management, asset quality, and supervisory oversight, together with recurring liquidity pressures and vulnerabilities in bank funding structures, have further intensified stress within the financial system. In this context, strengthening the regulatory framework, ensuring the timely implementation of reform initiatives, and enhancing the effectiveness of resolution and supervisory mechanisms will be critical to restoring resilience in the banking sector and supporting sustainable medium-term economic growth.

4.2 Current Health of the Banking Sector

4.2.1 Capital weaknesses heighten vulnerability to financial and economic shocks

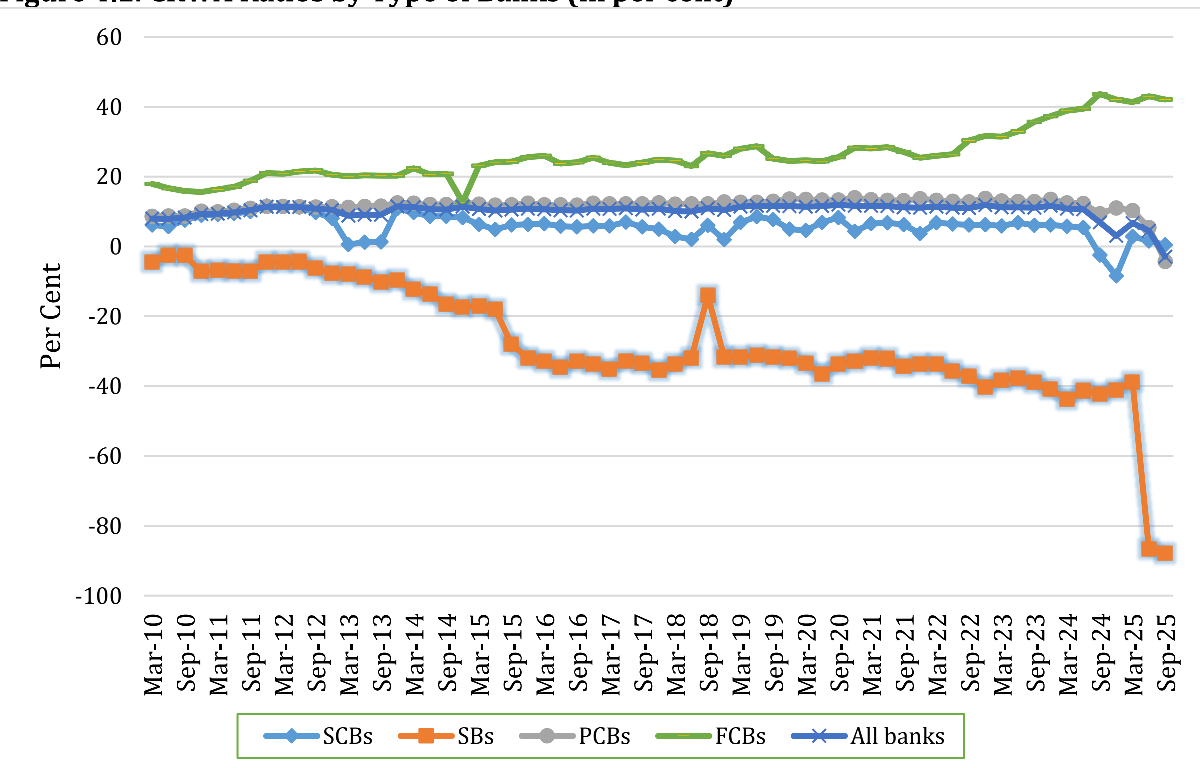
The Capital to Risk-Weighted Assets Ratio (CRAR) is a key indicator of a bank's capacity to absorb losses and maintain solvency. In line with Basel III requirements, Bangladesh Bank mandates a minimum of 12.5 per cent of its risk-weighted assets to ensure adequate capital buffers.

Figure 4.1 shows significant disparities in capital adequacy across bank categories. Foreign commercial banks (FCBs) maintained the strongest capital positions throughout the period, with a consistently rising CRAR. In contrast, private commercial banks (PCBs), despite remaining above the regulatory minimum for most of the period, recorded a sharp deterioration from 10.32 per cent in March 2025 to -4.25 per cent in September 2025, raising concerns over banking sector stability (Bangladesh Bank 2025a).

State-owned commercial banks (SCBs) also experienced persistent volatility, with CRAR levels frequently below the regulatory requirement and declining further in recent periods. The most severe weaknesses were observed among specialised banks (SBs), which consistently reported negative CRAR values, reflecting deep structural and capital deficiencies. The CRAR of SBs declined from -38.88 per cent in March 2025 to -87.91 per cent in September 2025 (Bangladesh Bank 2025a).

Overall, the banking sector's aggregate CRAR fell to negative 2.93. This decline is largely driven by SCBs and SBs, which indicate growing vulnerabilities in the financial system. Weak capital adequacy limits banks' ability to extend credit, erodes public confidence, and increases vulnerability to economic and financial shocks. If left unaddressed, persistent capital shortfalls may pose significant risks to overall financial stability. Such deterioration underscores the need for urgent corrective measures to strengthen capital adequacy.

Figure 4.1: CRWA Ratios by Type of Banks (in per cent)



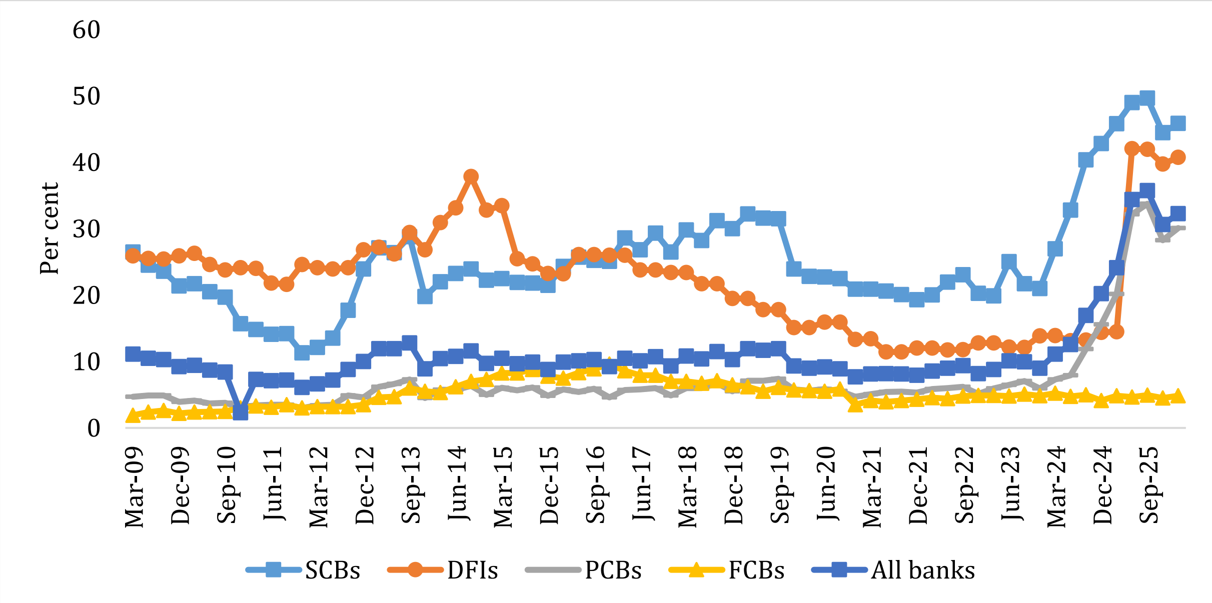
Source: CPD illustration based on data from the Bangladesh Bank (Bangladesh Bank 2025a).

4.2.2 Loan rescheduling and write-off masks underlying deterioration in asset quality

Asset quality reflects the level of credit risk embedded in banks' loan portfolios and investment assets. Non-performing loans (NPLs), which are loans in default or near default, remain the primary indicator of asset quality in the banking sector (Bangladesh Bank, 2024). As shown in Figure 4.2, classified loans increased substantially over time, although a temporary decline was recorded, falling from 35.73 per cent of total loans in September 2025 to 32.26 per cent in March 2026, due to extensive loan rescheduling and restructuring under relaxed conditions (Bangladesh Bank 2025c). However, NPL ratios across bank categories indicate a significant deterioration in asset quality over time, with substantial variation among bank types. As illustrated in Figure 4.2, state-owned commercial banks (SCBs) consistently reported the highest NPL ratios, which rose sharply after 2023, reaching 45.85 per cent in March 2026.

Development finance institutions (DFIs) also experienced a marked increase in NPLs, reaching 40.72 per cent by March 2026. Private commercial banks (PCBs), which previously maintained comparatively lower NPL ratios, recorded a rapid deterioration after 2023, with NPLs rising to 30.11 per cent by March 2026. However, the reported NPL ratios may not fully reflect the actual level of stress in the banking sector, as extensive rescheduling, restructuring (Bangladesh Bank, 2026b), and write-offs (Bangladesh Bank 2025d) have likely concealed underlying weaknesses in asset quality and deeper balance-sheet vulnerabilities over time. Thereby, in the absence of such write-offs, the share of classified loans would be higher.

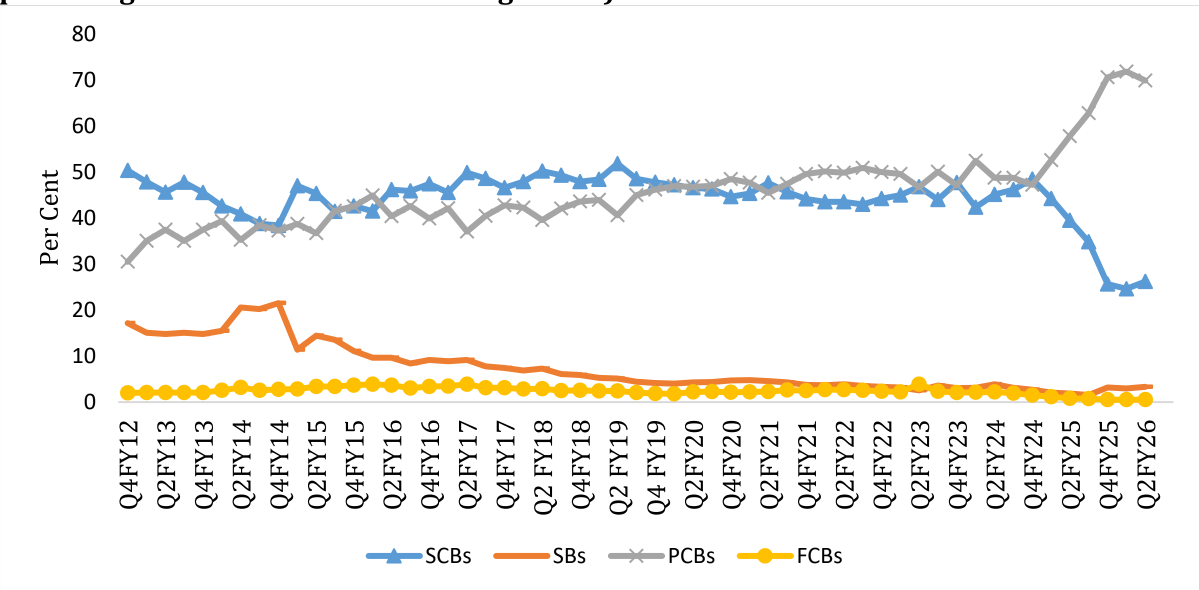
Figure 4.2: Gross NPL Ratios by Bank Type (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

The rising NPL burden indicates a severe weakening of asset quality and growing credit risk within the banking system. Figure 4.3 further shows a structural shift in the distribution of NPLs between SCBs and PCBs. While SCBs historically accounted for the largest share of defaulted loans, the share attributable to PCBs increased substantially, rising from around 31 per cent in Q4 FY2012 to nearly 70 per cent by Q2 FY2026. SCBs recorded a classified loan ratio of 26 per cent in Q2FY26, compared with 50 per cent in Q4FY2012 (Bangladesh Bank 2025a). These figures highlight a broad-based deterioration in banking sector asset quality, with private commercial banks (PCBs) facing particularly acute stress. The sustained rise in NPLs suggests that the problem is not merely cyclical but structural. Key contributing factors include weak monitoring practices, governance gaps, political interference in lending decisions, and persistent weaknesses in enforcement mechanisms. Together, these factors indicate that asset quality pressures are systemic and deeply embedded within the banking system.

Figure 4.3: Distribution of Non-Performing Loans (NPLs) by Type of Bank (as a percentage of total NPL in the banking sector)

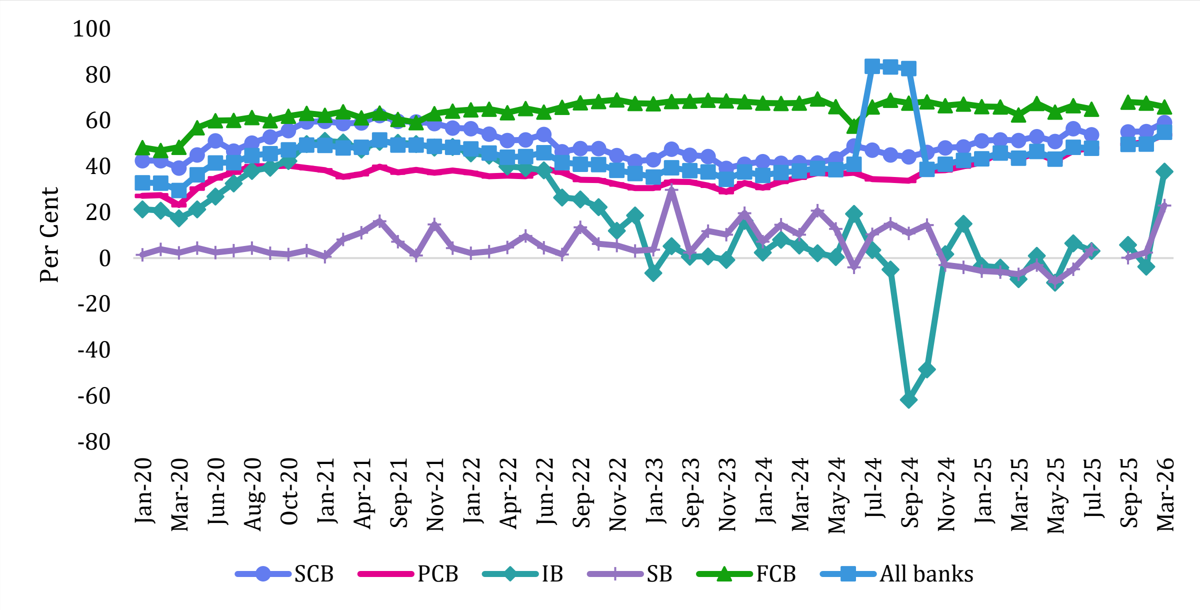


Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

4.2.3 Increased liquidity reflects cautious lending and weak economic activity

Liquidity measures a bank's capacity to meet its financial obligations on time without incurring significant losses and therefore serves as an important indicator of financial resilience. To safeguard against unexpected financial stress, banks are required to maintain adequate holdings of liquid assets. The trends in excess liquidity across different bank categories illustrate significant divergence in liquidity conditions across banks (Figure 4.4). Foreign commercial banks (FCBs) consistently maintained the highest levels of excess liquidity relative to total liquid assets, reflecting comparatively prudent liquidity management practices. Although Islamic banks (IBs) and specialised banks (SBs) recorded severely weak excess liquidity positions, the overall liquidity condition of the banking sector improved, with the excess liquidity ratio for all banks increasing from 43 per cent in May 2025 to 55 per cent in March 2026 (Bangladesh Bank 2025b). This increase was largely driven by subdued credit demand resulting from high interest rates, economic uncertainty, and weakened borrower balance sheets. Therefore, strengthening financial sector stability and governance reforms will be essential to increase investor confidence and improve market sentiment.

Figure 4.4: Excess Liquidity (as a share of total liquid assets)



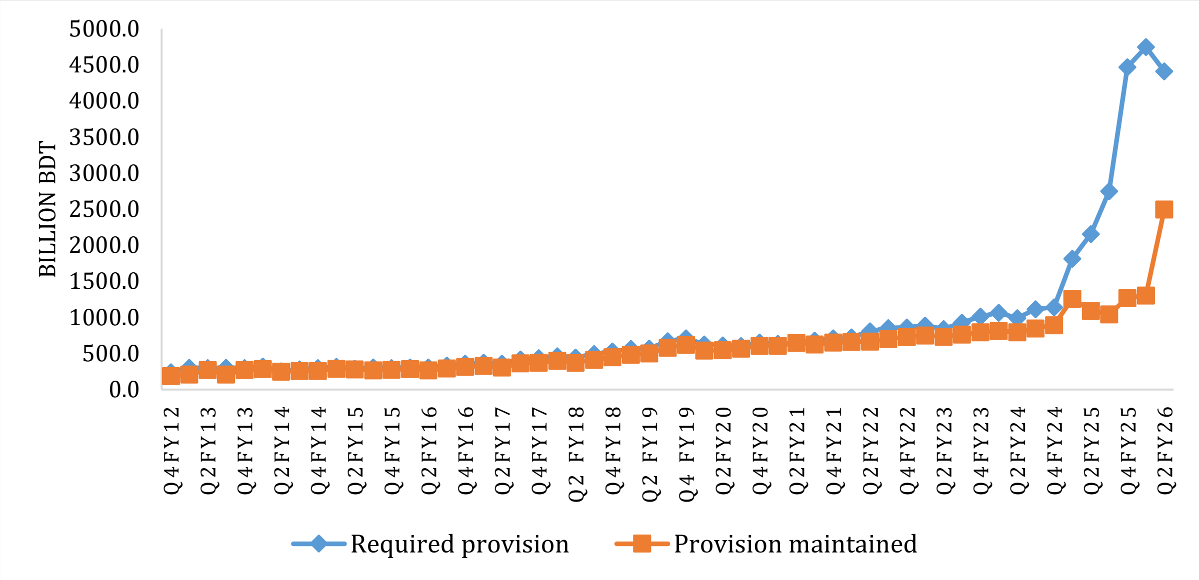
Source: Major Economic Indicators (Bangladesh Bank 2025b).

4.2.5. Provisioning gap narrows on paper amid NPL adjustments

Adequate loan-loss provisioning is critical to ensuring transparency, strengthening risk-absorption capacity, and maintaining confidence in the banking sector. As of Q2 FY2026, the amount of loan-loss provisions maintained by banks increased from BDT 1,044.5 billion in Q3 2025 to BDT 2,496.5 billion in Q2 FY2026, reflecting a substantial rise (Bangladesh Bank 2025a)(Figure 4.5).

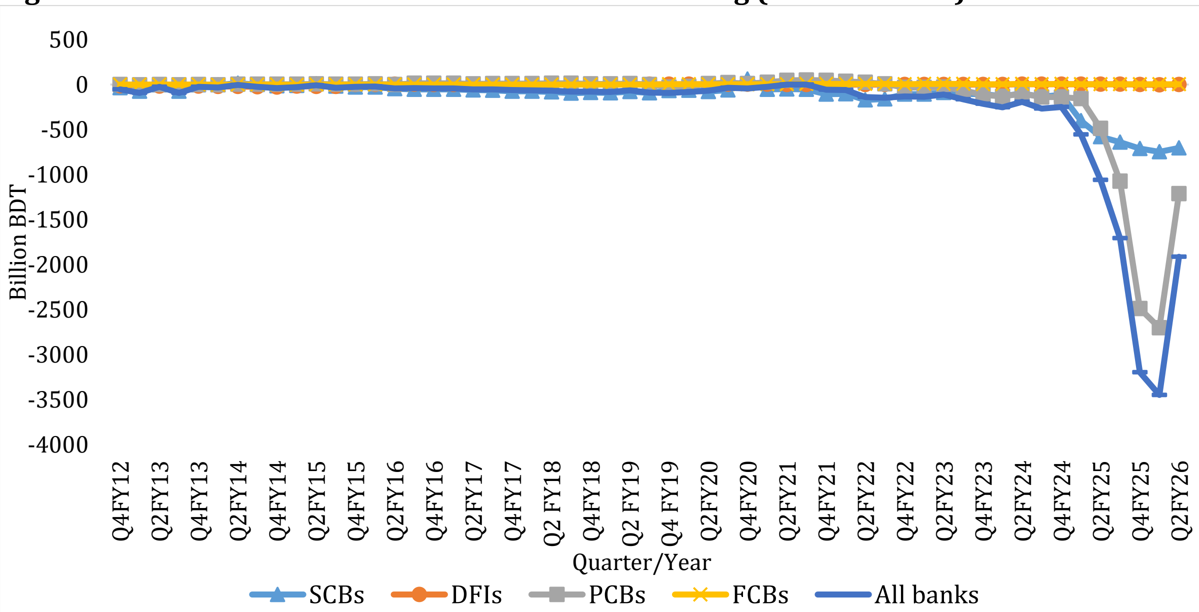
Additionally, the overall loan-loss provisioning shortfall in the banking sector improved from BDT -3,447.8 billion in Q1 FY2026 to BDT -1,914.4 billion in Q2 FY2026 (Figure 4.6). Non-performing loans (NPLs) declined due to extensive loan rescheduling and restructuring (Bangladesh Bank 2025c). Bangladesh Bank regulations strictly prohibit banks from transferring previously maintained specific provisions to their income accounts without actual cash recovery (Bangladesh Bank 2025c). Instead, this reduction in the provisioning shortfall was primarily driven by aggressive loan write-offs (Bangladesh Bank 2025d), which completely removed older uncollectible debts and their associated provisioning requirements from active balance sheets, alongside the substantial increase in actual provisions maintained by banks. Consequently, the apparent improvement in provisioning conditions does not necessarily indicate a genuine strengthening of banking sector fundamentals, as underlying vulnerabilities in asset quality remain significant.

Figure 4.5: Loan Loss Provisioning (in Billion BDT)



Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

Figure 4.6: Excess or Shortfall in Loan Loss Provisioning (in billion BDT)



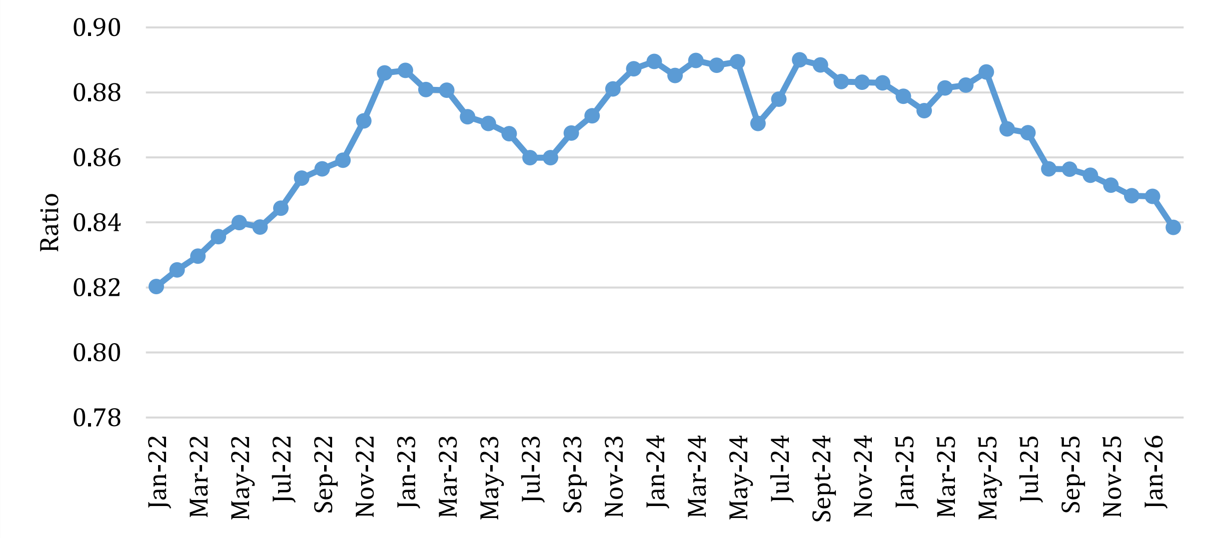
Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

4.2.6 Lower ADR signals slowdown in credit expansion

The Advance–Deposit Ratio (ADR) measures the extent to which banks utilise deposits for lending activities, with a higher ratio indicating lower liquidity buffers and greater risk exposure, and a lower ratio suggesting improved liquidity conditions.

The decline in ADR reflects easing liquidity pressure in the banking system, driven primarily by subdued credit demand amid economic uncertainty and high borrowing costs, which have discouraged borrowing by both businesses and households. At the same time, relatively attractive deposit interest rates have supported steady deposit mobilisation. As a result, loan growth has lagged behind deposit accumulation, leading to a fall in the ADR from 0.89 in May 2025 to 0.84 in February 2026 (Bangladesh Bank 2025e) (figure 4.7). While this indicates short-term improvement in liquidity conditions, it also signals weaker credit expansion, which may constrain investment and broader economic activity if the trend persists.

Figure 4.7: Advance-deposit Ratio



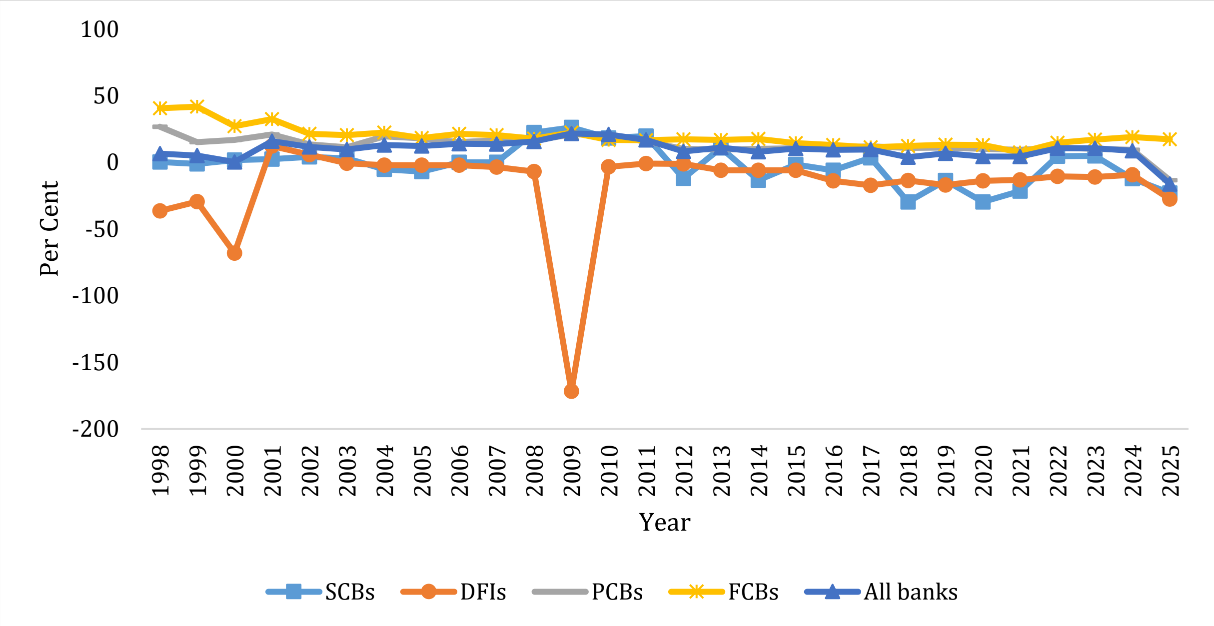
Source: Bangladesh Bank Monthly Economic Trends (Bangladesh Bank 2025e).

