



State of the Bangladesh Economy in FY2024 -25

Third Reading

Key findings

1. Total revenue collection recorded a 5.3 per cent growth during the July-January period of FY2025, implying that a whopping 64.6 per cent growth will be required during the remainder of FY2025 if the annual target is to be achieved.
2. A Granger causality test shows that money supply helps predict inflation, indicating that higher money supply increases inflationary pressures in the economy.
3. The Capital-to-Risk Weighted Assets (CRWA) ratio has sharply declined, especially for State-Owned Commercial Banks, which reported negative CRWA values after July 2024, highlighting severe vulnerabilities in the banking sector despite regulatory requirements and past efforts to mask systemic weaknesses.
4. Greater contribution of higher domestic value-adding knit-RMG sector to the country's export growth indicates that the net export component in the gross export earnings has been on the rise. This is a positive trend from the perspective of replenishment of Bangladesh's forex reserves.
5. During the first nine months of the interim government, the capital market's performance fell short of expectations, which may be attributed to a combination of ongoing corrective sectoral measures and the lingering effects of past market irregularities.
6. Bangladesh's energy crisis is deepening due to declining domestic gas production, rising import dependence, and outdated infrastructure.

Key policy recommendations

1. Explore new revenue sources, enhance efficiency in existing collection mechanisms, and seal leakages to mobilise additional public resources.
2. Control money supply growth to curb inflation and ensure monetary expansion is aligned with real economic activity.
3. Implement reforms to improve loan sanctioning, enforce single borrower exposure limits, halt repeated loan rescheduling, and strengthen internal controls in troubled banks.
4. Boost productivity, upgrade value addition, reinforce backward and forward linkages, and diversify products and markets to improve the competitiveness of Bangladesh's RMG exports.
5. Accelerate BSEC's decision-making and ensure the timely execution of recommendations from the forthcoming task force.
6. Prioritise domestic gas exploration and invest in renewable energy to reduce import dependency and enhance energy security.

INTRODUCTION

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

PUBLIC FINANCE

The timely availability of fiscal data continues to be a major constraining factor when analysing the public finance situation in Bangladesh. As of May 2025, data from the most comprehensive source – the Ministry of Finance (MoF) – is available only until January 2025. As per MoF data, total revenue collection posted a 5.3 per cent growth during July-January of FY2025 – implying that a whopping 64.6 per cent growth will be required during the remainder of FY2025 if the annual target is to be achieved (MoF, 2025). This is indeed a highly unlikely prospect. The overall budget utilisation stood at 34.5 per cent during July-January of FY2025 (MoF, 2025). The corresponding figure for FY2024 was lower, at 32.4 per cent. ADP implementation was also on the lower side – only 18.4 per cent of financial progress was achieved during the first seven months of FY2025. The corresponding figure for FY2024 was 20.0 per cent. The increase in public expenditure was driven by non-ADP sources during the aforementioned period, with subsidies, current transfers and domestic interest payments being the major drivers of the uptick. The budget deficit increased substantially during the July-January period of FY2025. The government's net borrowing from foreign sources increased marginally during the first seven months of FY2025. The dependency on domestic sources to finance the budget deficit increased during this period. Also, this dependency on high-interest-rate domestic sources might have adverse implications for the debt servicing liabilities of the coming days. The issue of limited fiscal space will persist in the foreseeable future. The capacity to mobilise additional revenue will determine the extent of this. To this end, finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages should all receive due importance. Careful calibration in deficit financing will be required if private sector borrowings are not to be crowded out. The public expenditure framework will need to address the persistently high prices of necessities. The central focus of public expenditure management in the coming days must be enhancing value for money, given the limited fiscal space.

INFLATION

Inflation currently poses a major challenge to Bangladesh's economy. In FY2025, inflation surged to 9.94 per cent, the highest in 12 years, exceeding the target of 7.5 per cent (Bangladesh Bank, 2025). Despite this, the interim government projected that inflation would fall to 6.5 per cent by 2026, which appears overly optimistic. According to predictions generated by the Multi-layer Perceptron forecast, inflation will unlikely decrease to 6.5 per cent by next year if current conditions persist. It is important to underscore that supply-side and demand-side factors drive inflation in Bangladesh. Increasing costs of imports due to the depreciation of the Taka, rising global commodity prices, global supply chain disruptions, and the oligopolistic structure of local suppliers significantly contribute to supply constraints and, thereby, inflationary pressures, particularly in food inflation. Food inflation has been notably higher in urban areas than rural regions, while non-food inflation is comparatively greater in rural areas. This further necessitates

region-wise targeted policy to address inflation challenges, especially for low-income households. Conversely, demand-side factors, such as an increase in the money supply, may also play an important role in rising inflationary pressures in Bangladesh. In FY2023, BDT 70,000 crore was printed for quantitative easing during the tenure of the autocratic regime (The Business Standard, 2023). An analysis using a Vector Autoregressive (VAR) model and Granger causality tests revealed that an expansion in the money supply is associated with rising inflationary pressures, albeit with a moderate statistical significance. This supports the quantity theory of money (QTM), where more money in circulation fuels inflation. To address inflation, suggested policies include boosting domestic supply to reduce import dependency, regulating oligopolies, and maintaining buffer stocks to cushion supply shocks.

