



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2024-25

Third Reading

(Draft)

Released to the Media on
27 May 2025, Dhaka



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Acknowledgements

The CPD IRBD 2025 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD for his guidance and support to the team.

Concerned officials of several government agencies have extended valuable support to the CPD IRBD Team members. In this connection, the Team would like to register its sincere appreciation to Bangladesh Bank (BB), Bangladesh Bureau of Statistics (BBS), Export Promotion Bureau (EPB), Ministry of Finance (MoF), National Board of Revenue (NBR), and Planning Commission.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD, in preparing this report. The contribution of the CPD Administration and Finance Division is also highly appreciated. The assistance of *Mr A H M Ashrafuzzaman*, Joint Director, IT, is particularly appreciated.

The CPD IRBD 2025 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

State of the Bangladesh Economy in FY2024-25

Third Reading

SECTION I. INTRODUCTION

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

In this context, the Centre for Policy Dialogue (CPD) has prepared this report under its flagship programme titled Independent Review of Bangladesh's Development (IRBD). The report presents an analysis of the economy during the current fiscal year based on the latest available data. The IRBD explores a few selected sectors, such as public finance, inflation, banking sector, external sector, capital market and power and energy sector. These areas reflect the core vulnerabilities currently confronting the country and are essential to address for achieving macroeconomic stability and sustainable growth. CPD offers a set of recommendations for each sector discussed in this reading of the IRBD.

SECTION II. PUBLIC FINANCE

Key findings

- Total revenue collection recorded a 5.3 per cent growth during the July-January period of FY2025, implying that a whopping 64.6 per cent growth will be required during the remainder of FY2025 if the annual target is to be achieved.
- Increase in public expenditure was driven by non-ADP sources during the July-January period of FY2025 – with subsidies and current transfers, and domestic interest payment being the major drivers of the uptick.
- The dependency on high-interest domestic sources for financing the budget deficit increased during the first seven months of FY2025.

Key recommendations

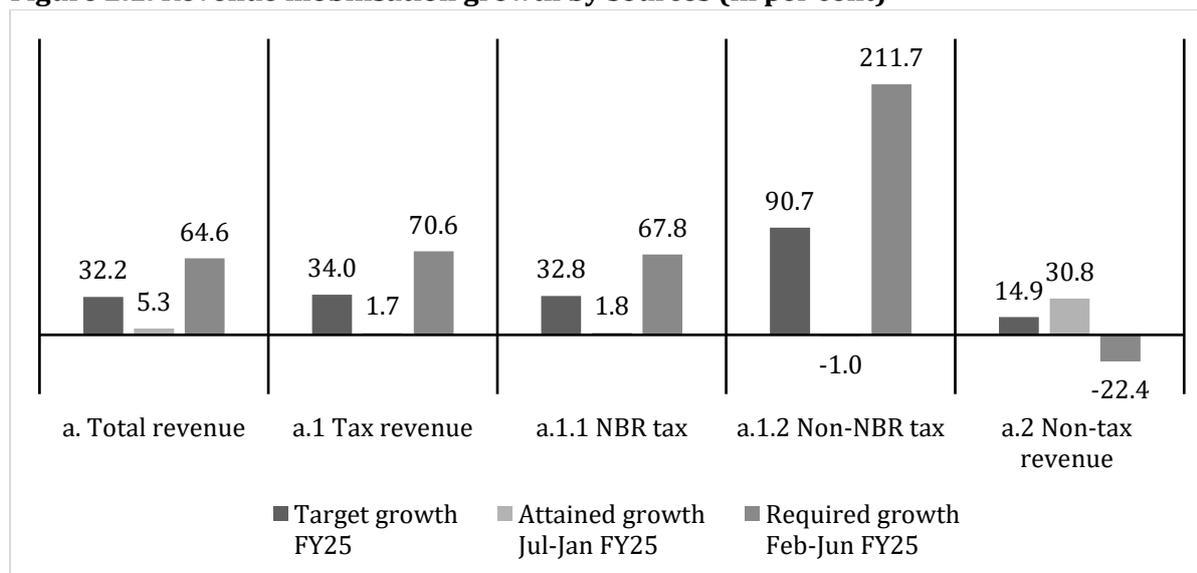
- In the area of mobilising additional revenue, finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages should all receive due importance.
- Careful calibration in the area of deficit financing will be required if private sector borrowings are not to be crowded out.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

The issue of the timely availability of fiscal data continues to be a major constraining factor when it comes to the analysis of the public finance situation in Bangladesh. As of May 2025, data reported by the Ministry of Finance (MoF) is available only until January 2025. While alternative sources such as the National Board of Revenue (NBR), Implementation Monitoring and Evaluation Division (IMED), and Bangladesh Bank can be more timely, they lack the accuracy and congruency of the MoF data. Fragmented reporting is also an issue since no alternative sources provide a holistic picture of the fiscal scenario, such as the MoF. The present analyses utilise data from all the aforementioned entities but might be constricted in some instances owing to data limitations.

2.1 Revenue mobilisation

As reported by the MoF, total revenue collection posted a 5.3 per cent growth during the July-January period of FY2025. This is a considerable decline from the corresponding figure of FY2024 (13.7 per cent). This implies that a whopping 64.6 per cent growth will be required during the remainder of FY2025 if the annual target for revenue mobilisation is to be achieved (Figure 2.1). Without a doubt, this is a highly unlikely prospect. Indeed, in March 2025, CPD projected that the revenue shortfall could reach approximately Tk. 105,000 crore at the end of FY2025 (CPD, 2025). The growth in revenue mobilisation during the July-January FY2025 period was primarily driven by a sharp increase in government earnings from interest as well as by enhanced collection of income tax.

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



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

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

The debacle concerning the abolishment of NBR has thankfully settled for the time being, thanks to the press release issued by the MoF on 25 May 2025. However, there is no doubt that repetition of such an instance will negatively impact the economy, particularly in the case of revenue mobilisation.

2.2 Public expenditure

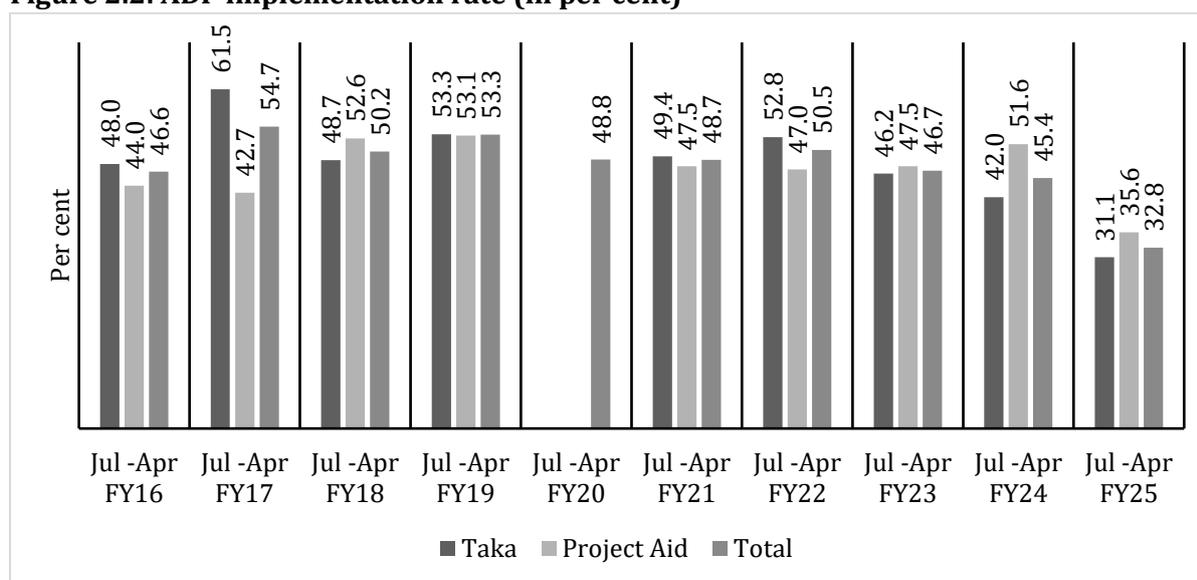
As MoF data shows, overall utilisation of budget stood at 34.5 per cent during the July-January period of FY2025 (MoF, 2025). The corresponding figure for FY2024 was lower – at 32.4 per cent. ADP implementation was also on the lower side – only 18.4 per cent financial progress was achieved during the first seven months of FY2025 (the corresponding figure for FY2024 was 20.0 per cent). Besides the political turmoil during July-August 2024, the interim government's cautious approach in terms of project approval and fund disbursement, and increased scrutiny of expenditure allocations may have contributed to the slow implementation of ADP (World Bank, 2025). On the contrary, non-ADP expenditure showed an upward trajectory. During July-January of FY2025, utilisation of the non-ADP budget reached 42.5 per cent while the corresponding figure for the previous fiscal year was 38.9 per cent. This implies that nearly an additional Tk. 32,000 crore was required to conduct the non-ADP activities of the budget. Among the components of non-ADP expenditure, subsidies and current transfers were the major drivers of the uptick, accounting for nearly 61 per cent of the additional non-ADP expenditure. As the World Bank (2025) reported, this included increased incentive payments for remittances, food

subsidies, and payments to clear arrears to the Bangladesh Power Development Board (BPDB). Expenditure owing to domestic interest payment also increased substantially, with the corresponding share in additional non-ADP expenditure reaching 37.6 per cent.

The proposal to introduce a dearness allowance for government employees by replacing the existing 5 per cent special incentive from FY2026 (Kashem, 2025) comes at a curious time. As has been reported in the media, this move will entail an increase in public expenditure by nearly Tk. 7,000 crore. While this allowance will provide some respite to the public servants during times of high prices of necessities, apprehensions remain as to whether this move will stoke inflation further. There are still concerns about how much attention the rest of the workforce—especially those working in low-paying private jobs and the informal sector—will receive. The timing and nature of this allowance also call into doubt the government's priorities. It needs to be observed whether this move was initiated to appease and maintain support from the government employees, particularly those in the bureaucracy.

The Ministry of Planning's IMED provides a more up-to-date picture concerning the ADP implementation scenario. According to IMED data, the ADP implementation rate against the original budget allocation reached 32.8 per cent during July-April of FY2025 – the lowest in the last ten years (Figure 2.2).

Figure 2.2: ADP implementation rate (in per cent)



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

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

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

Of the original ADP allocation for FY2025, the top ten ministries/divisions receiving the highest allocation account for 66.6 per cent of the total (the corresponding figure for FY2024 was 70.2 per cent). Among the ten, the ADP implementation of five was below the average level. These include the Road Transport and Highways Division, the Ministry of Railway, the Health Services Division, the Secondary and Higher Education Division, and the Ministry of Water Transport (Table 2.1). As can be seen, the trend of poor ADP implementation in the education and health sectors has continued in FY2025. It is also a matter of concern that the average ADP implementation rate of government ministries/divisions which reside outside the top ten has almost halved—from 42.4 per cent during July-April FY2024 to 21.7 per cent during the corresponding period of FY2025 (Table 2.1).

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

Ministries/Divisions	FY2024		FY2025	
	Share in total ADP (%)	July-April implementation rate (%)	Share in total ADP (%)	July-April implementation rate (%)
Local Government Division	15.0	60.0	14.2	52.4
Road Transport and Highways Division	12.5	39.4	11.5	28.3
Power Division	11.9	59.5	10.8	47.2
Ministry of Primary and Mass Education	4.1	39.9	5.0	41.1
Ministry of Railways	5.5	54.6	5.0	25.9
Ministry of Science and Technology	4.8	54.2	4.8	48.4
Health Services Division	4.6	29.1	4.2	7.6
Secondary and Higher Education Division	5.0	20.5	4.1	25.2
Ministry of Water Transport	3.5	23.5	3.8	21.2
Ministry of Water Resources	Not included in the top ten		3.1	60.1
Bridges Division	3.3	40.2	Not included in the top ten	
Top ten total	70.2	46.7	66.6	38.3
Rest of the agencies	29.8	42.4	33.4	21.7
Grand total	100.0	45.4	100.0	32.8

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

2.3 Deficit and its financing

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

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

Government net borrowing from the banking system stood at Tk. 40,786 crore (29.7 per cent of the budgetary target) during July-January of FY2025. On the other hand, Tk. 23,627 crore was borrowed from the banking system during the corresponding period of FY2024. This increase in bank borrowing by the government may have limited the availability of funds for the private

sector. Government net borrowing from non-banking sources increased by Tk. 1,693 crore during July-January of FY2025. Within the non-banking sources, the net sale of National Savings Certificates (NSCs) experienced a sharp rise. During the July-January period of FY2025, the government sold NSCs worth (net) Tk. 4,067 crore. On the contrary, the government repaid (net) Tk. 7,310 crore to the people during the same period of the previous fiscal year. Overall, the dependency on domestic sources for financing the budget deficit increased during the first seven months of FY2025. Also, this dependency on high-interest rate domestic sources might have adverse implications for the debt servicing liabilities of the coming days.

2.4 The path ahead

Based on the discussion so far, it becomes evident that the issue of limited fiscal space will persist in the foreseeable future. The extent of this will be determined by the capacity to mobilise additional revenue. To this end, finding newer avenues, enhancing the efficiency of existing efforts, and sealing leakages should all receive due importance. For instance, as part of finding newer avenues, initiatives such as taxing the growing digital economy and meaningful taxation of wealth and property can be considered. When it comes to enhancing the efficiency of existing efforts, analysing the current tax exemptions in-depth with thorough data analysis has become an urgency. As part of sealing the leakages, curbing illicit financial flows (IFF), limiting tax evasion, and tax avoidance should be high on the government's agenda. While efforts to mobilise additional revenue will be there, it needs to be taken into cognisance that some revenue losses will occur owing to the initiatives taken in view of Bangladesh's upcoming LDC graduation. Hence, a balancing game will need to be played.

The latest rounds of discussions with the IMF have shown how difficult getting budget support can be. Receiving foreign financing through the channel of ADP is contingent upon the government's ability to design and implement projects. However, swift improvement in these areas will be a difficult proposition. In this backdrop, the onus of deficit financing is likely to fall onto bank borrowings. However, careful calibration will be required if private sector borrowings are not to be crowded out, given the commercial banks' liquidity situation and the government's decision not to borrow from the central bank.

The public expenditure framework will need to address the persistently high prices of necessities. It needs to be ensured that the low and limited income, vulnerable and disadvantaged groups are supported through both revenue and expenditure centric fiscal measures. In the area of ADP, the cautious approach in terms of project approval and fund disbursement, and increased scrutiny of expenditure allocations need to be continued. It needs to be ensured that the current austerity measures, be them part of prudent macroeconomic management or IMF conditionalities, have minimal impact on the social safety net, the health and education sectors, agriculture, and small and medium-sized enterprises (SMEs). The central focus of public expenditure management in the coming days needs to be the enhancement of value for money, given the limited fiscal space.

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SECTION III. INFLATION EASING, BUT HIGH PRICES PERSIST

Key findings

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

Key recommendations

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

3.1 Introduction

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

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

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

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

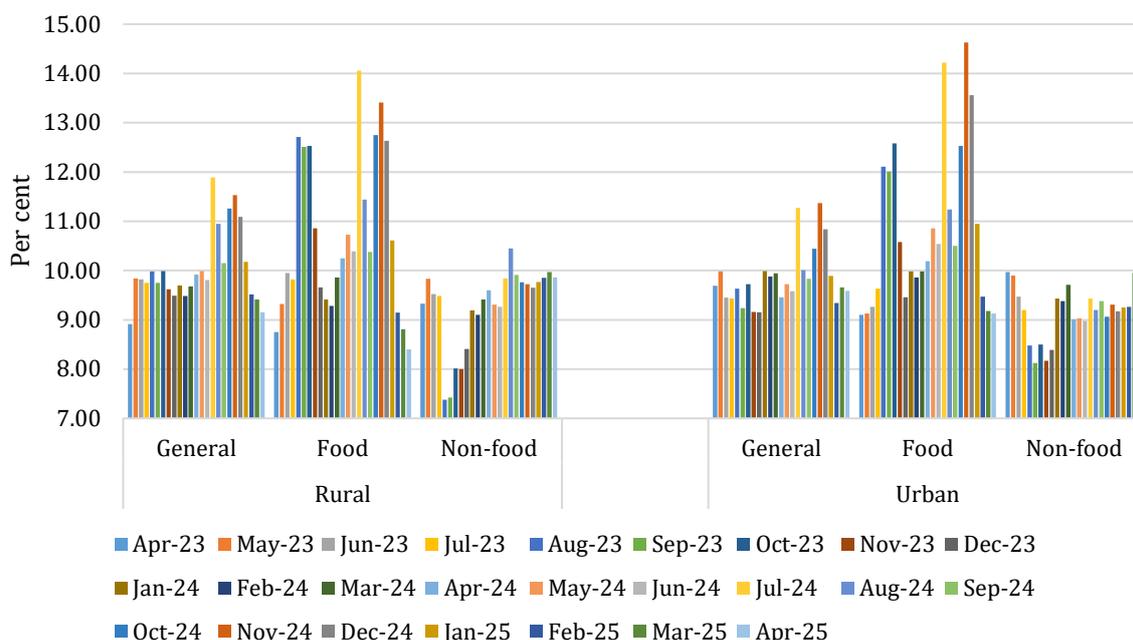
This chapter presents a comprehensive analysis of inflation dynamics through nine structured sections. It begins by examining the major trends in inflation to provide historical and contextual insights. It then discusses the average prices of essential food items to highlight the impact of inflation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

3.2 Major trends in inflation

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

Between April 2023 and April 2025, inflation remained constantly high across both rural and urban Bangladesh, with notable differences in intensity and composition (Figure 3.1). On average, rural areas experienced higher general and non-food inflation than urban areas, while urban areas faced slightly higher food inflation (BBS, 2025c). Rural general inflation averaged 10.91 per cent, driven by food inflation at 11.64 per cent and non-food inflation at 10.09 per cent (BBS, 2025c). In contrast, urban general inflation averaged 10.71 per cent, with food inflation at 11.77 per cent and non-food inflation at 9.98 per cent (BBS, 2025c). For 18 of the 25 months in this period, general inflation was higher in rural areas, underscoring the greater burden on rural households, who are typically more vulnerable due to lower incomes and weaker access to social safety nets. These dynamics highlight the need for geographically targeted policy responses to mitigate inflation's uneven impact across regions.

Figure 3.1: Point-to-point general, food, and non-food CPI inflation in rural and urban areas (in per cent)

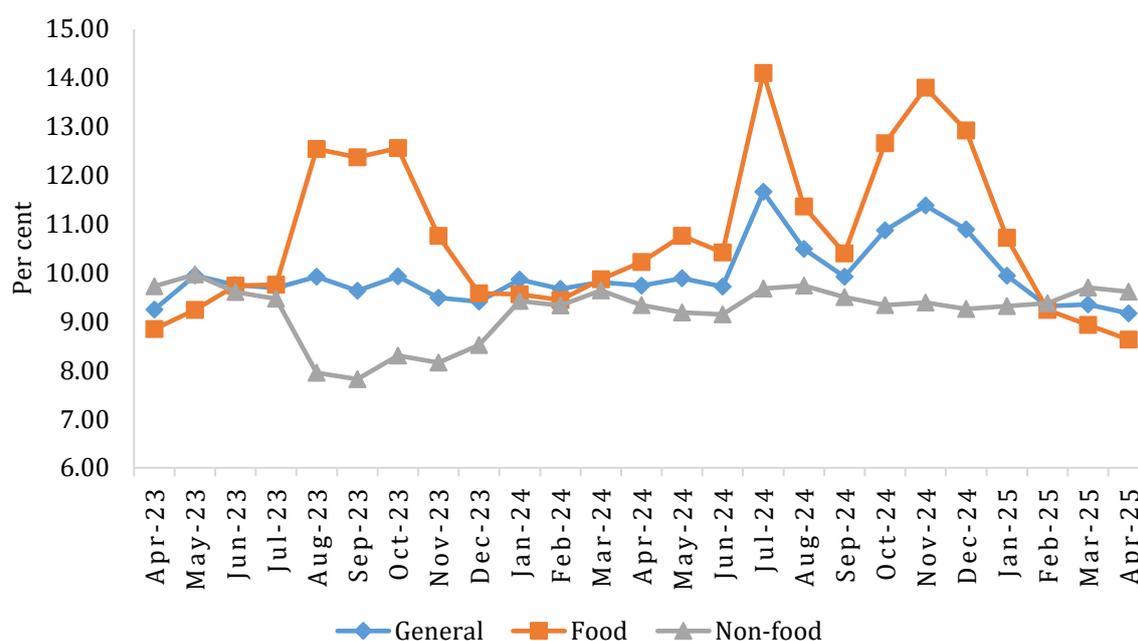


Source: CPD’s illustration based on data from the Bangladesh Bureau of Statistics, (BBS, 2025c)

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

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

Figure 3.2: National point-to-point general, food, and non-food inflation rate (Base Index 2021-22=100) (in per cent)



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

From April 2023 to April 2025, Bangladesh experienced persistently high inflation, with general inflation consistently around or above 9 per cent (Figure 3.2) (Bangladesh Bank, 2025c). Food inflation was the main driver, likely due to supply disruptions from severe floods and structural issues like cartels and weak market governance. Non-food inflation remained relatively stable but elevated, hovering around 9 to 10 per cent throughout the period (Bangladesh Bank, 2025c). Although inflation began to ease slightly by early 2025, the overall trend reflects entrenched price pressures, highlighting the need for stronger policy measures to address supply-side constraints and protect vulnerable households.