4.2.7 Banking profitability declines across specific segments

Across bank categories, ROE shows substantial divergence. FCBs consistently delivered the highest returns, peaking at around 19.09 per cent in 2024 before easing to 17.34 per cent in 2025. PCBs maintained relatively stable and positive ROE in the range of 8–11 per cent between 2016 and 2024; however, this trend reversed sharply in 2025, when ROE declined to −13.28 per cent. SCBs exhibited persistent volatility and weakening performance, with ROE falling to −22.94 per cent in 2025 (figure 4.8). Development finance institutions (DFIs) performed the weakest, recording consistently negative returns that further deteriorated from −9.17 per cent in 2024 to −27.49 per cent in 2025. Overall, the banking sector shows a clear downward trajectory, turning sharply negative to −16.11 per cent in 2025, indicating broad-based sectoral stress (Bangladesh Bank 2025a).

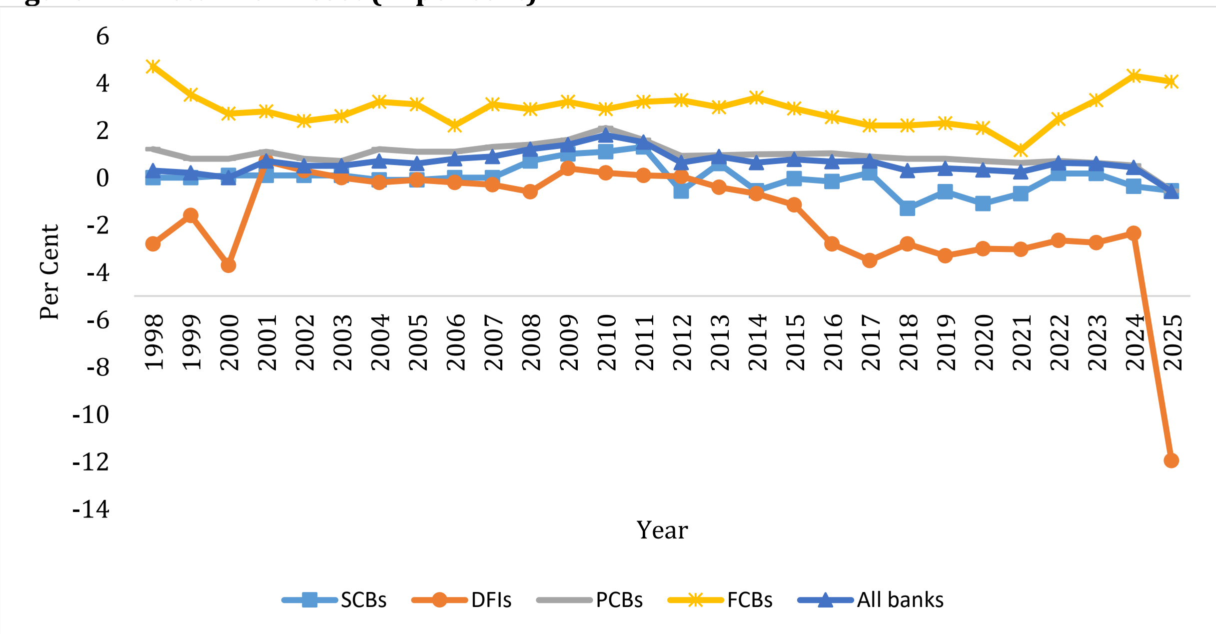
A similar but comparatively milder pattern is observed in ROA. FCBs continue to outperform other categories, while PCBs maintain small but stable positive returns generally below 1 per cent. SCBs remain structurally weak, with ROA hovering near zero and turning negative in recent years (−0.55 per cent in 2025) (Bangladesh Bank 2025a). DFIs consistently post negative ROA, with a marked decline from 0.06 per cent in 2012 to −11.96 per cent in 2025(figure 4.9), highlighting significant inefficiencies in asset utilisation.

Figure 4.8: Return on Equity (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

Figure 4.9: Return on Asset (in per cent)



Source: Bangladesh Bank Quarterly (Bangladesh Bank 2025a).

4.3 Recent Reform Measures of the Banking Sector

Under the Interim Government, Bangladesh Bank has undertaken several important policy amendments and prepared draft ordinances aimed at strengthening financial stability and restoring confidence in the financial sector. However, Bangladesh's financial sector remains at a critical juncture, which requires the timely and strict implementation of banking sector reforms. The state of the reforms during the tenure of the interim government is briefly outlined in Table 4.4.1. Measures initiated include the Asset Quality Review (AQR) framework to identify hidden vulnerabilities in banks; the Bank Resolution Ordinance, 2025, to establish an orderly resolution mechanism for distressed banks; the proposed amendments to the Bank Company Act, 1991, to strengthen governance and reduce political influence; the Bangladesh Bank Ordinance, 2025, to enhance central bank independence and supervisory authority; and the draft Insolvency and Bankruptcy Ordinance, 2025, to modernise insolvency and debt recovery procedures. The table also highlights the implementation status of these reforms and the major challenges affecting their enforcement and effectiveness.

Additionally, a few measures have also been taken in the banking sector, which may have implications for the sector:

1. ***Amendment to the Bank Resolution Ordinance 2025:*** An amendment to the Bank Resolution Ordinance 2025, enacted through the Bank Resolution Act 2026 (JATITYA SANGSAD, 2026), introduced a provision under Section 18A that permits former owners of distressed banks to potentially regain control of these institutions, including ownership of shares and related assets and liabilities, subject to specified conditions. This represents a shift from the earlier policy direction of consolidating weak banks through merger into a single resolution entity. Given the past governance failures and persistent financial distress associated with these institutions, allowing for the re-entry of former owners raises concerns about accountability, consistency in the resolution framework, and the credibility of ongoing banking sector reforms. In the current context of elevated NPL and continued liquidity pressures in parts of the banking system, such a provision may also complicate efforts to restore market discipline and strengthen confidence in regulatory oversight.

2. ***Revision of Loan Rescheduling Measure:*** Bangladesh Bank has introduced special loan rescheduling measures to provide temporary relief to financially distressed borrowers and institutions. Under the revised framework, loans classified as non-performing (SS, DF, and B/L) may be rescheduled for a maximum period of 10 years, including a grace period of up to two years, subject to the banker-customer relationship and the size of the loan exposure (Bangladesh Bank, 2025c).

   The circular also sets the minimum down payment requirement at 2 per cent of the outstanding loan balance in cash at the time of rescheduling. For borrowers who have previously undergone three or more rescheduling arrangements, an additional 1 per cent down payment requirement will apply. Banks are further permitted to offer preferential interest rates on a case-by-case basis. During the grace period, the bank may require the borrower to pay all, some, or none of the accrued interest, depending on the bank's assessment and its relationship with the borrower under the revised framework. In addition, rescheduled loans must remain classified as Special Mention Accounts (SMA), with banks continuing to maintain the required general provisioning for such exposures. The policy also restricts banks from transferring previously maintained specific provisions into income accounts without actual loan recovery (Bangladesh Bank, 2025c). Under the updated circular, new applications may be submitted until June 2026, while special restructuring support will continue for unclassified loans and rescheduling facilities for adversely classified loans (Bangladesh Bank, 2026b).

   The policy is intended to provide temporary relief to financially stressed borrowers and to prevent further deterioration in asset quality during ongoing economic pressure. However, the repeated extension of special restructuring measures may weaken credit discipline and delay the recognition of underlying financial distress within the banking system. Continued regulatory forbearance could also obscure the true scale of non-performing assets, reduce incentives for timely loan recovery, and increase moral hazard by encouraging expectations of repeated policy relaxation among distressed borrowers. Therefore, in the current context of elevated NPL and governance concerns in the banking sector, the central bank must be vigilant to uphold its credibility through prudential regulation.

3. ***Extension of the Bank Resolution Framework to Non-Bank Financial Institutions***
   Bangladesh Bank has extended the applicability of the Bank Resolution Ordinance, 2025, to all finance companies licensed under the Finance Company Act, 2023. Through this directive, the resolution provisions previously applicable to scheduled banks, including restructuring, merger, liquidation, transfer of assets and liabilities, and other resolution measures, will now also apply to non-bank financial institutions (NBFIs) with necessary modifications (Bangladesh Bank, 2025k). The circular states that the decision has been taken in the interest of maintaining financial stability and protecting public interest within the financial sector.

   The measure represents an important step toward establishing a unified and rules-based resolution framework across the broader financial system (Bangladesh Bank, 2025k). As of September 2025, NPLs in the NBFI sector were reported to be 37.11 per cent of total outstanding loans (Bangladesh Bank, 2025f), highlighting deepening financial fragility. Given the persistent distress within the NBFI sector, including high levels of non-performing loans, liquidity shortages, and governance weaknesses, the extension of resolution powers will strengthen Bangladesh Bank's ability to intervene in troubled institutions more promptly and in a more structured manner. Furthermore, to improve depositor and investor confidence by clarifying the legal framework governing institutional failure and resolution.

   However, the effectiveness of the framework will depend heavily on regulatory independence, institutional capacity, transparency in resolution decisions, and the timely enforcement of corrective measures. Without stronger governance reforms and improved supervisory oversight, resolution measures alone are insufficient to address the underlying causes of financial sector fragility.

4. ***Regulatory Relaxation of Large Loan and Borrower Exposure Ceilings:*** Bangladesh Bank has temporarily relaxed the single borrower and large loan exposure limits for banks to facilitate international trade financing and support business and industrial activities. Under the revised framework, banks will be permitted to maintain aggregate funded and non-funded exposure of up to 25 per cent of capital to a single borrower or group until June 2028, compared to the previous ceiling of 15 per cent (Bangladesh Bank, 2026c).

   The circular also revises the large-loan portfolio ceiling framework by linking permissible exposure levels to banks' classified-loan ratios. Banks with lower classified loan ratios will be allowed to maintain relatively higher large loan exposure ceilings, while banks with weaker asset quality will face tighter limits (Bangladesh Bank, 2026c).

   The measure is intended to ease financing constraints in trade-related sectors and to support economic activity during periods of external and domestic economic pressure. However, the temporary relaxation of concentration limits may increase vulnerabilities within the banking sector by allowing greater exposure to large borrowers and business groups. The central bank needs to closely monitor the implementation of this measure to ensure that it does not create systemic risks, including a rise in non-performing loans (NPLs) and governance weaknesses arising from higher borrower concentration.

Table 4.4.1: Summary of Key Financial Sector Reform Initiatives and Implementation Challenges in Bangladesh during **August 2024-December 2025**

Reform Name	Reform Objective	Reform Status	Key Implementation Challenges
Asset Quality Review (AQR)	Assess the true financial condition of banks by identifying hidden non-performing loans (NPLs), capital shortfalls, governance weaknesses, and credit risks; improve transparency and strengthen supervisory oversight (Bangladesh Bank 2025g).	Bangladesh Bank initiated AQRs for 17 banks, prioritising weaker and Islamic banks. Reviews of six private banks were completed by mid-2025 and revealed significantly higher NPLs than previously reported (The Daily Star, 2025). A second phase covering additional banks is underway.	Resistance from affected stakeholders; operational complexity in addressing weak banks after review findings; need for strong supervisory follow-up, recapitalisation, and merger management capacity.
Bank Resolution Ordinance, 2025	A formal legal framework for the orderly resolution of weak and failing banks while protecting depositors and preserving financial stability (Bangladesh Bank 2025h).	Ordinance introduced with Bangladesh Bank designated as the resolution authority, empowered to intervene, restructure, merge, or resolve distressed banks (Bangladesh Bank 2025h). Deposit protection provisions incorporated under the deposit insurance framework (Bangladesh Bank 2025j).	Political and institutional resistance to bank resolution measures; limited institutional capacity for resolution implementation; risk of delays in enforcement and challenges in maintaining depositor confidence during resolution processes (CPD, 2026).
Bank Company (Amendment) Act, 2025 (Proposed)	Improve bank governance by reducing political influence and family dominance on bank boards; strengthen regulatory oversight and support financial sector discipline (Financial Institution Division, 2025).	Proposed amendments include restrictions on family representation and tenure on bank boards and the prohibition of political figures serving on boards (Financial Institution Division, 2025). The Act has not yet been implemented and remains in draft form.	Strong resistance from influential stakeholders and politically connected groups; implementation dependent on Bangladesh Bank's enforcement capacity and judicial support; potential delays in legislative approval (CPD, 2026).
Bangladesh Bank Ordinance, 2025	Strengthen the independence, accountability, and supervisory authority of Bangladesh Bank in line with international standards (Bangladesh Bank 2025g).	Draft ordinance synthesized to enhance central bank autonomy, reduce political interference, strengthen governance structure, and provide clearer authority for intervention in distressed banks (CPD, 2026).	Achieving consensus among political actors, the finance ministry, and financial institutions; conflicting stakeholder interests; and challenges in achieving institutional independence in practice.
Insolvency and Bankruptcy Ordinance, 2025 (Draft)	Establish a modern insolvency framework to support business restructuring, improve loan recovery, protect creditor rights, and reduce lengthy legal disputes (Bangladesh Bank 2025i).	Draft ordinance introduced to replace outdated bankruptcy laws with a unified insolvency and restructuring framework and facilitates cooperation with foreign jurisdictions in cross-border insolvency cases (Bangladesh Bank 2025i).	Weak institutional and judicial capacity; shortage of trained insolvency professionals (World Bank 2025); limited technical expertise; adjustment challenges for banks, firms, and courts unfamiliar with modern insolvency procedures.
Bank Mergers and Consolidation Measures	Consolidate weak banks and strengthen financial sector stability following AQR findings (Bangladesh Bank 2025g).	Five bank mergers finalised following the completion of AQR assessments (Bangladesh Bank 2025h).	Resistance from bank directors and shareholders due to concerns over profitability and control; operational difficulties in consolidating balance sheets and integrating institutions; need for continuous regulatory monitoring (CPD, 2026).

4.4 Effect of Macroeconomic Conditions on NPL

The CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk) analysis indicates subdued growth in Bangladesh's banking sector, alongside rising non-performing loans (NPLs).

The empirical analysis examines the determinants of non-performing loans (NPLs) in the banking sector using a quarterly dataset covering the period Q1 2015 to Q4 2025.

Model Variables and Methodology

The dependent variable in the analysis is the ratio of gross NPLs to total loans of the banking sector. The key explanatory variables include the real lending interest rate (reallr), the exchange rate (exr), GDP growth (gdp_growth), and a composite governance indicator (gov_index) constructed using Principal Component Analysis (PCA). The governance index captures institutional quality dimensions such as regulatory effectiveness, rule of law, control of corruption, and political stability in a single measure, thereby reducing multicollinearity concerns and improving model parsimony.

Given the potential heterogeneity in the relationship between macro-financial conditions and credit, the analysis employs a Quantile regression framework. Koenker and Bassett (1982) pioneered the quantile regression approach as an alternative to the Ordinary Least Squares (OLS) method, which estimates only the conditional mean of the dependent variable. This approach allows the effects of explanatory variables to differ across the distribution of NPLs, capturing both normal conditions and periods of banking stress.

The model incorporates both real and nominal variables because they capture distinct economic transmission channels influencing NPL dynamics. Real variables, such as the real lending interest rate and GDP growth, reflect changes in economic activity and the real cost of borrowing. In contrast, nominal variables, particularly the exchange rate, reflect financial conditions that affect borrowers through changes in import costs and export earnings, potentially exacerbating debt-servicing burdens, especially in developing economies like Bangladesh, which are exposed to foreign-currency transactions and external shocks. The inclusion of both types of variables enables a more comprehensive assessment of determinants of NPLs. To ensure consistency in interpretation, the real lending rate is adjusted for inflation, while the exchange rate is retained in nominal terms to capture its influence on external-sector conditions. This specification is consistent with the empirical literature suggesting that both real economic conditions and nominal financial factors jointly influence banking sector credit risk.

Existing literature suggests that macroeconomic and institutional factors jointly influence credit risk dynamics. Higher real interest rates are expected to increase debt servicing burdens, thereby raising NPLs. Exchange rate depreciation may increase credit risk through balance sheet effects, particularly in economies with foreign currency exposure. Stronger GDP growth is typically associated with improved repayment capacity and lower default risk. In contrast, better governance quality is expected to strengthen regulatory oversight, contract enforcement, and financial discipline, thereby reducing NPL accumulation over time.

To observe the heterogeneous effects across different levels of banking sector stress, the quantile regression model is estimated at the 0.25, 0.50, and 0.75 quantiles of the NPL distribution. Unlike ordinary least squares (OLS), which estimates the average effect of explanatory variables on NPLs, quantile regression examines how the effects of the explanatory variables vary across different points of the NPL distribution. Specifically, the coefficient estimates at the 0.25 quantile measure the influence of these independent variables when NPL ratios are relatively low, while the estimates at the 0.75 quantile capture their effects when NPL ratios are relatively high. Thus, quantile regression allows the relationship between each explanatory variable and NPLs to differ across levels of credit risk. Lower quantiles represent periods or observations characterised by relatively low credit risk and greater banking sector stability, whereas higher quantiles correspond to periods of increased default risk.

The Quantile Regression specification can be expressed as:

$$Q_T(NPL_t \mid X_t) = \beta_0(\tau) + \beta_1(\tau)REALLR_t + \beta_2(\tau)EXR_t + \beta_3(\tau)GDP_t + \beta_4(\tau)GOVINDEX_t + \varepsilon_t$$

Where:

- $Q_\tau(NPL_t \mid X_t)$= Conditional quantile of non-performing loans at quantile τ
- $REALLR_t$= Real interest rate (Lending Rate)
- EXR_t= Exchange rate
- GDP_t= GDP growth rate
- $GOVINDEX_t$= Governance index
- β_0= Constant term
- $\beta_1, \beta_2, \beta_3, \beta_4$= Quantile-specific coefficients
- ε_t= Error term

Table 4.5.1: Estimated Effects on NPL Across Conditional Quantiles

Variables	Quantile 0.25	Quantile 0.50	Quantile 0.75
Real Interest Rate	0.372 (0.320)	1.200 (0.762)	2.348*** (0.554)
Exchange Rate	0.103*** (0.018)	0.152** (0.065)	0.251*** (0.047)
GDP Growth	-0.137 (0.286)	-0.964 (1.070)	-2.486*** (0.727)
Governance Index	0.186 (0.398)	-0.522 (0.634)	-1.465** (0.580)
Pseudo R^2	0.228	0.286	0.530
Adjusted R^2	0.170	0.232	0.494
S.E. of Regression	6.129	4.436	4.803

Source: Authors' calculation using data from the Bangladesh Bank, World Bank, and Bangladesh Bureau of Statistics.
Note: Values in brackets are standard errors (SEs). Statistical significance is assessed using t-tests. ***p < 0.01, **p < 0.05, *p < 0.10.

Results indicate that the impact of the explanatory variables varies across the conditional distribution of NPLs. The coefficient on the real interest rate is positive at all quantiles but becomes statistically significant only at the 0.75 quantile. This suggests that changes in borrowing costs have a limited effect when NPL levels are low but exert a stronger influence when the banking sector is already experiencing elevated credit risk. This reveals that higher real interest rates, driven by inflationary pressure, increase the cost of borrowing and debt servicing for firms and households. Inflation reduces the real purchasing power of income; as a result, firms experience higher production costs, while households face reduced real disposable income, both of which weaken repayment capacity. This deterioration in borrowers' financial conditions leads to increased loan repayment delays and defaults. Consequently, the accumulation of non-performing loans rises, thereby intensifying stress in the banking sector.

The exchange rate exhibits a positive and statistically significant effect across all quantiles, with the magnitude increasing from 0.103 at the 0.25 quantile to 0.251 at the 0.75 quantile. This finding suggests that exchange rate movements consistently contribute to higher NPLs, but their effect is substantially stronger when the banking sector is under greater stress. In Bangladesh, a weaker domestic currency increases the cost of imports, raising production and operating costs for businesses that rely heavily on imported raw materials and intermediate goods. This weakens repayment capacity and contributes to higher loan defaults within the banking sector.

In contrast, GDP growth has a negative coefficient across all quantiles and becomes statistically significant at the 0.75 quantile. This result indicates that stronger economic growth contributes to lower NPLs, particularly when credit risk is already elevated. During periods of financial stress, improvements in economic activity may enhance income generation and debt-servicing capacity, leading to a reduction in classified loans.

The most interesting finding, however, concerns the governance indicator (GOV_INDEX), which shows a negative and statistically significant relationship with NPLs in the upper quantile. This suggests that improvements in governance become especially important during periods of heightened financial vulnerability. The governance index was constructed using six dimensions: Control of Corruption, Government Effectiveness, Political Stability, Regulatory Quality, Rule of Law, and Voice and Accountability. The insignificant coefficients at lower quantiles imply that governance improvements have a more limited observable effect when NPL levels are already relatively low. **The results, therefore, provide empirical evidence that strengthening institutional quality and governance frameworks is vital for reducing NPLs and improving banking sector stability in Bangladesh, especially during heightened banking sector stress.**

Finally, the goodness-of-fit statistics and adjusted R^2 measure the proportion of variation in the NPL ratio explained by the explanatory variables after adjusting for the number of regressors included in the model. The adjusted R^2 increases from 0.170 at the 0.25 quantile to 0.494 at the 0.75 quantile, indicating that the model has greater explanatory power for observations associated with higher NPL ratios. **This suggests that macroeconomic and governance factors are more relevant to explaining credit risk during periods of elevated banking-sector stress than during periods characterised by relatively low NPLs.**

4.5 Policy Recommendations

Based on the discussions and empirical findings, a set of short- and medium-term recommendations is proposed.

Short-Term

Governance & Supervision

- Enforce strict loan classification and provisioning standards to ensure that banks accurately recognise problem loans and maintain adequate provisions against potential losses.
- Phase out regulatory forbearance measures that allow banks to delay the recognition of asset quality deterioration and financial stress.
- Stop political interference in credit allocation so that lending decisions are based on risk assessments rather than external influence.

Exchange Rate Stability

- Maintain exchange rate stability to protect borrowers' repayment capacity, particularly for those with obligations linked to foreign currencies or import-dependent activities.
- Strengthen foreign exchange reserve management to reduce external volatility and enhance the economy’s resilience to exchange rate shocks.

Data & Disclosure

- Disclose the true levels of NPLs, including rescheduled and restructured loans, to provide a more accurate assessment of banking sector health and appropriate policy measure.
- Improve the timeliness of banking data to support evidence-based policymaking and enable more effective monitoring of financial sector developments.

Medium-Term

Prudential Regulation
- Limit repeat loan restructuring practices to curb moral hazard.
- Reassess relaxed single-borrower exposure limits to reduce excessive risk concentration and strengthen prudential safeguards.
- Strengthen oversight of large borrower concentration risks to ensure that banks are not excessively exposed to a small number of borrowers or business groups.

Continuation of Reforms
- Ensure all draft reforms are implemented.
- Strengthen commercial banks through enhanced supervisory oversight of non-compliant banks in line with Basel III standards and regulatory requirements.
- Integrate oversight of NBFIs to ensure a more comprehensive approach to financial sector stability.
- Uphold the independence of Bangladesh Bank to support effective monetary management, regulatory decision-making, and financial sector oversight.

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Appendix:

Table A.1: Summary of Key Financial Sector Reform Initiatives and Implementation Challenges in Bangladesh During December 2025-May 2026

Regulatory Measure	Policy Objective	Current Status	Key Features / Provisions	Key Concerns and Challenges
Amendment to the Bank Resolution Ordinance 2025	To amend the Bank Resolution Ordinance 2025 and allow former owners of distressed banks to reclaim ownership, subject to specified conditions.	Enacted through the Bank Resolution Act 2026 (JATITYA SANGSAD, 2026).	Allows previous owners to potentially regain control of shares, assets, and liabilities of distressed banks.	Raises concerns regarding accountability, consistency of the resolution framework, and credibility of banking sector reforms. May weaken market discipline and confidence in regulatory oversight amid elevated NPLs and liquidity pressures.
Regulatory Relaxation of Large Loan and Borrower Exposure Ceilings	To provide temporary relief to financially distressed borrowers and prevent deterioration in banking sector asset quality.	Implemented through Bangladesh Bank circulars (BRPD Circular No. 07) and extended until June 2026 (Bangladesh Bank 2025c).	Allows rescheduling of non-performing loans for up to 10 years, including a grace period of up to two years; minimum down payment reduced to 2%; preferential interest rates permitted; restructuring support extended for unclassified and adversely classified loans.	Repeated extensions may weaken credit discipline, delay recognition of financial distress, obscure the actual level of non-performing assets, reduce incentives for loan recovery, and increase moral hazard through expectations of repeated policy relaxation.
Extension of the Bank Resolution Framework to Non-Bank Financial Institutions (NBFIs)	To establish a unified resolution framework for banks and finance companies and strengthen financial sector stability.	Implemented through the Bangladesh Bank directive under the Bank Resolution Ordinance,	Extends restructuring, merger, liquidation, and asset transfer provisions to all finance companies	Effectiveness depends on regulatory independence, institutional capacity, transparency, and timely enforcement.

Regulatory Measure	Policy Objective	Current Status	Key Features / Provisions	Key Concerns and Challenges
		2025 (Bangladesh Bank, 2025k).	licensed under the Finance Company Act, 2023.	Structural weaknesses in the NBFI sector, including high NPLs, liquidity shortages, and governance failures, may limit the effectiveness of resolution measures.
Regulatory Relaxation of Large Loan and Borrower Exposure Ceilings	To facilitate international trade financing and support business and industrial activity during economic pressure.	Temporarily implemented until June 2028 (Bangladesh Bank, 2026c).	Raises aggregate funded and non-funded exposure limit to 25% of bank capital from the previous 15%; revises large loan portfolio ceiling framework based on classified loan ratios; total large loan exposure capped at 600% of capital.	Greater concentration of exposure to large borrowers may increase systemic vulnerabilities, particularly in the context of elevated NPLs and governance weaknesses. Reduced prudential limits may amplify risks if large exposures deteriorate.