BANKING

Bangladesh's banking sector faces deep-seated challenges, including deteriorating capital adequacy, surging non-performing loans (NPLs), weak governance, and political interference. Key indicators reveal severe vulnerabilities, particularly in State-Owned Commercial Banks (SCBs), where the Capital-to-Risk Weighted Assets (CRWA) ratio turned negative in 2024 (Bangladesh Bank, 2024a) and NPLs skyrocketed to BDT 3,457.65 billion by Q2 FY2025 (Bangladesh Bank, 2024a), exposing long-concealed weaknesses. Alarming, the volume of bad loans far exceeds annual allocations for education and health, highlighting a critical misallocation of resources. Governance failures, such as politically appointed bank boards, lax internal controls, and weak regulatory oversight, have exacerbated systemic risks. The dual regulation by the Ministry of Finance and Bangladesh Bank undermines central bank independence, while legal inefficiencies delay loan recovery. Recent reforms, including stricter provisioning rules, adopting Expected Credit Loss (ECL) methodologies, and enhanced stress-testing frameworks, aim to improve transparency and risk management. Additionally, measures to professionalise bank management, restrict insider lending, and enforce dividend policies signal progress. However, sustained reform requires stronger political commitment to depoliticise banking operations, close legal loopholes, and hold wilful defaulters accountable. Immediate actions, such as freezing defaulters' assets and enforcing single borrower exposure limits, are crucial. Without systemic changes, the banking sector's instability will continue to hinder economic growth and financial stability. The banking sector urgently needs bold, long-term reforms to restore confidence and integrity in Bangladesh's banking system.

EXTERNAL SECTOR

Amid the generally subdued macroeconomic performance during the ongoing FY2025, the external sector was a beacon of hope and resilience. The key external sector indicators evinced encouraging trends against robust remittance flows and impressive export performance. The deficit in the trade balance was contained, and the current account and overall balance of payment situation improved tangibly. The high B/B L/C payments for export-oriented intermediate goods also augur well for the performance of the export sector in the coming months. All these had positive implications for foreign exchange reserves- the decline was stalled, and an upturn is already visible. Since January 2025, the exchange rate has stabilised at around BDT 122–123 per USD, helping to ease the pressure of imported inflation.

However, not all trends are positive. Whilst imports did pick up somewhat, the growth has been slow. Growth of imports of capital machinery, as also L/C opening and L/C closing for these items, was negative, indicating that domestic investment remained timid. Exports remain volume-driven, alluding to the urgent need for renewed efforts at productivity enhancement and an energetic move towards market and product diversification. The shift from a pegged currency system to a market-driven (managed float) exchange rate system will mean that exchange rate management must be carried out strategically.

The emerging and evolving global trading scenario is becoming increasingly challenging for Bangladesh's external sector performance. The uncertainties for Bangladesh originating from the

Trump reciprocal tariffs must be addressed in a time-bound, evidence-based and informed manner. An FTA with the USA may be put on the cards, but this will call for properly articulating Bangladesh's offensive and defensive interests. The non-tariff barriers India has put in place will be harmful to Bangladesh. These will need to be addressed in two ways- through proactive discussion and by putting in place measures to reduce dependence. As never before, Bangladesh's negotiating capacity will be tested in the coming days. Given this, Bangladesh should consider setting up a dedicated Negotiating Wing to undertake the anticipated bilateral and multilateral discussions. All these should be an integral part of Bangladesh's efforts towards smooth and sustainable LDC graduation.

CAPITAL MARKET

During the first nine months of the interim government, the capital market's performance fell short of expectations, which may be attributed to a combination of ongoing corrective sectoral measures and the lingering effects of past market irregularities. Already, nine months have passed since the new government took over, yet no new IPOs have entered the market; ongoing political uncertainty has narrowed the scope of new IPO enlistment to a further extent. During the last nine months, several strategic decisions have been taken to reform the capital market. Yet, the implementation process appears to have slowed down due to the commission's bureaucratic procedures and administrative complexities. In this regard, the BSEC should accelerate its administrative decision-making process and ensure the timely submission and implementation of the task force's forthcoming recommendations. BSEC should also introduce an Investor Protection Fund to safeguard retail investors from losses due to fraud or manipulation.