3.3 Trends in average food prices

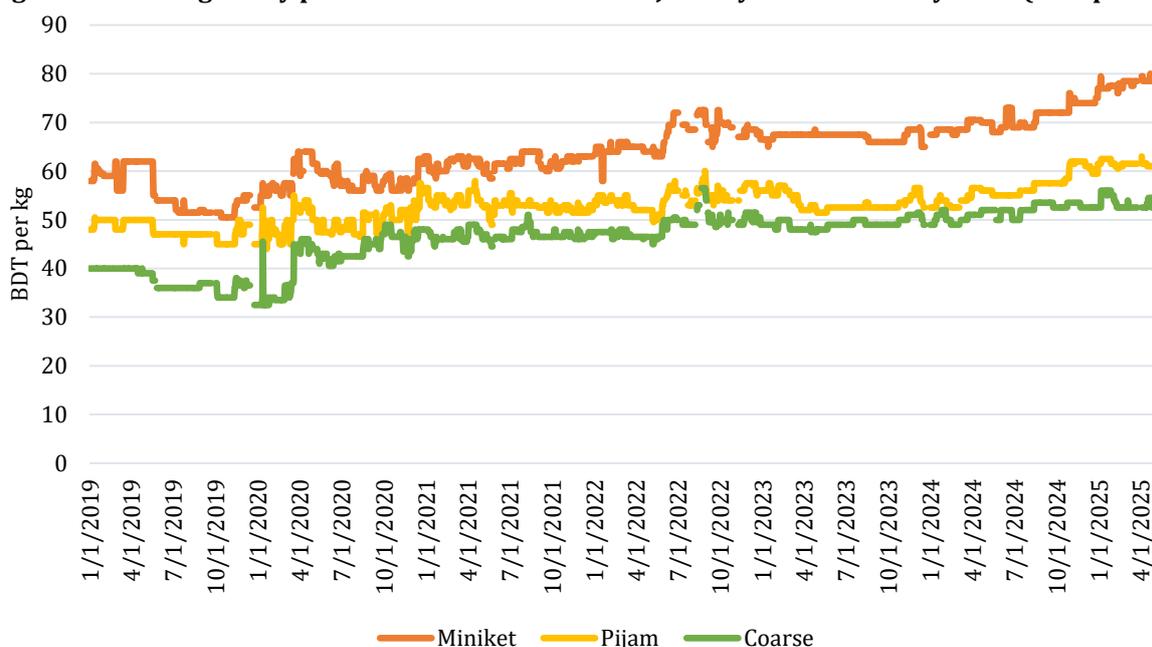
This section analyses the trends in the daily average prices of essential food items in Dhaka, Bangladesh, including rice, wheat, edible oil, sugar, and meat, from 2019 to 2025, highlighting the interplay between domestic and international factors contributing to food inflation. The prices of key staple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

these price trends and contributing factors is presented in Table 3.1, providing a clear overview of the inflationary dynamics affecting essential food items in Bangladesh from 2019 to 2025.

Price of rice

The average daily price of rice in Dhaka has steadily risen from 1 January 2019 to 17 May 2025, with a slight decline observed in January 2020 for Miniket, Pijam, and coarse rice varieties (Figure 3.3). Since 2020, the price increase has continued, with Miniket showing the highest growth, followed by Pijam and coarse rice.

Figure 3.3: Average daily price of rice in Dhaka from 1 January 2019 to 17 May 2025 (BDT per kg)



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

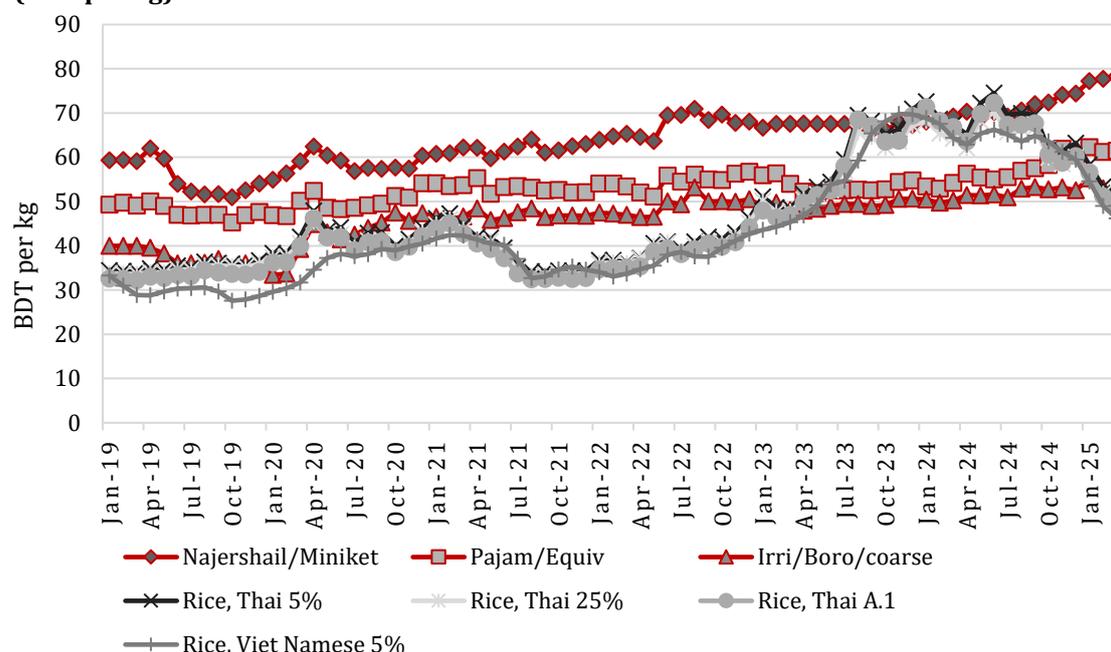
Retail prices of rice have been rising consistently since August 2024, when floods disrupted Aman paddy cultivation in the northeastern swathe of the country (Sukanta, 2025). The interim government approved large-scale private-equity rice imports to address the price surge. However, as of the first week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

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

The Trading Corporation of Bangladesh (TCB) plays a critical role in stabilising market prices and ensuring the availability of essential commodities during periods of price volatility or supply disruptions (Raihan, 2025). They may maintain buffer stocks of essential goods, including rice. These stocks can be released into the market during supply shocks, such as those caused by floods

that reduce rice production, to help moderate price fluctuations and reduce further inflationary pressure in the economy.

Figure 3.4: Comparison of international and Bangladesh prices of rice from January 2019 to March 2025 (BDT per kg)



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

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

CPD’s previous analysis found that the price of common varieties of Bangladeshi rice was much higher than the price of Thai and Vietnamese rice varieties (Figure 3.4) (CPD, 2024). However, starting from mid-2023, the prices of Thai and Vietnamese rice varieties started rising and became more comparable to the prices of Bangladeshi rice varieties (World Bank, 2025).

Price of unprocessed flour (Aata)

The average daily price of unprocessed flour (Aata) remained relatively stable from 2019 to 2022, followed by a sharp exponential increase in 2023 (Figure 3.5) (TCB, 2025). Prices have remained elevated throughout 2024 and into 2025. Flour prices rose in Dhaka’s wholesale and retail markets in 2024, primarily due to a tight supply amid higher global wheat prices, as wheat is the key raw material for flour production (Halder, 2025). Several factors have contributed to this price surge. One major factor is the shortage of US dollars in Bangladesh’s foreign exchange reserves, which has led to the depreciation of the Taka (Mavis, 2023). This depreciation has made imports more expensive for local traders. Another significant reason importers cite is the ongoing Red Sea crisis, a critical shipping route (Barua, 2023). Attacks by Yemen-based Houthi militants have forced many vessels to reroute around the Cape of Good Hope, resulting in additional surcharges and increased shipping costs (Barua, 2023).

Figure 3.5: Average daily price of unprocessed flour (Aata) in Dhaka from 1 January 2019 to 17 May 2025 (BDT per kg).



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

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

Price of processed flour (Maida)

The average daily price of processed flour (Maida) has risen since January 2022, with packaged Maida prices peaking above BDT 80 and remaining above BDT 70 as of January 2025 (Figure 3.6) (TCB, 2025). Similarly, the price of loose Maida reached a high of over BDT 70 in 2023 but declined to below BDT 60 by January 2024 (TCB, 2025). One of the primary factors driving these price increases is the depreciation of the Bangladeshi Taka against the US dollar, which has also raised the cost of wheat imports and, consequently, the price of Maida in the local market (Ahmed, 2024).

Furthermore, Bangladesh’s heavy reliance on wheat imports has made it vulnerable to global supply disruptions, particularly due to the Russia-Ukraine conflict. This war significantly impacted wheat prices, as Bangladesh sources much of its wheat from the Black Sea region (Al-amin et al., 2022). Between 2022 and 2023, the fastest-growing sources of wheat imports for Bangladesh were Ukraine (USD 106 million), Romania (USD 96 million), and Brazil (USD 50.7 million) (OEC, n.d.).

Figure 3.6: Average daily price of processed flour (Maida) in Dhaka from 1 January 2019 to 17 May 2025 (BDT per kg)



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

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

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

Price of edible oil (soybean and palm oil)

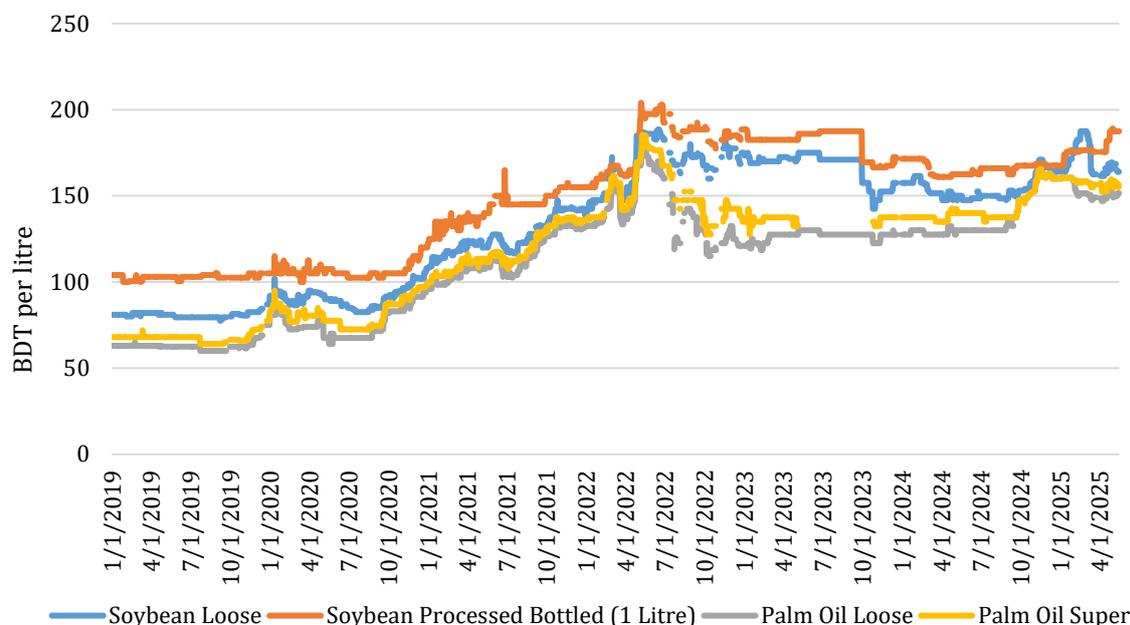
The average daily price of edible oil in Dhaka has steadily risen since January 2019, with a particularly sharp increase observed between January 2022 and 2023 (Figure 3.7) (TCB, 2025). This elevated price trend has persisted into 2025 (TCB, 2025). As of December 2024, the average global price of soybean oil stood at BDT 128 per litre (World Bank 2024a) while the average market price in Bangladesh was significantly higher at BDT 168 per litre (TCB, 2024).

Bangladesh is heavily dependent on imports to meet its edible oil demand, sourcing approximately 80 per cent of its palm oil from Indonesia and the remaining 20 per cent from Malaysia as of 2022 (Siddiqui, 2025). In 2023, the country also imported other vegetable oils primarily from Malaysia (USD 14.1 million), Saudi Arabia (USD 4.25 million), Indonesia (USD 2.39 million), France (USD 334,000), and Germany (USD 291,000) (OEC, 2024).

The rise in edible oil prices can be attributed to several factors. The depletion of Bangladesh’s foreign exchange reserves and the depreciation of the Bangladeshi Taka against the US dollar significantly increased the cost of imports (Mavis, 2023). This, in turn, drove up domestic prices.

A supply shortage in the global market also contributed to further price hikes (Barua, 2023). According to the World Bank Commodities Price Data, the international price of soybean oil rose from USD 986 per tonne during the April–June period of 2024 to USD 1,079 per tonne in July (World Bank, 2024b).

Figure 3.7: Average daily price of edible oil in Dhaka from 1 January 2019 to 17 May 2025 (BDT per litre).



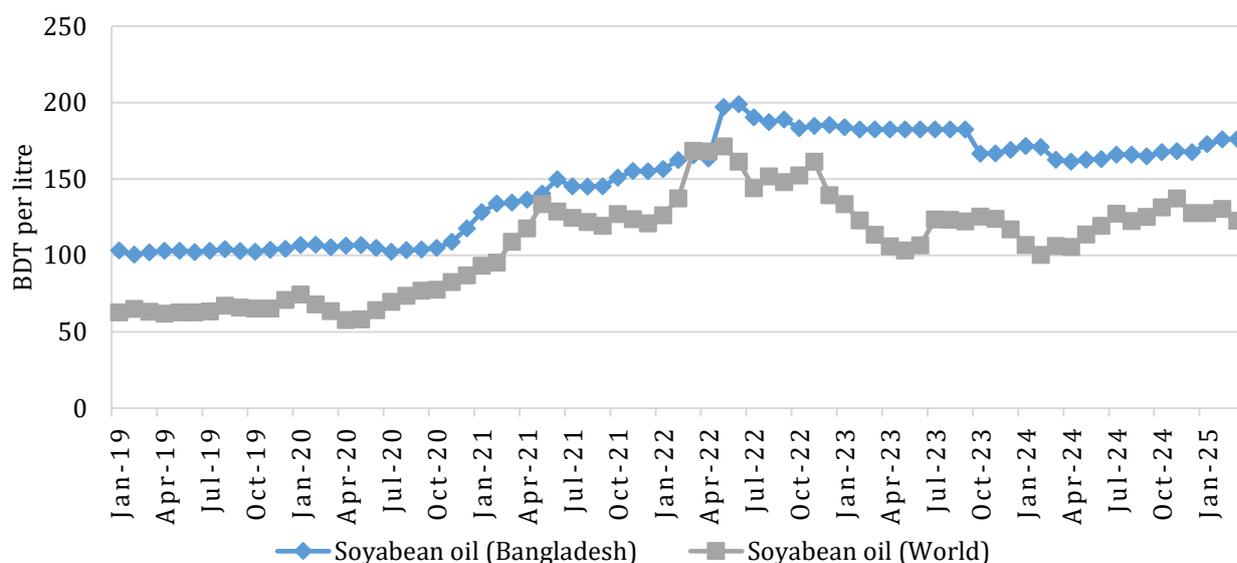
Source: CPD's illustration based on data from the Trading Corporation of Bangladesh (TCB) (TCB, 2025).

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

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

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

Figure 3.8: Comparison of International and Bangladesh prices of soybean oil from January 2019 to March 2025 (BDT per litre)



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

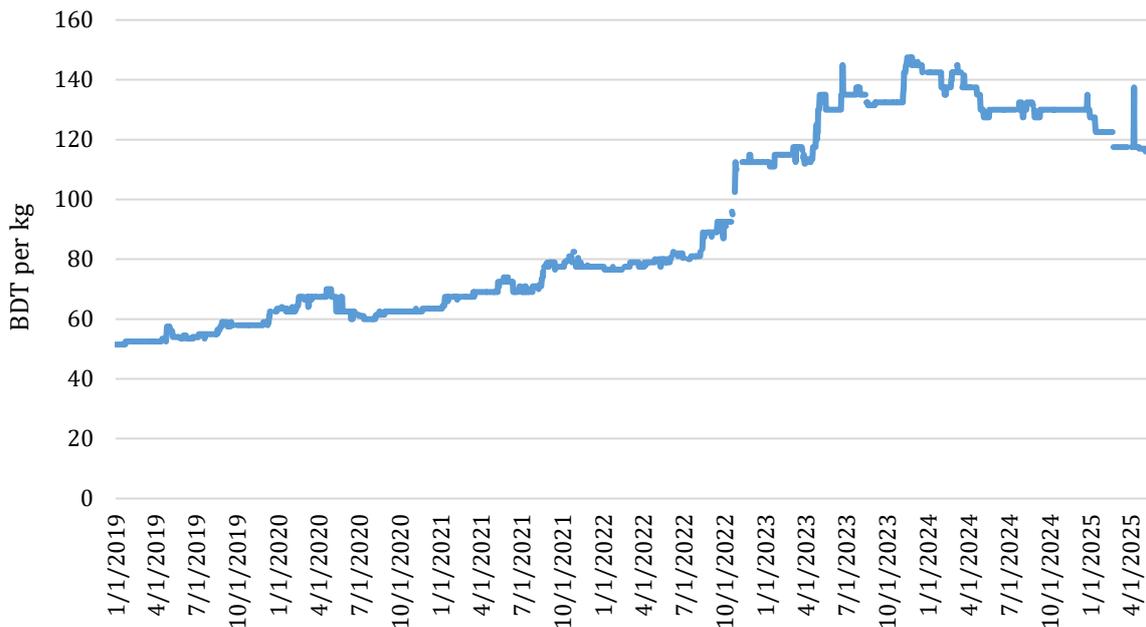
Note: The retail price of the item in Bangladesh is taken from TCB by averaging the daily prices for each month.

Additionally, an analysis of national and international price trends shows significant variations between soybean oil prices in Bangladesh and the world market. From January 2019 to December 2024, the average soybean oil price has been consistently higher in Bangladesh compared to the global market (Figure 3.8). For example, in December 2024, the average price of soyabeen oil in the world market was BDT 128 per litre (World Bank, 2024), whereas the average price of soyabeen oil in the Bangladesh market was BDT 168 per litre (TCB, 2024) (Figure 3.8).

Price of sugar

From January 2023, the average daily price of sugar in Dhaka experienced a sharp increase and has remained high throughout 2025 (Figure 3.9) (TCB, 2025). Domestically, Bangladesh's sugar industry has undergone a structural transformation over the past two decades. Once dominated by 15 state-owned mills, the industry is now largely controlled by five major private companies. Meghna Group of Industries (MGI) and City Group together imported nearly 70 per cent of the 17 lakh tonnes of raw sugar brought into the country in 2023 (Suman, 2024). Meanwhile, S. Alam Group, the third-largest importer, supplied around 20 per cent of national demand, while Abdul Monem Ltd and Deshbandhu Sugar Mills accounted for the remainder in the same year (Suman, 2024). Collectively, these five firms operate within an oligopolistic market structure, meeting over 98 per cent of Bangladesh’s annual sugar demand of 20 lakh tonnes (Suman, 2024).

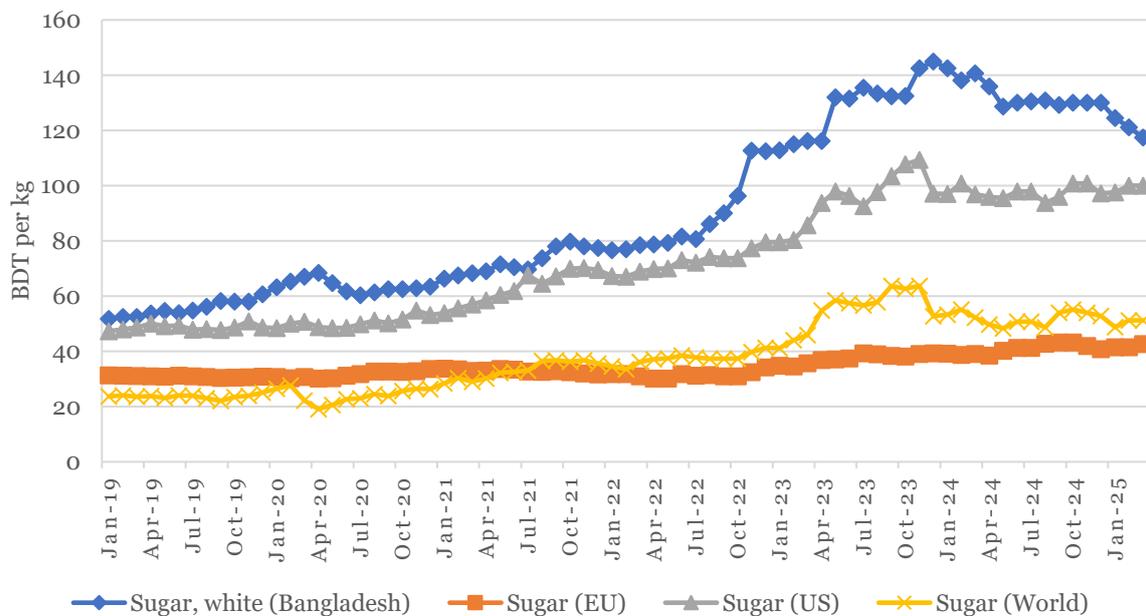
Figure 3.9: Average daily price of sugar in Dhaka from 1 January 2019 to 17 May 2025 (BDT per kg)



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

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

Figure 3.10: Comparison of international and Bangladesh prices of sugar from January 2019 to March 2025 (BDT per kg)



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

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

On the other hand, an international comparison reveals that the average price of sugar has been significantly higher in Bangladesh than in the EU, the US, and world markets (Figure 3.10). As of March 2025, the average price of sugar was BDT 43 per kilogram in the EU market, BDT 51 per kilogram in the world market, BDT 100 per kilogram in the US market (World Bank, 2025), but BDT 117.5 per kilogram in the Bangladesh market (TCB, 2025).