SECTION V. EXTERNAL SECTOR: RESILIENCE AND VULNERABILITIES

Key Observations

- The discouraging record in terms of L/C Opening and Settlement for capital machineries during the first three quarters of FY2026 corroborates the fact of muted private credit uptake, and is indicative of continuing depressed domestic investment.
- The movement of NER, NEER and REER indicate that the BDT remains somewhat depreciated than it would otherwise be if there was no market intervention.
- The significant improvement in the Balance of Payment position during the July-April period of FY2026 is primarily driven by debt carrying Financial Account balance rather than improvement in the Current Account Balance position, which is an indication of structural weakness of the BoP.

Key Recommendations

- The government's proposal to align export incentives with domestic value addition, while welcome, should be crafted in such a manner that it does not constrain export-oriented activities of private sector entrepreneurs.
- Fluctuations in the sources of remittances inflows seen over the recent past years need to be investigated by the Bangladesh Bank with a view to identify the underlying contributing reasons and address the attendant concerns.
- Given the wide variation in SOFR rates witnessed in recent past years, Bangladesh should avoid incurring external borrowings based on flexible SOFR.

5.1 Introduction

Bangladesh's external sector has traditionally been a key pillar of its economic strengths through its multidimensional contributions to the development of the country. During the July-April period of FY2026 this has been demonstrated once again, through positive role of the sector in sustaining robust forex reserves, stabilising the exchange rate of the BDT, meeting the demand for forex for incurring import payments, and in withstanding the pressure of the growing debt service obligations. This is all the more remarkable because the turnaround took place against the backdrop of falling exports, rising debt service liabilities and the general sluggish GDP growth and discouraging investment scenario which have characterised domestic economic performance during the period under review.

Taking cue from the above, the following analysis focuses on performance of key drivers of Bangladesh's external sector performance during the period under review, i.e., July-March/April of FY2026, by comparing this with the matched period of FY2025, and by identifying some of the underlying factors contributing to the performance. The section also offers several recommendations to help take advantage of emerging opportunities and address the emergent challenges.

5.2 Trade Sector Performance

As data for the first 10 months of FY2026 indicate, the sluggish performance of the trade sector has continued to persist as the fiscal year draws to a close. The second reading of the IRBD had earlier cautioned that the headwinds facing Bangladesh's trade sector performance could gain strength, with consequent detrimental efforts on the sector's performance. This, as it stands, has proven, regrettably, to be correct.

Table 5.1: Bangladesh's Export Performance by Major Sectors

(Value in USD Million)

Products	FY2025 (Jul-Apr)	FY2026 (Jul-Apr)	% change (FY26 Jul–Apr over FY25 Jul–Apr)	Net Export Earnings (July-Apr)	Incremental Export	Contribution to Negative Incremental Export
RMG	32,640.13	31,719.30	-2.82	17,636.55	-920.83	113.44
Knitwear	17,457.16	16,814.33	-3.68	10,929.31	-642.83	79.19
Woven Garments	15,182.97	14,904.97	-1.83	6,707.24	-278.00	34.25
Non-RMG	7,568.03	7,677.14	1.44	6,141.71	109.11	-13.44
Total	**40,208.16**	**39,396.44**	**-2.02**	**23,778.26**	**-811.72**	**100.00**

Source: EPB (2026).
Note: Value additions for Net Export have been estimated by using the following coefficients- knit-RMG: 0.65; Woven-RMG: 0.45; Others: 0.80.

As Table 5.1 indicates, against the export growth target of 14.0 per cent set out for FY2026, the actual growth over the first 10months was a negative 2.02 per cent. This would mean that to attain the export growth target for the current fiscal year, exports would need to rise by a whooping 92.3 per cent over the next two months of FY2026 over the corresponding period of FY2025, an impossible task. Evidently, export target set out for FY2026 will not be met. Whether export earnings will at least be able to match those of FY2025, remains doubtful. This would call for a 10.05 per cent growth over the next two months.

Earnings from knit-wear exports, with higher domestic value addition, has fallen by a relatively higher percentage, and this would mean higher fall in terms of net exports. As is evident from column 5 of Table 5.1, net export in this period was about USD 23.78 billion as against the gross export of USD 39.40 billion (i.e., 73 per cent net domestic value).

Table 5.2: Factors Driving RMG Growth in Bangladesh and Its Selected Competitors

Market	Change in Prices (%)			Change in Volume (%)			Change in export earnings value (%)		
	Bangladesh	**China**	**Viet Nam**	**Bangladesh**	**China**	**Viet Nam**	**Bangladesh**	**China**	**Viet Nam**
US Market (Jul-Mar)	-0.98	-24.42	-7.50	-1.83	-34.36	13.03	-2.80	-50.39	4.56
EU Market (Jul-Jan)	-8.95	-13.17	4.78	1.11	10.74	0.30	-7.93	-3.85	5.10

Source: Estimated from Database Eurostat and Dataweb USITC (2026).

Table 5.2 presents an analysis of the underlying factors of export performance. The table shows some interesting trends (for July-March period of FY2026). In the United States (US) market, the secular fall in imports from China has continued (-50.39 per cent). But what is interesting is that China is offering lower prices at US customs (-24.42 per cent) and so is Viet Nam (-7.50 per cent) compared to Bangladesh (-0.98 per cent) so that the incident of additional duties at customer level (arising from reciprocal tariffs) is relatively low for the former two countries. Imports from Bangladesh has come down by 2.80 per cent in this period. Viet Nam, at the same time, has expanded its volume (+13.03 per cent) which enabled it to post a 4.56 per cent export growth in the US. In the European Union (EU) market as well, imports from Bangladesh have come down (-7.93 per cent) while that of Viet Nam has gone up (+5.10 per cent). The aforesaid dynamics of the drivers of export performance in Bangladesh's two most important export markets ought to be of concern to the policymakers.

Table 5.3: Import Performance (% growth during July-Mar of FY2026 over FY20205)

Items	**Actual Import**	**L/C Opening**	**L/C Closing**
Consumer Goods (including food grains)	-0.24	-0.19	-2.75
Intermediate Goods	6.5	-4.91	-12.93
Capital Machineries	10.1	-3.07	-10.43
Total	4.2	0.35	-4.14
Back-to-Back L/Cs	-	-10.95	-7.93

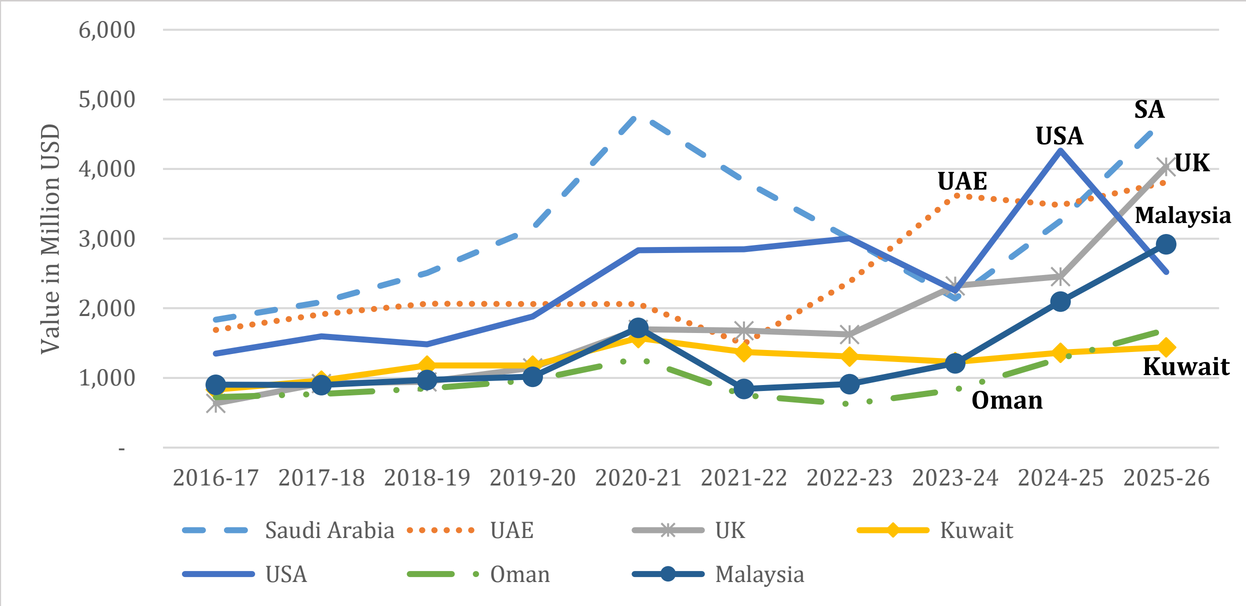
Source: Bangladesh Bank (2026).

Import performance reflects, to some extent, Bangladesh's recent sluggish export performance track record, not to speak of the timid overall economic performance (Table 5.3). Imports during the first 9 months (July-March) of FY2026 went up by only 4.2 per cent. Imports by export-oriented industries was understandably muted. Sluggish domestic demand by import-substituting industries as also muted consumer demand against the backdrop of pressure on consumer purchasing power meant that growth of other imports has also been modest. The rise in import payments was primarily led by sharp rise in payments for petroleum (54.06 per cent), of which payments for Crude petroleum imports rose by 81.08 per cent while POL import payments rose by 50.16 per cent. The L/C Opening (+0.35 per cent) and L/C Closing (-4.14 per cent) figures are also quite disquieting and do not augur well for future export and economic growth. Indeed, L/C opening for Back-to-Back imports has come down (-10.95 per cent) while L/C closing for these have also come down (-7.93 per cent). Import L/Cs for capital machineries supports the above discouraging outlook. Major items such as Readyamde Garment (RMG), jute and textiles all saw decline in imports of associated capital machineries. While enterprises have some surplus capacity and inventories to go for higher production without new investment, the above trends must be carefully monitored to anticipate possible implications for performance of both the export sector and the economy.

5.3 Remittance Flows: The Once Again Saviour!

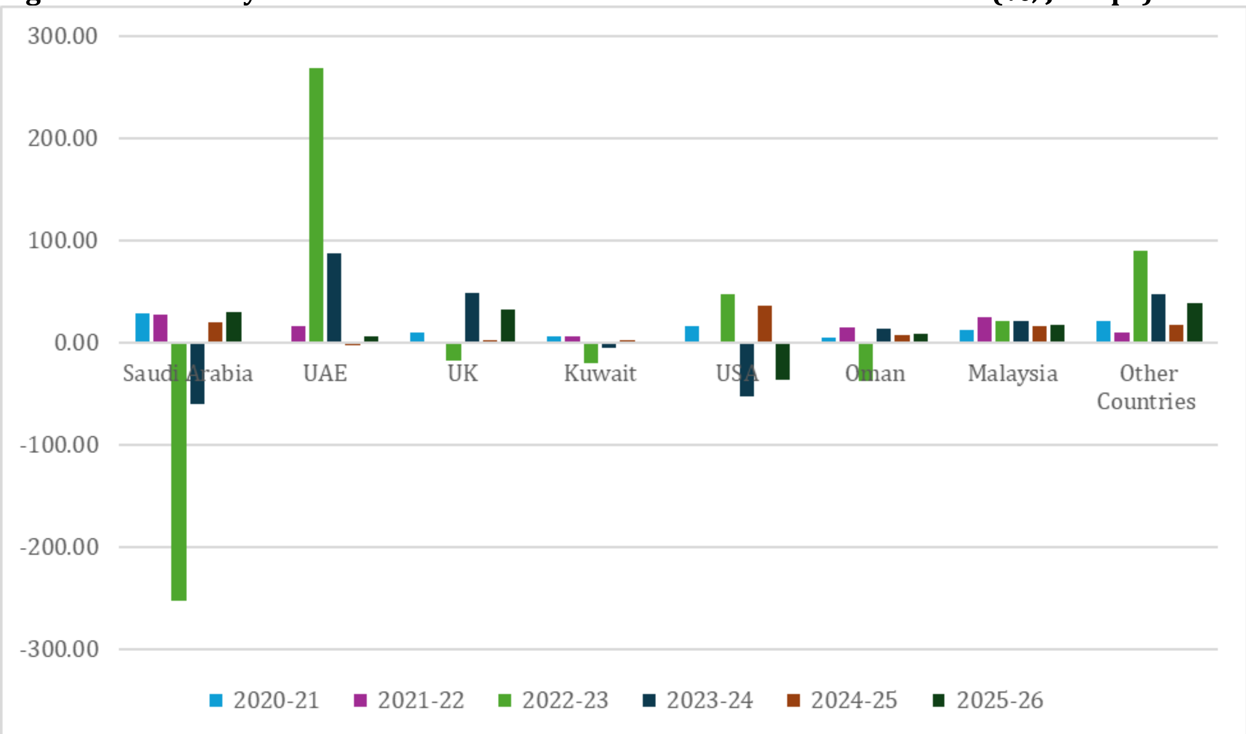
Inward remittance flows posted a robust growth of 19.8 per cent during the first 10 months (July-April) of FY2026 over the corresponding months of FY2025. What is remarkable is that this growth rate was achieved over a high growth rate of the previous year- growth rate in FY2025 was 29.35 per cent over the previous year of FY2024.

Figure 5.1: Remittance Inflows: FY2020 to FY2026 (Jul-Apr)



Source: Bangladesh Bank (2026).

Figure 5.2: Country-wise Contribution to Incremental Remittance Inflows (%, Jul-Apr)



Source: Bangladesh Bank (2026).

As Figure 5.1 indicates, remittance flows have been quite erratic across major remittance-sending countries. This is clearly borne out by Figure 5.2. The spikes in different years for different countries are quite compelling and telling. In the previous IRBD, attention was drawn to policymakers to these trends underscoring that this ought to be a matter of concern for Bangladesh. To note, in recent years many people have left the country to join overseas job markets (between 2022 and 2025, about 4.8 million people left the country as migrant workers, i.e., on average 1.4 million people every year). However, generally speaking, it is the stock of people that determines the remittance flows. Policymakers need to look into the attendant fluctuations in remittance flows carefully. Bangladesh will need to scale up skills including linguistic skills (eg. Arabic, Japanese, Korean) and explore new markets. In recent years, some inroads have been made in the East Asian markets (eg. Singapore, Malaysia, South Korea). However, studies show that East Asian countries could offer significant opportunities for job seekers. Bangladesh will need to strategise how its demographic dividend could be taken advantage of to reap the benefits of demographic momentum and the global trend of ageing population.

Table 5.4: BoP Position and Structure of Change (% growth during July-March of FY2026 over FY2025)

(Value in Million USD)

Item	FY2025 (Jul-Mar)	FY2026 (Jul-Mar)	Change
Trade balance	-15445	-19173	-3728
Services	-3918	-4332	-414
Primary Income	-3781	-3563	218
Secondary Income	22265	26671	4406
Of which: Workers' remittances inflows	21784	26204	4420
Current Account Balance	-878	-397	481
Financial account	570	3812	3242
Errors and omissions	-1058	-77	981
Overall Balance	-1100	3659	4759

Source: Bangladesh Bank (2026).

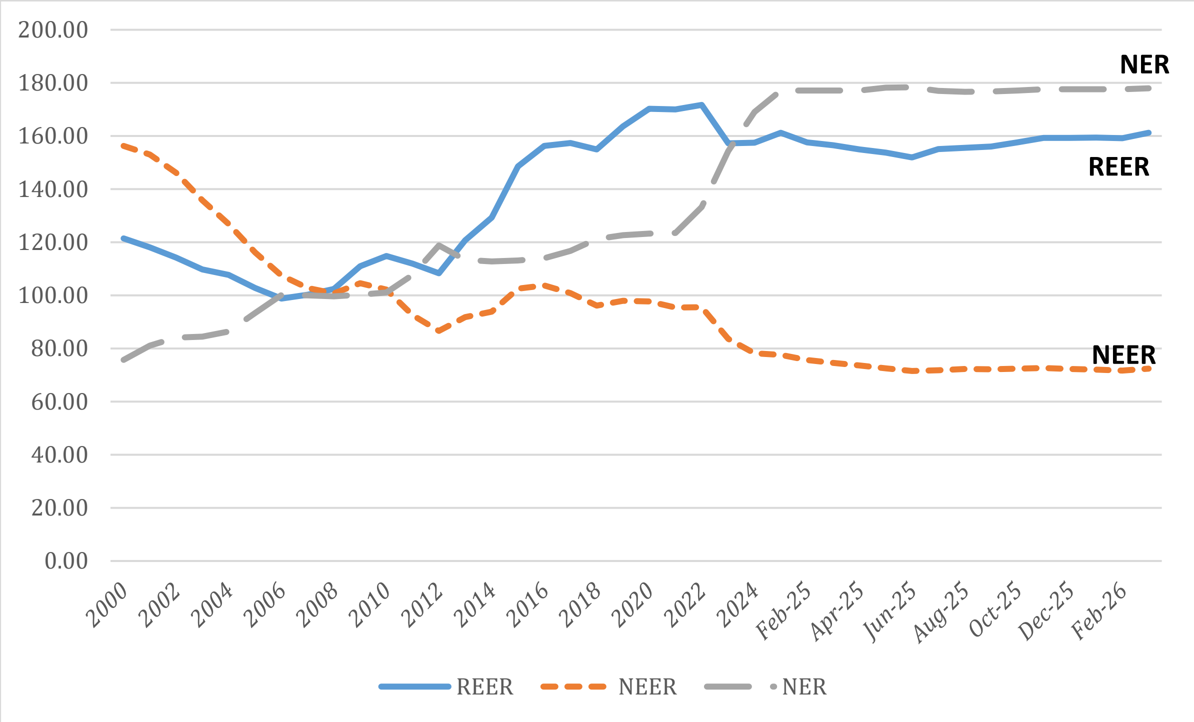
The above trends, taken together, as was noted at the very outset, had positive implications for the overall balance of payments (BoP) position during July-March period of FY2026. While, the trade deficit widened significantly, (by USD 3.72 billion), the notable rise in remittance flows (by USD 4.72 billion) helped to compensate for this and led to some improvement of the current account balance (by USD 0.48 billion). However, what is to be particularly noted is the sharp increase in the financial account balance, (by USD 3.24 billion), which had help improve the overall balance by USD 4.76 billion (Table 5.4). Indeed, the corresponding overall balance which was (-) USD 1.10 billion in FY 2026 (July-March) stood at USD 3.66 billion in FY2026.

The improvement in the Finance Account was primarily led by the repatriation of overdue export proceeds, which shifted from a deficit of USD 1.61 billion in FY25 to a surplus of USD 3.23 billion during the July-March period of FY26.

A cautionary note, though, from the perspectives of robustness of the BoP position. The aforesaid significant improvement in the BoP position is underpinned not by positive movement in the current account balance but rather by improvements in the debt-carrying financial account balance. This structural distinction ought to be taken cognisance of while interpreting the BoP dynamics, as also that of the comfortable forex reserves position.

The aforementioned dynamics of external sector correlates meant that forex reserves have continued to rise in FY2026, to reach (on May 14, 2026) USD 34.32 billion (USD 29.65 billion according to BPM Reserves). If the recent trends as regards demand for import payment is taken cognisance of, this amount would be to about 6.1 months' import equivalent (5.3 months' import equivalent according to BPM-6 Reserves).

Figure 5.3: Movement of REER, NEER, and NER of BDT



Source: Based on Bangladesh Bank and Bruegel (2026).

What are the implications of the rising forex reserves on the exchange rate movement of the BDT? As can be seen from Figure 5.3 which presents the movements of NER, NEER, and REER (estimated based on Bangladesh Bank and Bruegel, 2026 data), the BDT remains somewhat depreciated than what it would otherwise be if there were no market interventions.

As it is, the Bangladesh Bank has purchased nearly USD 6.07 billion from the foreign exchange market during the July-May period of FY2026 to manage liquidity, keep the exchange rate stable, and replenish foreign exchange reserves, meet debt service obligations and underwrite imports. The Bangladesh Bank is mopping up money from the market by aggressively selling treasury bonds, and at the same time injecting money by buying foreign currency. This has been going on for some time now. This practice is likely to come under scrutiny as the Bangladesh Bank and the Government of Bangladesh (GoB) prepares to meet the IMF team which is expected to visit Bangladesh in June 2026.

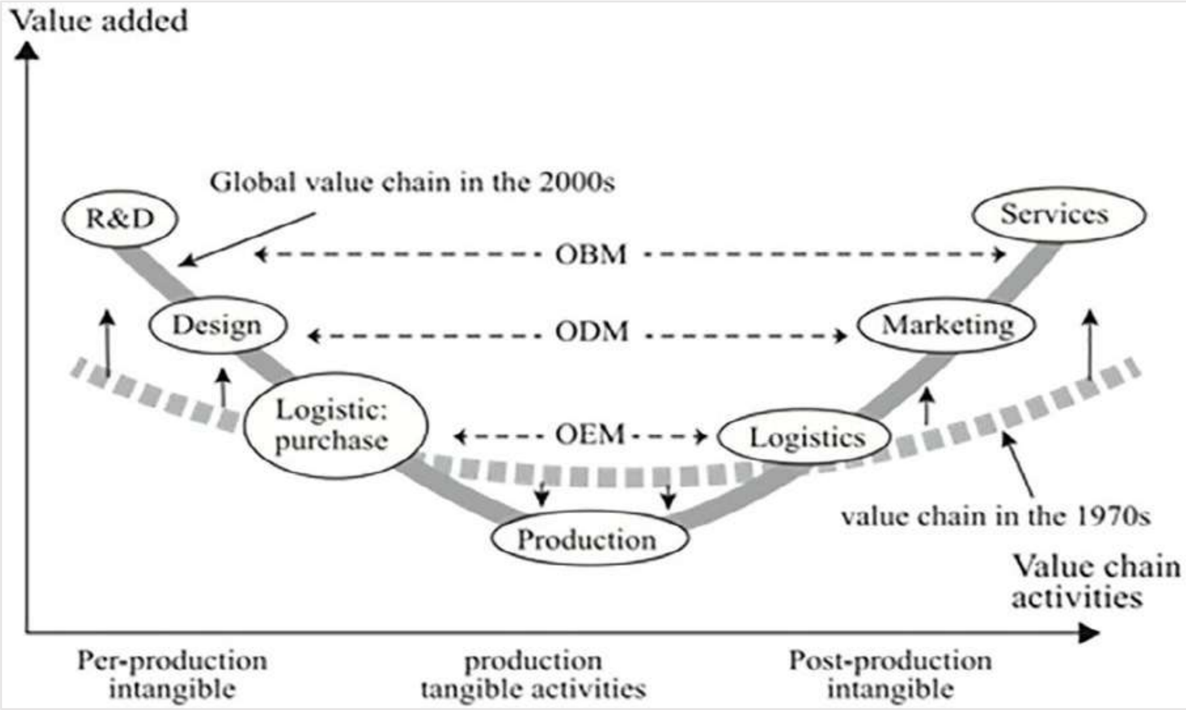
5.4 Going Forward: Twin Challenges

Enhancing Domestic Value Addition and Diversification

Successive IRBDs have drawn attention to the need for export diversification through both intra-RMG (this can be particularly in two directions — by putting more emphasis on man-made fibre (MMF) segment in apparels, and by moving up the demand curve) and beyond-RMG (leather and footwear, light engineering, automotive assembling, semi-conductor, IT-enabled services among others). In view of Bangladesh's upcoming LDC graduation (this year in November, or after three years if Bangladesh's request for extension of the preparatory period is endorsed at UN-GA in September 2026), this has emerged as an urgent task.

The government has recently taken an initiative to align cash incentives with increasing domestic value addition. This will be a move in the right direction if it encourages entrepreneurs to go for strengthening backward and forward linkages of export-oriented industries. However, the government will need to take supportive measures by pursuing strategic industrial policy and creating conducive business environment for enterprises and entrepreneurs if this measure is to succeed.

Figure 5.4: The Smile Curve



Source: Dewan and Rahman (2026).

Figure 5.4 above depicts how, in order to retain a larger share of value within the domestic economy, the government should focus on longer-term goals to enable exporters to gradually move towards higher-value segments of global value chains through dedicated support in areas of skills upgradation, product development, marketing networks and Research & Development (R&D). Thus, enhancing domestic value addition within manufacturing becomes a pathway for climbing the smile curve rather than remaining confined to low-value assembly activities.

Here there is a need to take advantage of the EPA (Japan) and FTAs (with Singapore and South Korea, among others, negotiation with RCEP has been opened) to attract Foreign Direct Investment (FDI) that takes advantage of preferential market access offered by these trading arrangements. Embedding and realising the potentials of investment provisions in the EPAs and FTAs, will be critically important in this connection.

Debt Management

Bangladesh's external debt stock stood at USD 113.2 billion (as of June FY2025); of this, long-term external debt stock was about USD 98.83 billion. As a percentage of GDP, at 24.50 per cent, Bangladesh's external debt is not high by standard measure. However, in managing external debt, a number of issues will need to be taken cognisance of.

In recent times, following Bangladesh's transition from LIC to LMIC in 2015, the share of concessional loans in the total loan portfolio has been on a secular decline. Bangladesh is currently a gap/blend country according to World Bank's categorisation. Consequently, the conditions of external borrowings are becoming increasingly stringent (higher interest rate, lower grace and repayment periods).

Debt servicing liabilities are on the rise in recent times. If, for example, in 2020 debt service payment was USD 3.16 billion, by 2025 it has risen to USD 7.2 billion, a 128.2 per cent jump (ERD, 2026). If the trend continues (as of March 2026 debt service payments stood at USD 3.53 billion), there may be demand of an additional USD 4.0 billion in the coming months towards servicing of external debt.

At a time when the government is having to look for sources of additional borrowings, the IMF is putting pressure on it for showing tangible results as regards the various loan conditionalities. The government is contemplating about not going for the remaining USD 1.86 billion (the remaining three tranches) of the IMF's USD 5.5 billion loan package and instead go for a 3-4year new IMF programme (worth USD 5-6 billion) (IMF, 2026). This is likely to send negative signals to other lending agencies such as the World Bank (which operates on the basis of cross-conditionalities with the IMF) as also the Asian Development Bank (ADB). While the government's policy independence should not be compromised (e.g., in such areas such as subsidies and incentives associated with pursuing trade and investment and development policies in general), this should not serve as an excuse from doing what is necessary and needful in areas of raising the revenue-GDP ratio, undertaking fiscal reforms, banking sector restructuring, and other initiatives to restore fiscal-monetary discipline and macroeconomic stability.