POWER AND ENERGY SECTOR

Bangladesh faces an acute and multi-dimensional energy crisis affecting the industrial sector, businesses and households. The crisis stems primarily from falling domestic gas production, which has dropped from 24,993 mmcf in FY2020 to 21,075 mmcf in FY2024 (PetroBangla, 2025), while demand continues to rise. With limited gas exploration and a growing reliance on expensive imported LNG, PetroBangla's financial health has deteriorated, and the burden has shifted to consumers. This has led to rising gas prices, disproportionately impacting key industries such as textiles, ceramics, and steel, many now operate below capacity or face shutdowns. Electricity supply has also failed to keep pace with rising demand. Despite increasing installed capacity, actual generation and distribution have been constrained by gas shortages, inefficient infrastructure, and poor planning. Load shedding has become widespread, especially in rural areas, forcing businesses and households to rely on costly alternatives like diesel generators and LPG. Electricity tariffs have also increased significantly across user categories between 2021 and 2024, worsening the affordability crisis. Petroleum fuels, all imported, have seen high and volatile prices. Diesel, petrol, and kerosene remain expensive, affecting the informal sector's transport, agriculture, and livelihoods. CNG supply shortages have also added to commuter costs and logistical challenges. Underlying these issues is systemic inefficiency, marked by high system losses, underutilised public funds, poor coordination, and weak governance. The lack of pricing and energy allocation transparency has further undermined public trust. Bangladesh must diversify its energy mix through gas exploration and renewable energy to address this crisis, reform pricing mechanisms, and modernise infrastructure. Strengthening institutions like BERC and better coordination between key agencies are essential for long-term energy security and economic resilience.

CONCLUSION

The government has initiated several reform measures recently, including separating the National Board of Revenue into two departments - the Revenue Policy and Revenue Management - to improve revenue collection and efficiency, alongside measures aimed at enhancing stock market performance and attracting FDI. Additionally, steps have been taken to address the structural weaknesses in the banking sector, aiming to improve governance and resilience. However, the success of these initiatives has been limited so far. For example, the NBR reform has faced resistance from within the tax administration, leading to temporary disruptions and necessitating further consultations to address concerns. Governance challenges and regulatory bottlenecks undermine investor confidence and impede economic potential. The government must move beyond piecemeal measures and commit to comprehensive reform. In the upcoming fiscal year, the focus should be on strengthening institutions, improving governance frameworks, and ensuring transparency and accountability in policy implementation. Only with visible and bold reforms can Bangladesh's economy build resilience, attract investment, and sustain inclusive growth in the years ahead.

POLICY RECOMMENDATIONS

Public Finance

- Explore new revenue streams, improve collection efficiency, and seal leakages to strengthen domestic resource mobilisation.
- Calibrate deficit financing carefully to avoid crowding out private sector borrowing.
- Prioritise value-for-money in public expenditure to ensure efficient use of limited fiscal space.

Inflation

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

Banking

- Initiate concrete measures through the Bangladesh Bank, including improving loan sanctioning practices, enforcing single borrower exposure limits, stopping repeated loan rescheduling, and strengthening internal controls for troubled banks.
- Immediately freeze bank accounts of willful defaulters and their immediate family members; liquidate their assets and temporarily nationalise their businesses.
- Undertake and sustain an all-out reform effort, backed by strong political commitment from the highest level, to overcome resistance from vested interest groups and ensure meaningful progress in banking sector reforms.

External Sector

- Enhance productivity, move up the value chain, strengthen linkages, and diversify products and markets to increase the competitiveness of RMG exports.
- Phase out remittance incentives gradually, aligning with the shift to a market-driven exchange rate and reducing fiscal burden.
- Pursue a bilateral FTA and Investment Agreement with the US based on offensive trade interests and prepare defensively to meet USTR standards on labour, environment, IPR, and business facilitation.

Capital Market

- Accelerate and streamline BSEC's administrative decision-making process and ensure timely submission and implementation of the task force's forthcoming recommendations.
- Establish a clear timeline, assign institutional accountability, and set up follow-up mechanisms for the new enlistment initiative, including the 38 firms identified by ICB; conduct periodic reviews to monitor progress and address implementation challenges.
- Introduce an Investor Protection Fund under BSEC to safeguard retail investors against losses arising from fraud or market manipulation.

Power and Energy

- Expedite domestic gas exploration and prioritise investment in renewable energy to reduce import dependence and increase energy security.
- Introduce transparent and automated fuel pricing mechanisms and exclude redundant components (multiple layers of Tax & VAT) from the existing pricing formula.
- Modernise infrastructure, promote energy efficiency, and reform institutions like the Bangladesh Energy Regulatory Commission (BERC) to ensure accountability, transparency, and responsive planning.

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CPD Independent Review of Bangladesh's Development (IRBD) 2025 Team

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

Other team members include *Mr Abu Saleh Md. Shamim Alam Shibly*, Senior Research Associate; *Mr Tamim Ahmed*, Senior Research Associate; *Ms Afrin Mahbub*, Programme Associate; *Ms Preetilata Khondaker Huq*, Programme Associate; *Ms Anindita Islam*, Programme Associate; *Mr Md Mehadi Hasan Shamim*, Programme Associate; *Ms Nuzaira Zareen*, Programme Associate; *Ms Ayesha Suhaima Rab*, Programme Associate; *Ms Safrina Kamal*, Programme Associate; *Mr Khaled Al Faruque*, Programme Associate; *Mr Md. Imran Nazir*, Programme Associate; *Ms Tanbin Alam Chowdhury*, Programme Associate; and *Ms Syeda Safia Zahid*, Research Intern.

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