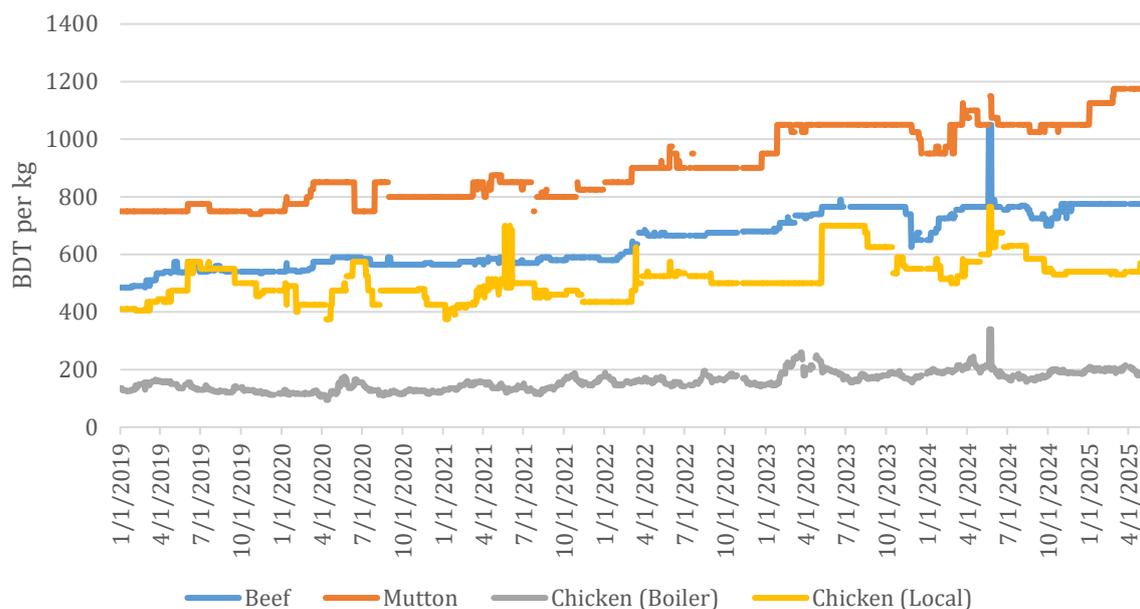
The significantly higher sugar prices in Bangladesh compared to global and regional markets highlight the burden placed on fixed-income households, as rising costs of essential commodities directly reduce their purchasing power. Additionally, price disparity between Bangladesh and neighbouring countries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

To stabilise the market for sugar, TCB should purchase in bulk and act as a buffer, while the government encourages Bangladeshi suppliers to resume operation of sugar mills and regulates oligopolies (CPD, 2025). The government should also strictly oversee oligopolies to prevent price fixing and ensure fair competition, thus reducing the sudden price changes and easing inflationary pressure in the economy. Furthermore, the current total tax incidence (TTI) on pure sugar (HS code: 29400000) stands at 37 per cent (NBR, 2025). This rate could be reduced to lower the prices of imported sugar, which would help ease food-related inflationary pressures. In addition, the sugar industry in Bangladesh operates under an oligopolistic market structure (Suman, 2024), which often leads to price-setting by a few dominant players. To ensure fair pricing and market competitiveness, stricter regulation of this sector is essential. The government should also consider offering targeted incentives such as tax breaks or subsidies to encourage the entry of new local millers. Increased competition would help bring down prices over time, contributing to lower inflationary pressure in the long run.

Price of meat

Meat prices in Dhaka exhibited only minor fluctuations between 2019 and 2025, with no significant spikes or drops (Figure 3.11) (TCB, 2025). Among the different types of meat, broiler chicken consistently remained the most affordable, with prices staying below BDT 200 throughout the period between 2019 and 2025 (TCB, 2025). In contrast, mutton was the most expensive, rising from under BDT 800 per kilogram in 2019 to approximately BDT 1,200 by 2025 (TCB) (TCB, 2025). The price changes for mutton may have been caused by the scarcity of land for mutton production and the high prices of animal feed (Abrar, 2021). Bangladesh has achieved self-sufficiency in meat production, reducing its reliance on imports to meet domestic demand. In the FY2020, the country produced approximately 7.67 million metric tonnes of meat, exceeding the national demand of 7.3 million tonnes (Samanta et al., 2022). While broiler chicken price remained below BDT 200, other meats such as local chicken have risen from BDT 600 in 2019 to around BDT 800 in 2025 (TCB, 2025). Local chicken is typically free-range and naturally hatched, making it widely perceived as safer and fresher than broiler chicken (LightCastle, 2020). This perception, combined with growing consumer awareness around food safety and health, has led to increased demand for local chicken, which contributes to its higher market price and makes it a rapidly expanding segment in Bangladesh's poultry market (LightCastle, 2020). The price of beef steadily rose from 2019 to 2025, where it was around BDT 500 in 2019 and grew to approximately BDT 800 in 2025 (TCB, 2025).

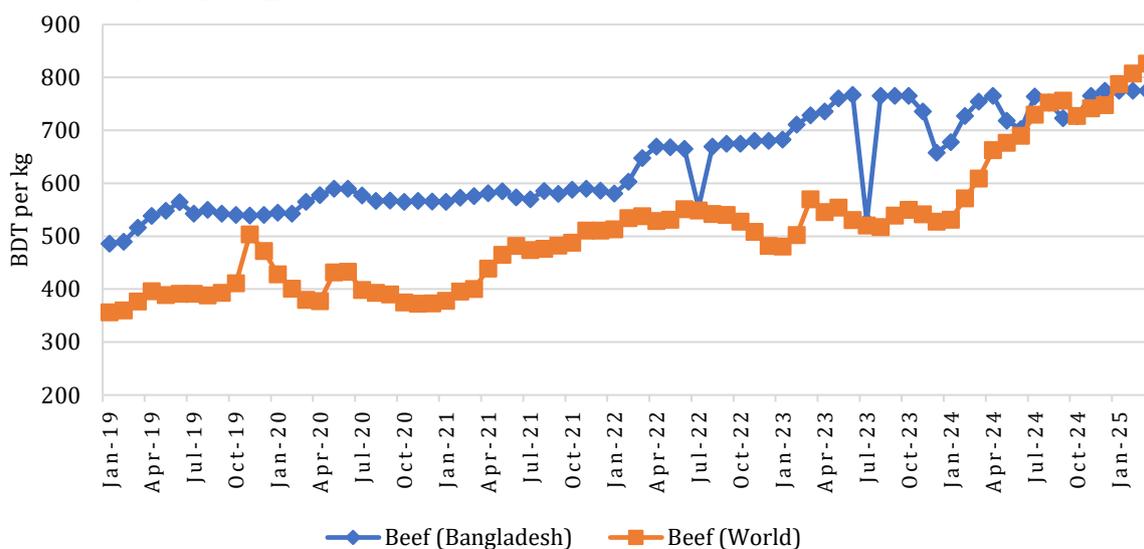
Figure 3.11: Average daily price of meat in Dhaka from 1 January 2019 to 17 May 2025 (BDT per kg)



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

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

Figure 3.12: Comparison of International and Bangladesh prices of beef from January 2019 to March 2025 (BDT per kg)



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

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

However, the average price of beef in Bangladesh has been consistently higher than in the world market from January 2019 to January 2025 (Figure 3.12). Although with the increase in the price of beef in the world market (World Bank, 2025), the price gap has narrowed significantly. As of March 2025, the average price of beef in the world market was BDT 826 per kilogram (World Bank, 2025) and the average price of beef in the Bangladeshi market was BDT 775 per kilogram (TCB, 2025).

To stabilise the prices of various meats, the government may assist small farmers by enhancing livestock health services, veterinary care, and breeding programs to reduce cow mortality, improve productivity and maintain stable meat prices. They may also provide targeted tax cuts or incentives for domestic feed millers to stabilise meat production costs. The government may also encourage the TCB to regularly monitor meat markets and intervene if necessary to prevent cartels or unfair pricing. The government may also subsidise the price of animal feed to reduce prices. They may also provide market linkages and support services to farmers for fair value chain participation (CPD, 2025).

Table 3.1: Summary of changes in average daily prices of essential food items

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Rice	Has increased since 2019; there has been a slight drop in January 2020 and a sharp rise since mid-2024 due to Aman crop damage.	Relatively stable, though affected by global supply chain issues. Prices of Thai and Vietnamese rice have been falling in recent months.	Floods disrupted Aman cultivation; high dollar rate made imports expensive; limited actual imports despite large-scale approval of imports	Increased cost-push inflation, reduced consumer purchasing power, and increased food insecurity.	Maintain buffer stocks; release stocks during price hikes or supply shocks; improve flood-resilient agriculture.

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Aata (Unprocessed Flour)	Sharp rise from January 2023; remained elevated through 2024–2025.	Global wheat prices increased significantly.	Depreciation of the Taka against the US dollar, depletion of foreign reserves, the Red Sea crisis, increased international shipping costs, and wheat supply volatility.	Spikes in food inflation, worsened food insecurity, and intensified rural poverty.	Develop climate-resilient wheat varieties; diversify import sources; and provide support from the government to increase domestic production.
Maida (Processed Flour)	Has risen since 2022; Decline in loose Maida prices in 2024.	The Russia-Ukraine war affects Global wheat prices; the main import sources are Ukraine, Romania, and Brazil.	Taka depreciation against the US dollar, global supply shocks, and high dependency on wheat imports.	Intensifies food inflation; impacts poor households as purchasing power decreases.	Create Maida buffer stocks; support wheat farming; subsidise domestic millers; diversify import sourcing from other countries.
Edible Oil	Has risen since 2019; there has been a sharp spike during 2022–2023; it remained high in 2024–2025.	Soybean oil prices have been below BDT 150 per litre in international markets since December 2022.	High import dependency, forex reserve depletion, global supply constraints, and currency depreciation	Further cost-push inflation reduces the standard of living; it places a disproportionate burden on low-income groups.	Streamline customs and import logistics; improve transparency in the edible oil market.

Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Sugar	Sharp increase in 2023; remained high through 2025.	World market prices have been on a rise since 2019; Local prices were BDT 117.5 per kg which was much higher than world prices of BDT 51 per kg	Oligopolistic domestic market, reduced global supply, rising import costs, weak regulatory oversight.	Inflationary pressures, possible price fixing, and impacts on food manufacturers and consumers.	Monitor and regulate oligopolies; resume state-run mills; allow TCB to purchase in bulk and act as price buffer.
Meat (Broiler Chicken)	Prices remained below BDT 200/kg, stable throughout 2019–2025.	Not significantly relevant due to self-sufficiency.	Stable domestic production, low import reliance, and strong supply chains.	Helps moderate food inflation due to low price fluctuations	Support poultry health, feed industry, and disease control; maintain TCB oversight to deter cartelisation.
Meat (Local Chicken)	The price was BDT 400 per kg in 2019, which increased to approximately BDT 600 per kg in 2022	Not significantly relevant due to self-sufficiency in supply.	High demand amongst consumers due to health awareness.	Rise in inflationary pressure;	Support poultry feed industry and disease control
Meat (Beef)	Increase from around BDT 550 per kg in 2019 to BDT 750–850 per kg in 2025.	World prices of beef have been higher than Bangladeshi prices since January 2025.	Increased feed and fodder costs; seasonal demand spikes (e.g., Ramadan, Eid); high transport costs; feed import affected by dollar rate.	Higher household food expenditure, pressure on middle-income consumers, and occasional supply shortages.	Provide tax incentives to feed producers; improve cattle healthcare; subsidise transport/logistics; promote local cattle rearing.

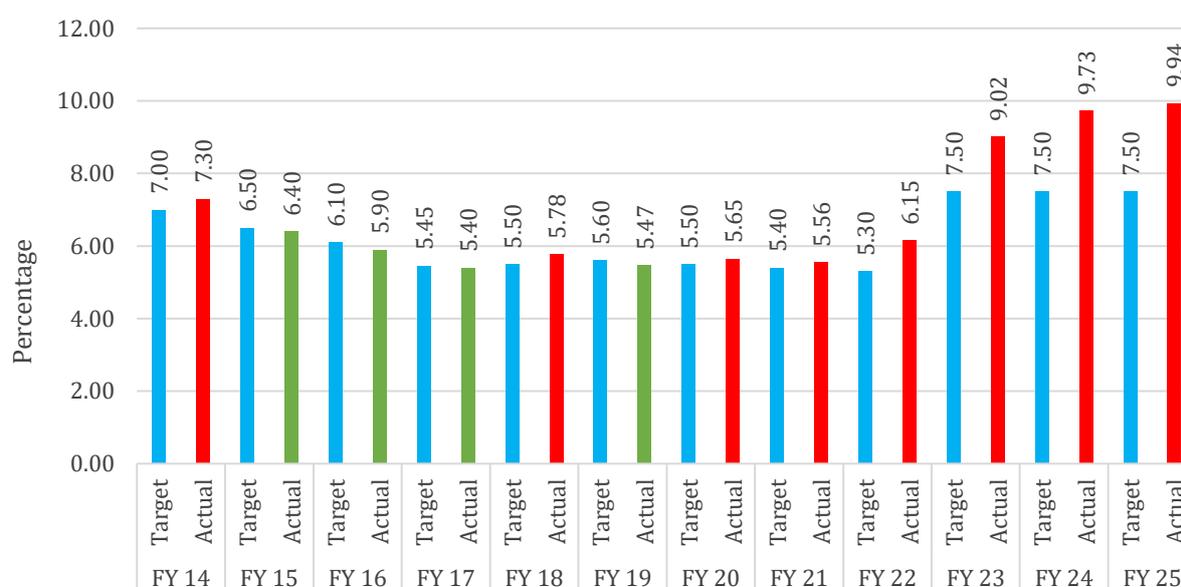
Food Item	Trends in Local Prices	Trends in International Prices	Possible Causes of Price Changes	Potential Impacts	Proposed Solutions
Meat (Mutton)	Highest price compared to other meats; price was BDT 700, which rose to almost BDT 1000 in 2022	The price was BDT 700 per kg, which rose to almost BDT 1000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

Source: CPD's compilation.

3.4 Measures taken to control inflation

The rate of inflation for most of the past 12 years was much higher than the targets initially set by the central bank (Figure 3.13). Although the actual inflation rate was slightly lower than what was anticipated for FY2015, FY2016, FY2017, and FY2019, the cost of living continued to escalate. Inflation has surged to its highest level in the last 12 years, reaching 9.94 per cent in FY2025, significantly above the target of 7.50 per cent for FY2025 (Bangladesh Bank, 2025). The most pronounced deviations between actual and targeted inflation were recorded in FY2024 and FY2025, with discrepancies of 29.73 per cent and 32.53 per cent, respectively. This tendency of setting such ambitious targets by the central bank suggests that policymakers are overly optimistic about reality. Furthermore, the graphical trend in the graph indicates that recent years have seen a growing gap between targeted and actual inflation rates (Figure 3.13), suggesting challenges in accurately forecasting and controlling inflation. Spikes in food prices have primarily driven rising price levels due to supply chain disruptions and flood damage.

Figure 3.13: Monetary policy target vs. actual inflation



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

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

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

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

3.5 Impact of increasing the money supply on inflation

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

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

Table 3.2: Granger causality Wald tests

Null Hypothesis	Probability	Decision
M2 does not Granger-cause CPI	0.06	M2 Granger-causes CPI general
CPI does not Granger-cause M2	0.06	CPI general Granger-causes M2
Interest rate does not Granger-cause CPI	0.00	Interest rate Granger-causes CPI general
CPI does not Granger-cause Interest rate	0.31	CPI general does not Granger-cause Interest rate

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

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

There is bidirectional causality between M2 and CPI (Table 3.2). Interest rates significantly influence CPI, and GDP significantly influences M2, but the impact is unidirectional. There is no significant causality between GDP and CPI, interest rates and M2, CPI and interest rates, GDP and interest rates, CPI and GDP, and M2 and GDP. The test shows that M2 Granger causes CPI with a p-value of 0.06, which is statistically significant at the 10 per cent level. This means past values of money supply help predict future inflation, which supports the idea that an increase in money supply tends to lead to higher inflation. It validates the quantity theory of money; increasing the money supply will increase inflationary pressures, though at a moderately significant level.

3.6 Impact of increasing the policy rate on inflation

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

The simplified regression equation is as follows:

$$Inflation_t = \beta_0 + \beta_1.repo\ rate_t + \beta_2IPI_t + \epsilon_t \text{ (Equation 1)}$$

Or

$$Inflation_t = \alpha_0 + \alpha_1.repo\ rate_t + \alpha_2IPI_t + \gamma_t \text{ (Equation 2)}$$

The regression will follow either Equation 1 or Equation 2, depending on the high inflation state or low inflation state. From the equations discussed above, inflation refers to the point-to-point inflation, while the repo rate is the policy rate established by the central bank as the interbank interest rate. IPI, on the other hand, is the industrial production index used as a proxy for output growth in industries in Bangladesh. It is the summation of all industrial production indexes. The data for inflation and IPI is taken from the Bangladesh Bank's monthly economic trends (Bangladesh Bank, 2025). Repo rate is taken from the monetary policy statements published by

the Bangladesh Bank (Bangladesh Bank, 2025). Before selecting the variables of interest and identifying the model specification, three other models were conducted using different combinations of variables, including lagged inflation values, the repo rate, and the exchange rate. However, the log likelihood, Akaike Information Criterion (AIC), and Bayesian Information Criterion (BIC) criteria, which indicate how well the data fit the model, were better for the chosen variables mentioned earlier.

Table 3.3: Results on the impact of point-to-point inflation using the Markov Switching Dynamic Regression

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

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

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

According to the results from the MS-DR model, the coefficients indicate that the repo rate and IPI are highly significant (Table 3.3). For every percentage increase in the policy rate, point-to-point inflation is expected to rise by approximately 0.43 per cent, holding other variables constant. This suggests that a higher interest rate is positively associated with increased inflation, although this is somewhat counterintuitive since interest rate is used as a monetary policy instrument in order to dampen inflation. This contradiction of theory may arise due to the endogeneity of the repo rate, which is used as a 'reaction' to inflation, serving as a policy instrument. Thus, the endogeneity may explain the observed results. In state 1, the expected inflation level is 8.46 per cent (as indicated by the constant value), assuming all independent variables are zero. State 2's expected inflation level is 10.47 per cent, assuming all independent variables are zero. Both results are significant at the one per cent level of significance. While these results are important, the main focus of interest is on the transition probability matrix (Table 3.4).

Table 3.4: Transition Probability Matrix

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

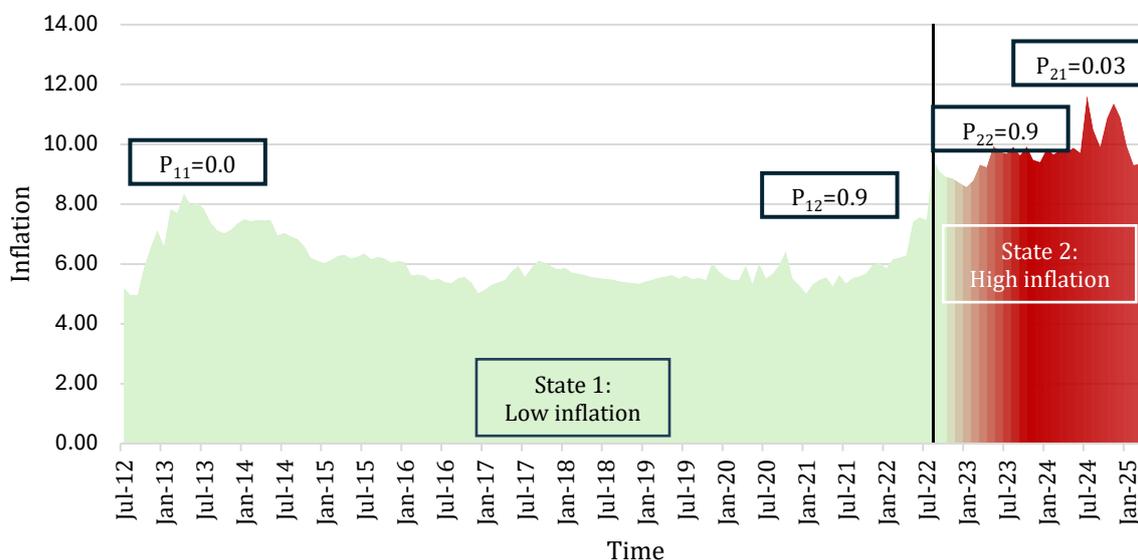
Source: Authors' calculation using data from the Bangladesh Bank (Bangladesh Bank, 2021b)

Note: i) p11 means the probability of persisting in State 1 given that the economy started in State 1, p12 means the probability of transitioning to State 2 given economy is in State 1, p21 means the probability of transitioning to State 1 given the economy is in State 2, p22 means the probability of persisting in State 2 given economy started in State 2; ii) Estimated transition probabilities shown up to third decimal place

The results suggest that when Bangladesh's economy enters a low-inflation phase (State 1), it does not remain there for long (Table 3.4) (Figure 3.14). In fact, the probability of staying in this period of low inflation is nearly zero. On the contrary, when the economy transitions into a high inflation phase (State 2), it tends to stay there. Additionally, the likelihood that the economy will

shift back to the low inflation state in the next period is only 3.15 per cent. This implies that a high-inflation state tends to be sticky and persistent. Furthermore, once the economy begins in a high-inflation state, the probability that it will remain there is as high as 96.8 per cent. The implications of the results suggest that inflation has persistently remained high before and after the July Uprising.