Bangladesh will need to exercise caution in incurring foreign debt in future lest it faces pressure in servicing the debt in a sustainable way. Already, the IMF has categorised Bangladesh from low-risk country to moderate risk country while Fitch has revised Bangladesh's outlook to 'negative' from 'stable' (on 13 May 2026) (Fitch Ratings, 2026). This would mean that debt conditions may become even more stringent in the coming days.

Table 5.5: SOFR Rate (2020-Present)

Year	180-Day Average SOFR (%)
2020	0.09
2021	0.05
2022	2.89
2023	5.35
2024	5.03
2025	4.20
2026*	3.74

Source: Federal Reserve Bank of New York (2026).
Note: * As of 15 May 2026.

Bangladesh must exhibit caution in managing its external debt. New loans that are being incurred are coming with service charge, upfront payment and relatively high interest rates. Some loans are being negotiated at SOFR and EURIBOR rates. It is unclear whether these are incurred on fixed or flexible terms. The SOFR rates tend to fluctuate quite widely, as is evident from Table 5.5, for example, varying from 0.09 per cent to 3.74 per cent over the period between 2020 and 2026 (May 15). Against this backdrop, Bangladesh's policymakers would need to be careful in negotiating the terms of loans. There has to be clear and transparent guidelines as regards negotiating non-concessional, hard-term loans.

5.5 Concluding Remarks

Bangladesh's external sector performance during the first 10 months of FY2026 transit both positive and some disquieting signals. Key external sector correlates have shown signs of improvement. At the same time, trade related indicators remain sluggish. This reflects depressed domestic demand and muted investment scenario as also the increasingly competitive trading scenario that its exporters are facing. High remittance inflows and increased borrowings have played a critically important role in stabilising the exchange rate, replenishing the forex reserves and improving BoP position. However, these are, to some extent, contingent on external environment and factors. For invigorating export-oriented domestic investment, renewed emphasis must be put on measures that raise competitiveness of Bangladesh's external sector in an increasingly competitive global market. It is here that Bangladesh is faltering at the moment.

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SECTION VI. EMPLOYMENT AND LABOUR MARKET DURING THE PERIOD OF POLITICAL AND ECONOMIC UNCERTAINTY

Key recommendations

- Condition all disbursements from the BDT 60,000 crore stimulus package on verifiable compliance with labour rights, including timely wage payment, factory safety upgrades, and trade union recognition to ensure that public funds directly improve workers' living standards rather than subsidising employers who violate basic labour standards.
- Ensure higher investment in digital public infrastructure, which should allow youth to engage more in the gig economy, freelancing, or remote cross-border services, essentially bypassing local investment stagnation by tapping into international demand.
- Establish a Wage Protection Fund for cases of factory closure, insolvency, or employer absconding to provide an immediate safety net for stranded workers and prevent destitution when employers default.

6.1 Background

The employment and labour market have been passing an uncertain period since the collapse of the Awami League-led government in August 2024. To address the challenges, the interim government established a Labour Reform Commission (LRC) in November 2024 to identify and implement reforms that safeguard workers' rights, modernise labour laws, and promote the overall welfare and dignity of the working class (Labour Reform Commission, 2025). The reform commission produced the report during the interim government's tenure (in April 2025), and a few reforms appeared to have already taken place.[1] Since assuming power in February 2026, the BNP-led government has repeatedly expressed its commitment to improving labour rights, as outlined in its election manifesto. Although three months is too short a time for the newly elected government to implement major labour reforms, on a broad scale, it remains uncertain whether the reform initiatives implemented since the fall of the Awami League regime have actually improved workers' day-to-day lives.

Compounding this, ongoing macroeconomic pressure stemming from past and current, internal and external shocks risks hitting the workers the hardest. Consequently, it is critical to evaluate whether reform measures are progressing, whether this progress is translating into tangible improvements in workers' lives, and whether the current economic climate demands a dedicated and refreshed focus on workers' welfare.

6.2 Recent Trends and Reforms in Employment and Labour Market

6.2.1 State of Employment

Since the political transition in August 2024, Bangladesh has been grappling with a dual labour crisis: both (a) retaining current employment and (b) generating new jobs have become major hurdles for the economy.

Job losses remained pervasive throughout the interim government's tenure. The combined effects of political uncertainty and record-low investment levels led to massive enterprise closures, which resulted in significant job losses. In early 2025, Beximco Group, one of the largest industrial employers of the country, dismissed nearly 8,000 workers across five manufacturing units in Gazipur. This followed earlier layoffs of approximately 40,000 workers across 15 apparel

[1] Majority of the proposed reforms are medium to long-term in nature, meaning that the main responsibility of implementing the proposed reforms would fall upon the government that was due to be elected at that time.

units towards the end of 2024 (The Daily Star, 2025). Similarly, Nassa Group permanently closed 16 factories in September 2025, resulting in the layoff of more than 12,500 workers (Abdullah, 2025). According to reports from the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and local police, roughly 353 readymade garment (RMG) factories closed across major industrial hubs such as Savar, Gazipur, and Chattogram in the 14 months leading up to November 2025 (Apparel Resources, 2025). These closures left over 100,000 to 119,842 workers jobless. Other estimates from labour union leaders suggest that job losses could be as high as 2-3 lakh (200,000–300,000) during this period. According to an internal government survey, an estimated 245 factories closed between August 2024 and July 2025, affecting approximately 100,000 workers in total (Zaman, 2025).

The outlook for new employment generation remains subdued, even under the newly elected government. While post-election political uncertainty may have eased, it does not inherently guarantee a rebound in investment flows to Bangladesh. Compounding this, global economic disruptions, particularly the war between the US and Iran, have driven up domestic fuel prices, with further electricity price hikes currently under consideration. Meanwhile, the persistent gas supply shortage remains unresolved, and business lending rates remain significantly elevated. Reflecting these challenges, even after the conclusion of the national elections in February 2026, Bangladesh's private-sector credit growth dropped to a historic low of 4.72 per cent in March 2026 (Bangladesh Bank, 2026). Collectively, these adverse factors continue to stifle investment prospects and, consequently, constrain job creation in the country. It is worth noting that the crisis could be particularly severe in the SME sector, as rising raw material costs and high interest rates have allegedly reduced their production by up to 30 per cent, forcing them to scale back operations and limiting their ability to create new jobs.

Table 6.1: Unemployment Rate of Bangladesh: 2024-2026

Item	Rate of Unemployment (%) 2024	Rate of Unemployment (%) 2025	Rate of Unemployment (%) 2026
Overall	3.6	3.8	3.8
Youth 15–24	9.1	9.4	9.7
Overall (Male)	3.7	3.8	3.9
Youth (Male)	13.2	13.3	13.6
Overall (Female)	3.4	3.7	3.7
Youth (Female)	4.9	5.3	5.5

Source: ILO (2026).

ILO (2026) modelled estimates indicate that while the overall unemployment rate worsened to 3.8 per cent in 2025 and is projected to remain broadly unchanged throughout 2026, youth unemployment (aged 15–24) tells a more troubling story. For both young males and females, unemployment has shown a steady upward trajectory. Specifically, youth unemployment rose from 9.1 per cent in 2024 to 9.4 per cent in 2025 and is expected to climb further to 9.7 per cent by the end of 2026.

Recent reform/initiatives: In response to support the country's export-driven RMG and manufacturing sectors amid mounting inflation and shifts in global demand, Bangladesh Bank introduced a BDT 60,000 crore stimulus package. This includes BDT 41,000 crore in refinancing and subsidised credit (loans as low as 4 per cent) to reopen shuttered factories and revive stalled production.

The success of this initiative will depend on the effective distribution of funds. If poorly targeted, subsidised credit may disproportionately benefit already viable firms rather than genuinely distressed enterprises, thereby reducing allocative efficiency. Such cheap financing can also create moral hazard, weaken repayment discipline, and generate additional stress on the banking sector. Moreover, in the absence of strong labour safeguards, stimulus-driven recovery risks prioritising production and export output over wages, job quality, and working conditions. In addition, a comprehensive assessment of repayment performance under previous fiscal stimulus packages (during COVID) is necessary to evaluate credit discipline, financial sustainability, and the effectiveness of earlier interventions before further expansion of subsidised financing.

6.2.2 State of Decent Wages

Real wage growth of workers continues to decrease amid higher inflation. Although according to BBS (2026), nominal wages rose by more than 8 per cent across all major sectors, they consistently failed to outpace the Consumer Price Index (CPI) inflation, leading to an erosion of their real purchasing power. Throughout the latest 16-month period (Jan 2025 to April 2026), real general wage growth remained negative, fluctuating between -0.1 per cent and -1.8 per cent each month. Industrial workers have borne the brunt of this, experiencing severe real wage contractions of up to (-) 2.1 per cent during this period.

Workers continue to struggle as inadequate, delayed, and unpaid wages fail to keep up with the rising cost of living. According to the Global Living Wage Coalition (2026), the living wage required to afford a decent standard of living, covering food, water, housing, education, healthcare, transport, clothing, and emergency savings in 2025, is BDT 25,166 (for the greater Dhaka region) and BDT 30,459 (for Dhaka city). This benchmark is significantly higher than the wages currently provided to workers, particularly those in the bottom decile. In response to growing inflationary pressures, the interim government introduced a mandatory annual wage increment of 9 per cent, effective from December 2024, comprising the existing 5 per cent increment and an additional 4 per cent adjustment (Wage Indicator, 2026). Nevertheless, implementation remained uneven. Data from the Industrial Police covering 2,932 factories across eight industrial zones showed that 784 factories, representing 27 per cent of the total, failed to provide the additional increment (Karmakar, 2026). On top of this, persistent delayed wage payments have further intensified workers' vulnerability. Despite the political transition, no substantial improvement was observed in this regard. According to data from the Bangladesh Institute of Labour Studies (BILS, 2026), a total of 204 labour unrest incidents related to wage payment demands were recorded in 2025, compared with 156 in 2024 and 59 in 2023, indicating a marked escalation in wage-related disputes.

Recent reforms/initiatives: Reforms have introduced several positive developments, including expanding the Minimum Wage Board's coverage to additional sectors, reducing the wage revision cycle from 5 to 3 years, and strengthening penalties for wage-related non-compliance. However, important structural constraints appear to persist. The wage structure remains misaligned with current living realities, notably failing to adequately account for essential costs, such as child education. The Minimum Wage Board still requires significant strengthening. The framework for setting minimum wages lacks a robust and evidence-based methodological foundation.[2]

6.2.3 State of Workplace Safety

Workplace deaths continue to remain high, especially in the non-RMG sector. The OSHE Foundation recorded 1,190 workplace deaths across Bangladesh in 2025, up from 905 the previous year, with the informal sector accounting for 84 per cent of incidents (The Daily Star, 2025). The Bangladesh Institute of Labour Studies (BILS) (2026) newspaper-based survey for the same year recorded a slightly different count of 735 worker deaths and 263 injuries in

[2] In addition, a parallel wage governance framework in Export Processing Zones, persistent judicial delays, weak deterrence from revised penalties, limited enforcement capacity in the informal economy, and sustained cost pressures linked to global supply chains collectively continue to constrain substantive improvements in wage outcomes.

workplace accidents (BILS, 2026). According to their estimate, the transport sector recorded the highest fatalities with 439 deaths, followed by agriculture with 73, and construction with 67. Other casualties included 35 workers in fisheries, 32-day labourers, 15 in the power sector, 12 migrant workers, 11 in water transport, 6 in RMGs, and 4 each in textiles and shipbreaking, alongside 38 deaths across various other sectors. The trend is likely to continue in the year 2026, as BILS found at least 186 workers lost their lives in workplace accidents in the first three months (January to March) (TBS News, 2026).

The workplace violence against workers appears to have declined yet remains significantly high. Newspaper-based surveys of BILS (2026) indicate that in 2023, 306 workers were reported affected, including 157 deaths, 127 injuries, 16 missing persons, 3 suicides, and 3 abductions, all of whom were later recovered. In 2024, the number of affected workers slightly declined to 264, comprising 119 deaths, 100 injuries, 38 missing persons, and 1 suicide case, with abducted workers subsequently rescued. In 2025, 260 workers were affected, including 114 deaths, 71 injuries, 14 missing persons, 3 suicides, and 58 cases of abduction with subsequent recovery. Overall, while there is a gradual decline in total reported incidents from 2023 to 2025, the data indicates persistently high fatality rates and continued exposure of workers to serious violence across workplaces.

Table 6.2: Recent Workplace Violence and Workplace Accidents Scenario

Year	No. of workers injured		No. of workers died		No. of workers missing	No. of workers victim of abuse
	Due to Accidents	Due to Abuse	Due to Accidents	Due to Abuse		
2022	1037	155	1038	135	34	338
2023	489	127	742	157	16	306
2024	300	100	736	119	38	264
2025	263	71	735	114	14	260
2026 (Q1)	335	Not yet reported	186	Not yet reported	Not yet reported	Not yet reported

Source: BILS (2026).

Recent reforms/initiatives: Recent reforms have strengthened Bangladesh's institutional and legal framework for workers protection, including the ratification of all 10 ILO Fundamental Conventions on fundamental rights and occupational safety and health, the expansion of the legal definition of 'worker' to formally include domestic and gig workers, the extension of the Employment Injury Insurance pilot scheme to the leather, footwear, and Export Processing Zone (EPZ) sectors, and the reduction of eligibility requirements for death compensation from two years of continuous service to one year.

However, significant structural and implementation gaps persist. Despite an increase in approved posts, the shortage of active labour inspectors continues, while awareness of the Labour Inspection Management Application (LIMA) and its digital grievance and inspection mechanisms remain limited among both employers and workers. Full unannounced inspection authority in EPZs is still under negotiation, and enforcement capacity remains uneven across sectors. In addition, although legal recognition has broadened and international commitments have deepened, effective coverage of informal workers, SMEs, and non-RMG industries remains limited, preventive occupational safety culture is still largely concentrated in the RMG sector, and the long-term financial sustainability and nationwide rollout of the Employment Injury Insurance scheme have yet to be secured.

6.2.4 State of Collective Bargaining and Freedom of Association

Despite significant amendments to the legal framework, improvement in collective bargaining at the factory level is yet to be visible. Labour unrest continued to increase during the reporting period, with the number of recorded incidents rising from 501 in 2024 to 597 in 2025 (BILS, 2026). In February 2025, over 800 workers in the beverage industry went on strike to protest the alleged unfair dismissal of 10 union members. Striking workers at three Transcom Beverages bottling plants in Dhaka, Gazipur, and Chattogram demanded the reinstatement of dismissed workers and greater job security. Transcom Beverages allegedly responded by summoning law enforcement authorities, who charged the protesters with batons according to the report by the International Trade Union Confederation (ITUC, 2025). It was alleged that police reportedly deployed provocateurs to set tyres ablaze near the Dhaka factory, thereby creating a pretext for the subsequent crackdown. Twenty-three workers were arrested and formally charged in Dhaka. The persistence of such disputes reflects ongoing challenges in dispute resolution and collective bargaining.

Freedom of association has expanded in law under the 2026 Labour Amendment Act, but in practice, union formation and collective bargaining remain heavily constrained. There are approximately 10,000 registered unions in Bangladesh, but fewer than 100 are operational in the garment sector, and only around 40 hold collective bargaining authority (Rahman & Halder, 2025). On top of that, employers are allegedly continuing promotion of company-aligned unions to crowd out genuine worker representation.

The workers in EPZs remain entirely excluded from the scope of the principal Bangladesh Labour Act. Instead, they are governed by the separate Bangladesh Export Processing Zones Authority (BEPZA) framework, which completely prohibits formal trade unions and strikes, and permits only highly restricted Worker Welfare Associations (WWAs). Consequently, EPZ workers continue to be denied the right to collective bargaining as defined in ILO Conventions Nos. 87 and 98.

Recent reforms/initiatives: Recent reforms have significantly expanded trade union rights and dispute resolution mechanisms, including the abolition of the rigid 20 per cent consent rule in favour of a factory size-based threshold, explicit legal recognition of domestic, agricultural, and gig platform workers under trade union and social security provisions, criminalisation of blacklisting, establishment of a dedicated Alternative Dispute Resolution Authority with district-level budget support, stricter penalties for anti-union practices, review of strike thresholds in line with ILO Convention 87, and ratification of ILO Convention 190 to strengthen protection against violence and harassment. However, structural and jurisdictional challenges remain, as majority-support requirements for strikes are still under review, the implementation of protections against retaliation depends heavily on enforcement capacity, and awareness of new rights among workers in informal and SME sectors remains limited.

Seven additional labour courts have been established to improve the timeliness and effectiveness of dispute resolution, complemented by the introduction of an online case management system to enhance transparency. Although Section 348(g) proposes an Alternative Dispute Resolution Authority, delays in operationalising it may weaken confidence in the reform. Streamlining ADR in Bangladesh might face challenges due to limited institutional capacity, a shortage of trained neutral mediators, weak coordination among agencies such as the MoLE and DIFE, low awareness among workers and employers, resistance to dialogue-based practices, and inadequate monitoring and enforcement mechanisms.

6.2.5 State of Gender Equality in the Workplace

The decrease in the female labour force participation might continue. The modelled estimate from ILO (2026) suggests the female labour force participation rate (for adults 15+) has decreased from the 2023 level of 41.9 per cent to 38.7 per cent in 2024 and remained around 38.6 per cent in 2025–2026. This shift may reflect a combination of factors, including reduced availability of suitable work opportunities, increased withdrawal from paid work due to household and caregiving responsibilities, and a possible shift of individuals into informal or unrecorded activities not fully captured in standard measures. However, this pattern should be interpreted with caution, as modelled estimates and survey-based indicators can be sensitive to methodological changes, reporting differences, and short-term fluctuations. As such, the observed decline may not necessarily represent a sustained structural change without further corroborating evidence over a longer time horizon.

The recent amendment to the Bangladesh Labour Act (2025) introduces several progressive but uneven changes affecting women workers across sectors. Maternity leave has been increased from 112 to 120 days, although this remains below the 180 days provided to government employees, and a revised wage calculation formula may reduce maternity benefit payouts for low-income workers. The law also formally introduces definitions of violence and harassment aligned with ILO Convention No. 190 and establishes Complaint Resolution Committees, while mandating at least 10 per cent women's representation on trade union executive committees where women constitute 20 per cent or more of the workforce. In addition, domestic workers, who are predominantly women, have been partially recognised under the law, extending limited rights to compensation and collective organisation, though core protections such as working hours and leave remain excluded. Despite these reforms, structural inequalities persist in key sectors such as the tea industry, where women face disparities in leave entitlements and housing security, and in practice, enforcement gaps continue to limit the real impact of the reforms (Nasim, Oni & Shan, 2026).

6.3 Recommendations

6.3.1 Employment and Labour Market

1. Condition all disbursements from the BDT 60,000 crore stimulus package on verifiable compliance with labour rights, including timely wage payment, factory safety upgrades, and trade union recognition to ensure that public funds directly improve workers' living standards rather than subsidising employers who violate basic labour standards.
2. Develop and update the formal workers database to enable targeted policymaking, effective delivery of social protections, and better matching workers with formal employment opportunities.
3. Issue simplified one-page employment contracts in the local language for domestic and day labour workers to reduce exploitation and legal ambiguity by ensuring vulnerable workers clearly understand their terms of employment.
4. Provide tax credits, VAT relief, or targeted payroll tax exemptions specifically to smaller firms that commit to retaining or hiring young workers.
5. Ensure higher investment in digital public infrastructure, which should allow youth to engage more in the gig economy, freelancing, or remote cross-border services, essentially bypassing local investment stagnation by tapping into international demand.

6.3.2 Decent Wage

6. Mandate wage payments through formal banking or regulated digital financial services and introduce night banking facilities in major industrial zones to eliminate cash-based payment abuses, reduce wage theft, and allow secure, timely salary withdrawals outside regular banking hours.

7. Establish a Wage Protection Fund for cases of factory closure, insolvency, or employer absconding to provide an immediate safety net for stranded workers and prevent destitution when employers default.
8. Conduct a comprehensive revision of sectoral minimum wages not updated for over five years, convert fixed allowances (housing, medical) into percentages of basic salary, and incorporate child education costs into the wage-setting methodology to restore fairness and purchasing power for neglected sectors, prevent inflation from eroding allowances, and align wages with genuine family needs.
9. Mandate publication of minutes of all tripartite Minimum Wage Board meetings, ensure wage-setting deliberations use publicly accessible data and disclosed indicators, and establish a formal consultation mechanism with academia, labour economists, and civil society to enable public and union scrutiny, shift wage setting from political bargaining to evidence-based policy, and bring independent expertise to produce realistic, living-wage-friendly outcomes.
10. Require DIFE to publish a wage implementation assessment report within four months of wage declaration (including non-compliant establishments) and introduce inspection risk allowances and performance-based incentives for DIFE inspectors to create public accountability and naming-and-shaming pressure while rewarding inspectors who actively uncover wage violations, reducing corruption and absenteeism.
11. Introduce statutory compensation for each day of delayed wage payment, criminalise deliberate non-payment of overtime wages, and increase penalties for repeated and wilful minimum wage violations to make delaying wages financially painful, deter systematic overtime theft affecting millions, and transform fines into a real deterrent against chronic abuse.
12. Gradually establish a national minimum wage applicable across all sectors (including informal sectors), prioritise expanding Minimum Wage Board coverage to industries with limited trade union presence, and grant the MWB authority to regulate wage setting in Export Processing Zones (EPZs) in coordination with the BEPZA to extend legal protection to the majority of currently excluded workers, ensures weakly organised sectors are not left behind, and ends the separate, weaker wage regime in EPZs.
13. Introduce a 'Dearness Allowance' mechanism that triggers automatically when the Consumer Price Index (CPI) exceeds a defined threshold (e.g., 10 per cent) to automatically cushion workers during inflation spikes, avoiding ad-hoc and delayed government responses.

6.3.3 Workplace Safety

14. Mandate Occupational Safety and Health (OSH) Compliance Officers in all establishments, grant DIFE magisterial powers for immediate closure/penalties, allow EPZ inspections, require photo/video documentation, fully operationalise LIMA, mandate joint agency inspection reports, increase budgets, deploy specialised inspectors for high-risk sectors, create a Central Industrial Safety Coordination Authority, and develop a comprehensive safety framework defining all agency mandates.
15. Universally define 'workplace accident' in the Labour Act to include commuting and off-site work across all sectors, mandate digital accident reporting, and establish a national workplace safety statistics database.
16. Reduce duties/tariffs on certified safety equipment and establish a zero-interest OSH investment fund for SMEs to lower the cost of PPE and fire equipment, removing upfront barriers that prevent small factories from upgrading safety.
17. Issue sector-specific and informal-sector OSH guidelines (including climate/gender-responsive frameworks), make OSH compliance a condition of trade association membership, introduce private monitoring with public oversight, develop time-bound relocation plans for hazardous industries, establish specialised medical facilities and emergency lanes near industrial zones, create a five-year non-RMG inspection/remediation plan, and integrate safety education from primary school

through technical curricula. These should extend safety to informal workers, deadlier non-RMG sectors, and children; build a long-term prevention culture; and ensure rapid emergency response.

6.3.4 Collective Bargaining and Freedom of Association

18. Repeal the EPZ Labour Act and apply the Bangladesh Labour Act uniformly across all zones, replacing Worker Welfare Associations with autonomous trade unions that have full bargaining rights. Additionally, require secret ballot elections for participation committees in all factories to prevent management-nominated worker committees from masquerading as democratic representatives.
19. Prohibit Industrial Police from entering factories during disputes (limiting them to external public order roles) and introduce mandatory conflict de-escalation training to change police culture from confrontation to dialogue. Establish a permanent body to dismiss abusive mass and 'John Doe' criminal cases against workers. Fully operationalise the Alternative Dispute Resolution Authority for fast, low-cost mediation. Define 'essential services' narrowly in line with ILO standards to prevent arbitrary strike bans.

6.3.5 Gender Equality

20. Mandate 24 weeks of paid maternity leave across all sectors to bring private sector provisions in line with WHO recommendations and improve maternal and child health.
21. Require annual national gender labour reports from DIFE, including pay gap and harassment indicators, to create regular public accountability for gender disparities, forcing corrective action.
22. Remove the minimum threshold requirement for mandatory childcare facilities to guarantee on-site childcare even in smaller factories, enabling many more mothers to work.

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SECTION VII. POWER AND ENERGY SECTOR: IMPACT AND EFFECTIVENESS OF GOVERNMENT'S EMERGENCY RESPONSE AMID MIDDLE EASTERN ENERGY CRISIS

Key observations

- The domestic energy crisis was mostly the result of the disruption in the domestic supply chain and non- digital petroleum supply chain in local market; which government tried to solve with demand side management responses
- The upward fuel price adjustments generate a sharp but short-lived inflationary impulse (+0.581% on impact, dissipating within one year upon monetary tightening) alongside a more consequential and persistent output contraction
- The magnitude of the output contraction remains at −0.205% on impact, and reaching a trough of −0.353% by the end of 2026 and from Q4 or Jan-Mar '27 onward the contraction sabilizes to −0.27 to −0.34%. At Bangladesh's 2025 GDP of approximately USD 460 billion (PPP), a sustained contraction of approximately 0.30% of quarterly GDP implies foregone output on the order of USD 1.4 billion per year

Key recommendations

- Given the constraints on interest rate pass-through in the Bangladesh banking system, this would need to be accompanied by complementary liquidity tightening measures, including adjustments to reserve requirements and open market operations, to ensure that the policy signal transmits to actual lending and deposit rates rather than being absorbed by the spread between the policy rate and administered rates
- A targeted transfer programme for low-income rural households, calibrated to partially offset the kerosene price increase without reintroducing a broad energy subsidy, would reduce the demand contraction while avoiding the fiscal cost of universal price support
- The MoPEMR should immediately take ADP project to implement digital petroleum supply chain monitoring system connecting fuel-import point, oil refineries, fuel depots, pipelines, fuel installations, storage tanks, tanker trucks and filling stations

7.1 Introduction

The blockade in the Strait of Hormuz and middle eastern energy crisis have made disruption in the global energy supply, especially on fuel oil and Liquified Natural Gas (LNG). Being one of the net energy importing countries, the global market frictions has made a dent in the domestic fuel market of Bangladesh. The government has been trying to address the crisis through both supply and demand side management measures. It started with rationing the oil supply in the petrol pumps, cutting down office hours, limiting fuel consumption, imposing cooling restrictions, starting more impactful talks on renewable energy expansion. However, it ended with the implementation of fuel oil price hike not once but twice in April and May; and recommendation of electricity tariff increase which most likely will be implemented in June- July.