Figure 3.14: Inflation during State 1 and State 2



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

Note: i) The bar indicates the switch to high inflation state; iii) Period July 2012 to July 22, indicated by green shaded area indicates low inflation state, period August 2022 to January 2025 indicated by red shaded area indicates high inflation zone; iii) P11 means the probability of persisting in State 1 given that the economy started in State 1, P12 means the probability of transitioning to State 2 given economy is in State 1, P21 means the probability of transitioning to State 1 given the economy is in State 2, P22 means the probability of persisting in State 2 given economy started in State 2.

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

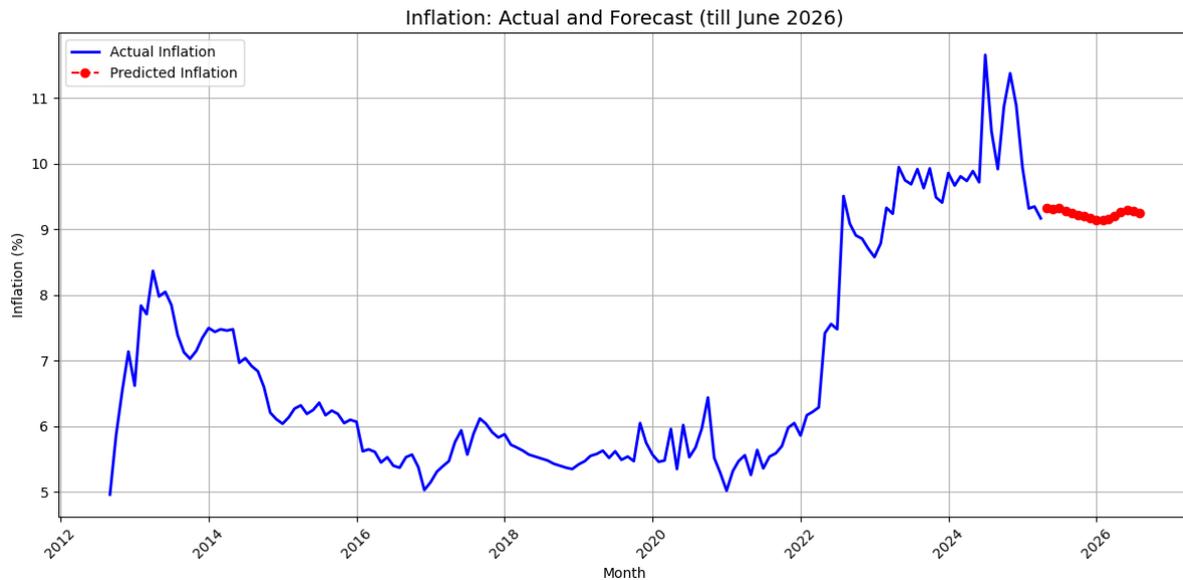
3.7 Forecasted inflation

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

Using monthly data of inflation from June 2012 to April 2025 from Bangladesh Bank, a feedforward Artificial Neural Network (ANN) model with a univariate time series approach was

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

Figure 3.15: Actual and forecasted point-to-point national general CPI inflation using an MLP regressor



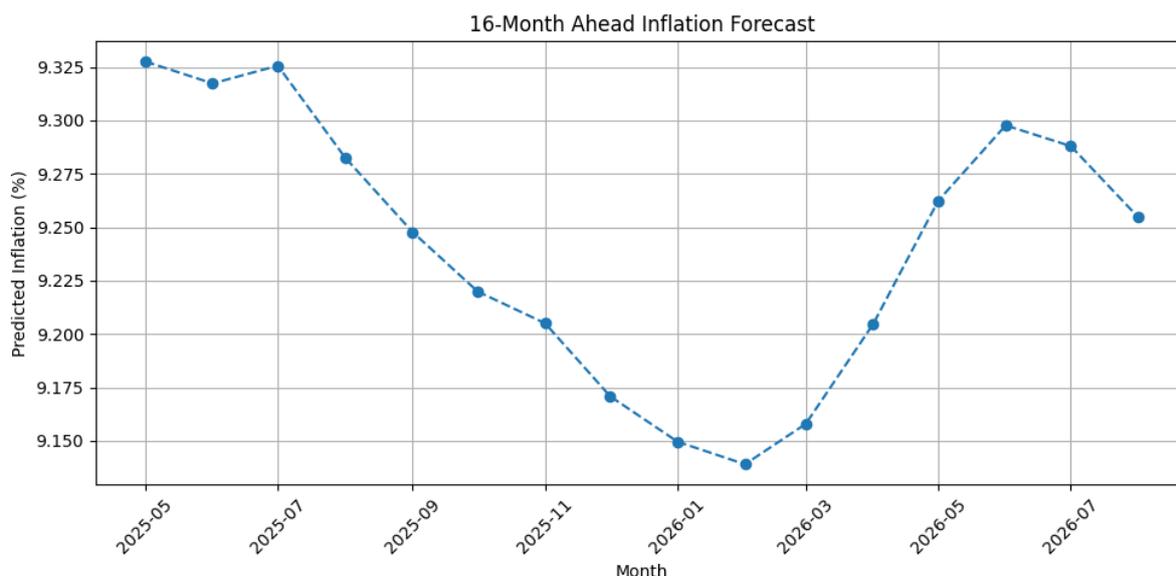
Source: CPD's calculations using data from Bangladesh Bank's Monthly Economic Trends (Bangladesh Bank, 2025c).

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

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

The results suggest that inflation is unlikely to decrease to 6.5 per cent by next year, assuming all other factors remain constant (Figure 3.15). While the trend indicates a gradual decline, the drop to 6.5 per cent seems unattainable given that all other factors are constant. A closer examination of the forecasted months provides a more detailed and nuanced understanding of the anticipated dynamics (Figure 3.16). The MLP regressor predicts a downward trend in the inflation rate from May 2025 to February 2026. However, inflation is likely to rise from March 2026 to June 2026, after which it shows signs of declining.

Figure 3.16: Forecasted point-to-point national general CPI inflation using an MLP regressor



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

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

3.8 Conclusions

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

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

driven by domestic inefficiencies, rising input costs, and external price shocks, necessitating targeted interventions in supply chains and market governance.

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

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

3.9 Policy recommendations

A comprehensive policy response is necessary to address Bangladesh's ongoing food price increases and wider inflationary pressures. There is a need for both short-term relief and long-term structural reforms to stabilise prices and protect the vulnerable population. Key proposals include strengthening buffer stock systems, promoting climate-resilient agriculture, reducing import dependency, and improving import processes. The importance of fair market practices is highlighted through the role of the Bangladesh Competition Commission (BCC) and the need to revise outdated competition legislation. Additionally, the section calls for a reduction in excessive money printing and urges the adoption of clear inflation targets backed by transparent monetary policy. Expanding social protection programs through the Ministry of Social Welfare is also recommended to support low-income households facing the brunt of rising prices.

- Maintain strategic buffer stocks of essential food items, such as rice, wheat, sugar, and edible oil, and release them during supply shocks to stabilise prices and contain inflation.
- Invest in developing climate-resilient wheat varieties to mitigate production risks from extreme weather events.
- Support local wheat production through long-term subsidies and training for farmers and millers to reduce dependency on Maida imports.
- Streamline import procedures and resolve supply chain bottlenecks to prevent food shortages and price spikes, including bulk edible oil imports for subsidised sales.
- Enhance beef production by improving veterinary services, incentivising feed millers, and monitoring markets to curb unfair pricing.
- Reduce the 37 per cent tax on sugar (HS code: 29400000) and introduce regulatory reforms to break the sugar industry oligopoly and make prices more affordable.

- Strengthen market oversight by actively monitoring dominant players, investigating price manipulation, and enforcing competition to protect consumers.
- Revise the Competition Act of 2012 to include tougher antitrust provisions, stronger penalties, and better enforcement against monopolistic practices.
- Expand social safety nets—including cash transfers and targeted food assistance—to protect vulnerable populations from the effects of food inflation.
- Control excessive money supply growth and align it with real output to curb inflationary pressures effectively.
- Implement structural reforms like boosting industrial output, stabilising the exchange rate, and dismantling market cartels to support monetary policy.
- Set clear and realistic inflation targets backed by independent forecasts and transparent monetary policy communication to build public trust.
- Extend direct cash support programmes under the Ministry of Social Welfare to help low-income households manage rising living costs.

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SECTION IV. FIXING THE FAULT LINES: RESTORING INTEGRITY TO THE BANKING SECTOR

Key findings

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

Key recommendations

- Concrete measures such as improving loan sanctioning practices, enforcing single borrower exposure limits, stopping repeated loan rescheduling, and strengthening internal controls for troubled banks should be initiated by the Bangladesh Bank.
- Bank accounts of wilful defaulters and their immediate family members should be immediately frozen. Their assets should be liquidated, and their businesses should be nationalised temporarily.
- Given the strong vested interest groups, an all-out effort should be taken and continued, backed by political commitments from the highest level, to sustain banking reforms

4.1 Introduction

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

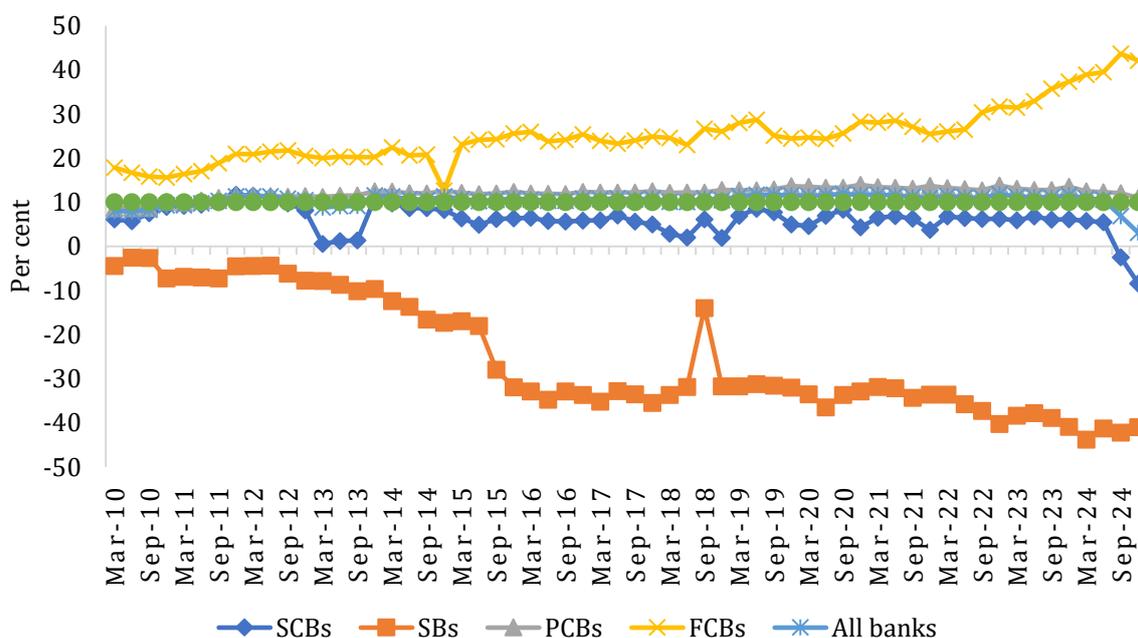
4.2 Performance of the banking sector

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

Capital Adequacy of Banks: The Capital-to-Risk Weighted Assets (CRWA) ratio can indicate banks' ability to absorb unexpected shocks. According to the Bangladesh Bank's guidelines, banks are required to have a lower bound of 10 per cent of total capital to risk-weighted assets (or minimum total capital plus a capital conservation buffer of 12.5 per cent) by 2019, in line with the BASEL III (Bangladesh Bank, 2014). However, as Figure 4.1 depicts, the CRWA for Specialised

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

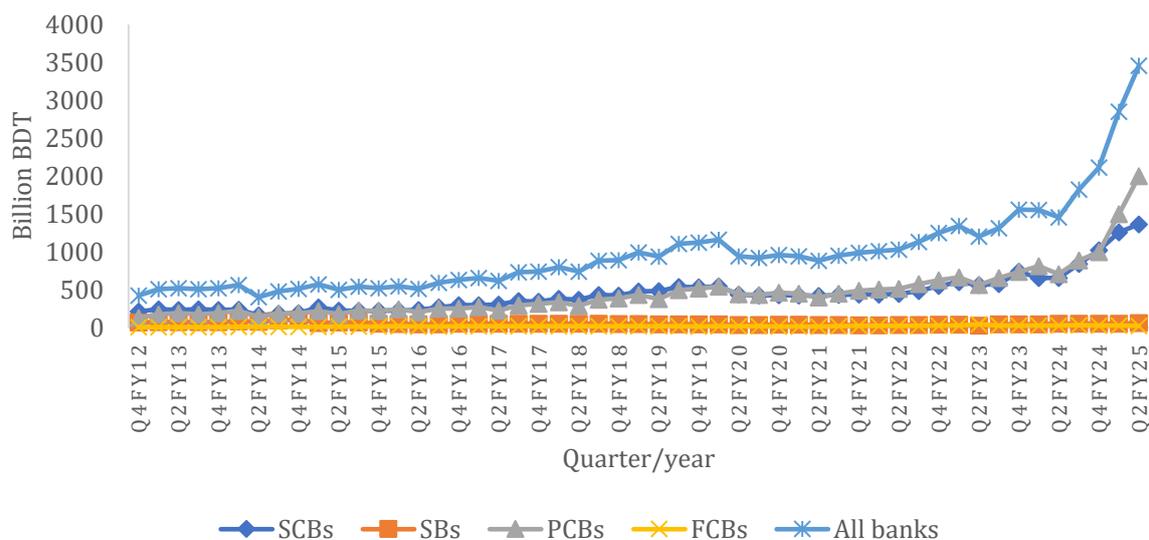
Figure 4.1: CRWA ratios by type of banks (in per cent)



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

Asset Quality: The asset quality rating evaluates current and potential credit risks associated with a bank's loan and investment portfolios, real estate holdings, other assets, and off-balance sheet activities. NPLs are the most widely used indicator of a bank's asset quality. According to the Bangladesh Bank, loans that are Sub-Standard (SS), Doubtful (DF), and Bad/Loss (B/L) are considered classified loans. Subsequently, these are treated as NPLs (Bangladesh Bank, 2024f). This classification is based on objective and subjective criteria: the objective criterion considers the loan's overdue period, while the subjective criterion evaluates the borrower's financial performance. NPLs have been on an increasing trend for years, with a rise of more than 8 times from Q4 of FY2012 to Q2 of FY2025 (Figure 4.2), where the latest figure for all banks stood at BDT 3457.65 billion (Bangladesh Bank, 2024a). This value stood at BDT 1206.57 billion two years ago in Q2 of FY2023 (Bangladesh Bank, 2024a), indicating how radical the increase in classified loans has been. Yet again, the revelation of the real data after the fall of an autocratic regime has revealed a poor condition of NPLs in the banking sector of Bangladesh.

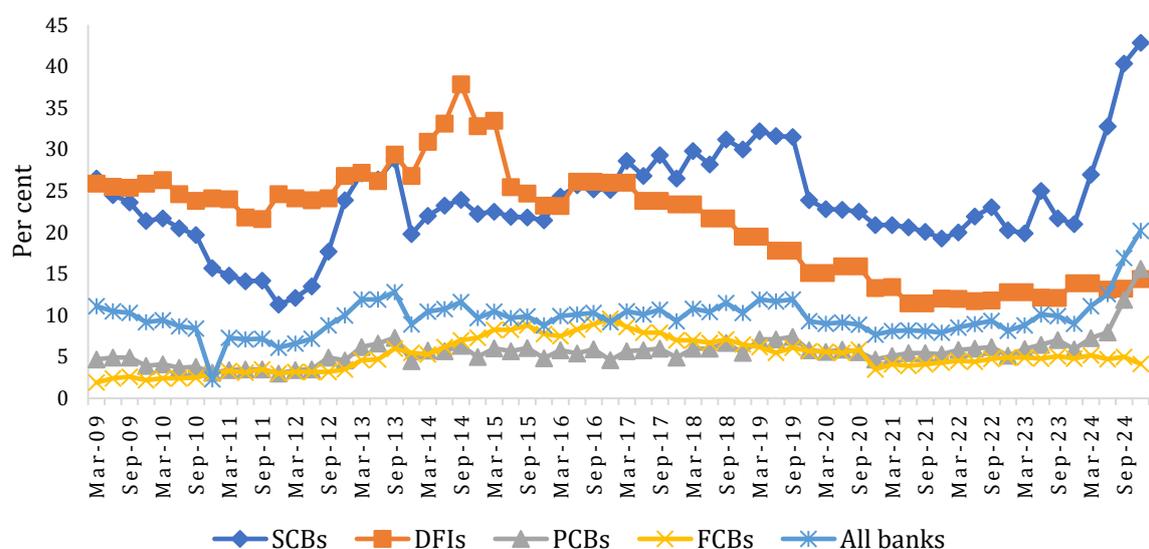
Figure 4.2: Total classified loan (in billion BDT)



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

On the other hand, Figure 4.3 shows how different categories of banks have amassed these NPLs. Amongst them, the trend for SCBs stands out as the highest amongst all those bank categories, with a gross NPL ratio reaching 42.83 per cent in December 2024 (Bangladesh Bank, 2024a). Although these data represent recognised NPLs, the total figures rise substantially when factoring in rescheduled and restructured loans, outstanding written-off loans, loans in special mention accounts, and loans under court stay order. For instance, as per the latest reports, BDT 536.12 billion was the outstanding balance of written-off loans at end-December 2023 (Bangladesh Bank, 2023a). Moreover, according to the last released Financial Stability Report, there were BDT 912.21 billion worth of loans rescheduled, and more than 80 per cent of total outstanding rescheduled loans were still unclassified in 2023 (Bangladesh Bank, 2023a). The central bank also reported, as of February 2024, that 72,543 cases pending in the Money Loan Court were valued at BDT 1.78 trillion (Bangladesh Bank, 2024b).

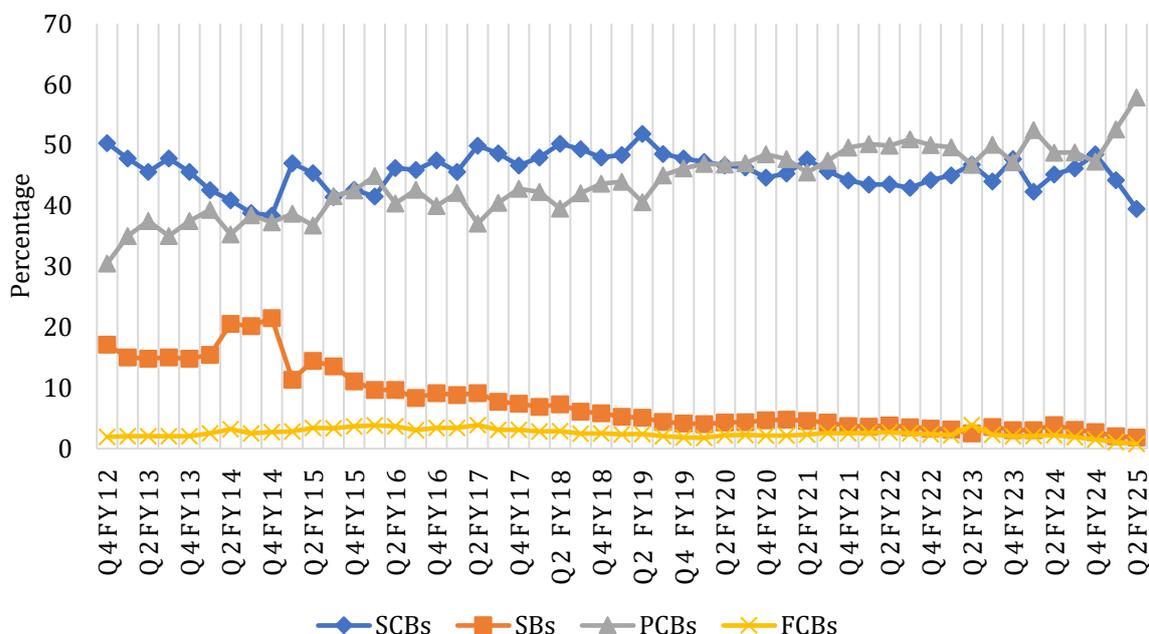
Figure 4.3: Gross NPL ratios by type of banks (in per cent)



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

Figure 4.4 further reveals which banks holds the most NPLs, and in Q2 of FY2025, 58 per cent of these bad debts originated from PCBs, showcasing the fact that even though gross NPL ratios for these banks stood at only 15.6 per cent at the same quarter, they still are responsible for more than half the NPLs as of latest statistics (Bangladesh Bank, 2024a). Overall, SCBs and PCBs seemingly made up 98 per cent of NPLs in Q2FY25 (from 81 per cent in Q4FY12), whereas the share of SBs gradually fell over the same period (Bangladesh Bank, 2024a).