In 2026 Q2, the government implemented upward revisions to the administered prices of four domestic petroleum products: diesel, petrol, octane, and kerosene. These adjustments, which follow a pattern of episodic fuel price realignment consistent with the country's energy subsidy rationalisation programme, carry distinct macroeconomic implications through cost-push inflation, demand compression, and monetary policy transmission.

This section reviews the effectiveness of different demand and supply side operational and policy measures undertaken by the government amid the middle eastern energy crisis and examine the impact of energy price adjustment on the economy.

7.2 Effectiveness of the Adopted Policy Measures and Operational Decisions to Fight the Energy Crisis

7.2.1 Demand and Supply of Major Fuels during Crisis Period

The supply crunch faced in the global market had influenced the fuel oil import of Bangladesh as eight scheduled fuel oil vessels carrying approximately 385,000 tonnes of fuel failed to arrive and the import of 14 LNG cargos was halted each containing 3.36 million mmbtu (RPGCL, April'26). Over the first month since the conflict began (following 28 February 2026), Bangladesh imported fuel through 11 vessels, bringing in 349,000 tonnes of fuel oil and diesel.[3] But the demand for fuel oil was higher than the import in March'26. During 17 Feb – 30 Mar 2026 (in 41 days), 482,000 tonnes of fuel oil (all type fuel) was sold.

Even though the fuel stock was low compared to the regular reserve at the beginning of the war, a stable stock was able to be maintained later. This is mainly because of the emergency fuel import from other countries and LNG spot market to meet domestic demand (table 7.1).

Table 7.1: Stock situation of Major Fuel Products During Crisis Period, 2026

Month	Petrol	Octane	Diesel	Jet fuel
31 March	11,431 tonnes	7,940 tonnes	128,939 tonnes	44,609 tonnes
30 April	18,021 tonnes	31,821 tonnes	113,085 tonnes	44,609 tonnes

Source: Dhaka Tribune 2026; The Business Standard 2026.

The crisis was more driven by the inefficiencies of the management, illegal fuel storage and hoarding by the petrol pump owners. The government conducted nationwide operations, drives and searching against the illegal hoarding of fuel in all 64 districts throughout March and April[4]. These drives have been proved successful as government successfully seized huge stock of fuel through these operations (table 7.2).

Table 7.2: Seized Fuel oil during Crisis Period

Months	Petrol	Octane	Diesel
March, 2026	60,002 litres	28,938 litres	207,365 litres
April, 2026	92,000 litres	40,000 litres	381,000 litres

Source: Prothom Alo 2026; New Age 2026[5].

7.2.2 Demand and Supply Side Measures taken to Address the Crisis

The government has taken multiple demand and supply measures from 6 March to 6 April 2026 to tackle the impact of the middle eastern war. Government's instant reaction to the energy crisis was imposing fuel oil purchase limit on 6th March. Since then, long queues have formed at filling stations, with operators demanding increased fuel supply causing panic buying of fuel oil by the consumers. Even when the limit was withdrawn on 15th March, the queue continued to be long as the petrol pumps were illegally hoarding fuel oil. Some other regulations imposed by the Bangladesh Petroleum Corporation (BPC) customers must be provided with a purchase receipt mentioning the type, quantity and price of fuel, when purchasing fuel again, the original copy of the previous receipt must be submitted; non-removable ink is applied to prevent multiple purchase, and a database is also maintained using customers NID and vehicle number at some filling stations, requirement to report their fuel stock and sales information to the relevant depots

[3] https://en.prothomalo.com/business/local/j4f4vh2qrb
[4] https://en.prothomalo.com/bangladesh/ug1a79kuwq
[5] https://www.newagebd.net/post/country/297552/56-lakh-litres-of-fuel-seized

before lifting additional fuel and review of dealers' inventory and sales data before supplying fuel and must not provide quantities exceeding the allocated limits.

Other measures taken for demand-side management (DSM) were reduction of office hours (both at public and private levels) from 9 am to 4 pm, cut expenditure on fuel, power, and gas for government offices by 30 per cent, suspension of all government-financed foreign training for civil servants, shops and markets to be closed by 7 pm and university and school classes are planned to shift online/offline.

All of these decisions were to regulate demand side management however; no such supply side management decisions were taken to ensure smooth and uninterrupted fuel supply. Instead, the BPC increased the price of diesel, petrol, octane and kerosene. The diesel price has been increased to BDT 115 from BDT 100, petrol was increased to BDT 135 from BDT 116, octane is now BDT 140 from BDT 120 and kerosene price has been increased to BDT 130 from BDT 120 (BERC Gazette). Even though the price adjustment was unnecessary, it worked to reduce the long lines of the petrol pumps. Mostly because the petrol pump owners increased the fuel supply to be sold at a higher price. Such upward tariff adjustments should not be carried out through passing through the additional expenses to the consumers. The adjustment should at first look into the faulty pricing mechanism followed by the BERC - according to CPD about 15-20 per cent adjustment of price is possible by correcting the fuel pricing method.

On May 21, the Technical Evaluation Committee of the Bangladesh Energy Regulatory Commission (BERC) has recommended a weighted average increase of BDT 1.25 per kilowatt-hour (kWh) in retail electricity tariffs. The final decision will be made at an upcoming expert committee meeting, based on recommendations from the distribution utilities and the technical committee, with an announcement likely in June and possible implementation from July. The proposed tariff adjustment could reduce government power subsidies by up to BDT 13,000 crore in the fiscal 2026-27.[6]

Table 7.3: Demand and Supply Side Measures Taken by the Government

Dates	Demand side measures	Supply side measures
6 March 2026	Imposed Purchase Limit	-
11 March 2026	-	Emergency LNG procurement
31 March 2026	-	Emergency import of fuel oil
	-	Diversification of fuel import sources
	-	Bangladesh Petroleum Corporation initiated plans to establish up to 90-day fuel reserves
1 April 2026	Fuel pass system introduced	-
2–3 April 2026	Banks and non-bank financial institutions (NBFIs) will remain open from 10am to 5pm	-
	Shops and markets to be closed by 7 pm	-
	University and school classes are planned to shift online/offline	-
	Decorative lighting at weddings, commercial establishments, and public events was prohibited to reduce power consumption.	-
2 April 2026	The govt has reduced the office hours (both at public and private) from 9 am to 4 pm	-

[6] https://www.tbsnews.net/bangladesh/energy/berc-set-announce-decision-proposed-electricity-tariff-hike-tomorrow-1452551

3 April 2026	The govt has decided to cut expenditure on fuel, power, and gas for government offices by 30%	-
6 April 2026	Suspension of all government-financed foreign training for civil servants until further orders	-
March- April	Seizure Operations	-

Source: Authors' compilation from newspapers.

However, majority of the measures are mostly demand side management related and only a few of them is supply side management measures (Table 7.3). These measures include, emergency fuel oil and LNG import, diversification of import sources and increasing the fuel reserve. The supply side management should be more prioritised, specially the supply chain tracking system as it is yet to be automated by the management. Over the last few years, the BPC and the Ministry of Power, Energy and Mineral Resources (MoPEMR), EMRD have announced quite a few digitalisation and automation initiatives but the implementation status remains low. These initiatives were announced and partially implemented, but full implementation remains ongoing and incomplete.

Table 7.4: Supply Chain Tracking System Digitalisation in Bangladesh

Initiatives	Current status

• BPC's plan outlines special initiatives to modernise fuel oil transportation from 2024 to June 2025.
• These include:
  • Introduction of modern IP camera monitoring dashboards for security in BPC deployments
  • Implementation of a GPS tracker monitoring system to ensure the safety of fuel oil import and distribution tank lorries
  • Coordination with Google Maps to introduce the Automatic Identification System (AIS) for monitoring oil tankers involved in fuel transportation
  • Launch of a five-digit hotline number to facilitate service and alleviate customer issues
	• Most of these initiatives were announced and partially implemented, but full implementation remains ongoing and incomplete. The programme is part of BPC's Smart Fuel Distribution Monitoring System (SFDMS), planned mainly for 2024–June 2025

• The Energy and Mineral Resources Division issued a directive on 26 December 2024 to the BPC and Petrobangla.
• The directive required the installation of IP cameras at Key Point Installations (KPIs) and critical infrastructure.
• The directive instructed installation of CCTV/IP cameras at:
  • Oil refineries
  • Fuel depots
  • Pipelines
  • Fuel installations
  • BPC head office and regional offices
  • KPI-designated facilities under BPC subsidiaries
	• Existing CCTV cameras often malfunction during storms and heavy rain.
	• IP cameras with data storage systems were recommended for more reliable monitoring.
	• Installation and strengthening of surveillance systems are ongoing, with companies required to report progress.

• The Energy and Mineral Resources Division proposed a digital monitoring system to address these issues. • The proposed system includes: • Digital Locks • A digital lock installed on each tank lorry, tanker, and train wagon	• At the time of the report, digital locks and tracking systems were still in the planning stage and had not yet been installed, but the government was preparing to introduce them to prevent

Initiatives	Current status

• If the lock is opened:
  • Automatic signal sent to authorities or owners
  • Possible theft or tampering can be detected immediately
  • Digital Tracking System
• Vehicle tracking technology (likely GPS)
  • Allows authorities to:
  • Track the exact location of fuel transport vehicles
• Monitor routes and delivery points
 	
• According to the Energy Secretary:
  • The system will first be implemented for private tank lorries. Government-owned vehicles will gradually be included;
  • This indicates phased implementation rather than immediate nationwide rollout
	theft and fuel adulteration during transportation.

• The government, through the BPC, is planning to introduce a digital fuel supply monitoring system.
 	
• Possible technologies mentioned:
  • QR code–based system
  • Card-based tracking system
• Functionality of the system
  • Under the proposed model:
    • Fuel purchases would be linked to individual users or vehicle identification
    • Each transaction at a filling station would be digitally recorded
    • Authorities could track:
    • amount of fuel purchased
    • location of purchase
    • frequency of purchase
• This would create a digital database of fuel distribution at the retail level.
	• A committee has been formed to design the system
	• The mechanism is still under review
	• No final decision or nationwide rollout yet
	• The system will likely be implemented in phases

Source: Authors' compilation from newspapers and government gazettes.

7.3 Comparative Analysis of the Emergency Response Taken in Neighbouring Countries

A wide range of energy-saving and demand-management measures adopted by several Asian countries during periods of energy crisis and supply uncertainty. A common strategy across most countries was the promotion of remote work for public officials to reduce electricity consumption and fuel use associated with commuting. Countries such as Pakistan, Indonesia, Thailand, and the Philippines introduced flexible or shortened work arrangements, while Cambodia emphasised virtual meetings for civil servants. Another widely used strategy is limiting vehicle use, ration fuel, lower speed limits, promote public transport to face the energy crisis. Several governments also imposed cooling restrictions by limiting air-conditioner temperatures in public offices, reflecting efforts to reduce peak electricity demand. In terms of transportation, many countries restricted government travel through bans on foreign trips, reductions in official travel, or limitations on non-essential movement. Some countries adopted stricter institutional measures; for example, Pakistan shifted schools and universities to online classes and restricted physical meetings, while Thailand and Indonesia promoted energy-saving practices within government buildings. Public awareness and demand-side management were also prioritised, with governments encouraging citizens and industries to reduce energy use, accelerate fuel switching, and adopt conservation practices. Overall, Table 7.5 demonstrates that these countries relied heavily on administrative controls, behavioural change initiatives, and public-sector energy conservation measures to manage energy shortages and reduce pressure on national energy systems.

Table 7.5: 2026 Energy Crisis Policy Response

Measure	Cambodia	India	Pakistan	Indonesia	Thailand	Philippines
Work from home: encourage or mandate remote work	Hold meetings online for civil servants		For public officials: 4-day work week and 50% remote work on the remaining days. For private sector: encourage remote work	Work from home on Fridays for civil servants	Encourage remote work and video conferencing in all public and private sectors	4-day work week for public officials
Cooling: temperature limits of air conditioners	Encourage limit to 24–25 degrees in public offices				Encourage limit to 26 degrees	Encourage limit to 24 degrees in public offices
Government travel: limit air and road travel by public officials	Reduce long-distance official travel and avoid commuting in peak hours		Ban on foreign travel by public officials	Limit travel by public officials	Avoid overseas travel for public officials	Limit non-essential government travel
Schools and universities: close or limit opening times			100% online classes, remote work encouraged			
Campaign: ask or mandate consumers to limit energy demand	State-owned electricity company urging the public to reduce electricity use	Cap industry natural gas usage. Speed up rollout of piped natural gas to replace domestic LPG. Ration commercial LPG use. Promote shift to electric cookstoves	Ask local governments to save energy. No official dinners, no physical meetings. Close markets and commercial centres from 8pm, and food and events establishments from 10pm	Encourage energy saving strategies in government office buildings. Accelerate conversion of diesel-powered plants to solar power	Ask office workers to limit demand (incl. taking stairs, turning off devices). Reduce rural street lighting	Declare national energy emergency. Ask public agencies to reduce fuel consumption, ask consumers to limit demand and promote energy audits
Transport: limit vehicle use, ration fuel, lower speed	Reductions in import taxes for products		Reduce speed limit on highways, vehicle	Accelerate biodiesel programme and limit	Encourage carpooling and limit unnecessar	Provide free bus rides for students and

Measure	Cambodia	India	Pakistan	Indonesia	Thailand	Philippines
limits, promote public transport	related to EVs, renewables, electric stoves		purchase ban for public officials, temporarily free public transport	purchases of subsidised fuel. Accelerate the switch from gasoline-powered motorcycles to electric motorcycles	y travel. Ensure higher-biofuel-content gasoline is cheaper	workers in selected cities

Source: IEA 2026 Energy Crisis Policy Response Tracker.

Among these countries, India was relatively more successful in managing the crisis due to its diversified energy sourcing strategy, expansion of renewable energy, and ability to secure discounted crude oil imports. India also implemented demand-side management measures while maintaining economic stability and avoiding severe nationwide shortages. Indonesia and Thailand also managed the crisis comparatively effectively by combining energy conservation policies with fuel subsidy adjustments and institutional efficiency measures.

In contrast, Pakistan faced significant difficulties despite adopting strict conservation measures such as remote work, online education, and restrictions on official activities. The country continued to experience severe electricity shortages, high fuel import costs, inflation, and economic instability due to its heavy dependence on imported fossil fuels and foreign exchange constraints. The Philippines and Cambodia implemented administrative and behavioural measures to reduce energy demand, but their success was limited by structural dependence on imported energy and weaker institutional capacity. Thailand achieved moderate success through coordinated public-sector conservation campaigns and energy-efficiency measures, although high global fuel prices still affected consumers and industries.

Overall, these countries were able to partially mitigate the immediate impacts of the Middle East energy crisis through conservation policies, remote work arrangements, travel restrictions, and public awareness campaigns. However, the crisis also exposed deeper structural vulnerabilities in energy security, particularly in countries highly dependent on imported fossil fuels.

7.4 Effectiveness of the demand and supply side measures

The effectiveness of Bangladesh's demand-side and supply-side measures during the 2026 energy crisis was moderately effective (Table 7.6). The emergency responses helped prevent a complete fuel and power system collapse, but they also revealed structural weaknesses in the country's heavy dependence on imported fossil fuels. Demand-side measures were moderately effective in the short term. The government introduced fuel rationing, reduced office hours, early closure of markets and educational institutions, restrictions on fuel sales, and public energy conservation campaigns. These measures successfully reduced immediate fuel consumption and slowed panic buying.

Fuel rationing helped control abnormal demand spikes caused by hoarding and panic purchasing after fears emerged over possible disruptions in oil shipments. The fuel-pass system and controlled fuel distribution also improved monitoring of fuel consumption.

Table 7.6: Effectiveness of the Government Initiatives to Address the Energy Crisis

Decisions	Level of Effectiveness
Providing additional energy subsidies	
Increasing LNG Imports from Spot Market	
Diversifying Fuel Import Sources	
Fuel Rationing Measures in transportation	
Reduction of office hours for government and private institutions	
Markets and shopping malls were instructed to close earlier to reduce electricity consumption	
Educational institutions, including universities, were temporarily closed or holidays extended to save electricity and fuel	
Monthly fuel price Increase	
Encouraging renewable energy as alternative energy	

Note: Somewhat: Moderate: High:
Source: Authors' illustration.

Supply-side interventions were generally more successful. The government rapidly diversified fuel import sources, procured emergency LNG cargoes, increased imports of refined petroleum products, and sought alternative suppliers outside traditional Middle Eastern markets. These actions prevented major disruptions to national fuel availability.

The reason why most of the measures taken to address the energy crisis has failed to perform because the domestic crisis is more supply inefficiency led, whereas the government initiatives were simply focusing on the demand side management. Bangladesh's energy supply chains are not properly monitored and have allegations of irregularities at most of the phases of the supply chain. These include fuel adulteration through mixing with cheaper substances (kerosene, solvents) due to weak quality monitoring, over-reporting of evaporation losses at facilities like Eastern Refinery Limited to conceal diversion, leakage of fuel during transport and distribution into unauthorised/black markets; and lack of real-time tracking, auditing, and enforcement across the supply chain leading to systemic corruption. Pakistan and India have implemented digital/real time tracking system, which is yet to be introduced in Bangladesh.

7.4 Macroeconomic Impact of the 2026Q2 Domestic Fuel Price Shock in Bangladesh: A Structural VAR Analysis

7.4.1. Methodology

The analysis uses a Cholesky-identified Structural Vector Auto Regression (SVAR) with four endogenous variables ordered as: real GDP (log level), CPI inflation (first-differenced log), the nominal exchange rate against the US dollar (first-differenced log), and the policy interest rate (first difference). Domestic fuel prices for diesel, petrol, octane, and kerosene enter as exogenous regressors in first-differenced log form, which is consistent with unit root tests confirming all four prices are integrated of order one. The model is estimated at lag order two over 2002Q1–2025Q4 (96 observations), with lag selection guided by the AIC and SBC and confirmed by the absence of residual autocorrelation. All eigenvalues of the companion matrix lie strictly inside the unit circle. The Cholesky-identified SVAR(2) model is specified as:

$$A_0 Y_t = A_1 Y_{t-1} + A_2 Y_{t-2} + \Gamma X_t + \varepsilon_t$$

where:

$$Y_t = \begin{bmatrix} \ln GDP_t \\ \Delta\ln CPI_t \\ \Delta\ln EXR_t \\ \Delta PR_t \end{bmatrix}$$

and

$$X_t = [\Delta\ln Diesel_t, \Delta\ln Petrol_t, \Delta\ln Octane_t, \Delta\ln Kerosene_t, NX_t, \Delta M2_t, Q_t, D_{2016Q2,t}, D_{2022Q3,t}]'$$

Scenario responses are constructed by extracting reduced-form coefficients on each fuel variable, mapping them through the inverse structural matrix to recover contemporaneous impacts, and propagating the resulting vector forward for 20 quarters using the companion matrix. Responses are scaled by the observed log-price changes for each fuel in 2026Q2 relative to the 2025Q4 baseline. Additional exogenous controls include net exports, broad money growth, seasonal dummies, and structural break dummies at 2016Q2 and 2022Q3.

7.4.2. Observed Price Changes

The 2026Q2 adjustment represents a broadly distributed shock across all four fuel categories. Diesel prices rose 10.88 per cent, petrol 13.19 per cent, octane 13.38 per cent, and kerosene 13.05 per cent relative to the previous quarter. Unlike the prior shock scenario, the increases are roughly symmetric in magnitude, meaning no single fuel dominates the aggregate impulse. Nevertheless, kerosene retains particular welfare significance given its role as the primary cooking and lighting fuel for low-income and rural households, and its 13.05 per cent increase transmits broadly through household welfare and production costs in agriculture and informal services.

7.4.3. Simulation Results

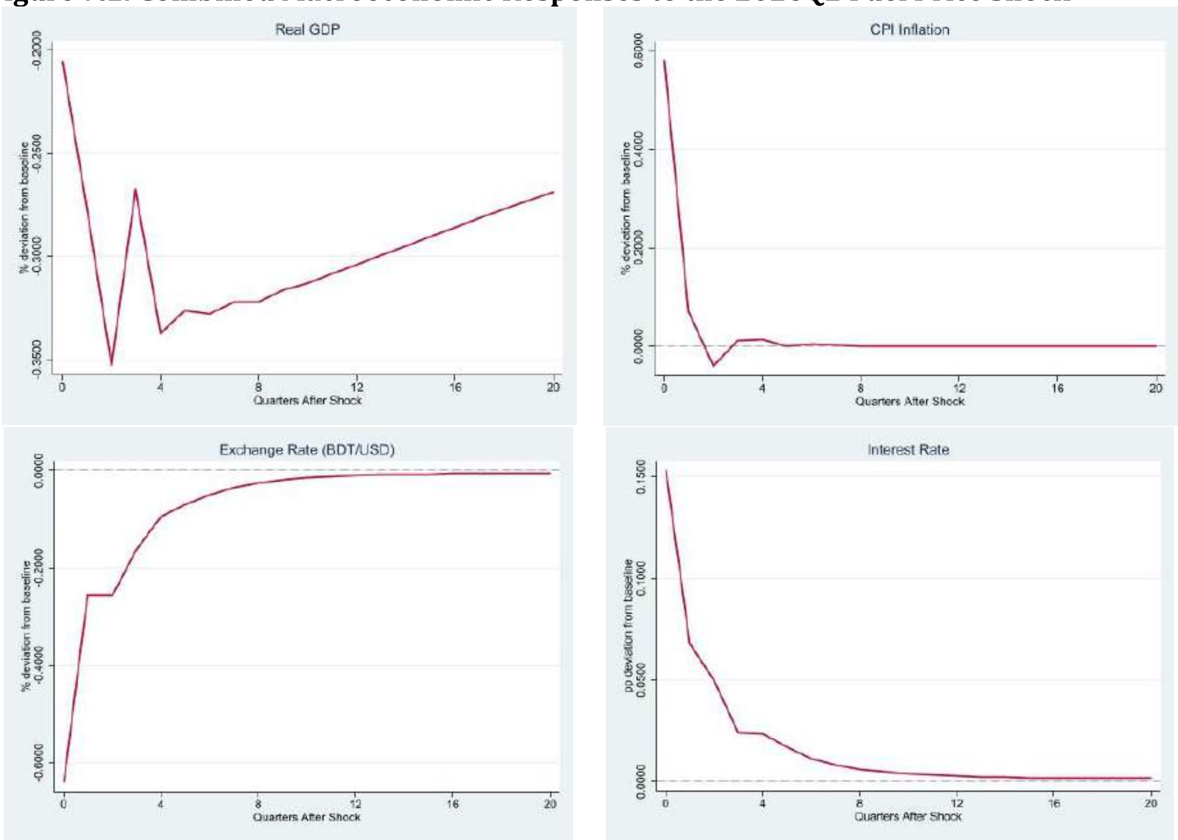
Table 7.7 and Figure 7.1 present the combined macroeconomic response across a twenty-quarter horizon.

Table 7.7: Simulated Macroeconomic Responses to the 2026Q2 Combined Fuel Price Shock

Horizon	Real GDP (%)	CPI Inflation (%)	Exchange Rate (%)	Interest Rate (pp)
Q0 (impact)	−0.205	+0.581	−0.641	+0.153
Q1	−0.276	+0.072	−0.256	+0.068
Q2	−0.353	−0.040	−0.256	+0.049
Q4	−0.338	+0.014	−0.095	+0.024
Q6	−0.328	+0.004	−0.049	+0.011
Q8	−0.322	+0.001	−0.025	+0.006
Q12	−0.304	0.000	−0.010	+0.003
Q16	−0.286	0.000	−0.007	+0.002
Q20	−0.268	−0.001	−0.006	+0.002

Note: *Responses are percentage deviations from the no-shock baseline for real GDP, CPI inflation, and the exchange rate. Interest rate responses are in percentage point deviations. Q0 denotes the quarter of impact.*
Source: Authors' calculation.

Figure 7.1: Combined Macroeconomic Responses to the 2026Q2 Fuel Price Shock



Source: SVAR simulation; authors' calculations.

Real GDP: Output contracts immediately and persistently from the quarter of impact. Unlike the previous shock scenario where Q0 showed a transitory positive deviation before reversing, the current shock produces an unambiguous contraction from the outset: −0.205 per cent on impact, deepening to −0.276 per cent in Q1 and reaching a trough of −0.353 per cent in Q2. This earlier and more direct contraction reflects the broader and more symmetric nature of the price increases, which compress household real incomes and raise intermediate input costs across transport, agriculture, and manufacturing simultaneously rather than through a single dominant fuel.

From Q4 onward, the contraction stabilises in the range of −0.27 to −0.34 per cent with a slow and gradual recovery trajectory that does not close within the five-year horizon. The persistence of the output loss is notable: even at Q20 the deviation remains −0.268 per cent, indicating that the shock leaves a lasting imprint on the level of output rather than a transitory dip. At Bangladesh's 2025 GDP of approximately USD 460 billion (PPP), a sustained contraction of approximately 0.30 per cent of quarterly GDP implies foregone output on the order of USD 1.4 billion per year.

CPI Inflation: The inflationary impulse is sharply front-loaded and dissipates rapidly. CPI rises 0.581 per cent on impact, falls to +0.072 per cent in Q1, and turns marginally negative (−0.040 per cent) in Q2 before returning to near-zero from Q4 onward. This rapid convergence suggests that under the average historical monetary policy response embedded in the SVAR, the inflationary pressure from even a broad-based symmetric fuel price increase is largely contained within two quarters. The absence of sustained above-baseline inflation from Q4 onward is a relatively benign outcome, though it remains conditional on adequate monetary tightening as discussed in Section 7.4.4.

Exchange Rate and Interest Rate: The taka appreciates 0.641 per cent against the dollar on impact, a more modest appreciation than in the previous scenario, reflecting the absence of a dominant single-fuel shock that would produce an outsized import-compression effect. The appreciation diminishes steadily, falling to −0.256 per cent by Q1–Q2 and converging towards −0.006 per cent by Q20. The exchange rate effect is therefore transitory and largely self-correcting within two years.

The policy rate rises 0.153 per cent points on impact, with a secondary response of 0.049 per cent points at Q2, decaying smoothly to near zero by Q8–Q12. The interest rate response is somewhat more gradual and lower in peak magnitude than in the previous scenario, consistent with the more distributed nature of the shock.

7.4.4. Inflation Persistence Risk Under Administered Interest Rates

The two-quarter inflation dissipation in Table 7.7 is not an unconditional forecast; it is the expected outcome given the average historical monetary policy response embedded in the SVAR. This conditionality is not guaranteed.

Bangladesh operates a partially administered interest rate system. Although the Bangladesh Bank shifted toward a SMART reference rate framework in mid-2023, the transition remains incomplete: administered pricing in state-owned banks, directed lending mandates, and government borrowing dominance constrain transmission from the policy rate to actual lending and deposit rates. Fully offsetting the on-impact CPI deviation of 0.581 per cent would require a policy rate increase of approximately 145 basis points, applying a standard pass-through coefficient of 0.4 per cent points of inflation reduction per percentage point of rate increase. The SVAR projects only approximately 15 basis points of tightening on impact, leaving a gap of roughly 130 basis points.

If this adjustment is delayed, second-round propagation is likely to sustain inflation above baseline for four to six quarters rather than the two shown in the model. A compounding factor is that the symmetric nature of the 2026Q2 shock, with all four fuels rising by double digits, means that cost-push pressure extends across the full spectrum of transport, agriculture, manufacturing, and household energy consumption simultaneously. This breadth increases the probability of informal-sector wage adjustments, which typically follow fuel price increases with a one-to-two quarter lag, and raises the risk that the narrow two-quarter inflation window in the model is not achieved in practice. During the 2022–23 episode CPI reached decade highs despite multiple policy rate adjustments, illustrating these institutional limits.

7.5 The Current Energy Subsidy is Not Subsidy in Full

The middle east crisis has increased the cost of energy import significantly which is causing an unpredicted fiscal burden. LNG and fuel oil for the rest of the year and the next year will cause extra expenditure for PetroBangla. In order to maintain the LNG supply, intact cargos from spot market have been purchased. This is mainly because one cargo had to be imported at USD 28/mmbtu from spot market. Bangladesh's yearly LNG import costs were roughly USD 3.88 billion in 2025.

For the remaining months of the calendar year 2026, USD 2.3 billion will be required if purchased at the usual rate (USD 10-12/mmbtu). However, the current offers that RPGCL is purchasing LNG at USD 20/mmbtu, causing an extra burden worth USD 1 billion. For the next year, 2027, the estimated total amount of USD 4.5 billion will be required if purchased at the usual rate ($10-12/mmbtu). If purchased at $20/mmbtu, the cost will rise upto $7.5 billion in 2027.

Now to meet the additional fund for fuel import, the MoPEMR needs to count additional subsidy in the ongoing fiscal year. Additional subsidy for LNG and oil import is required even after increasing the oil price. A total of BDT 31,122 crore will be required to meet the subsidy demand by the end of fiscal year 2026 (Table 7.8).

Table 7.8: Additional Fund Required for Power and Energy Sector (Crore Taka)/ (billion USD)

Fuel type	Proposed for FY2026	Additional requirement for FY2026	Yearly requirement for FY2026
Power	37,000	0	37,000
LNG	9,000	15,077	24,077
Oil	0	16,045	16,045
Total	BDT 46,000 crore (USD 3.77 billion)	BDT 31,122 crore (USD 2.55 billion)	BDT 77,122 crore (USD 6.32 billion)

Source: Authors Calculation.

7.6 Recommendation

The simulation results and the conditionality analysis together support the following policy recommendations. Additionally, government can take few other operational and policy decisions. **Monetary tightening of sufficient magnitude**: The evidence presented here suggests that a policy rate increase of approximately 145 basis points would be required to contain the inflationary impact of the 2026Q2 fuel shock within two quarters. Given the constraints on interest rate pass-through in the Bangladesh banking system, this would need to be accompanied by complementary liquidity tightening measures, including adjustments to reserve requirements and open market operations, to ensure that the policy signal transmits to actual lending and deposit rates rather than being absorbed by the spread between the policy rate and administered rates.

Fiscal support targeted at rural households: The output cost of the shock, estimated at a trough at Q2 (Oct-Dec ’26) of −0.353 per cent of quarterly real GDP, warrants consideration of targeted demand-side support measures. A targeted transfer programme for low-income rural households, calibrated to partially offset the kerosene price increase without reintroducing a broad energy subsidy, would reduce the demand contraction while avoiding the fiscal cost of universal price support. The output loss in the absence of such support implies a welfare cost that likely exceeds the fiscal cost of targeted intervention.

Monitoring of second-round wage and food price dynamics: The two-quarter inflation window identified in the model should be treated as a minimum, not a forecast, under current institutional conditions. Bangladesh Bank and the Ministry of Finance should establish a joint monitoring mechanism for garment sector wage settlements and food distribution cost margins in the two quarters following the shock, as these are the primary channels through which second-round effects would manifest.

Progression towards a fully flexible interest rate framework: The analysis in this paper illustrates a broader structural vulnerability: a monetary authority whose instruments are partially constrained will consistently deliver suboptimal responses to supply-side inflation shocks. The transition from the SMART rate framework to a fully market-determined lending rate structure, with state-owned banks subject to the same competitive pricing discipline as private banks, would reduce the residual inflation gap identified in table 7.7 and improve the economy's overall resilience to commodity price volatility.

Emphasis to be provided for gas exploration: Given the huge impact of LNG shortage, maximum effort should be put in pace for exploring domestic natural gas. Hence Petrobangla should allocate and put emphasis on timely completion of the 11 wells under active operation, including a plan to drill and workover 50 wells by 2025-26 and a plan to drill 100 additional wells between 2026 and 2028.

The government should quickly emphasise on the expansion of renewable energy: the government should accelerate its effort for quick implementation of pilot projects in 64 districts under national rooftop-solar programme. With necessary adjustment, the government should go for its full implementation. The government may also consider allowing 31 LOIs cancelled with necessary revision for re-submission of their papers and take steps for quick implementation of those projects.

Focus to be given on solar based irrigation: The government should focus on solar-based irrigation in 1.3 million solar pumps by replacing their diesel operation. At present, diesel consumption in irrigation is accounted for 15 per cent of total diesel consumption and costs USD 1billion every year. According to a ADB study, solar-based irrigation in 45,000 pumps would save about 300,000 tonnes of diesel fuel use annually.

Diesel use in transport sector can be gradually phased out by replacing them with electric vehicles: Now, diesel use in the transport sector is accounted for about 2/3rd of total diesel imported in the country**.** According to CPD calculation, under a 30 per cent Electric Vehicle (EV) penetration scenario, annual diesel consumption in Bangladesh's transport sector is estimated to decline by approximately 0.83 million metric tonnes, assuming proportional electrification within diesel-dependent vehicle categories.

Digitalisation of the petroleum supply chain must be initiated: The MoPEMR should immediately take ADP project to implement digital petroleum supply chain monitoring system connecting fuel-import point, oil refineries, fuel depots, pipelines, fuel installations, storage tanks, tanker trucks and filling stations. A number of initiatives earlier taken by the BPC did not implement fully such as fuel card and fuel app. A digital fuel mentoring system is being planned to piloting (QR code, card-based tracking).

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SECTION VIII. HAOR FLOOD: LOSS OF RICE AND DOMESTIC SUPPLY SITUATION

Key observations

- Rice losses in the Haor region were likely higher than official estimates, with the revised central estimate at about 339,449 MT of rice compared to the official 214,000 MT.
- Public cash support to flood affected farmers would cover only 17 per cent of their loss of rice.
- The national rice supply remains manageable due to current import trends and public stocks, but local impacts on farmers are severe and long-lasting.
- Domestic rice prices remain high and disconnected from global trends, indicating market concentration, weak monitoring, and rent capture in the supply chain.

Key recommendations

- Adopt a rapid hybrid flood-loss assessment system combining DAE surveys, satellite verification, BWDB data, and community reporting.
- Increase financial support to affected farmers through higher compensation, input grants, and low-interest credit for the next cultivation season.
- Stabilise the rice market by increasing imports, suspending import duty for private rice importers, and strengthening trader stock and price monitoring.

Rice production in FY2026 has been experiencing several adversities even prior to flooding in the haor region. These include – (a) rise in diesel prices to BDT 115 per litre which increased irrigation costs for the pump-based Boro season[7]; (b) higher fertiliser price in mid-season in the administered retail market particularly due to global urea price surge from USD 415 per metric tonne in January 2026 to USD 857 per metric tonne in March 2026 (World Bank Pink Sheet, April 2026); and (c) disruption in timely fertiliser supply especially urea ahead of the Boro seasons due to Middle East energy crisis causing shortages of gas supply in fertiliser factories. Despite these adversities, the Department of Agriculture Extension (DAE) set a Boro production target of 22.7 million metric tonnes (mmt) for FY2026, the highest ever, to be cultivated across 5.05 million hectares - an increase of 3.3 percent over FY2025 (DAE FY2026; Bangladesh Bank, 2026).

The Haor region plays a critical important role in rice production and stabilising the domestic rice market. The Haor region's seven districts alone account for 9.6 lakh hectares of total Boro cultivation and 4.6 lakh hectares in Haor basins specifically. Disruption of rice production due to flood in the Haor region just before harvesting Boro rice is likely to cause adversities in the domestic rice supply.

This section discusses the nature and extent of flash flood in the haor region during 28 April to 1st and 2nd week of May 2026, its impact on rice production and possible loss of Boro rice and likely implications in domestic rice supply in the upcoming months.

8.1 Rice Production in the Haor Region

Hydrological Basis and Structural Context: The Haor wetland system extends across 7 north-eastern districts of Bangladesh—Sunamganj, Netrokona, Kishoreganj, Habiganj, Moulvibazar, Sylhet, and Brahmanbaria—covering approximately 2.0 million hectares (13 per cent of the country's land area) and housing 20 million people, or 12 per cent of the national population

[7] Diesel-powered shallow tube wells serve approximately 75 per cent of Bangladesh's irrigated area (BADC, 2025).

(PDNA 2022).[8] Flash floods in Haor areas arise from two distinct pathways: (i) upstream hill torrent flows from Meghalaya and Tripura states of India, which travel through the Surma-Kushiyara, Dhanu-Baulai, and Bhugai-Kangsa river systems; and (ii) intense local rainfall that overwhelms silted drainage channels and compromised BWDB embankments. The 2026 event combined both pathways.[9]

Not all Haor land faces equivalent flood risk. The BWDB and DAE classify Haor cultivation areas into three hydrological tiers based on elevation relative to seasonal water tables. Table 8.1 shows that the lower basin tier (approximately 1.37 lakh ha) faces near-certain loss in any early pre-monsoon flood event, regardless of harvest progress. This vulnerability is independent of embankment quality. The loss calculation needs to account for lower-basin fields, which experience 70–100 per cent loss, as well as upper- and middle-tier fields, where harvesting progress and embankment integrity are the important variables.

Table 8.1: Haor Cultivation Area, Hydrological Risk Tier Classification

Tier	Description	Share of Haor Cultivation	Total Cultivated Area (4.55 lakh Ha)	Typical Loss Rate Due to Flood (%)
Upper	Increased bund-protected fields; harvested early (mid-April)	30	1.37 lakh ha	5–15
Middle	Standard Haor fields; harvested late April and bund-dependent	40	1.82 lakh ha	20–50
Lower Basin	Deepest Haor fields; last to be harvested with no bund protection	30	1.37 lakh ha	70–100

Source: BWDB Pre-Monsoon Flood Protection Guidelines; DAE Haor Cultivation Area Classification; Prothom Alo (May 2026); Daily Sun (April 2026) citing BWDB historical risk zoning.

Machine-Operated Harvesting in the Haor Region: The amount of paddy physically harvested in the days between BWDB's April 25 warning and the April 28–30 peak flood depends on the deployment and effective capacity of combine harvesters, reapers, and manual labour available in the Haor districts.

Even if all available machinery operated at peak weathered capacity for the 5-day window between warning (April 25) and peak flood (April 30), a maximum of approximately 31,600 additional hectares could have been harvested (**Error! Reference source not found.**). This assumes that the harvesting equipment had no mechanical faults. However, it has been reported that a number of combine harvesters got stuck in the soft mud, and lifting them took 12-24 hours, blocking the path for other machines to move forward. Therefore, the mechanical shortfall, not farmer inaction, explains why such an enormous amount of Haor paddy remained in the field when floodwater arrived. It is important that farmers are properly informed about the early warning system in such emergency situations.

[8] The region supports only a single annual crop: Boro rice, planted from November to January and harvested from April to May. There is no Aman or Aus season in deep Haors, making this single crop 100 per cent of the annual agricultural income for approximately 2.5 million farm households.

[9] BWDB's Flood Forecasting and Warning Centre (FFWC) issued a bulletin on April 28 reporting that the Manu River at Moulvibazar was 110 cm above the pre-monsoon danger level, and the Bhugai-Kangsa at Netrokona was 28 cm above, both driven by upstream Indian rainfall before local precipitation peaked (FFWC, n.d.).

Table 8.1: Mechanical Harvest Capacity and Deployment Assessment, Haor Boro FY2026

Machine Type	Units Deployed (7 districts)[a]	Effective Capacity (ha/day/unit)	Weather Adjusted (-40%)[b]	Available Harvest Days (Apr 25-30)	Maximum Harvestable
Combine Harvester	1,104[a]	5	3	5	16,560
Reaper	350[c]	2	1.2	5	2,100
Manual labour	1,72,350 workers	0.025	0.015	5	12,926
Total Mechanical + Manual				5 days	**31,586 ha**

Source: [a]BSS April 2025; [b]40 per cent weather adjustment for continuous rainfall, muddy conditions, and lightning risk per DAE field reports; [c] DAE district data; [d] BSS April 2025.

8.2 Assessment of Loss of Boro Harvest

8.2.1 DAE and Other Estimate

The rice loss is shown in Table 8.2 is calculated in two steps: (i) submerged hectares multiplied by the FY2025 benchmark yield rate (mentioned in Table 8.3) to obtain paddy loss, then (ii) converted to milled rice at the standard 65 per cent milling ratio (DAE/BBS methodology). Two yield scenarios are applied, the DAE FY2026 target yield and the actual FY2025 yield, to bracket the likely range.[10] The DAE loss calculation is 214,000 MT milled rice, based on an area of 49,000 ha and a yield of approximately 4.47 MT/ha, indicating that DAE's calculation uses a weighted composite of complete and partial losses for submerged hectares. At the national level, the loss represents approximately 0.94 per cent of the FY2026 Boro target, which may seem negligible.

Table 8.2: Haor Region, Cultivation, Harvesting, Flood Impact, & Loss Estimation (Boro FY2026)

District	Total Boro Cult. (ha)	Haor Area (ha)	Harvested at Apr 27	Submerged (ha)	Haor Submerged	Estimated Prod. Loss (MT rice)[s]	Farmers Affected
Sunamganj	2,23,511	1,65,243	**45%**	14,371	8.70%	41,909	80,000
Netrokona	1,85,547	41,065	65%	13,466[f]	**32.79%**	39,270	80,000+
Habiganj	1,23,644	46,818	55%	11,538[e]	24.65%	33,652	22,000
Kishoreganj	1,68,262	1,04,535	53%	11,174[d]	10.69%	32,587	49,715
Moulvibazar	95,000	27,315	62%	2,160	7.91%	6,301	2,500
Sylhet	97,000	37,292	58%	510	1.37%	1,488	1,500
Brahmanbaria	67,000	19,000	66%	372	1.96%	1,085	1,000
TOTAL	**9,59,964**	**4,41,268**	57%	**46,730 (off.) 49,000 (rev.)**	11%	**1,56,292[s]; 2,14,000 (DAE revised)**	**2,36,811**

Source: DAE FY2026 district reports; BigMint May 4, 2026; BSS May 6, 2026; Dhaka Tribune May 2, 2026; Prothom Alo May 20, 2026 (PA final: 49,000 ha, 214,000 MT, 236,811 farmers). [d] BSS upazila final. [e] DT-

[10] Netrokona's submerged rate of 32.8 per cent is the highest proportional loss among districts, despite not recording the largest absolute area. Sunamganj's 45 per cent harvest completion (reported by govt) at flood onset, the lowest among the seven districts, resulted not from unexpected rainfall timing but from the absence of operational follow-through on DAE's own emergency harvest advisories issued from April 25, added to no accelerated labour deployment, no emergency machine routing, and no field-level logistics coordination. Additionally, the government estimated the damage in Sunamganj to determine eligibility for compensation and allocate relief.

HAB includes partial loss. [f] DS May 5: 8,190 ha Haor + 5,276 ha non-Haor. [s] = calculated column; see Table 8.3.

Table 8.3: Haor Flood Led Production Loss Calculated by DAE in FY2026

Scenario	Affected Area (ha)	Yield Basis (MT/ha)	Paddy Loss (MT)	Rice Loss (MT)	Notes
Revised DAE Figure (FY2026 basis)	49,000	4.47	219,030	214,000*	Official revised DAE rice-loss estimate
Field Estimate from Local Organisations (Upper Bound)	100,000	4.47	447,000	290,550	Based on activist/field organisation estimates

Source: Author's calculations using BBS FY2025 final data; DAE FY2026 yield target (BigMint); *Reported by Prothom Alo on May 20, 2026 (confirmed DAE revised figure of 214,000 MT rice).

8.2.2 CPD Estimates of Loss of Boro Harvest

This section presents the loss calculation based on four independent data layers: (a) hydrological tier analysis, (b) machine operated harvesting capacity; (c) BWDB water level data, and (d) BBS yield benchmarks. The analysis shows a range rather than a point estimate, due to data uncertainty.[11]

The official FY2026 Haor flood estimates the reported seven-district harvest completion rate of around 56 per cent, which masks major variation across Haor tiers. While upper-tier lands were largely harvested, lower-basin areas remained mostly unharvested due to delayed maturation, waterlogging, limited machine access, and narrow harvest windows. At the same time, the five-day emergency harvesting window (25–30 April) imposed severe mechanical and labour capacity constraints, limiting feasible rescue harvesting, particularly in inaccessible lower-basin areas. Accordingly, the revised assessment applies tier-specific harvest completion rates, harvest-capacity constraints, and differentiated flood-loss assumptions, estimating that nearly 85 per cent of lower-basin crop remained exposed at flood onset. The resulting loss estimate exceeds the current DAE figure but remains consistent with the upward revision patterns observed after the 2017 Haor flood.

Historical evidence from the 2017 Haor flood suggests that large revisions between early flood-period reporting and later post-flood assessments are common in Bangladesh's Haor regions.[12] The historical 2017 flood indicates three patterns that are similar to the current 2026 flood. *First*, early flood-period estimates in Haor regions are highly unstable because field access is constrained, particularly in the most severely affected lower-basin areas.[13] Consequently, early official figures often undercount inaccessible losses in the lower basin. *Second*, the affected area and production loss figures tend to increase over time as more comprehensive assessments become possible. In 2017, the official affected area estimate increased from 160,170 ha during the flood to approximately 220,000 ha after wider verification. This represents an upward

[11] Unlike DAE (which counts only fully submerged fields) or local organisations (which include partial and post-harvest drying losses), this calculation applies tier-specific loss rates based on hydrological classification and historical comparable events.

[12] In 2017, flood damage estimates changed significantly over time as field verification increased and post-harvest production statistics became available. During the first week of the 2017 flood, DAE initially reported approximately 200,000 ha submerged and approximately 600,000 MT of crop loss. Subsequently, the Government Flood Situation Report dated 19 April 2017 revised the affected area downward to 160,170 ha. Later, FAO/GIEWS and subsequent government assessments revised the affected area upward again to around 220,000 ha. Independent academic studies conducted after the event estimated approximately 880,000 MT Boro rice loss from the 2017 flash flood, while BBS final production statistics showed national Boro output declined by roughly 0.82–0.91 MMT compared to the previous year.

[13] As floodwaters rise, physical verification becomes difficult, especially in remote and waterlogged fields.

revision of roughly 37 per cent. *Third*, later independent assessments and final production statistics typically indicate larger losses than the initial flood-period estimates. This occurs because early DAE assessments primarily capture visibly submerged fields, whereas later evaluations incorporate partial crop damage, quality deterioration, delayed harvest losses, and inaccessible lowland areas that were initially excluded.

The FY2026 reporting trend already appears to follow a similar pattern. Initial DAE statements during the flood period referred to approximately 27,000–28,000 ha at risk. Subsequent official estimates increased to 46,730 ha, and later to around 49,000 ha, with an estimated 214,000 MT rice loss. Meanwhile, local organisations and field-level reports suggested significantly larger damage in deeply flooded lower-basin areas.

Table 8.4: Summary of the Loss of Boro Rice Estimate (Detailed Calculation in Annex 1)

Section	Main Finding	Key Figure
Unharvested area	A large area remained unharvested before the flood peak.	2.18 lakh ha
Harvest disparity	Lower basins lagged far behind upper-tier harvesting.	Lower basin: 15% harvested
Rescue limitation	Rescue harvesting capacity was inadequate.	31,586 ha rescued
Lower basin loss	Most damage occurred in lower basins.	95,606 ha damaged
Middle-tier loss	Moderate flood damage in the middle tier.	25,571 ha damaged
Upper-tier loss	Upper-tier losses remained limited.	839 ha damaged
Total crop loss	Significant overall production loss.	5.22 lakh MT paddy
Rice equivalent	Rice loss exceeded the official estimate.	3.39 lakh MT rice
National impact	National impact limited, local impact severe.	Up to 1.5% of Boro target
Economic damage	Farmers faced major financial losses.	BDT 1,201–1,880 crore

Source: Author's independent calculation using: BBS Summary Crop Statistics FY2022–FY2025 (yield benchmarks); BWDB FFWC bulletins (water level data); DAE Haor classification; Prothom Alo May 20, 2026 (DAE revised official); Akhter et al. 2023 (production cost); Ministry of Food FY2026 Procurement Policy (Tk 36/kg).

The revised estimate developed in this report differs from the official figure mainly because it explicitly incorporates: (a) Tier-specific harvest completion rates rather than district averages; (b) Lower-basin harvesting constraints due to machine inaccessibility; (c) Physical harvest-capacity limitations during the five-day emergency window; (d) Differentiated flood-loss rates across upper, middle, and lower Haor tiers; and (e) Residual standing crop exposure after accounting for feasible rescue harvesting. Under these assumptions, lower-basin areas are estimated to have had only around 15 per cent of the harvest completed by 27 April, implying that approximately 85 per cent of the lower-basin crop remained standing when flooding intensified.[14] The revised methodology therefore produces a higher estimate of approximately 122,016 ha damaged and around 339,449 MT rice loss under the central scenario.[15]

8.3 Farmers' Losses

The aggregate production loss of approximately 2.14–2.31 lakh MT rice is distributed across 2,36,811 affected households, an average of 0.90 MT per affected household. However, average figures are often disguised by skewness. DAE's own description of affected farmers as 'small, marginal, and sharecropper farmers' indicates that the median affected household is in the lowest asset quartile, with no collateral, no crop insurance, and no alternative income source for the year.

[14] Since harvesting resources was prioritized toward accessible upper and middle-tier lands, only a small portion of lower-basin standing crop could realistically be rescued before inundation.
[15] Importantly, this estimate remains substantially below the scale of the 2017 disaster, when national Boro output declined by nearly 0.9 MMT.

A price scissors effect compounds the economics of the disaster. Farmers selling wet, flood-harvested paddy received BDt 500–600 per maund, against a production cost of approximately BDT 1,200 per maund and a government procurement price of BDT 36/kg (BDT 1,080/maund). Simultaneously, the same farmers, now rice-deficient households for the remainder of the year, will pay BDT 54–60/kg for retail coarse rice. The government's emergency compensation of BDT 7,500 per farmer, totalling BDT 1.77 billion (Prothom Alo, May 2026), covers approximately 14–18 per cent of the average per-household production loss and less than 3 per cent of a typical household's annual income replacement needs (see

Table ***8.5***).

Table 8.5: Farmer's Losses Overview

Farmer's Losses	**Value**
Costs:	
Production cost (per ha)	BDT 76,863/ha + emergency labour BDT 1,200–2,000/day
Usual household debt (Haor farmer)	BDT 50,000–2,00,000
Farmgate price (wet paddy)	BDT 500-600 per maund
Govt procurement price (paddy)	BDT 36/kg (BDT 1,080/maund) but wet paddy is ineligible
Retails coarse rice price for farmers' own consumption	BDT 54-60/kg
Benefits:	
Agriculture subsidy allocation in FY2026	BDT 16,240 crore provided out of BDT 17,241 crore total allocation (94% up to Jul–Mar'26)
Total compensation budget	BDT 1.77 billion (for all 2,36,811 affected farmers)
Deficit	**Compensation covers only about 14-18% of average per household production loss**

Source: Akhter et al. 2023 (Net return: covers 0.17 ha equivalent); Ministry of Food FY2026 Procurement Policy (BDT 36/kg Boro paddy); Prothom Alo May 20, 2026 (compensation); Daily Star May 5 & 9, 2026 (distress prices, farmer case studies, emergency labour costs); Ministry of Finance 2025 (subsidy data).

8.4 Post-Flood Adjustment in Domestic Supply of Rice

8.4.1 Food Grain Production and FY2026 Outlook

Table 8.6 shows consolidated food supply account, incorporating production, imports, public procurement, distribution, and stocks. The table indicates that despite consecutive production shortfalls, import-supported supply has maintained positive stock positions, with the February 2026 closing stock of 20.7 lakh MT being the highest since FY2022.

Food Stock: FY2026 (Jul–Feb) imports of 63.1 lakh MT are 45 per cent above the same period of FY2025 (43.5 lakh MT), driven by private wheat imports (+44 per cent YoY), perhaps due to the US trade agreement for mandatory US wheat import conditions and increasing rice imports after near-zero in FY2024. The FY2026 closing stock of 20.7 lakh MT, the highest in recent years, provides a buffer heading into the post-flood period, reducing the immediate risk of a severe shortage. Secondly, despite this stock position, domestic prices have not fallen.

Table 8.6: Consolidated Food Grain Supply Account (lakh MT)

Item	**FY2022**	**FY2023**	**FY2024**	**FY2025**	**FY2025 Jul–Feb**	**FY2026 Jul–Feb**
Gross Production	392.3	402.7	418.0	429.6[a]	—	—
Net Production (−10%)	353.1	362.4	376.8	375.0	—	—
Total Imports (Rice + Wheat)	50.0	49.3	66.3	**76.7**	43.5	**63.1**
of which: Rice	*6.8*	*10.6*	*0.2*	***13.0***	*5.5*	*8.5*

Item	FY2022	FY2023	FY2024	FY2025	FY2025 Jul–Feb	FY2026 Jul–Feb
of which: Wheat	*43.2*	*38.7*	*66.1*	*63.7*	*38.0*	*54.6*
Public Procurement (Rice)	20.2	19.4	21.6	23.2	12.3	16.5
Public Distribution	30.8	30.1	32.6	32.6	18.2	20.8
Public Closing Stock	16.1	18.5	14.7	17.5	15.1	**20.7**

Source: Bangladesh Bank Major Economic Indicators (food grain section); FPMU Monthly Food Situation Reports. BBS provisional; final FY2025 figure from BBS Summary Crop Statistics 2025. Net production = gross minus 10 per cent for seed, feed, and post-harvest loss (BBS standard deduction).