Figure 4.4: Distribution of NPL by type of bank (as percentage of total NPL in banking sector)



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

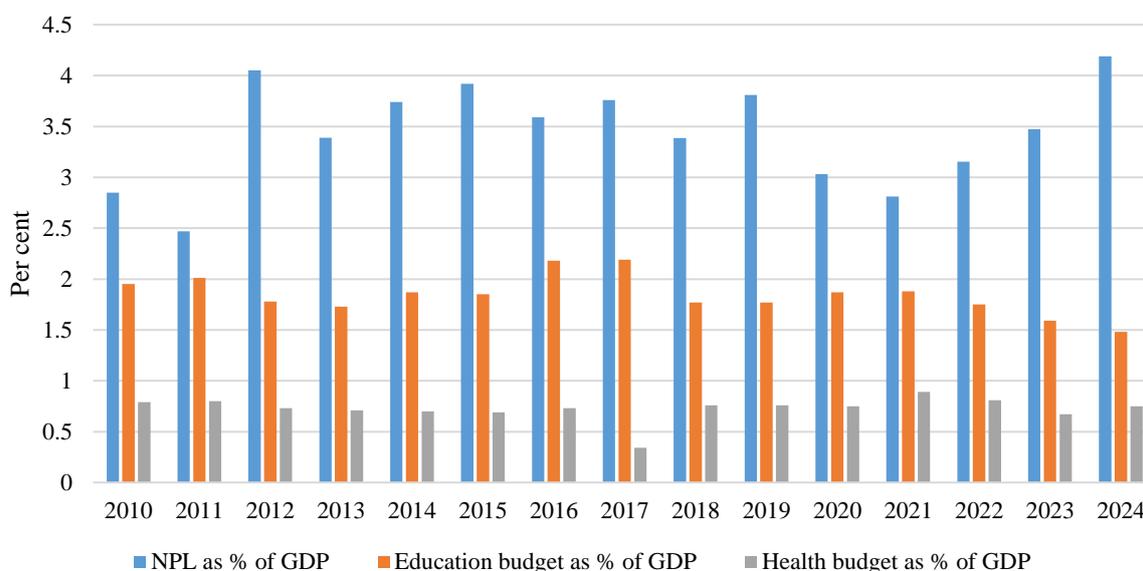
NPLs represent a substantial risk to a nation's financial stability and economic progress. Although they may initially seem innocuous—apparently stemming from borrowers' inability to repay high-interest loans—research indicates otherwise. Research suggests that increased interest rates are typically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

The mismanagement of state-owned commercial banks in Bangladesh, along with pervasive malpractices and corruption, has considerably raised the levels of non-performing loans (CPD, 2018a). Loans were often awarded based on political connections rather than impartial credit risk evaluations. In other instances, borrowers' creditworthiness was disregarded in favour of their political clout, cultivating the belief that robust political connections were adequate to obtain substantial loans. Moreover, the government's provision of support to unprofitable state-owned firms via SCBs has intensified the NPL situation, further jeopardising the financial health of these entities.

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

The scale of the NPL crisis significantly hinders resource allocation to vital sectors of the economy. Capital immobilised in non-performing loans could be redirected to important social sectors inside the country. Figure 4.5 demonstrates that the volume of NPLs in Bangladesh has escalated significantly in recent years, with the overall NPL amount in 2024 surpassing the aggregate yearly budget allocation for education and health. In 2024, Bangladesh’s total non-performing loans were nearly 4 times the annual education budget and over 8 times the annual health budget, highlighting the severe scale of resource misallocation caused by the NPL crisis.

Figure 4.5: NPL compared to GDP and budget allocations for education and health



Source: Bangladesh Bureau of Statistics (BBS), Bangladesh Bank Annual Report (various years), Budget documents (various years), Ministry of Finance.

Note: NPL data is for calendar years; all other data are for fiscal years.

Research on the corporate governance norms of Bangladeshi banks reveals insufficient regulatory control, predominance of private investors, inadequate transparency and disclosure, and inefficient institutional supervision (Chowdhury, 2010). Research has identified inadequate bankruptcy legislation, insufficient shareholder engagement (Ahmed et al., 2017), and political involvement (Reaz & Arun, 2006) as major impediments to achieving effective governance in Bangladesh's banking sector. Research (Haque et al., 2007) (Reaz & Arun, 2006) highlighted the influence of social elites, indicating that specific families often monopolise bank ownership, thereby obstructing justice, accountability, and openness.

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

In the institutional domain, governance concerns within the banking sector of Bangladesh have been multifaceted. A significant issue has been the appointment of bank directors, Chief Executive Officers (CEOs), and senior officials by the government, which compromises the autonomy and professionalism of banking institutions (Islam, 2017) (Alo, 2018) (Khatun, 2012) (Khatun & Saadat, 2019). This politicisation of appointments has often led to loans being approved based on political affiliations rather than financial merit (Parven, 2011) (Khatun, 2012) (Habib M. N., 2017). Moreover, even in cases where borrowers had poor repayment histories, loans were

frequently rescheduled, reflecting a lack of financial discipline and proper risk assessment mechanisms history (Habib M. N., 2017) (Khatun, 2018) (CPD, 2019a). In addition, banks have occasionally written off loans to artificially enhance their balance sheets, thereby obscuring the true financial health of the institutions (Khatun, 2018) (CPD, 2019a). Internal control mechanisms and compliance risk management have also been inadequate, leaving banks vulnerable to mismanagement and fraud (Chowdhury, 2010) (Khatun, 2012) (Habib S. M., 2019). Furthermore, several banks have failed to comply with international regulatory frameworks such as the BASEL III standards, raising concerns about their long-term resilience (Habib S. M., 2019) (Khatun, 2018) (CPD, 2019a).

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

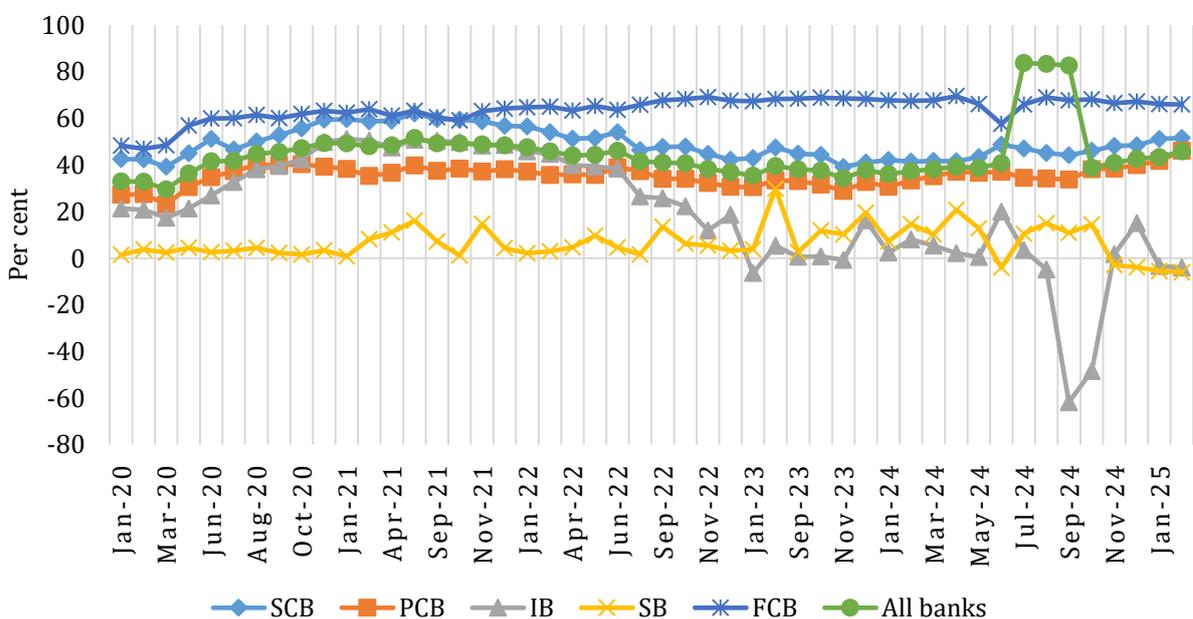
Legal governance issues have further exacerbated the problems in the banking sector. Amendments to the Banking Company Act have reportedly benefited vested interests rather than serve the public or institutional integrity (Khatun, 2018) (CPD, 2019a). The Financial Loan Court Act has been criticised for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

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

Liquidity of Banks: The liquidity position of various banks is crucial in understanding their financial stability and overall performance. Globally, banks must maintain a sufficient amount of liquid assets to remain resilient against unexpected financial shocks; for instance, if depositors suddenly expect banks to go bankrupt and make substantial withdrawals, the liquid assets can be used to keep the bank functioning. In Bangladesh, liquid assets are usually in the form of cash, balances with the Bangladesh Bank, and unencumbered approved securities such as Treasury Bills (T-Bills) and Treasury Bonds (T-Bonds) (Bangladesh Bank, 2024c). Figure 4.6 illustrates the patterns of excess liquidity for the various bank categories.

FCBs have the highest excess liquidity (as a share of total liquid assets), which stood at 66 per cent in February 2025 (Bangladesh Bank, 2024c). Whereas Islamic Banks (IBs) registered negative excess liquidity at 3 and 4 per cent in January and February 2025, these values for IBs are significantly better compared to the unusually high negative values of 48 and 62 per cent for September and October 2024 (Bangladesh Bank, 2025a). Figure 4.6 also displays the relatively weaker performances of SBs regarding excess liquidity, showing a liquidity shortage for the last four consecutive months (Bangladesh Bank, 2025a). This implies that these banks have even failed to maintain the minimum required liquid asset levels mandated by the Bangladesh Bank. However, the performance of SCBs, PCBs, and FCBs has resulted in the overall banking sector having excess liquidity of 46 per cent as of February 2025 (Bangladesh Bank, 2024c). Even though excess liquidity is generally perceived as a positive indicator, research also indicates that this phenomenon can give banking authorities a false sense of safety and entice them to make riskier investments (Kato & Tsuruga, 2016) (Acharya & Naqvi, 2012) (Ahmad et al., 2022).

Figure 4.6: Excess liquidity (as share of total liquid assets)



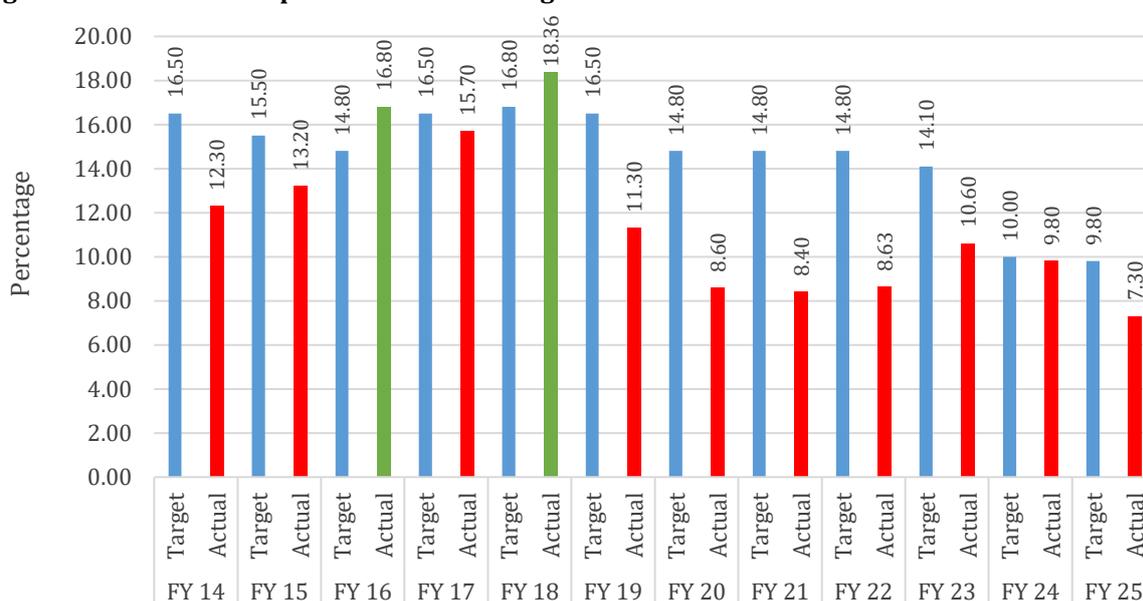
Source: CPD illustration based on data from the Bangladesh Bank (Bangladesh Bank, 2024c).

Since mid-2021, banks in Bangladesh have faced a liquidity crunch that has persisted throughout the first half of FY2025. The main contributors to this tight liquidity situation include the outflow of money from reserves to support the Taka's exchange rate and the failure to address the issue of NPL. Bangladesh Bank's support for bailing out banks during liquidity crises has fostered a moral hazard problem. When banks know they can depend on special liquidity support from Bangladesh Bank if they encounter operational issues, even those stemming from

mismanagement or fraud, they lose the incentive to enhance internal controls or make responsible lending decisions. The central bank must strengthen the governance of commercial banks and empower its task forces to recover stolen assets and reduce NPLs.

While Bangladesh Bank has taken several steps to alleviate pressure on the banking sector during Q1 of FY2025, it has also implemented a contractionary monetary policy to control inflation. Consequently, the combined effects of this policy and the tight liquidity environment in the money market have led to a significant rise in interest rates, making borrowing more expensive. The call money rate increased to 10.07 per cent, and the interbank repo rate rose from 8.56 to 10.18 per cent between June and December 2024 (Bangladesh Bank,). Although loan and deposit rates rose in tandem with the policy rate, most of the increase in lending rates occurred before the policy rate hikes began in August, following the lifting of the lending rate cap in May 2024 (Bangladesh Bank,). The resulting impact is evident in the slowdown of private-sector credit growth (Figure 4.7). Moreover, since a significant rise in lending rates occurred before the policy rate increase due to removing the rate cap (Bangladesh Bank,) market forces were already tightening credit conditions, likely in response to inflationary pressure and risk perceptions. Additionally, the interest rate spread widened from 2023 to January 2025 (Bangladesh Bank 2024e), reflecting banks' increased risk aversion and a more cautious approach to lending. This indicates that, even before the policy rate hikes commenced, banks had already tightened credit conditions due to inflation and economic uncertainty concerns. Bangladesh Bank must carefully calibrate and coordinate its monetary and fiscal policies to strike a balance that supports price stability without stifling economic momentum.

Figure 4.7: Slowdown of private-sector credit growth

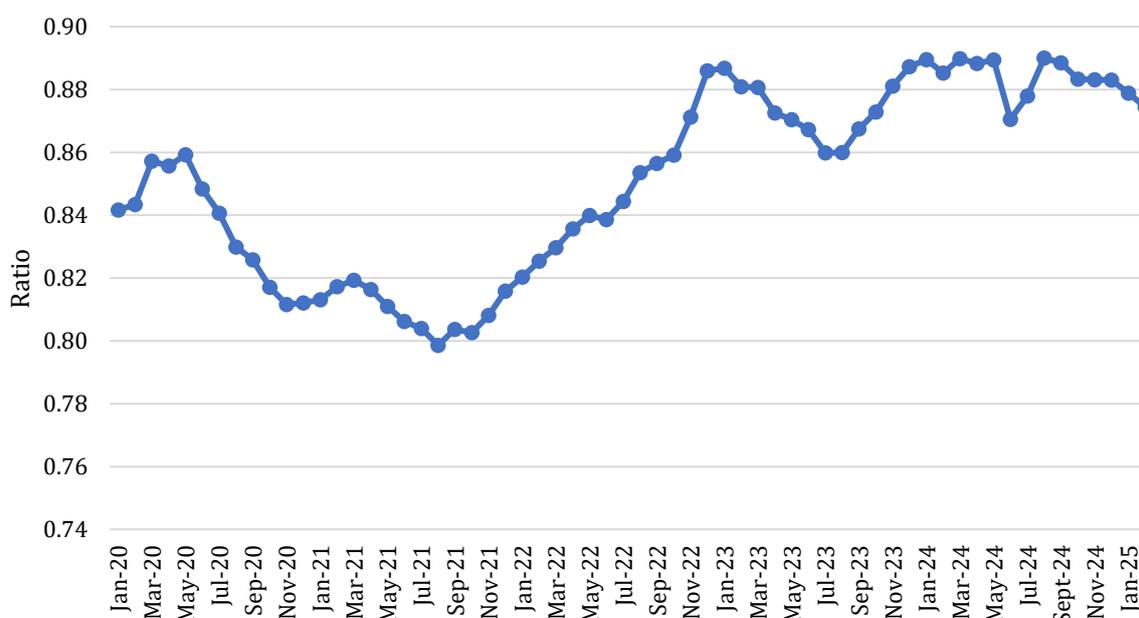


Source: Authors' illustration based on data from the Bangladesh Bank (Bangladesh Bank 2025f).

Private sector credit growth has consistently fallen short of its targets, except in FY2016 and FY2018 (Figure 4.7). In recent years (FY2022 to FY2025), private sector credit growth has continued to miss the targets, highlighting a lack of investor confidence in the economy. In response to this persistent low private credit growth, the central bank has had to lower its monetary policy targets for several years.

Advance Deposit Ratio: The Advance-Deposit Ratio (ADR) measures the number of advances or loans made by banks compared to their deposits. A relatively high level of ADR may indicate that banks have lower liquidity levels or are exposing themselves to riskier investments. The regulatory limit of ADR set by the Bangladesh Bank is 0.87 (Bangladesh Bank, 2020). Although the recorded ratios for July, August and September 2024 stood at 0.88, 0.89 and 0.89, respectively (Figure 4.8), from October 2024 to January 2025, the rate was constant at 0.88 and finally stood at 0.87 at the latest figure of February 2025 (Bangladesh Bank, 2024a).

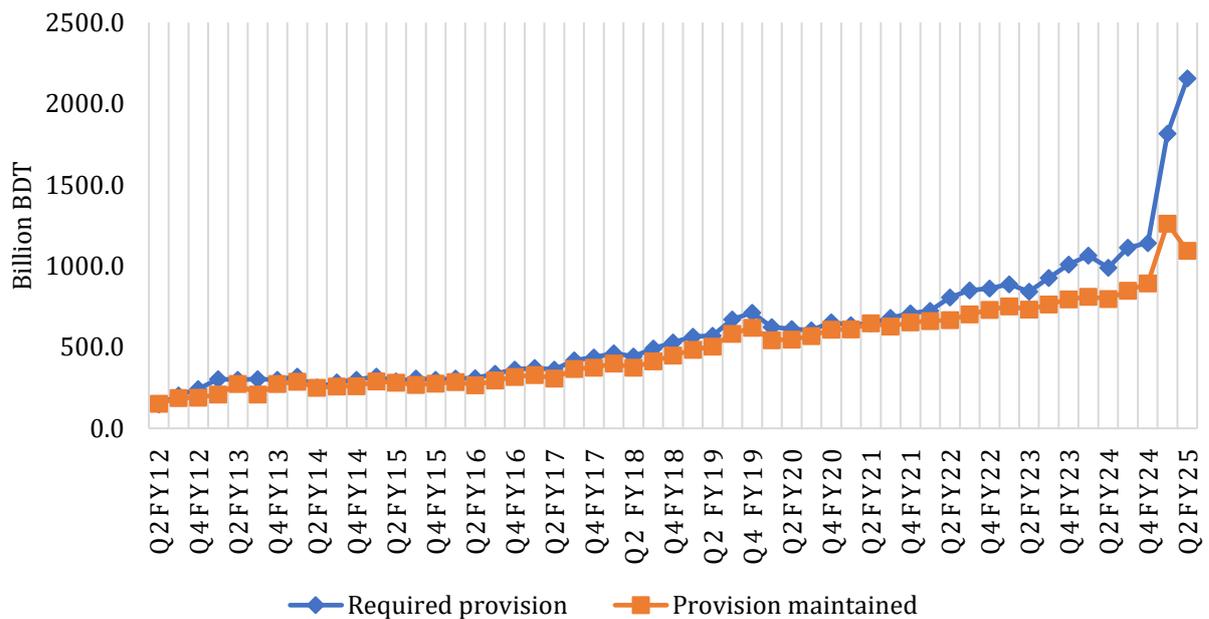
Figure 4.8: Advance-deposit ratio



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

Loan Loss Provisioning: The ability of banks to protect themselves against bad loans is paramount – to achieve this, the central bank delineates thresholds of required provisions for banks to maintain. For the classified loans: Substandard (SS), Doubtful (DF), and Bad/Loss (B/L), the base percentages for provision are 20, 50 and 100 per cent, respectively (Bangladesh Bank, 2024d). Figure 4.9 presents the pattern of required provisions against provisions maintained from Q2 of FY2012 TO Q2 of FY2025 (Bangladesh Bank 2024e). In these 13 years, the required provisions have increased from BDT 144.5 billion to BDT 2155.1 billion – approximately 15 times. While both required and maintained provisions have risen almost exponentially throughout this period, the gap between the two started widening substantially from Q2 of FY2021.

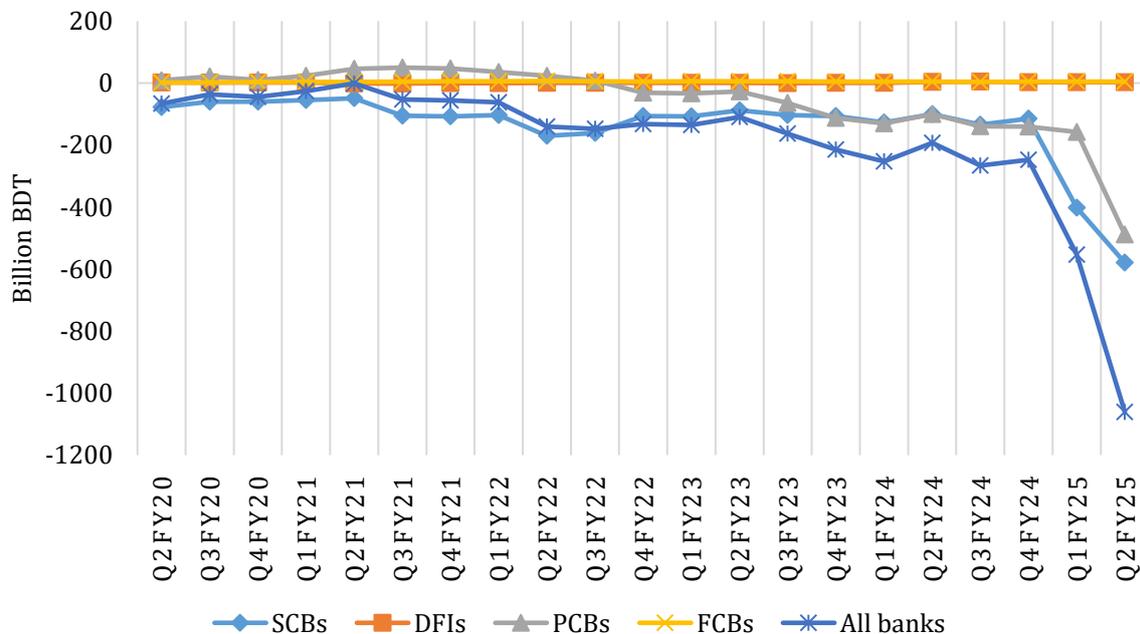
Figure 4.9: Loan loss provisioning (in billion BDT)



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

Figure 4.10 shows how the excess or shortfall in loan loss provisioning has developed over the last five years – it can be gleaned from the graph that both SCBs and PCBs have struggled to adhere to provisioning requirements with increasing shortfalls. In fact, since Q3 of FY2012, every quarter registered a shortfall in provisioning for all banks, which has culminated in a negative of BDT 1061.3 billion as of Q2 of FY2025 (Bangladesh Bank, 2024a).

Figure 4.10: Shortfall in loan loss provisioning (In billion BDT)



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

The shortfall in provisioning for PCBs has increased by BDT 330.52 billion in Q2 of FY2025 from BDT -158.31 billion to BDT -488.83 billion (Bangladesh Bank, 2024a). Additionally, the shortfall

for SCBs has increased by BDT 465.38 from Q4 of FY2024 to Q2 of FY2025. Meanwhile, values for DFIs and FCBs have remained largely unchanged, indicating how values for SCBs and PCBs have deteriorated since the regime change.

4.3 Recent reform measures

4.3.1 Improving Banking Operations

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

Furthermore, the central bank has also released a detailed roadmap for the implementation of IFRS 9 in January 2025 (Bangladesh Bank, 2025b). This initiative will be carried out in three major phases, a summary of which is outlined in Table 4.1.

Table 4.1: Roadmap of Implementation of IFRS 9 by Bangladesh Bank

Phase	Key Points	Deadline to Implement
I	<ul style="list-style-type: none"> Formation of a dedicated team under the Managing Director (MD)/CEO. Detailed monthly database on borrowers from January 2022. Feasibility report submission to BRPD. Training and capacity building for relevant employees. 	December 2025
II	<ul style="list-style-type: none"> Guidelines for ECL-based loan classification issued by the Bangladesh Bank. Pilot IFRS-9 on branches that manage at least 25 per cent of the bank's total loan portfolio. Prepare half-yearly statements for treated and non-treated bank branches. 	December 2026 and onwards
III	<ul style="list-style-type: none"> Pilot IFRS-9 on branches that manage at least 75 per cent of the bank's total loan portfolio. Pilot IFRS implementation of ECL-based loan classification and provisioning on all banks. 	December 2027

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

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

March 2025, after which the Bangladesh Bank was to consider unpaid term loans overdue from the following day of the expiry date (Bangladesh Bank, 2024g).

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

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

On more substantial reforms, a step taken by the Financial Stability Department (FSD) (issued in a circular on 30 December 2024) updated the guidelines on stress testing (Bangladesh Bank, 2024h). Stress testing allows financial institutions to understand how they will perform under various circumstances, such as adverse external shocks. According to their guidelines, all scheduled banks must perform the stress tests every quarter and report them to the Risk Management Committee (RMC) and Board of Directors (BoD) (Bangladesh Bank, 2024h). These quarterly dates correspond to 31 March, 30 June, 30 September, and 31 December. The guidelines state that banks must submit soft copies of stress test reports within 30 days of each quarter's end (Bangladesh Bank, 2024h).

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

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

4.3.2 Ensuring Robust Management

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

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

Notably, Bangladesh Bank has also outlined guidelines to ensure transparent and appropriate policies related to transactions with bank-related persons or institutions (Bangladesh Bank 2025g). The bank-related person or institution can be any director, Managing Director/CEO, other official, a significant shareholder, the representative director of a shareholder company, a subsidiary company of a bank or any other influential entity. Furthermore, family members of

such individuals, as stated in the central bank's circular, also fall within this group as well as related individuals, institutions, or companies (Bangladesh Bank,). It is stated that credit facilities which exceed ten per cent of the bank's Tier-1 capital cannot be extended to the defined people. Moreover, the credit given to directors or related individuals should not be more than 50 per cent of the face value of their shares. The circular also states that any direct facility exceeding BDT 50 lakh, or total direct and indirect exposure over BDT one crore, will require prior approval from Bangladesh Bank (including any renewals, modifications, or guarantee adjustments) (Bangladesh Bank,). The entirety of this reform initiative is aimed at curbing practices which have historically undermined the institutional capacity of the banking sector through insider lending and corrupt practices – this may result in loans being approved based on proper eligibility rather than personal affiliations.

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

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

4.3.3 Impacts of Monetary Mechanisms

In recent years, the Bangladesh Bank has also changed the applicable lending rates in the economy. Effective April 2020, a lending rate cap of 9 per cent was initiated (Bangladesh Bank, 2024j). However, this was rectified in July 2023 as the Bangladesh Bank adopted a crawling peg interest rate regime known as the Six-Month Moving Average Rate of Treasury Bill (SMART). Finally, in line with international best practices, the Central Bank returned to a full-fledged market-based interest rate system after four years in May 2024 (Bangladesh Bank, 2024j). These policy changes have been undertaken to reduce inflationary pressures in the economy, with the expectation that banking interest rates will rise and reduced economic activity will allow prices to cool down (CPD, 2024). The Bangladesh Bank has also been steadily raising the policy rate to adopt a contractionary monetary policy stance and reduce the persistent inflation in the country (CPD, 2023). After the uprising in July 2024, the newly appointed Bangladesh Bank governor raised the policy rate three times till October 2024 —from 8.5 to 9 per cent in the last week of August (Bangladesh Bank, 2024l) to 9.5 per cent in September 2024 (Bangladesh Bank, 2024m) and finally to 10 per cent in October 2024 (Bangladesh Bank, 2024n) (The continuous increases in the policy rate have been primarily aimed at curbing inflation, but it has made bank borrowing more costly.

In another consequential move, Bangladesh Bank has moved to a market-based exchange rate; announced in a circular published on 14 May 2025, it aims to augment foreign investor confidence, introduce transparency and relieve stress on foreign exchange (FX) reserves (Bangladesh Bank,). Even though the central bank had attempted to pass this decision previously

on 31 December 2024, it had to reverse to a capped spread between the buying and selling of foreign currencies (a maximum of 1.00 taka) on 02 January 2025 due to dealers attempting to profit from market manipulation (Bangladesh Bank, 2024n) (Bangladesh Bank,). In this regard, it can be surmised that the central bank is expecting commercial banks to act responsibly with their considerable role in the FX markets.

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

4.3.4 Bank Resolution Ordinance 2025

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

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

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

Bangladesh Bank will also design a resolution plan for scheduled banks under the Prompt Corrective Action (PCA) framework (Bangladesh Bank, 2023b). In such cases, it is necessary to investigate the feasibility and credibility of a normal liquidation and exit process. While critical services will be continued, it is required that such a resolution plan include the potential impacts of the process, including the affected employees of the bank. Scheduled banks must also provide all necessary information to the Bangladesh Bank, including the mechanisms in place for obtaining that information.

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

The central bank can also appoint a temporary administrator to scheduled banks undergoing resolution; such a person will represent the interests of Bangladesh Bank and can only serve up to 12 months. To ensure sufficient transparency, this announcement will be made public.

Moreover, Bangladesh Bank also has the power to transfer any assets, shares, or liabilities of such scheduled banks to third parties as deemed necessary. Intriguingly, the concept of Bridge Banks has also been utilized to ensure the smooth operation of such scheduled banks until they can be sold to third parties. Any tactics to wholly review all the assets and liabilities of scheduled banks under consideration can also be used, and any directors, CEOs or management personnel can also be replaced or removed. The Bank Restructuring and Resolution Fund has also been established to oversee such processes, where sources of funds may be budget allocations, transfers, grants, loans, investment income, etc. The ordinance specifically outlines the possibility of temporary financial assistance from the government, in which case, cost-benefit analysis may be necessary.

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

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

4.4 Conclusion

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

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

The Bank Resolution Ordinance 2025 grants Bangladesh Bank extraordinary authority to promptly intervene in troubled banks, including temporary control, the appointment of

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

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

4.5 Policy recommendations

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

4.4.1 Commercial Banks Need to be Strengthened

Short-term measures

- Ensure proper loan sanctioning: Loans should be sanctioned based on the Central Bank's "Guidelines on Internal Credit Risk Rating System for Banks," and all large loans above a certain threshold should require approval from the senior management and board of the commercial bank, as well as approval from the Central Bank.
- Enforce single borrower exposure: Commercial banks' single borrower exposure limit should be strictly enforced.
- Stop rescheduling and write-offs: Repeated rescheduling and write-offs of NPLs should be stopped permanently, and the Bangladesh Bank should penalise commercial banks if there is any non-compliance with regulations for rescheduling.
- Appoint administrators for troubled banks: The Bangladesh Bank should appoint firm administrators to oversee the operation of troubled banks which cannot comply with BASEL III requirements, as mentioned in the Bank Resolution Ordinance 2025.
- Replace management and boards: Banks performing poorly should replace their management and board of directors with competent people.
- Depoliticise bank boards: The appointment of board members of commercial banks should be depoliticised and based only on qualifications and experience.
- Limit tenure of the board of directors in banks: The tenure of board members of commercial banks should be shortened from 12 consecutive years to six consecutive years, and the minimum time between the end of one tenure and the start of the next tenure should be increased from three years to six years.

- Mandate approvals for appointment and promotion: Appointment and/or promotion of senior management positions up to two tiers below the rank of CEO or Managing Director (MD) of commercial banks should require approval from the Bangladesh Bank.
- Postpone digital banks: The establishment of digital banks must be postponed until the existing problems in the banking sector are resolved effectively. Licenses awarded to digital banks should be cancelled, and the license fees should be returned to the applicants.

Medium-term measures

- Strengthen internal control and compliance: Internal Control and Compliance Departments of commercial banks should be revitalised, and effective internal audits should be ensured.
- Shutdown banks kept on life support: Strengthen enforcement mechanisms and ensure the independence of Bangladesh Bank to effectively implement the Bank Resolution Ordinance 2025, minimising political interference and guaranteeing transparent, impartial resolution of troubled banks.

Long-term measures

- Prohibit weak bank board directors from joining bank boards after a merger: Board members of weak banks should not be allowed to sit on the board of the strong banks after the merger.
- Modernise banking systems: Core banking systems should be modernised to ensure compatibility with Application Programming Interface (API) for seamless integration with digital platforms.
- Strengthen IT and e-KYC: IT infrastructure and e-KYC systems must be strengthened, and security concerns related to payment system interoperability must be addressed.

4.4.2 The Independence of the Bangladesh Bank Should be Upheld

Short-term measures

- Uphold the autonomy of the central bank: The autonomy of the Central Bank should be upheld in line with the Bangladesh Bank Amendment Bill 2003.
- End bailout of banks through recapitalisation: Recapitalisation of poorly governed commercial banks with public money should be stopped.
- Stop issuance of new bank licenses: No more licenses for new banks should be given on political grounds without a pragmatic assessment of the need for the economy.
- Prevent majority ownership: A single individual or group should not be allowed to obtain majority ownership of more than one commercial bank.
- Recruit a strong team for BFIU: The Bangladesh Financial Intelligence Unit should be strengthened by hiring a completely new team to prevent illicit financial outflows and stop previously laundered money from entering the country to destabilise the new interim government or create anarchy.
- Close down FID: The MoF's FID should be shut down to remove dual regulation and stop political influence. The Bangladesh Bank can perform the functions of the FID.
- Hold former governors accountable for their misdeeds: Three former governors of the Bangladesh Bank who weakened the banking sector's stability in the past 15 years should be held accountable for their failures.
- Publish investigation report on the Bangladesh Bank heist: The CID report on the Bangladesh Bank heist should be completed soon and published.

Medium-term measures

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

Long-term measures

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

4.4.3 A Conducive Legal and Judicial Environment Should be Created

Short-term measure

- Establish specialised courts and tribunals: Additional specialised courts and tribunals, with provisions for virtual hearings, should be established to expedite case resolution and deal with complex or high-value cases.
- Amend the Bankruptcy Act: The Bankruptcy Act should be amended to include corporate bankruptcy and cross-border bankruptcy following the United Nations Commission on International Trade Law (UNCITRAL) on Cross-Border Insolvency.
- Amend the Banking Company Act: The Banking Company Act should be amended so that there is only one member from one family on the board of directors, and the tenure of each director should be limited to 3 years, with each director being allowed to serve a maximum of two terms in their entire lifetime.
- Re-instate group default regulation: If one company in a group of industries defaults on loan repayment, companies in the same group of industries should not be allowed to take new loans.
- Freeze accounts and liquidate assets of wilful defaulters: Bank accounts of wilful defaulters and their immediate family members should be immediately frozen. Their own and their immediate family members' assets should be liquidated, and their businesses should be nationalised temporarily.
- Block transactions of wilful defaulters: Information on wilful defaulters should be shared with Visa, Mastercard, American Express, and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network so that those companies block their transactions in other countries.
- Promote media trial: The list of politically connected large borrowers who are wilful defaulters should be disclosed publicly so that they may be put on a media trial.
- Introduce harsher penalties: To enhance discipline, harsher penalties for disobeying court orders should be implemented, such as instant asset confiscation, bank account freeze, and fines for baseless appeals.
- Remove legal loopholes: Legal loopholes, such as numerous adjournments, abuse of stay orders, or baseless counterclaims, which let defaulters prolong proceedings must be found and fixed.
- Recover stolen assets: All-out legal efforts with the support of national and international partners and stakeholders must be made to recover and repatriate stolen assets.

Medium-term measures

- Increase the number of judges: The number of judges dealing with the Financial Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure the speedy disposal of loan default cases and to reduce the backlog.

Long-term measures

- Pursue Alternative Dispute Resolution: Efforts should be made to recover NPLs through out-of-court procedures such as Alternative Dispute Resolution.

4.4.4 Integrity and Availability of Timely Data Should be Ensured

Short-term measures

- Publish reports and data: Reports and data on individual banks and financial institutions should be published regularly and be publicly available.
- Disclose compliance with BASEL III: All commercial banks should be obliged to make mandatory disclosures under BASEL III promptly.
- Improve loan classification: Loans should be classified according to international standards, such as those outlined by the IMF's Financial Soundness Indicators guide.
- Implement risk management: A comprehensive risk management policy should be implemented in all commercial banks to detect and deter fraud, forgery, fake companies, false identities, and other malpractices.

Medium-term measures

- Protect consumer data: Comprehensive data protection laws must be enacted and enforced to secure customer data and regulate data-sharing practices.

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SECTION V. EXTERNAL SECTOR CHALLENGES: TRANSITIONING FROM FRAGILE COMFORT TO SUSTAINED RECOVERY

Key findings

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

Key recommendations

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

5.1 Introduction

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

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

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

5.2 Export sector performance: Impressive, but old challenges persist

Table 5.1: Export growth of Bangladesh in FY2025 over FY2024 (July-April)

(Million USD)

Products	FY2024 (Jul-Apr)	FY2025 (Jul-Apr)	% change in FY 25 (Jul-Apr) over FY 24 (Jul-Apr)	Net Export Earnings (July-Apr)	Contribution to Incremental Export
RMG	29,672.0	32,640.1	10.0	18,179.0	82.5 %
Knitwear	15,764.5	17,457.2	10.7	11,347.0	47.1%
Woven Garments	13,907.5	15,182.9	9.2	6,832.0	35.4%
Non-RMG	69,36.4	7,568.0	9.1	6,054.0	17.5%
Total	36,608.4	40,208.2	9.8	24,233.0	100.0%

Source: EPB (2025).

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

The export sector of the country was able to demonstrate a high degree of resilience in FY2025 against the backdrop of considerable volatility experienced particularly during the first quarter. Overall export earnings growth was 9.8 per cent during the first ten months of FY2025 over the corresponding period of FY2024, with RMG and non-RMG export growth being 10.0 per cent and 9.1 per cent respectively (Table 5.1). The good sign is that, growth of knit-RMG exports (10.7 per cent), with its relatively higher domestic value addition, was higher than woven-RMG exports (9.2 per cent). Our estimates show that the domestic value addition from exports during July-April, FY2025 (net export) was about USD 24.2 billion (fourth column in Table 5.1) considering that the gross export value was USD 40.2 billion (about 60.0 per cent of the gross export earnings). This was the net amount which replenished the forex reserves. The contributions of the various items to incremented exports (last column in Table 5.1) indicate that Knit-RMG share in additional export earnings has been on the rise which alludes to welcome compositional changes within the RMG exports and also has positive implications for forex reserves replenishment.

Table 5.2: Factors driving RMG growth of Bangladesh and selected competitors in EU and US markets (July-March, FY2025)

Market	Change in Prices (%)			Change in Volume (%)			Change in Earnings Value (%)		
	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam	Bangladesh	China	Vietnam
EU Market	+2.0	+3.4	+1.4	+19.1	+15.0	+16.1	+21.5	+16.3	+15.6
US Market	-3.2	-2.7	-0.9	+17.0	+10.2	+13.8	+13.3	+7.2	+12.8

Source: Based on EUSTAT and USITC Database (2025).

However, as is evidenced by Table 5.2, Bangladesh's RMG exports have continued to remain volume-driven in both the EU and US markets, rather than price-driven, although the growth rates of export earnings in both these key markets were impressive during the July-March of FY2025 over the corresponding period of FY2024 (16.2 per cent and 7.2 per cent respectively). Average unit price in the EU market rose only by +2.0 per cent while in volume terms the growth rate was 19.1 per cent (contributing to about 90.0 per cent of rise in export earnings value). In the US market, the average unit price had in fact declined (-3.1 per cent), with the earnings growth

being exclusively on account of volume (17.0 per cent). As may be discerned from Table 5.2, the trends were similar for Bangladesh’s major competitors in both the markets – China and Vietnam. The volume-driven nature of RMG export earnings in the EU and US markets would indicate that productivity gains have emerged as key factors in maintaining export competitiveness in both the markets. Also to note, gains from significant depreciation of the BDT (by about 30.0 per cent), as against only very modest depreciation of Chinese Yuan and Vietnamese Dong, were rather limited (as indicated by Bangladesh’s market shares in the EU and the US). Going forward, as the BDT exchange rate stabilises, this one-off advantage is likely to be eroded.