Import Pipeline and LC Status: Bangladesh's rice import pattern is structurally reactive, **with zero imports in apparent surplus years (FY2020, FY2024), and** record imports following major crop damage. This was observed in FY2018 – immediately after the 2017 flood.[16] The FY2026 total import plan of 92.5 lakh MT represents a 20.6 **per cent** increase over FY2025 actual, driven by the food ministry's direction that FY2025's chronic shortfalls require a larger import buffer. Table 8.7.8 presents the category-wise import.

Table 8.7: Category-wise Import of Food and Agricultural Commodities (BDT billion)

Category	FY2024	FY2025	FY2026 (Jul–Mar)
Rice	*2.1*	***70.1***	***54.7***
Wheat	*195.6*	*175.4*	*176.0*
Foodgrain Total	**197.6**	**245.5**	**230.7**
Edible Oil	241.4	306.1	230.2
Fertilisers	183.9	221.4	**277.4**
Pulses	77.8	103.7	64.7
Sugar	125.8	152.2	83.9

Source: Bangladesh Bank Major Economic Indicators.

The Letter of Credit (LC) data provides forward-looking import visibility. Table 8.8 presents the weekly LC progression. As of April 19, 2026, before the peak flood, cumulative rice LC openings for FY2026 totalled 9.0 lakh MT, with 9.3 lakh MT already settled, indicating that more rice had arrived than was formally contracted in new FY2026 LCs (reflecting the settlement of prior-year agreements). Besides, there is a comfortable stock position of 20.7 lakh MT reported at the end of February in Table 8.6. With the food ministry projecting >14 lakh MT total FY2026 rice imports, an additional 5+ lakh MT in new LCs must be opened in the post-flood quarter, the government's single most critical near-term supply management action.

Table 8.8: Foodgrain LC Opening and Settlement Status, FY2026 (cumulative lakh MT)

Date	Rice Opened	Rice Settled	Rice Unsettled	Wheat Opened	Wheat Settled	Wheat Unsettled	Interpretation
Jan 4, 2026	6.8	4.4	+2.4	27.3	19.2	+8.1	Rice pipeline building
Feb 1, 2026	6.8	5.4	+1.4	35.3	24.6	+10.7	Rice inflow accelerating
Mar 25, 2026	7.8	8.7	−0.9	41.9	32.4	+9.5	Settlement > opening: prior-year LCs arriving
Apr 19, 2026 (pre-flood)	9.0	9.3	−0.3	46.8	39.8	+7.0	Stock well-supplied; stock = 20.7 LT
FY2026 Target (Food Ministry)	**14.0**	—	**5.0 pending**	**80.0**	—	33.0 pending	Large wheat pipeline still expected.

[16] Import of foodgrain in FY2018 was 63.16 lakh mt.

Source: FPMU Monthly Report on Food Situation (LC data as of April 19, 2026). Negative = settlements exceed FY2026 LC openings due to prior-year contract fulfilment.

The more than 5 lakh MT gap between current rice LC openings (9.0 LT) and projected need (14 LT) must be addressed through immediate LC authorisation at preferential tariff rates. Each month's delay costs 2–3 per cent more in additional consumer prices due to seasonal supply tightening. The 2 per cent advance income tax on private rice imports should be suspended for the remainder of FY2026.

Import of Fertiliser: Fertiliser import costs in Jul–Mar FY2026 (BDT 277.4 billion / USD 2,274 million) have already exceeded the full-year FY2025 total (BDT 221.4 billion), driven by the global urea price tripling from USD 415/MT to USD 857/MT between January and March 2026 (World Bank Pink Sheet). This sharply increases production costs for the next Boro season, with direct implications for the upcoming national budget, including a higher subsidy in the agriculture sector for fertiliser to retain FY2027 food security. The rice import value is expected to exceed in the Apr-Jun FY2026, as the LC settlement indicates a higher import amount for Jul–Mar FY2026.

8.2.2 Price Dynamics: Global Trends, Domestic Market, and the Decoupling Problem

The market management puzzle in FY2026 is the persistent decoupling of domestic rice prices from global benchmarks. Global prices have been falling since mid-2023, yet Bangladesh retail prices have continued to rise. The April 2026 Haor flood news, before any harvest data were finalised, caused an immediate BDT 2–5/kg increase in rice prices in Dhaka wholesale markets, confirming that market participants price on information and expectations rather than on physical supply changes. This section documents both the global trend and the domestic price behaviour using FPMU weekly data and World Bank Pink Sheet commodity prices, then estimates the implied markup.

Global Rice Price: Table 8.9 shows that global rice prices (India 5 per cent parboiled, Thailand 5 per cent) declined 3–12 per cent in the January–April 2026 period, continuing the multi-month easing that brought Thai rice below USD 400/MT for the first time since mid-2022. Urea prices surged 105 per cent in the same period, a Middle East conflict shock with direct implications for Bangladesh's FY2027 Boro production cost, agricultural subsidy and fiscal pressure on the national budget. This deviation, with cheaper rice globally and more expensive fertiliser, means next year's production costs will be higher, even if rice import costs remain moderate.

Table 8.9: Global Foodgrain Prices, Weekly Data (USD per MT), January–April 2026

Date	India 5% Pb. Rice	Thai 5% Rice	Vietnam 5% Rice	Wheat Russia	Wheat USA	Urea (USD/MT)	DAP (USD/MT)
4-Jan-26	358	443	380	228	227	415	619
25-Jan-26	356	421	375	229	224	430	620
15-Feb-26	353	402	370	232	242	472	627
1-Mar-26	353	402	365	235	245	**725**	658
25-Mar-26	353	402	362	240	245	**857**	726
5-Apr-26	346	379	353	243	256	856	725
19-Apr-26	348	388	353	240	257	850	725
Change Jan–Apr 2026	−3%	−12%	−7%	5%	13%	**105%**	17%

Source: World Bank Commodity Markets Outlook (Pink Sheet) April 2026; FPMU Monthly Report on Food Situation (rice price data from FPMU weekly bulletins).

Urea prices tripled from January (USD 415/MT) to March 2026 (USD 857/MT), a shock driven by the Middle East conflict and its impact on natural gas supply chains. This led to a disruption in fertiliser supply in Bangladesh.

Table 8.9 and Table 8.10 shows Indian parboiled rice, Bangladesh's primary import origin, traded at USD 346–358/MT throughout the January–April 2026 period, equivalent to approximately. Bangladesh's wholesale coarse rice traded at BDT 43–59/kg in the same period, a premium of 43–97 per cent over the landed import price, sustained even as the government maintained active import channels.

Local Retail Price: The retail-to-landed premium for coarse rice (66–99 per cent) has remained constant despite declining global prices, an active import pipeline of 9.3 lakh MT settled by April 2026, and a healthy public stock (20.7 lakh MT). Input costs, logistics, milling costs or supply scarcity alone cannot explain this spread. It indicates rent capture in the distribution chain, enabled by restricted import competition and weak market monitoring. It shows market power concentration in the post-farmgate distribution chain, a finding similar to CPD market survey showing rice margins of BDT 4–10/kg from retailer to producer (CPD 2026, Section III.6). However, the margin at the wholesale and trading level, not captured in CPD's retailer survey, is where the underlying rent resides.

Table 8.10: Domestic Dhaka Market Rice Prices, Weekly Data January–April 2026 (BDT per kg) and Import Price Comparison

Date	**4-Jan-26**	**1-Feb-26**	**25-Mar-26**	**Apr 19, 2026 (pre-flood)**	**May 20, 2026 (post-flood)**
Wholesale Coarse (Guti Swarna)	45–48	45–47	45–49	43–46	**↑ 48–52**
Wholesale Medium (BRRI 28/29)	48–55	49–56	49–57	48–55	↑ 52–60
Wholesale Fine (Zirasail)	63–84	65–85	65–85	62–84	↑ 67–88
Retail Coarse	50–55	50–55	50–55	48–55	↑ 52–58
Retail Medium	55–60	55–62	55–62	54–60	↑ 58–65
Retail Fine	65–90	70–95	70–95	65–95	↑ 72–98
India 5% Landed Cost (Tk/kg)[e]	29–30	29–30	29–30	28–29	29–30
Retail-Landed Premium (Coarse)	**+70–84%**	+68–84%	+68–84%	+66–90%	**+80–99%**
Retail Flour	45–48	45–48	42–48	40–45	stable

Source: FPMU Weekly Food Situation Report (Dhaka market prices); Prothom Alo May 20, 2026 (post-flood price rise: +BDT 2–5/kg within 3–4 days of peak flood). [e] India 5% parboiled rice USD 346–358 (Jan–Apr 2026) at BDT 122.7/USD = BDT 42,470–43,970/MT = BDT 42.5–44.0/kg; minus import duty 25 per cent refund on essential goods to BDT 29–30/kg landed + cleared cost. Exact clearance cost varies by port; the authors' estimate is based on NBR import duty data.

8.5 Policy Recommendations

Bangladesh's food security in FY2026 is not in an acute crisis; the import pipeline is active, stocks are healthy, and Haor production losses are contained at the national level. But the situation is fragile in ways that carry forward. The production-data credibility deficit means the government cannot accurately regulate when imports are needed. The market structure concentrates price-setting power in a few large traders who can amplify supply signals far beyond their physical significance. And the Haor flood, which has struck with increasing frequency and severity, destroys not just crops but farm households' entire annual income in a single event, in a system where flood protection infrastructure is known to be inadequate and consistently underprioritised.

The 214,000 MT of rice lost in the 2026 Haor flood is recoverable at the national level through imports and northern production. The 236,811 farm households that lost their year's income are not so easily recovered. Addressing their situation requires not emergency compensation of BDT 7,500 but a proper reorientation of agricultural policy toward Haor resilience, through credible embankment maintenance, mandatory crop insurance, early warning systems, and market reforms that prevent a handful of large traders from extracting rent from a natural disaster.

a) ***Proper Loss Estimates of Haor Flood:*** The government should mandate a hybrid damage assessment protocol merging DAE field surveys with Sentinel-2 SAR satellite verification within 72 hours of peak flood, cross-referenced against the MoDMR D-Form daily disaster reports and BWDB water-level data by upazila. Community-verified counts through local farmer organisations should be formally incorporated to close the gap between official figures and field reality.
b) ***Increase Financial Support to Cover the Losses:*** The announced BDT 7,500 per affected farmer, totalling BDT 177 crore for 2,36,811 households, covers only 17 per cent of average per-hectare production cost (BDT 76,863 per hectare, Akhter et al. 2023) and under 3 percent of typical annual household income replacement need. Against the calculated sunk production cost of BDT 9,377 crore across the 1,22,016 hectares damaged, current compensation is structurally inadequate. Compensation should be raised to a minimum of BDT 30,000 per household, adjusted to verified hectare loss up to a two-hectare ceiling, with priority allocation to sharecroppers and landless farmers who bear full production costs without land collateral. Total additional fiscal requirement: approximately BDT 530 crore above the currently committed BDT 177 crore.
c) ***Increased Grants and Low-Cost Credit for Next Rice Cultivation:*** The government should provide a direct input grant of BDT 15,000 per hectare (seed, fertiliser, irrigation) for the verified damaged area, delivered through Bangladesh Bank's agricultural credit window directly to farmers' MFS accounts before the next planting season. Simultaneously, a low-interest agricultural loan facility at a maximum 4 per cent per annum should be made available through Bangladesh Krishi Bank for the FY2027 Boro season, with a 12-month moratorium on existing agricultural loans for all DAE-verified affected farmers.
d) Increased Import of Rice After Assessing the Deficit: The government should immediately open LCs for a minimum additional 5 lakh MT of rice, prioritising coarse and medium grades through G2G agreements with India, Vietnam, and Thailand to reduce procurement timelines. The 2 per cent advance income tax on private rice imports should be suspended for the remainder of FY2026.
e) ***Necessary Budgetary and Financial Allocation:*** FY2026 agriculture subsidy disbursement of BDT 16,240 crore in July–March has already consumed 94 per cent of the full-year budget, leaving negligible buffer for the post-flood quarter. The additional fiscal requirement across all components such as enhanced farmer compensation, input grants for next season, emergency machinery logistics and pre-positioning, and rice market stabilisation through TCB open market sales require increased allocation. A supplementary budget allocation of these components should be processed before the end of FY2026. For FY2027, a dedicated Haor Agricultural Resilience Fund should be created to finance weather-index crop insurance, embankment pre-monsoon repair, and harvest machinery pre-positioning as recurring annual expenditure rather than post-disaster emergency releases.
f) ***Increased Import of Fertiliser and Necessary Allocation:*** The government should enter long-term supply agreements for urea, DAP, and MOP before September 2026, and restore full gas supply to Shahjalal Fertiliser Company to increase domestic urea production. FY27 fertiliser subsidy allocation should be increased by at least BDT 3,000–4,000 crore above FY26 levels to absorb the higher global prices without passing cost onto farmers in the recovery season.
g) ***Efficient Management of Machine-Based Harvesting in Haor Region:*** The government should establish a mandatory pre-monsoon harvest mobilisation protocol under DAE's Field Services Wing, requiring all combine harvesters, reapers, and dryers allocated to haor

districts to be physically in position. A BWDB flood forecast-linked automatic dispatch trigger should be incorporated so that when any haor river crosses 50 per cent of pre-monsoon danger level, machine deployment orders are issued without waiting for administrative approval. DAE should maintain a real-time GPS-tracked dashboard of machine locations by upazila throughout the April–May harvest period.

h) ***Supply of More Harvesters in the Haor Region:*** The government should introduce a subsidised leasing scheme enabling haor farmers to access harvesters at a lower price and establish upazila-level Haor Harvesting Pools under DAE coordination where machines are shared across adjacent upazilas during the peak emergency window.

i) ***Market Monitoring to Stabilise Rice Price:*** The government should mandate weekly price and stock reporting by all registered rice millers and traders handling more than 500 MT per month, with data published on a public FPMU dashboard. The DNCRP should be empowered to initiate an automatic investigation when wholesale rice prices rise more than 5 per cent within any 14-day window. TCB open market rice sales at cost-plus pricing should be activated immediately in all seven haor districts and major urban centres. The import permission system which currently creates an oligopolistic rent window between permission grant and import arrival should be replaced by an automatic tariff adjustment mechanism linked to FPMU's monthly domestic price index, removing the politically managed import gate that amplifies every supply signal into a consumer welfare loss.

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Annex

Annex 1: FY2026 Haor Flood Production Loss Calculation by Historical Trend

Parameters	Value
A. Baseline Data	
Total Haor Boro cultivation (7 districts) (DAE FY26)	4,55,153 ha
Actual FY2025 Boro yield (national) (BBS: 21.30 MMT ÷ 48.96 lakh ha)	4.35 MT paddy/ha
Actual FY2024 Boro yield (national) (BBS: 21.07 MMT ÷ 50.43 lakh ha)	4.18 MT paddy/ha
3-year average Boro yield benchmark (FY22–24) (BBS FY22: 4.22; FY23: 4.30; FY24: 4.18)	4.28 MT paddy/ha
DAE FY26 Haor yield target	4.47 MT paddy/ha
Milling ratio	65%
Tier-specific harvest completion on April 27	
Upper tier (30% of haor = 1,36,546 ha) (Upper fields harvested earliest; machine-accessible; Sylhet/Brahmanbaria district averages 58–66% confirm faster completion in upper-basin-dominant districts)	85% harvested; **20,482 ha** remaining
Middle tier (40% of haor = 1,82,061 ha) (Consistent with Sunamganj 44.5%, Kishoreganj 53%, Habiganj 55% district averages)	55% harvested; **81,927 ha** remaining
Lower basin (30% of haor = 1,36,546 ha) (Last to be harvested; waterlogged; machine-inaccessible; waist-deep water in Khaliajuri, Shalla, Austagram from April 28, confirming near-zero harvest progress)	**15% harvested; 1,16,064 ha remaining**
Total unharvested haor area on April 27 (20,482 + 81,927 + 1,16,064 ha)	**2,18,473 ha**
Maximum rescue harvest capacity (Table 4) (1,104 combines × 3 ha/day × 5 days = 16,560; 350 reapers × 1.2 × 5 = 2,100; 1,72,350 workers × 0.015 × 5 = 12,926)	**31,586 ha total** (5 days, Apr 25–30)
Rescue harvest: tier allocation (Rational allocation: operators prioritise accessible upper/middle tier first. Lower basin receives residual after 28,000 ha allocated to upper+middle. Confirmed by field reports of combines unable to enter lower basin water-depth >30 cm)	Upper: 10,000 ha; Middle: 18,000 ha; Lower: **3,586 ha**
Lower basin area rescued	3,586 ha = **3.1% of 1,16,064 ha at risk**
The lower basin area is still standing at the flood peak	1,16,064 − 3,586 = **1,12,478 ha**
B. Lower Basin Loss	
Unrescued lower basin area	**1,12,478 ha**
Applied flood loss rate (70–100%; central = 85%); (BWDB flood risk classification for the lower basin: 70–100% loss rate. 15% survives as either a partial harvest or a delayed recovery)	1,12,478 × 0.85 = **95,606 ha**
Paddy loss at 3-yr average yield (4.28 MT/ha)	95,606 × 4.28 = **4,09,194 MT paddy**
Rice equivalent (× 0.65)	**2,65,976 MT rice**
C. Middle-Tier Loss	
Middle tier unharvested before rescue	81,927 ha
Rescue harvest allocated to the middle tier	−18,000 ha
The middle tier is still standing at the flood peak	81,927 − 18,000 = **63,927 ha**
Applied flood loss rate (30–50%; central = 40%); BWDB rivers 100–110 cm above danger = moderate-high flood; 40% middle-tier loss per 2017 comparable	63,927 × 0.40 = **25,571 ha**
Paddy loss at 3-yr average yield (4.28 MT/ha)	25,571 × 4.28 = **1,09,444 MT paddy**
Rice equivalent (× 0.65)	**71,139 MT rice**
D. Upper Tier Loss	
Upper tier unharvested before rescue	20,482 ha
Rescue harvest allocated to upper tier	−10,000 ha

Parameters	Value
Upper tier still standing at flood peak	20,482 – 10,000 = **10,482 ha**
Applied flood loss rate (5–15%; central = 8%)	10,482 × 0.08 = **839 ha**
Paddy loss	839 × 4.28 = **3,591 MT paddy**
Rice equivalent (× 0.65)	**2,334 MT rice**
E. Consolidated Estimate	
Total ha damaged (B+C+D)	95,606 + 25,571 + 839 = **1,22,016 ha**
Total paddy loss (central estimate)	4,09,194 + 1,09,444 + 3,591 = **5,22,229 MT paddy**
Total rice loss (central estimate, × 0.65)	**3,39,449 MT rice**
DAE revised official figure	2,14,000 MT rice
Activist upper bound (1,00,000 ha × 4.47 × 0.65)	2,91,000 MT rice
Range (DAE official as lower bound; this estimate as upper bound; activist figure now falls within range)	**2,14,000 – 3,39,449 MT rice**
As % of FY26 Boro target (22.70 MMT)	**0.94% – 1.50%**
As % of haor region output (3.80 MMT) Macro-level contained; micro-level severe	**5.6% – 8.9%**
F. Economic Loss	
Procurement price, Ministry of Food, FY26 Procurement Policy	Tk 36/kg paddy
Farmgate loss at procurement price; Upper-bound economic loss if all paddy valued at procurement price	5,22,229 MT × Tk 36,000/MT = **Tk 1,880 crore**
Farmgate loss at distress price; Actual market transaction at Tk 500–600/maund for wet paddy (Daily Star May 5, 2026)	5,22,229 MT × Tk 23,000/MT = **Tk 1,201 crore**
Production cost of damaged area (1,22,016 ha); Sunk cost farmers cannot recover the welfare loss that is independent of what price they received for salvaged paddy	1,22,016 × Tk 76,863 = **Tk 9,377 crore**

Source: Author's independent calculation using: BBS Summary Crop Statistics FY2022–FY2025 (yield benchmarks); BWDB FFWC bulletins (water level data); DAE Haor classification; Prothom Alo May 20, 2026 (DAE revised official); Akhter et al. 2023 (production cost); Ministry of Food FY2026 Procurement Policy (Tk 36/kg).

Annex 2: Fertiliser Sector in Bangladesh: Production, Demand, Import, Global Prices, and FY27 Subsidy Requirements

Bangladesh's fertiliser sector entered FY2026 under severe pressure from a combination of domestic gas shortages, global supply disruptions, payment backlogs, and rising international prices. The closure of the Strait of Hormuz following the US-Israel-Iran conflict exposed Bangladesh's heavy dependence on imported fertilisers, particularly urea sourced through government-to-government (G2G) contracts with Saudi Arabia, Qatar, and the UAE. Since Hormuz handles a significant share of global fertiliser shipments, supply disruptions and price spikes have intensified concerns over food security and fiscal sustainability.

Bangladesh annually requires around 68–69 lakh metric tonnes of fertiliser, including 26 lakh tonnes of urea. Although the country has six urea plants with an installed capacity of about 26 lakh tonnes, gas shortages have significantly reduced production. Only three factories were operational during much of FY2026, resulting in expected production of just 6–6.5 lakh tonnes, far below national demand. Consequently, Bangladesh remains highly dependent on imports, particularly for DAP, TSP, and MOP, which are almost entirely sourced from abroad.

Global fertiliser prices surged sharply after the Hormuz disruption. Middle Eastern urea prices rose from around USD 400 per tonne in January 2026 to nearly USD 800 per tonne by April. At these prices, the landed cost of urea exceeds BDT 100 per kg, while farmers continue to purchase it at the government-fixed price of BDT 27 per kg, creating a subsidy gap of approximately BDT 70–77 per kg.

As a result, fertiliser subsidy requirements have increased dramatically. While FY2026 allocated BDT 17,241 crore for fertiliser subsidies, actual requirements are projected at BDT 35,000–40,000 crore. For FY2027, a minimum subsidy allocation of BDT 35,000–40,000 crore is recommended, with a contingency buffer for further price shocks. Restoring domestic production through improved gas allocation and securing lower-cost Russian imports could reduce subsidy pressures, but Bangladesh's fertiliser sector will remain highly vulnerable unless structural issues in supply diversification, payment systems, and domestic production capacity are addressed.

SECTION IX. BANGLADESH'S MEASLES OUTBREAK OF 2026: A CASE STUDY IN HEALTH SECTOR GOVERNANCE FAILURE

Key observations

- The 2026 measles outbreak revealed major governance failures in Bangladesh's immunisation system.
- Vaccine stockouts, declining coverage, and the absence of nationwide MR campaigns created a large immunity gap among children.
- Weak governance continues to undermine the effectiveness of Bangladesh's limited public health expenditure and outbreak preparedness.

Key recommendations

- Reform vaccine procurement and strengthen accountability mechanisms to prevent future stockouts and programme disruptions.
- Implement nationwide catch-up vaccination and regular supplementary immunisation campaigns to close immunity gaps.
- Increase and protect immunisation financing while strengthening workforce capacity, supply chains, and outbreak preparedness systems.

9.1 Introduction

Bangladesh has made notable progress in improving key health outcomes over the past decades. Major advances have been observed in reducing neonatal mortality, infant mortality, under-five mortality, maternal mortality, malnutrition, stunting, and underweight prevalence, alongside a decline in fertility rates. However, Bangladesh is now facing a new set of challenges which are undermining the quality of healthcare. Governance failure remains a persistent challenge in the health sector.

Progress in key health indicators

One of the most notable achievements is the substantial improvement in life expectancy in Bangladesh. According to the World Health Organization (WHO), life expectancy at birth in Bangladesh now exceeds 73 years, significantly higher than in many countries with similar income levels. This reflects improvements in child survival, maternal health, immunisation coverage, and the control of infectious diseases (WHO, 2026).

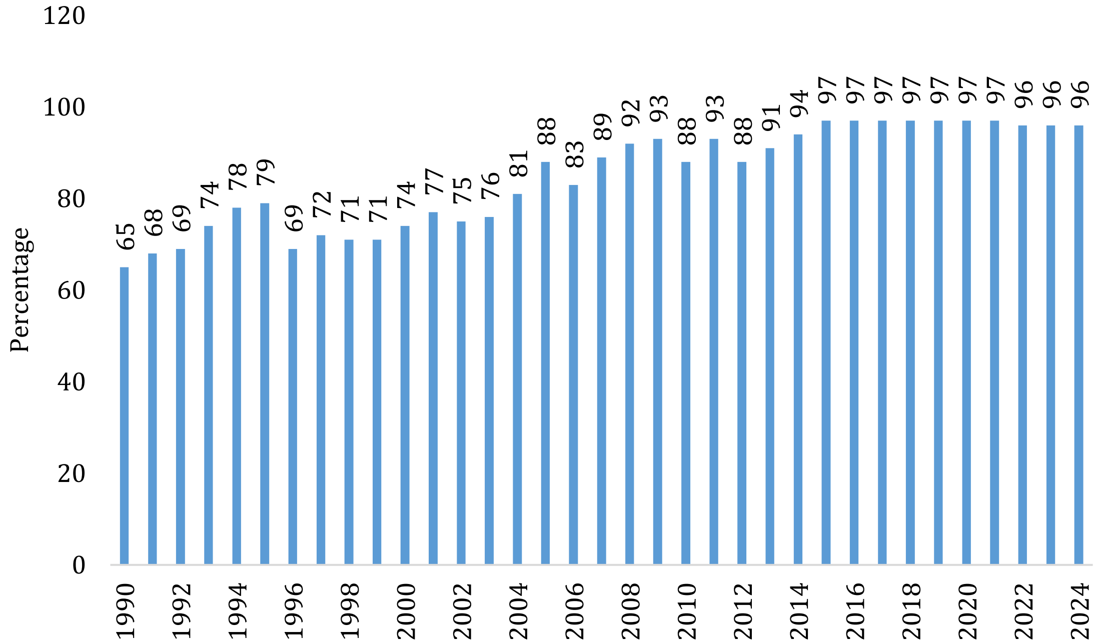
Child mortality has declined dramatically over the past two decades. According to the United Nations International Children's Emergency Fund (UNICEF), the under-five mortality rate in Bangladesh stood at approximately 30.5 deaths per 1,000 live births in 2024, compared with more than 140 deaths per 1,000 live births in the early 1990s. This reduction reflects the success of interventions in immunisation, nutrition, oral rehydration therapy, and maternal and newborn care (UNICEF, 2026).