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

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

Table 5.3: Import performance (% growth during July-March of FY2025 over FY2024)

Items	Actual Import	L/C Opening	L/C Closing
Consumer Goods (including food grains)	25.7	4.9	3.5
Intermediate Goods	6.8	1.8	6.8
Capital Machineries	-23.6	-26.0	-28.7
Total	6.4	4.8	5.3
Back-to-Back L/Cs	-	13.4	21.1

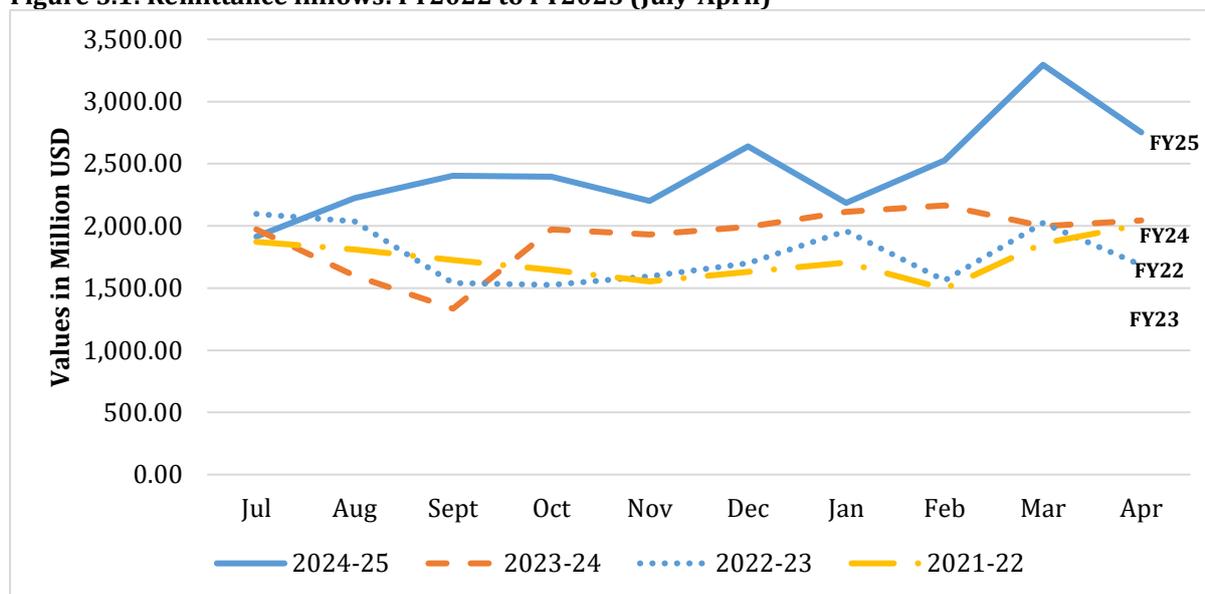
Source: Estimated from Bangladesh Bank (2025).

Whilst imports are picking up, the structure of imports continues to transmit disquieting signals (Table 5.3). Imports of capital machineries posted a negative growth of (-)23.6 per cent in line with recent past track record. This is indicative of muted investment demand in the domestic economy which is also corroborated by other indicators (especially the private sector credit uptake). The L/C settlement, (-28.7 per cent) and L/C opening (-26.0 per cent) figures also reinforce this observation. Growth of intermediate goods is still low, at 6.8 per cent, but what is discouraging is the low growth of L/C openings for these items (1.8 per cent). It is true that prices of some major commodities are on the decline in the global market (e.g. prices of Brent crude oil have come down to USD 60 in May this year which is a four-year low). However, if the inflation comes down (as is projected by the Bangladesh Bank) and investment picks up against the backdrop of rising domestic demand, imports are likely to increase, putting pressure on the country’s forex reserves.

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

5.4 Robust remittance inflows: The proven saviour

Figure 5.1: Remittance inflows: FY2022 to FY2025 (July-April)



Source: Bangladesh Bank (2025).

The migrant workers of Bangladesh have once again come as a saviour of the country, sending an additional USD 5.42 billion during the first ten months of FY2025 compared to FY2024. As may be seen from Figure 5.1, the remittance inflows in FY2025 (July-April) have been consistently high for all months except July 2024 (the month of the students-citizens uprising). Several factors have contributed to this. In all likelihood, a significant part of the remittances coming to Bangladesh over the recent past years through informal channels are now being sent through formal channels. This is possibly for two reasons- the activities of hundi-hawla intermediaries have been disrupted (if not dismantled) to a large extent; and from the demand side, many of those who have been laundering money from Bangladesh are either on the run or lying low at the moment. The patriotic feelings of migrant workers should also not be discounted. Besides, in recent years a significant number of migrant workers have left the country, and after settling down many of them have started to send money back home. Indeed, between 2021 and 2024 (Calendar years) about 4.07 million joined overseas job markets- 53.9 per cent went to Saudi Arabia alone (75.9 per cent of all migrant workers went to 5 middle east countries).

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

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

oligopolistic power). This could be one reason why US and UAE (Dubai) have in recent years emerged as major sources of remittance inflows to Bangladesh.

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

5.5 Balance of Payment scenario: Significant improvement

Table 5.4: BoP position and structure of change (July-March period of FY2024 vs FY2025)

Correlate	(Values in USD Million)		
	FY2024 (Jul-Mar)	FY2025 (Jul-Mar)	Change
Trade balance	-15755	-15431	↓ 324
Services	-2843	-3881	↑ 1038
Primary income	-3216	-3485	↑ 269
Secondary income	17416	22138	↑ 4722
Of which: Workers' remittances inflows	17074	21784	↑ 4710
Current Account Balance	-4398	-659	↓ 3739
Financial account	901	1307	↑ 406
Errors and omissions	-1547	-1982	↑ 435
Overall Balance	-4757	-1068	↑ 3680

Source: Bangladesh Bank (2025).

As is evidenced by data in Table 5.4, there has been a marked improvement in the BoP position as of July-March, FY2025 compared to the corresponding period of FY2024. The overall balance improved to (-) USD 1068.0 million against corresponding previous year figure of (-) USD 4757.0 million, an impressive fall of USD 3689 million. This was underpinned primarily by improvement in the *current account balance*, driven by robust remittance flows. *Trade account balance* remained more or less the same as the rise in export earnings was balanced by the increase in import payments. As Table 5.4 testifies, financial account did not register significant changes in view of the relatively low disbursement of foreign loans during the period under review. That the BoP position has improved mainly because of non-debt creating remittance flows, augurs well for the economy.

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

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

Table 5.5: Import equivalent of foreign exchange reserves in months

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

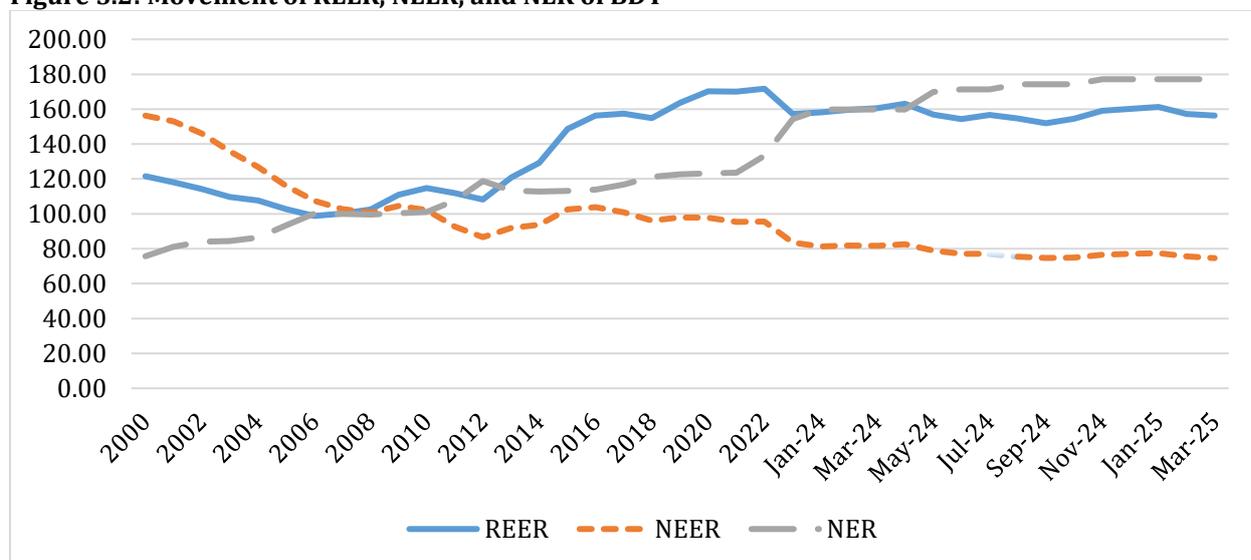
Source: Estimated from Bangladesh Bank (2025).

Following the downward slide of the past years, the forex reserves have experienced a visible rise in FY2025 against the backdrop of improving BoP scenario, and underpinned by impressive growth of export earnings and robust remittance flows. This has enabled the Bangladesh Bank to derestrict the imports to a large extent, and stabilise the exchange rate of the BDT. As of 30th April, the forex reserves were USD 27.41 billion (although following the ACU payment of USD 1.88 billion, the reserves stood at USD 25.53 billion on May 15, 2025). Table 5.5 shows forex reserves in import equivalent months considering average import payment of USD 5.2 billion per month (based on average monthly import expenditure in 2024-25). Import payment capacity was 5.1 months as per BPM-6. Even the net international reserve (a conservative estimate) had higher purchasing capacity (equivalent to 3.7 months of imports) compared to the critical threshold of 3 months.

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

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

Figure 5.2: Movement of REER, NEER, and NER of BDT



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

Following significant depreciation of about 30.0 per cent over the past two years, the BDT appears to be nearing an equilibrium of sort, at around BDT 122 to 1 USD. However, moving from a currency pegging to a market-determined exchange rate system was always going to be challenging. Thus, it is not difficult to understand why the Bangladesh Bank was reluctant to go for a market-driven rate in spite of the IMF making this as one of the key preconditions for the release of the fourth and fifth tranches of the IMF loans (worth USD 1.3 billion). In the end, BB had to agree to make the move, but it has kept a number of safeguards – the commercial banks will be allowed to trade in USD freely but will need to report twice daily to the Bangladesh Bank; there will be a band (corridor which is to remain undisclosed) deviations from which will likely trigger BB's intervention. A USD 500 million fund has been set aside for this purpose.

Our analysis indicates that BDT's exchange rate is near-about in equilibrium position at present, as is evidenced by Figure 5.2. Thus, the timing for going for the market-driven exchange rate (*managed float*, strictly speaking) appears to be just right for several reasons. The forex reserves are rising thanks to robust remittance flows and impressive export earnings growth. With IMF's USD 1.3 billion loan disbursement, and likely USD 3.5 billion worth of budget deficit financing to be disbursed by June 2025, forex reserves should be able to withstand the pressure of rising import demand and the unavoidable rise in external debt service payments. Bangladesh Bank will need to be vigilant against any speculative attacks either from currency speculators or the so-called aggregators. Flexibility will need to be exercised, and further (gradual) depreciation allowed if the situation demands. The reserve fund will need to be strategically deployed in view of this. The REER, NEER and NER movements will need to be carefully monitored and closely studied. Exchange rate policy will need to be calibrated keeping in view future forex inflows and payment obligations. Debt creating inflows (foreign borrowings) must be checked, by taking into cognisance repayment capacity and returns on investment.

5.8 The headwinds

Trump Tariffs and Bangladesh's Response

The reciprocal tariffs (RTs) announced by US President Trump on April 2, 2025, and the subsequent developments in this regard provide some indications about the newly emerging global trading regime, with the weakening of rules-based multilateral trading system and the ascendancy of unilateral trade measures by powerful countries. Bangladesh will need to learn to navigate this uncertain and unpredictable terrain at a time when it is preparing for graduating out of the group of the LDCs. At the recently held dialogue organised by the CPD, a number of recommendations were put forward including the option of signing an FTA with the USA. As a start, Bangladesh could reduce (or allow duty-free entry) tariffs on items of interests to the US, taking into cognisance the revenue implications if this is offered to all the other countries on an MFN basis, as also keeping in the purview the interests of domestic industries. Duty-free market access for apparels made of US cotton could also be floated as a negotiating agenda.

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

Dealing with Non-Tariff Measures by India

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

Proposed Impositions of 3.5% Tax on Remittance Outflows from US

Following the reciprocal tariffs, the US President Mr. Trump has now proposed introduction of a 5.0 per cent tax on remittance outflows from the US, without exception, and without any bar (i.e. without a minimum threshold). This will be a significant blow for countries such as Bangladesh, for several reasons: As was noted, US is at present the largest source of remittances for Bangladesh. The cost of sending money from the US to Bangladesh, under normal circumstances, is 4.4 per cent on average of the remitted amount. If the proposed 3.5 per cent is added, this will stand at 7.9% per cent. If the average monthly remittance flow (for the July-April period of FY2024) from the USA is considered, in a single fiscal year the amount of sending cost would be about USD 395 million (equivalent to about BDT 4,820 crore). A tax-free threshold for remittance outflow would have been to Bangladesh's advantage, Bangladesh should lobby for this. Indeed, Bangladesh should raise this issue in TICFA discussions and bilateral trade negotiations. To note, the proposed tax may discourage aggregators who mobilise and send remittances from the USA in large amounts and sell to Banks in Bangladesh by using oligopolistic power.

5.9 Concluding remarks

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

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SECTION VI. CAPITAL MARKET DURING THE INTERIM GOVERNMENT: WOES CONTINUE

Key findings

- 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.
- Several strategic decisions have been taken during the last nine months to reform the capital market, yet the implementation process appears to have slowed down due to bureaucratic procedures and administrative complexities of the commission.
- One of the most significant capital market-related challenges for the interim government appears to be restoring investor confidence and attracting new company listings, particularly in the context of ongoing political uncertainty.

Key recommendations

- The BSEC should accelerate its administrative decision-making process and ensure the timely submission and implementation of the task force's forthcoming recommendations.
- BSEC should establish a clear timeline, assign institutional accountability, and set up follow-up mechanisms for the new enlistment initiative, including the 38 firms identified by ICB. Conduct periodic reviews to monitor progress and address implementation challenges.
- BSEC should introduce an Investor Protection Fund to safeguard retail investors from losses due to fraud or manipulation

6.1 Background

The capital market in Bangladesh faced persistent crises throughout the entire tenure of the previous regime. According to estimates by the DSE Brokers Association of Bangladesh (DBA), the real value of the capital market, when adjusted for inflation, has declined by 37.6 per cent over the past 16 years. The market also endured some of the most severe collapses in its history during this period, including the 2010 crash, which, as estimated by the Asian Development Bank, resulted in a market loss of approximately USD 27 billion.

Following the assumption of power by the new interim government, expectations surrounding the capital market reached a significantly higher level. In meeting these expectations, the government has already undertaken several initiatives including the formation of a task force to identify necessary actions needed for market reformation. However, nine months into its tenure, the adequacy, timeliness, and effectiveness of these measures have not been assessed. In particular, it is still unclear whether the five key challenges of the capital market identified by CPD over the past years including the a) prevalence of low-quality IPOs, b) irregularities in financial reporting, c) lack of transparency in BO account management, d) questionable conduct of institutional investors, and e) manipulation in the secondary market, have been meaningfully

addressed. Additionally, it remains to be seen whether any new challenges have emerged during this period.

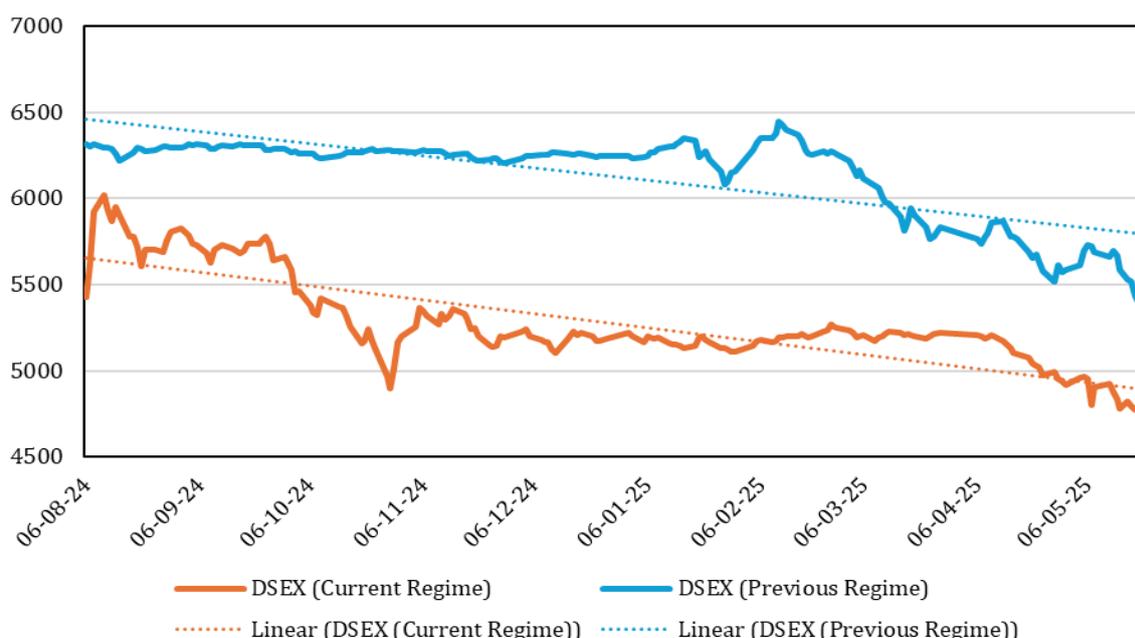
Against this backdrop, this section endeavours to analyse from three perspectives. First, it provides a brief overview of recent market performance trends, with a particular focus on comparisons between the current and previous regimes. Second, it assesses the potential adequacy and effectiveness of the reform initiatives implemented by the interim government thus far. Finally, it offers several recommendations to help ensure that the ongoing capital market reforms are on the right track and can be sustained over the long term.

The analysis of this section is mainly limited to discussing a broader level issue. It draws on insights mainly from interviewed stakeholders including journalists, the depository institution, brokerage houses, and the capital market regulator, and incorporates secondary data wherever necessary.

6.2 Performance of capital market in recent months

The performance of the capital market during the first nine months of the interim government fell short of expectations. However, this might happen for two contradictory reasons: a) the impact of sectoral measures and b) the impact of market manipulation practices. In terms of the market index (DSEX), it consistently followed a downward trend and never (except for once) reached or approached the 6,000-point mark (Figure 6.1). The index for the same period under the previous regime also showed a declining trend, albeit it mostly remained above the 6,000-point level until it plunged to below 5,500 during the last two months. Overall, while the capital market under both regimes experienced downward trends, the extent of the decline has been more pronounced under the current interim government.

Figure 6.1: DSEX for first nine months of interim government vis a vis previous government



Source: Based on data from DSE

Table 6.1: Comparison of other indicators between current and past regime

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

Source: DSE.

In terms of volatility, the data that the capital market experienced a higher volatility during the previous regime, with a standard deviation of 272, compared to 253 under the current regime (Table 6.1). This indicates a slight reduction in market fluctuations.

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

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

6.3 Status of existing and emerging challenges in the market

6.3.1 IPOs related

Listing quality IPOs remains challenging: The entry of poor-quality IPOs has been a major challenge for the Bangladeshi capital market. Despite widespread allegations, the inclusion of weak IPOs continued during the previous regime, raising questions about the regulator's transparency. As such, over the past 14 years, more than two-thirds of companies listed on the stock market were subsequently downgraded, with many turning into junk stocks soon after listing (Habib, 2025). Moreover, a steady decline in the number of new IPOs over the years can be observed. The number of newly listed companies fell sharply to just three in FY 2024, compared to nine in FY 2023 and fifteen in both FY 2022 and FY 2021 (BSEC, 2025).

Inclusion of quality IPOs remains challenging amid political uncertainty: Despite the change in the regime and overtaking of responsibilities by a new interim government, the IPOs-related challenges still appear to be persistent. Already nine months have passed since the new government took over, yet no new IPOs have entered the market. In fact, ongoing political uncertainty has narrowed the scope of new IPO enlistment to a further extent. Although the Investment Corporation of Bangladesh (ICB) recently identified 38 potential companies from state-run, multinational, and local pharmaceutical sectors for listing in the capital market, there is little optimism until these companies are officially listed (Habib, 2025a). This doubt is based on past experiences, in 2010, the former finance minister gave 26 state-owned companies six

months to get listed, but over the next 14 years, only Bangladesh Submarine Cables PLC successfully entered the market.

Efforts to Attract Quality IPOs might be undermined by Political Uncertainty: Intending to attract new and quality IPOs, the government has undertaken several plans and strategies. The government is preparing to announce a set of incentive packages to attract quality IPOs in the upcoming budget. These include offering a 10 per cent lower tax for listed companies (currently its 5 per cent), lowering the tax on dividends from twice a year to once, and revising IPO listing rules to make the listing process easier. However, the success of these tax incentives is still uncertain. The ongoing political instability caused by the absence of an elected government continues to weaken both local and foreign investor confidence. In this situation, tax incentives alone might not be enough to attract new IPOs to the market.

Eroding Trust Among MNCs Poses Barrier to Future Listings: Furthermore, many multinational companies (MNCs) remain hesitant to list on the market, mainly because of the unfavourable treatment their listed counterparts have received from the BSEC over the years. It is alleged that previously BSEC did not fulfil a number of promises (such as providing tax benefits) that encouraged currently listed MNCs to be in the market. As a result, non-listed MNCs may feel uncertain about the long-term reliability of the incentives promised by the BSEC. If this issue is not addressed, their lack of trust could reduce the appeal of these financial incentives and, in turn, weaken the prospects of their future enlistment in the market.

Overcoming cultural barriers could erode: In addition, there are deep-rooted structural challenges within the business governance culture in Bangladesh that continue to discourage companies from entering the capital market. Most local businesses are family-owned, with boards of directors often composed of family members, where maintaining full control over decision-making is considered essential. Owners often fear that listing their companies will invite external oversight, reduce their authority of decision-making, and subject them to greater transparency and regulatory scrutiny. As a result, even when they need capital, many opt for bank financing instead of raising funds through the stock market. Without coordinated and sustained efforts, this challenge may not be easy to address for any government.