The maternal mortality ratio in Bangladesh declined from 926 deaths per 100,000 live births in 2000 to approximately 115 deaths per 100,000 live births in 2023, according to the World Bank Gender Data Portal. Maternal mortality in Bangladesh is now close to the South Asian regional average. The maternal mortality ratio refers to the number of women who die from pregnancy-related causes while pregnant or within 42 days of pregnancy termination, per 100,000 live births. (World Bank, 2026).

Bangladesh has maintained high immunisation coverage. The Expanded Programme on Immunisation (EPI) remains one of the country's major public health successes. This has helped control vaccine-preventable diseases and contributed to reductions in child mortality.

Over the longer term, measles immunisation coverage among children aged 12–23 months has increased substantially, rising from 65 per cent in 1990 to 74 per cent in 2000, and reaching around 97 per cent between 2015 and 2021 (Figure 9.1). Although coverage declined slightly to 96 per cent during 2022–2024, the overall trend reflects the sustained high performance of the EPI, alongside signs of a recent plateau in further gains (World Bank, 2026a). However, this indicator captures measles immunisation coverage among children aged 12–23 months and should not be interpreted as a complete measure of two-dose MR protection or population-level immunity.

Figure 9.1: Immunisation, Measles (percentage of children aged 12 -23 months)



Source: CPD's illustration based on data from the World Bank (World Bank, 2026a).

Emerging health challenges

Despite these achievements, Bangladesh faces several structural challenges that threaten future health gains.

*Rising burden of non-communicable diseases***:** Although communicable diseases remain important, non-communicable diseases (NCDs), including cardiovascular diseases, diabetes, cancer, chronic respiratory diseases, and hypertension, now account for the majority of deaths in Bangladesh. Increasing urbanisation, unhealthy diets, tobacco use, air pollution, and sedentary lifestyles are contributing to this growing burden. WHO estimates that NCDs account for nearly 70 per cent of total deaths in Bangladesh (WHO, 2026).

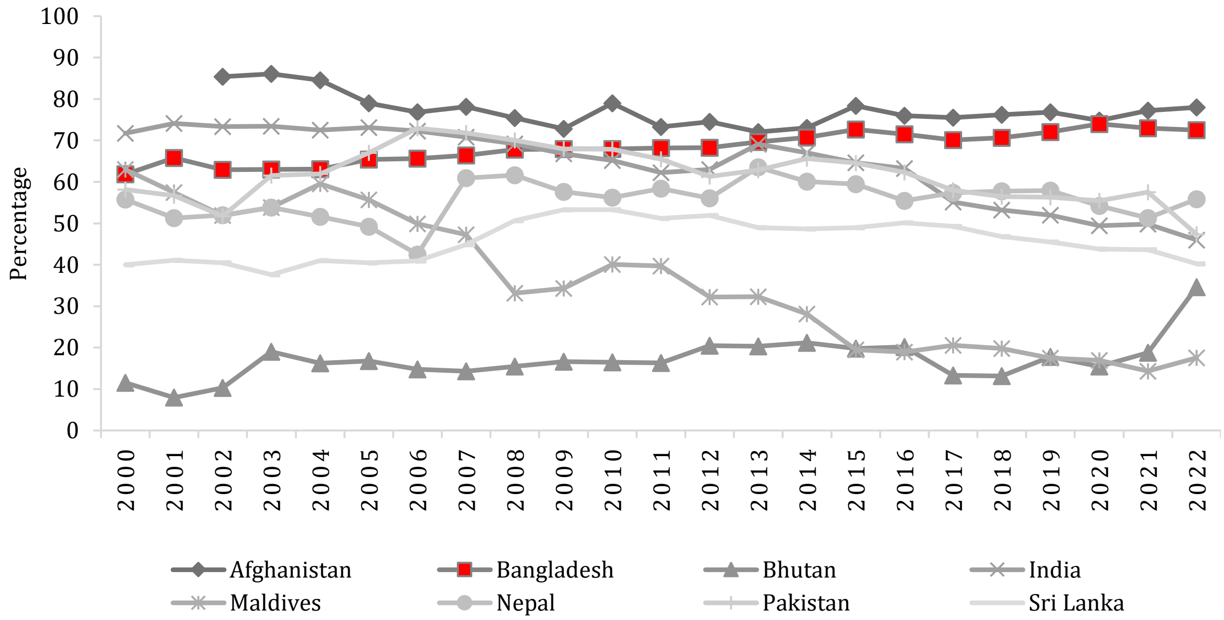
Malnutrition remains a concern: Although Bangladesh has made progress in reducing child stunting and undernutrition, malnutrition continues to affect millions of children and women. The Bangladesh Multiple Indicator Cluster Survey (MICS) 2025 highlights ongoing concerns about child nutrition, infant and young child feeding practices, and maternal nutrition. Micronutrient deficiencies remain widespread, particularly among women and children in low-income households (UNICEF, 2025).

High out-of-pocket health expenditure: Bangladesh's health system remains heavily dependent on out-of-pocket spending, and patients continue to bear a large share of healthcare costs. This creates financial hardship for many households and often discourages people from seeking timely treatment. Therefore, reducing financial barriers to healthcare remains critical to achieving Universal Health Coverage (UHC) by 2030.

Bangladesh's public health spending remains low compared to regional peers and other least developed countries (LDCs). Budget allocation for health has been less than 1 per cent of GDP for the past 20 years, indicating that healthcare has been one of the least prioritised sectors for the government (MOF 2025). As a result, households continue to bear a disproportionately high share of healthcare costs through out-of-pocket payments.

Out-of-pocket expenditure has risen steadily over time, increasing from 62 per cent of total health expenditure in 2000 to 70 per cent in 2013, and further to 78 per cent in 2022. Across South Asia, Bangladesh consistently records among the highest levels of out-of-pocket spending, indicating a persistent reliance on private household financing for healthcare (Figure 9.2) (World Bank, 2026a).

Figure 9.2: Out-of-pocket Expenditure (as a percentage of current health expenditure)



Source: CPD's illustration based on data from the World Bank (World Bank 2025).

Shortage of health workforce: Bangladesh faces shortages of doctors, nurses, midwives, and other specialised healthcare professionals. Rural areas are particularly underserved. Many health facilities face staffing shortages, inadequate equipment, and uneven quality of care. Strengthening the human resources for health remains a major policy priority.

Urban health and environmental risks: A large share of the urban population lives in informal settlements with inadequate sanitation, poor housing, and limited access to quality healthcare. Environmental health risks, including air pollution, water contamination, and climate-related disasters, are increasingly affecting health outcomes. WHO's Environmental Health Country Profile for Bangladesh highlights growing concerns about pollution-related illnesses and climate vulnerability (WHO, 2025).

Insufficient and unsustainable public financing: Adequate and sustainable domestic financing is a critical prerequisite for achieving UHC and protecting populations from catastrophic health expenditures. However, a major constraint facing Bangladesh's health sector is the persistent inadequacy of public financing. Government expenditure on health remains among the lowest in South Asia, both as a share of GDP and of total public expenditure. Heavy reliance on out-of-pocket payments by households is partly due to insufficient public financing, which exposes many families to financial hardship and pushes vulnerable households into poverty.

9.2 Governance Deficits and the Inefficient Use of Health Sector Resources in Bangladesh

The challenges facing Bangladesh's health sector are not solely due to inadequate budgetary allocations. While low public health expenditure remains a major concern, evidence suggests that the effectiveness of existing spending is equally constrained by persistent governance weaknesses. Therefore, increasing allocations alone will not necessarily translate into better health outcomes unless accompanied by stronger accountability, transparency, institutional capacity, and oversight mechanisms. Governance quality has been found to be a key determinant of how effectively health resources are converted into services and health outcomes (Fryatt, Bennett, & Soucat, 2017). Countries with stronger governance systems consistently achieve better health outcomes at similar levels of expenditure, indicating that the productivity of health spending depends heavily on management quality and accountability mechanisms (Grigoli & Kapsoli, 2013). Evidence from other low- and middle-income countries reinforces the importance of governance. A recent study suggests that governance quality is strongly associated with overall health system performance and population health outcomes (Azimi, Rahman, & Nghiem, 2023).

In Bangladesh, governance weaknesses are evident throughout the resource allocation and service delivery chain. Public health facilities often experience shortages of medicines, malfunctioning equipment, vacant positions, and service delivery interruptions despite available budgetary allocations for these purposes. Deficiencies in planning, procurement, supervision, and monitoring reduce the effectiveness of public spending and limit service quality (Sattar, 2021).

Therefore, the policy implication for Bangladesh is clear. Increasing public expenditure on health remains necessary, particularly given the country's low level of public health spending and its ambition to achieve Universal Health Coverage. However, allocating additional resources without addressing governance weaknesses may yield only limited gains. A larger budget administered through weak systems may simply finance a larger volume of inefficiencies. Besides, the health ministry's absorption capacity is also crucial. Without improving the health ministry's capacity, higher allocation will yield little, since the ministry's budget utilisation has often been the lowest among all ministries.

Hence, the health sector needs reform towards strengthening governance. This requires improving procurement systems, strengthening financial management, enforcing accountability for absenteeism and poor performance, increasing transparency in resource allocation, enhancing citizen oversight, digitising monitoring systems, and strengthening regulatory institutions.

9.3 Measles Outbreak of 2026

Bangladesh is experiencing its worst measles outbreak in at least two decades. Between 15 March and 2 June 2026, 72,070 suspected cases were reported, including 9,094 laboratory-confirmed infections and 498 suspected measles-related deaths (DGHS, 2026b). Public health agencies caution that these figures likely underestimate the true scale of the outbreak due to substantial underreporting (ICCG, 2026a). By early June, hospital admissions for measles-related complications had reached 57,902 (DGHS, 2026b).

The burden has fallen overwhelmingly on young children. Children under five account for 79 per cent of reported cases, including children under two years (66 per cent) and infants younger than nine months (33 per cent (World Health Organization, 2026b). Because infants under nine months are not yet eligible for routine measles-rubella (MR) vaccination, rising infections in this age group indicate widespread community transmission rather than isolated outbreaks (UNICEF, 2026a).The outbreak has affected all 64 districts, with the highest caseloads reported in Dhaka, Rajshahi, Chattogram, and Khulna (WHO, 2026a). It has also spread within the Rohingya refugee camps and Bhasan Char, where 595 suspected cases, 60 confirmed infections, and 5 deaths had been reported by May 2026 (ICCG, 2026a). Malnutrition has further increased the risk of severe illness and mortality among infected children (UNICEF, 2026a).

9.3.1 The Immunity Gap: A Deficit Built Over Years

The outbreak was driven by the accumulation of a large population of unvaccinated and under-vaccinated children. Among confirmed cases, 72 per cent were zero-dose children and a further 16 per cent had received only partial vaccination, meaning that nearly nine in ten infected children lacked adequate protection against measles (UNICEF, 2026a). This reflects not widespread vaccine hesitancy but a gradual deterioration in immunisation delivery.

Routine vaccination coverage had been declining for several years before the outbreak. According to the Coverage Evaluation Survey 2023, first-dose MR coverage fell from 88.6 per cent in 2019 to 86 per cent in 2023, while second-dose coverage declined from 89 per cent to 80.7 per cent over the same period (DGHS, 2025). (UNICEF, 2026a) estimates that approximately 10 million children missed the first dose and around 20 million missed the second dose of the MR vaccine.

The deterioration in routine immunisation was compounded by the absence of supplementary vaccination campaigns. No nationwide MR campaign had been conducted since 2020, initially due to COVID-19 disruptions and subsequently due to political instability and implementation delays. A planned follow-up campaign in 2024 was never carried out (WHO, 2026b) (Haider, Hassan, & Khan). As a result, successive cohorts of children accumulated without adequate protection, creating conditions for explosive transmission. Evidence of ongoing transmission was detected in early 2026, indicating that the outbreak reflected long-standing systemic weaknesses rather than an unforeseen epidemiological shock (Ahmed & Rahman, 2026).

9.3.2 Governance Failure and Vaccine Stockouts

The current measles episode raises a fundamental question: how did Bangladesh move from near elimination to a nationwide outbreak in a relatively short period?

The 2026 outbreak was fundamentally a governance failure. WHO identified declining vaccination coverage, nationwide MR vaccine stockouts during 2024–2025, and the absence of supplementary campaigns as the principal factors that increased susceptibility and precipitated the outbreak (WHO, 2026a).

The immediate trigger was a breakdown in vaccine procurement. Following the political transition of August 2024, disruptions to established procurement arrangements delayed vaccine acquisition and contributed to shortages of multiple vaccine antigens, including measles-rubella (Ahmed & Rahman, 2026). At the same time, the standard vaccine buffer stock was no longer maintained, and by March 2026 stocks of six vaccines had reportedly been exhausted (The Daily Star, 2026).

These procurement failures were compounded by broader weaknesses in health service delivery. Repeated industrial action by frontline health assistants disrupted immunisation services during 2025, while chronic staffing shortages and leadership vacancies weakened programme management (Ahmed & Rahman, 2026) (Haider, Hassan, & Khan). Importantly, warning signs were evident well before the crisis emerged. Senior health officials had reportedly raised concerns about impending vaccine shortages during 2025, yet corrective action was delayed and insufficient (Ahmed & Rahman, 2026).

Taken together, these developments reveal a crisis that was both foreseeable and preventable. The outbreak was not caused by a novel pathogen or unexpected external shock, but by failures in procurement, programme continuity, workforce management, and administrative responsiveness.

9.3.3 Emergency Response and Its Limitations

In response, the Government of Bangladesh, with support from UNICEF, WHO, and Gavi, launched an emergency MR vaccination campaign on 5 April 2026. The campaign was progressively expanded nationwide, supported by the procurement of 21.9 million vaccine doses. By May 2026, more than 18.3 million children had been vaccinated (ICCG, 2026b). WHO classified the outbreak as a Grade 2 emergency, reflecting its scale and (Ahmed & Rahman, 2026).

Despite its scope, the response was necessarily reactive. Vaccination efforts were intensified only after transmission had already spread nationwide. UNICEF and Gavi were required to redirect vaccine supplies originally intended for routine immunisation and future campaigns to support emergency containment efforts (UNICEF, 2026a). The need to repurpose these doses illustrates the extent to which preventive systems had already deteriorated.

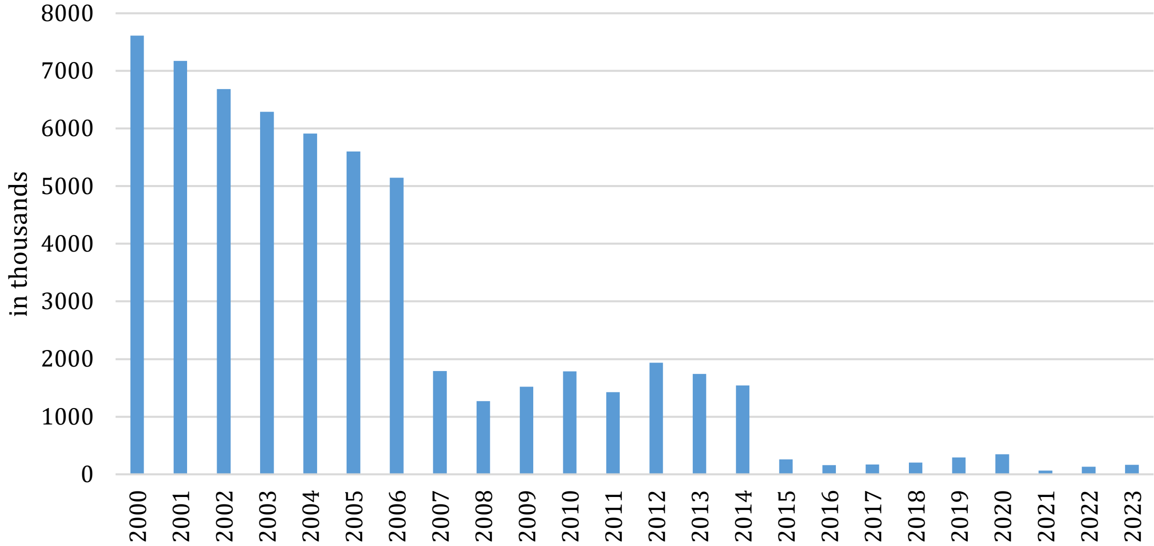
The implications extend beyond measles. Disruptions to vaccine procurement and routine immunisation have affected multiple antigens, raising concerns about the resurgence of other vaccine-preventable diseases, including pertussis and diphtheria (Haider, Hassan, & Khan). The 2026 measles outbreak, therefore, represents more than an isolated public health emergency. It serves as a warning about the fragility of Bangladesh's immunisation architecture and demonstrates how governance failures can transform a preventable disease into a national crisis.

9.3.4 Historical Incidence of Measles

Reported Measles cases and Incidence per 1,000,000 total population

Over the past 40 years, there has been a significant decrease in measles cases and incidence in Bangladesh. The frequency ranged from 100 to 195 per 1,000,000 people in the early 1980s, peaking at 249.7 per 1,000,000 in 1989, with 27,327 recorded cases. Cases increased in 2005 to 25,934, with an incidence of 179.2 per 1,000,000, despite a subsequent drop. Both metrics began to decline in the late 2000s, and by 2025, they had dropped by more than 99 per cent from their peak in 1989 to a historic low of 132 instances and an incidence of 0.8 per 1,000,000 (WHO, 2026b).

Figure 9.3 Measles Mortality Rate Among Infants Under 12 Months



Source: CPD's illustration based on data from Global Burden of Diseases, Injuries, and Risk Factors Study (GBD, 2025).

Measles mortality among infants under 12 months in Bangladesh declined from 13,528 deaths per 100,000 in 1990 to 166 in 2023, a reduction of 98.8 per cent over 33 years (GBD, 2025). The decline was gradual through the 1990s and early 2000s, then accelerated around 2006–2007 following the introduction of a second dose of the measles vaccine, after which rates fell by nearly two-thirds within a single year (GBD, 2025). By 2015–2016, mortality had dropped to the low hundreds, reaching a record low of 67 in 2021 (GBD, 2025), before a modest rise in 2022 and 2023, possibly reflecting disruptions to routine immunisation during the COVID-19 pandemic. These estimates are derived from the Global Burden of Disease (GBD) study, which reports point estimates alongside 95 per cent uncertainty intervals to account for variability in underlying data sources.

9.4 Recommendations

Restoring immunisation coverage and closing the immunity gap

- Implement an immediate national MR catch-up programme targeting zero-dose and partially vaccinated children, particularly cohorts affected by declining coverage since 2019.
- Reintroduce nationwide supplementary immunisation campaigns at regular intervals to prevent the accumulation of immunity gaps, given the absence of campaigns since 2020.
- Strengthen district-wise microplanning for routine immunisation using disaggregated coverage data to identify and reach zero-dose children more effectively.
- Scale up community outreach for hard-to-reach and urban underserved populations, in light of widespread transmission across all 64 districts.

Preventing vaccine stockouts and strengthening procurement continuity

- Establish a mandatory vaccine buffer stock system to prevent depletion of essential antigens, addressing stockout risks observed during 2024–2025.
- Ensure uninterrupted vaccine procurement planning across political and administrative transitions through pre-approved multi-year procurement pipelines.
- Strengthen vaccine supply chain forecasting systems using cohort-based projections and real-time coverage trends.
- Improve inventory management systems to ensure early detection and prevention of stock shortages across all vaccine antigens.

Strengthening Health Workforce Capacity for Immunisation Delivery

- Address chronic staffing shortages in frontline immunisation services, particularly in rural and high-burden districts where service delivery constraints were evident.
- Ensure continuity of immunisation services during industrial action periods through minimum essential service guarantees for vaccination programmes.
- Strengthen supervision and accountability mechanisms for frontline health workers to reduce absenteeism and service delivery disruptions.
  Enhance district-level programme management capacity within DGHS to improve implementation efficiency and responsiveness.

Strengthening Governance, Procurement, and Programme Accountability

- Reform vaccine procurement governance to ensure transparency, timeliness, and predictability, addressing delays experienced following the 2024 transition.
- Establish a structured accountability framework for vaccine stock management with clearly defined responsibility for stockouts at national and sub-national levels.
- Institutionalise early corrective action protocols when vaccine shortages are flagged to prevent escalation into nationwide crises.
- Strengthen coordination within immunisation governance structures to ensure continuity of programme implementation during administrative disruptions.

Strengthening Outbreak Preparedness and Response Systems

- Develop a formal outbreak preparedness framework for vaccine-preventable diseases, including measles, rubella, diphtheria, and pertussis.
- Institutionalise rapid response mechanisms at the district level to enable early containment before widespread transmission occurs.
- Strengthen integration between surveillance, laboratory confirmation, and field response systems to reduce detection and response delays.
- Ensure dedicated preparedness financing and logistics planning for emergency immunisation campaigns to reduce reliance on reactive vaccine reallocation.

Strengthening Health Financing for Immunisation Stability

- Increase dedicated budget allocation for immunisation procurement and delivery to address persistent underfunding and vulnerability to stockouts.
- Create a protected financing window for emergency vaccine procurement to ensure rapid response capacity during supply disruptions.
- Improve budget execution and absorption capacity within the Ministry of Health, particularly for immunisation-related expenditures.
- Strengthen predictable domestic financing for vaccines to reduce reliance on emergency donor-supported reallocation.

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SECTION X. CONCLUDING REMARKS

The evidence presented in this report points to a common policy imperative: Bangladesh's recovery and resilience will depend on restoring governance, accountability and institutional credibility. Macroeconomic stabilisation alone will not be sufficient if weak enforcement, fragmented data systems, regulatory forbearance, poor project implementation and inadequate protection of vulnerable groups continue to undermine policy effectiveness. The next phase of reform must therefore move beyond temporary adjustment and focus on rules-based implementation, transparent monitoring and enforceable accountability.

In inflation management, the priority should be to address both price shocks and the market structures that amplify them. Strategic buffer stocks of essential food items should be maintained and released during supply shocks to stabilise prices. Market monitoring must be strengthened to rationalise supply chains, reduce excessive layers of intermediaries and minimise the disparity between farm-gate and retail prices. Regulatory oversight of aratdars and wholesalers should be intensified to curb collusive behaviour and artificial price manipulation in essential commodity markets. Low-income households should be supported through social protection schemes in response to higher LPG and transport prices. Greater transparency is also needed through the regular public release of point-to-point energy inflation data, while supply-chain bottlenecks must be addressed to prevent global shocks from translating into sharp domestic price spikes.

In public finance, the immediate challenge is to improve revenue mobilisation without undermining economic recovery. Newer revenue avenues should be explored, the efficiency of existing collection efforts should be enhanced, and leakages should be sealed. At the same time, deficit financing strategies should be carefully optimised to avoid crowding out private-sector investment through excessive bank borrowing. Development expenditure should be accelerated through stronger project management and monitoring systems, while continued investment in human capital must be protected. Fiscal data systems also need improvement, as delays, fragmentation and inconsistencies in reporting weaken evidence-based policymaking and public accountability.

Banking-sector reform must be treated as a governance reform, not merely a financial-sector adjustment. Bangladesh Bank's ability to stop political influence in lending decisions should be strengthened to improve governance and reduce the risk of intentional loan default. Regulatory forbearance and repeated loan restructuring should be phased out to restore credit discipline, while oversight of large exposures and concentration risks should be strengthened to reduce systemic vulnerabilities. Asset quality reviews, bank resolution measures and proposed governance reforms will need strong supervisory follow-up, institutional capacity and political commitment. Strengthening Bangladesh Bank's operational independence and enforcement authority will be essential to restoring confidence in the banking system.

Employment recovery must be linked to decent work. Disbursement from the BDT 60,000 crore stimulus package should be conditional on verifiable compliance with labour rights, including timely wage payment, factory safety improvements and trade union recognition. Higher investment in digital public infrastructure is needed to expand opportunities for youth in freelancing, gig work and remote cross-border services. A Wage Protection Fund should be established for cases of factory closure, insolvency or employer absconding, so that stranded workers receive immediate support. Labour governance should also include stronger inspection, workplace safety enforcement and protection of collective bargaining rights.

The Strait of Hormuz blockade demonstrated that Bangladesh's energy security risks are shaped not only by global supply disruptions, but also by domestic governance weaknesses in fuel import planning, storage monitoring, distribution oversight and supply-chain transparency. The government should implement a digital petroleum supply-chain monitoring system connecting fuel import points, oil refineries, fuel depots, pipelines, fuel installations, storage tanks, tanker trucks and filling stations. Given the constraints on interest-rate pass-through in the banking system, complementary liquidity-tightening measures, including reserve requirement adjustments and open market operations, may be required to ensure effective monetary transmission. A targeted transfer programme for low-income rural households should also be introduced to partially offset the kerosene price increase without reintroducing broad energy subsidies.

In agriculture and food security, national supply may remain manageable, but the localised welfare losses from the Haor flood require stronger policy action. A rapid hybrid flood-loss assessment system should be adopted, combining DAE field surveys, satellite verification, BWDB data and community reporting. Financial support to affected farmers should be increased through higher compensation, input grants and low-interest credit for the next cultivation season. Rice market stabilisation should include increased imports after assessing the deficit, suspension of advance income tax on private rice imports for the remainder of FY2026, stronger trader stock and price monitoring, and weekly public reporting by large rice millers and traders. Haor resilience also requires pre-monsoon harvest mobilisation protocols, GPS-tracked machinery deployment, subsidised harvester leasing, upazila-level harvesting pools and a dedicated Haor Agricultural Resilience Fund.

Health-sector reform must address the governance failures revealed by the 2026 measles outbreak. Higher public health allocation is necessary, but it will not be sufficient without stronger procurement systems, better financial management, improved accountability for absenteeism and poor performance, transparent resource allocation, citizen oversight, digitised monitoring systems and stronger regulatory institutions. Routine immunisation must be protected from procurement disruptions, staffing shortages and programme delays. The measles outbreak shows that preventive systems cannot be allowed to deteriorate silently; early warning, stock management and administrative responsiveness must be strengthened before preventable health risks become national crises.

Finally, Bangladesh's external-sector strategy should focus on export diversification, higher domestic value addition and prudent debt management. The decline in exports despite a high growth target indicates the need to move up the value chain and strengthen backward and forward linkages without constraining potential export-oriented activities. At the same time, rising debt-servicing obligations, reduced concessional financing and tighter global financial conditions require more careful external borrowing and debt management.

Taken together, the report's recommendations point towards a single overarching agenda: stabilisation must be accompanied by institutional reform. Without accountability, policy support risks becoming another form of postponement. With stronger governance, transparent data, credible enforcement and protection for vulnerable groups, Bangladesh can convert the present period of uncertainty into a foundation for more resilient, inclusive and accountable development.