Faulty valuation process discourages investors: Another major barrier to attracting quality IPOs is the slow approval process combined with a flawed valuation system. It has been alleged that significant discrepancies in valuations frequently occur, particularly under the book-building method, where institutional investors often submit vastly different prices for the same stock during the bidding process. Although the newly formed BSEC under the interim government has claimed to have initiated revising the existing rules and transferring IPO approval authority to the Dhaka Stock Exchange (DSE), there is still no clear timeline for when these changes will be finalised and put into effect.

6.3.2 Secondary market related

Market Manipulation Undermines Investor Confidence and Market Integrity: Manipulation in the secondary capital market has remained a persistent challenge in Bangladesh, causing significant harm to retail investors. Tactics such as insider trading, where individuals use confidential and price-sensitive information for personal gain, and circular trading, where groups

collude to create artificial demand by repeatedly buying and selling the same stock, have been used to inflate the prices of weak or low-quality shares. These practices distort the market and often result in heavy losses for unsuspecting retail investors who are misled by manipulated prices.

Stronger Enforcement Measures Under Interim Government, But Transparency Remains a Concern: According to several interviewed stakeholders, the interim government has begun taking stronger action against such irregularities, which were reportedly widespread during the previous regime. For example, in October 2024, the BSEC fined nine individuals and companies a total of BDT 428.52 crore for manipulating the shares of Bangladesh Export Import Company Ltd (Beximco). The investigation revealed that the manipulators earned approximately BDT 477 crore through these activities. In December 2024, the BSEC imposed fines of a total of BDT 134 crore on 20 individuals and entities for manipulating the share prices of Bangladesh Finance, Orion Pharma, and Orion Infusions. In the same month of 2024, the BSEC fined Abul Khayer Hiru and his associates BDT 1.34 billion for manipulating the stocks of companies including NRBC Bank, Fortune Shoes Limited, and Delta Life Insurance Company Limited. Besides, a total of 12 investigations have already been conducted by the commission formed under the interim government on suspected market manipulation and other irregularities. However, despite commitments to transparency, the findings from these investigations have not yet been made publicly available.

Weak Market Surveillance Undermines Timely Enforcement and Investor Protection: Despite these efforts, the challenge regarding the lack of market surveillance remains highly relevant. On one hand, there are limitations in the technological capacity of the regulators' market monitoring, on the other hand, there is also concern about whether the existing capacity for market surveillance is being properly utilised. According to one interviewed stakeholder, BSEC does have the capacity to detect basic forms of manipulation, such as circular trading. However, in many cases, even when there are clear signs of irregular activity, enforcement actions are not taken accordingly or at best actions are taken after a long delay.

Poor Information Disclosure Hampers Investor Decisions and Encourages Manipulation: Access to true and reliable information is essential for investors in the capital market. However, many listed companies in Bangladesh do not follow the rules for sharing accurate information. Some hide important details, while others delay sharing them. As a result, investors cannot make informed decisions. This lack of information creates space for manipulation in the market. Although the regulator of the market under the current government has taken several actions against price manipulation, they rather put a limited effort into this area of information disclosure.

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

6.3.3 BO accounts related

Weak KYC Requirements in BO Accounts Facilitate Manipulation: Anomalies in Beneficiary Owner (BO) accounts have been a longstanding issue in Bangladesh's capital market. A significant portion of market malpractice is carried out using fake or untraceable BO accounts. One of the major problems stems from the lack of mandatory documentation required to open a BO account. Unlike bank accounts, which require a Tax Identification Number (TIN) and National ID (NID), BO accounts can often be opened without such verification. Although initiatives have been proposed in the past to make NID submission mandatory for opening BO accounts, no such rules have been implemented, primarily due to concerns that stricter regulations might negatively affect the market index. However, reforms like these are ideally introduced when the market index is at a lower level, as investor expectations tend to be more subdued. Given the current depressed state of the capital market, this could be an opportunity for the interim government to implement such long-overdue measures. However, to date, there has been no indication that the regulatory commission of the interim government intends to undertake such an initiative.

Unauthorised Trading by Brokerages Raises Concerns Over Investor Protection: One common concern in the capital market is that many retail investors, either knowingly or unknowingly, provide full trading access to their brokerage houses. In some cases, certain brokerage firms have reportedly misused this access by conducting trade without proper consent. Such unauthorised or excessive trading can artificially influence stock prices and contribute to abnormal market fluctuations.

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

Paper-Based Shares Pose Significant Risks of Fraud and Financial Misconduct: Furthermore, the continued existence of paper-based shares in the capital market creates opportunities for fraud and misuse, often enabled by the negligence or complicity of other stakeholders. In several reported cases, companies have allegedly used fake or non-existent share certificates to secure substantial loans from banks. Ideally, the authenticity of these share certificates should have been verified by the financial institutions before approving any disbursement. The failure to do so suggests possible involvement or serious lapses in due diligence by the banks concerned. Allowing holding shares only in demat form might enhance accountability in this regard.

Infrastructure and Investor Readiness Limit T+1 Settlement Implementation: According to one interviewed stakeholder, if Bangladesh could enable T+1 settlement it would improve market efficiency by reducing counterparty risk and accelerating the flow of funds, thereby attracting more investors. However, enabling T+1 settlement in Bangladesh is challenging due to several systemic and infrastructural limitations. Many brokerage firms and intermediaries lack the

advanced technological infrastructure and automation required to process trades, confirm settlements, and ensure compliance within a single day. Additionally, the banking system does not support seamless real-time fund transfers after trading hours, and retail investors, who represent a large portion of market participants, often struggle to arrange funds or securities quickly, especially given limited digital literacy and financial awareness.

6.3.4 Institutional investors related

Institutional Investors' Role Undermined by Panic and Short-Termism: The role of institutional investors in any capital market is of paramount importance. Particularly during periods of market turmoil or collapse, institutional investors are expected to play a stabilising role by maintaining confidence and providing much-needed liquidity. However, in the context of Bangladesh, institutional investors have often fallen short of fulfilling this critical role. Rather than acting as stabilising forces, their trading behaviour at times mirrors that of retail investors, characterised by panic selling and short-term profit-seeking.

Lack of Focus on Institutional Investors Weakens Market Depth: According to insights from interviewed stakeholders, the role and development of institutional investors in Bangladesh have received minimal attention from the regulatory commission over the years. This neglect has resulted in a persistent lack of capacity among institutional investors to fulfil their expected role in the capital market. Many institutional investors continue to operate with limited expertise and inadequate structural frameworks necessary for informed and strategic investment.

Lack of Professional Fund Management Undermines Institutional Investment Effectiveness: One critical issue raised is the absence of professional fund management. Instead of being managed by qualified fund managers, institutional funds are often handled by custodians, an arrangement widely viewed as inappropriate for active and responsible portfolio management. This practice undermines the effectiveness and accountability of investment decision-making.

Weak Legal Framework and Regulatory Gaps Hinder Mutual Fund Governance and Market Stability: A key concern is the absence of a strong legal and regulatory framework governing the structure and internal functioning of mutual funds. Without clear guidelines and enforcement mechanisms, institutional investors operate without the discipline and accountability required to support market stability. Despite the urgency of the matter, the interim government has yet to undertake any meaningful initiatives to address these systemic deficiencies.

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

6.3.5 Financial reporting related

Weak Financial Reporting Oversight Hampers Market Transparency: Problematic financial reporting remains one of the key challenges facing Bangladesh's capital market. The Financial Reporting Council (FRC), established in 2016 to ensure transparency, accountability, and integrity in financial reporting and auditing practices, serves as the primary regulatory body overseeing the financial reporting of listed companies. The FRC is mandated to ensure compliance with appropriate accounting standards and to promote transparency in corporate disclosures.

FRC's Limited Authority and Capacity Undermine Financial Oversight: Interviewed stakeholders raised concerns regarding the FRC's legal authority and technical capacity. Despite its important mandate, the FRC has yet to demonstrate effectiveness, largely due to limited technical expertise and institutional strength. Moreover, the FRC does not have the authority to impose punitive measures when malpractice in financial reporting is identified. Its role remains advisory and dependent on other enforcement agencies.

Reform Efforts Miss Key Institutional Upgrades Like FRC: Although the interim government has initiated reform efforts targeting the capital market, the institutional strengthening or restructuring of key bodies like the FRC appears to have been overlooked. Without a comprehensive, system-wide approach that addresses the challenges faced by all capital market stakeholders, the desired outcomes of these reforms are unlikely to be achieved.

6.4 Assessment of interventions made by the Interim Government

6.4.1 Leadership changes signal fresh start but raise concerns over experience

In the first nine months of its assuming power, the interim government has adopted several measures aiming at improving the health of the country's capital market. Immediately after assuming office, the interim government appointed a new chairman to the Bangladesh Securities and Exchange Commission (BSEC) on 18 August 2024, replacing the previous chairman who was accused of failing to regulate the market and allegedly benefiting from illicit activities. In September, the government also appointed seven independent directors to the boards of DSE and CSE, following the resignation of all controversial directors accused of corruption during the previous regime. With the new chairman in place, the board began investigating the widespread illegal activities that had occurred over the past decade, and several punitive actions have already been taken in response.

Observations: The decision to change the leadership at the Bangladesh Securities and Exchange Commission (BSEC), Dhaka Stock Exchange, and Chittagong Stock Exchange was a positive step. However, some stakeholders have expressed concerns that the new leadership, particularly at BSEC, lacks sufficient practical experience in regulating the capital market effectively, which has deteriorated the operational effectiveness of the commission.

It is appreciable to see that the new Commission is taking strict measures against the irregularities that have plagued the market over the past years. However, it should be noted that taking punitive actions against any listed companies may also affect the market performance as a whole. Therefore, it may not be easy to regain investors' trust by solely focusing on the

punishment of wrongdoers. At the same time, adequate incentives must be provided to the good companies in the market, so they are encouraged, and a balance remains in the market.

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

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

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

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

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

BSEC has amended its rules regarding the hiring of auditors by companies. Previously, most companies were required to select their auditors from a list of firms approved by the commission. The recent amendment introduces an exception to this rule, allowing companies to choose auditors outside the approved list under certain conditions (only for the current fiscal year).

BSEC launched the initiative 'Dissemination of Financial Statement Submission Status of Listed Companies through Exchanges' Websites'. The initiative is expected to benefit investors and improve market transparency, aiding both investment decisions and research or reporting on the capital market.

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

Another directive issued by BSEC on 06 January 2025 allows brokerage firms to receive 75 per cent of the interest generated in the Consolidated Customer Account. The remaining 25 per cent

will be allocated to the Investors' Protection Fund, to protect investors' interests. Previously, the interest earned on deposits was fully retained by the brokerage firms, but with this new directive, a significant portion will be shared with the investors.

Observations: It can be observed that several strategic decisions have been taken during the last nine months to reform the capital market, yet the implementation process appears to have slowed down due to bureaucratic procedures and administrative complexities of the commission. According to feedback from interviewed stakeholders, the new leadership is reportedly facing challenges in fully trusting its workforce, given the legacy of the previous regime. This lack of trust has contributed to a sense of dissatisfaction among staff members, further complicating the commission's operational effectiveness and delaying the reform process.

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

One of the biggest challenges for the interim government is how it can regain the trust of investors, particularly in the context of prevailing political uncertainty. As highlighted in CPD's earlier IRBD report, investment in the capital market is currently on a declining trend. Rebuilding investor confidence will therefore require not only regulatory reforms and market incentives but also a clear and consistent signal of political stability and policy continuity.

6.5 Recommendations

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

IPO Related

- (1) BSEC should establish a clear timeline, assign institutional accountability, and set up follow-up mechanisms for the new enlistment initiative, including the 38 firms identified by ICB. Conduct periodic reviews to monitor progress and address implementation challenges.
- (2) BSEC should consider requiring certain companies to be listed initially on the Unlisted Public Company Market (UPCoM) to build a track record before progressing to the main board.
- (3) BSEC should hold regular dialogues with listed multinational companies (MNCs) to understand their concerns, resolve any pending issues, and demonstrate good governance practices. This will help set a positive example for prospective IPOs, particularly those involving MNCs.

- (4) BSEC should expedite the revision of all IPO-related regulations, including valuation methodologies, and ensure their timely and effective implementation.
- (5) BSEC should engage all political parties to reach a consensus on reform of all IPO-related rules and regulations, ensuring policy predictability and stability for the capital market's future.

BO Accounts related

- (1) BSEC should make the inclusion of NID for BO Accounts mandatory using the current market downturn as an opportunity.
- (2) BSEC should enforce a full transition to dematerialised (demat) shares, phasing out all paper-based certificates to prevent fraud, duplication, and misuse in financial transactions.
- (3) BSEC should provide authority to CDDBL to take punitive measures against brokerage houses in case of any misconduct.
- (4) BSEC should introduce an independent third party to be via of transferring dividends between investors and issuers.
- (5) Introduce stricter penalties for brokerages found guilty of unauthorized trading, including suspension or revocation of licenses.

Secondary market related

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

Institutional investors related

- (1) BSEC should draft and implement a Mutual Fund Code of Governance and ensure its quick implementation.
- (2) BSEC should create a formal platform for regular engagement between the Bangladesh Securities and Exchange Commission (BSEC) and institutional investors to discuss challenges, policy reforms, and market development initiatives.
- (3) BSEC should introduce regulatory incentives for institutional investors that adopt long-term investment horizons, such as reduced transaction fees or tax benefits for holding investments beyond a minimum period.
- (4) BSEC should collaborate with local universities and training institutes to develop certification and continuous education programme aimed at ensuring the employment of certified professional fund managers who uphold clear fiduciary responsibilities.

- (5) Given the ongoing situation of the market, BSEC could consider addressing the issue of negative equity with a pragmatic approach so that it does not create additional pressure on the already stressed capital market.

Financial reporting related

- (1) MoF should empower the Financial Reporting Council (FRC) with the authority to take action against cases of financial misreporting.
- (2) MoF should allocate fund and let FRC invest in building its institutional capacity by recruiting qualified professionals, providing regular training on international accounting and auditing standards, and adopting advanced technological tools for monitoring and analysis.
- (3) BSEC should accelerate mandatory adoption of IFRS for listed companies and strengthen monitoring to ensure compliance.

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SECTION VII. POWER AND ENERGY CRISIS IN BANGLADESH: GAS, ELECTRICITY, AND TRANSPORTATION SECTORS

Key findings

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

Key recommendations

- 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 BERC to ensure accountability, transparency, and responsive planning.

7.1 Background

Bangladesh is currently facing one of the most disruptive energy crises in recent months. Extended load shedding, acute gas shortages, and high fuel price hikes have severely impacted daily life and economic activity across the country. According to the national dailies, the industrial production has slowed, transport services have been disrupted, and businesses—especially small and medium enterprises—have reported financial losses and operational downtime.

This crisis has exposed systemic weaknesses in Bangladesh’s energy system, including its heavy dependence on imported fuels, ageing grid infrastructure, and inadequate investment in domestic energy production and renewables. As demand continues to rise—driven by urbanisation, industrial expansion, and agricultural mechanisation—the country’s limited and inefficient energy supply has struggled to keep up.

This report analyses the current power and energy crisis in Bangladesh with a focus on natural gas, electricity, and transportation fuels such as diesel and petrol. Drawing from secondary data, in-depth interviews, and sector-specific trends, it identifies the scale of the supply-demand gap, pricing trends, and its impact across key user groups: households, industries, and the transport sector.

7.2 Energy supply-demand gap analysis

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

7.2.1 Natural gas

Natural gas remains vital to Bangladesh’s energy system, powering over half of the electricity generation and playing key roles in industry, domestic use, and fertiliser production. However, the sector is under severe strain due to falling domestic production and growing demand. Between FY2020 and FY2024, total gas production declined from 883 to 745 BCF, while distribution remained steady (Table 7. 1). As a result, the production-distribution gap widened significantly from 3,492 to 6,479 mmcm (123.35 BCF-228.79 BCF) (PetroBangla, 2025).

Table 7. 1: Yearly gas production and share summary.

Unit	Indicators	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 (Up to Jan)
MMCM – Million Cubic Metre	Total production (National + IOC)	24,992.85	25,173.64	23,783.10	22,645.61	21,074.58	16,640.82
	Δ (%) in production		0.7	-5.5	-4.8	-6.9	-21.0
	Gas Distributed	28,485.69	29008.952	28667.925	27383.277	27553.154	16007.179
	Δ (%) in distribution		1.8	-1.2	-4.5	0.6	-41.9
	Production-Distribution Gap	-3,492.84	-3,835.31	-4,884.82	-4,737.66	-6,478.58	633.65
In BCF	Production	882.61	889.00	839.89	799.72	744.24	587.67
	Distribution	1005.96	1024.44	1012.40	967.03	973.03	565.29
	Production-Distribution Gap	-123.35	-135.44	-172.51	-167.31	-228.79	22.38

Source: PetroBangla MIS Report.

There is limited effort even under the Interim Government regime to explore natural gas from the probable gas wells onshore and offshore. 34 wells were targeted to be explored in FY2025, whereas only 8 wells were being explored as of October 2024. A part of the gap is partially met by imported LNG. The share of LNG has increased from 7.3 per cent in FY2020 to 25 per cent in FY2025 (till January). Such a rise in the import of LNG has significantly raised the expenses. Hence, the financial state of Petrobangla increasingly turned out to be negative.

The sectoral consumption patterns show power and industry as the largest gas users. While power has remained the dominant sector, industrial use has steadily increased. Domestic consumption, by contrast, has fallen from 158 BCF in FY2018 to 100 BCF in FY2024 (Table 7. 2). Total national gas use peaked at 1,041 BCF in FY2019 but declined to 916 BCF in FY2024 (Division H. U.-E., 2025).

Table 7. 2: Annual gas consumption by sector in Bangladesh (in Billion Cubic Feet - BCF)

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

Year	Power	Industry	Captive	Fertilizer	Commercial	Domestic	CNG	Tea Estate	Total
FY2023	389	179	164	50	6	101	42	1	932
FY2024	392	168	154	50	5	100	45	1	916

Source: HydroCarbon Unit-Energy & Mineral Resource Division.

Also, the future demand is expected to grow sharply from 3,965 mmcf (1447.23 BCF/year) in FY2025 to 4,762 mmcf (1738.13 BCF/year) in FY2028, driven by the power and industrial sectors (Table 7. 3). Domestic and commercial demand is projected to decline slightly, reflecting lower allocation priorities (Division E. a., 2024). In other words, unless alternate energy sources (including renewable energy) are managed for major economic activities, the gas crisis will be further acute in the coming years. Over-dependence on LNG would further weaken the financial state of Petro Bangla as well as weaken the overall BoP of the country.

Table 7. 3: Sector-wise average gas demand forecast.

Sector	FY2025	FY2026	FY2027	FY2028	FY2025	FY2026	FY2027	FY2028
	in mmcf				in BCF			
Power	1,454	1,513	1,601	1,673	530.71	552.25	584.37	610.65
Captive Power	731	762	798	825	266.82	278.13	291.27	301.13
Fertiliser	286	286	366	366	104.39	104.39	133.59	133.59
Industry	976	1,103	1,267	1,399	356.24	402.60	462.46	510.64
Domestic	359	353	344	340	131.04	128.85	125.56	124.10
Commercial & Tea	28	28	28	28	10.22	10.22	10.22	10.22
CNG	131	131	131	131	47.82	47.82	47.82	47.82
Total	3,965	4,176	4,535	4,762	1447.23	1524.24	1655.28	1738.13

Source: Energy and Mineral Resources Division.

In the price trend analysis, it has been found that gas prices increased significantly for industries and captive power from BDT 30 to BDT 40–42 per cubic meter, while electricity generation retained the subsidised rate of BDT 14 in 2025 (Table 7. 4). Rising gas prices along with lowering supply have heavily affected the gas dependent industries such as textiles, glass, ceramic and steel industries.

Table 7. 4: Sector-wise gas price in 2025 (BDT/cubic meter)

Sectors	2024	2025	% Change in Price
Electricity (Govt, IPP, rental plants)	14	14	0
Captive power (Small, commercial power plants)	30	42	40
Large Industries	30	40	33
Medium Industries	30	40	33
Small, cottage, others	30	40	33
Commercial (Hotels, restaurants)	30	40	33

Source: Petrobangla Annual Report 2023-24.

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

7.2.2 Electricity

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

In Table 7. 5, from FY2011 to FY2024, installed capacity increased from 7,264 MW to 28,098 MW. However, actual demand only rose to 16,477 MW, significantly below the forecasted 17,830 MW. The gap has widened in recent years, with “energy not served” peaking at 3,818 MkWh in FY2023 (BPDB, Annual Report 2023-24, 2024).

Table 7. 5: Electricity demand, capacity, and shortfall (FY2010–FY2024)

Fiscal Year	Installed Capacity (MW)	Maximum Generation Capacity (MW)	Forecasted Demand (MW)	Maximum Demand Served (MW)	Energy Not Served (MkWh)
FY2011	7,264	6,639	6,765	4,890	1,899
FY2012	8,716	8,100	7,518	6,066	1,647
FY2013	9,151	8,537	8,349	6,434	1,070
FY2014	10,416	9,821	9,268	7,356	515
FY2015	11,534	10,939	8,920	7,817	177
FY2016	12,365	11,170	9,600	9,036	122
FY2017	13,555	12,771	10,400	9,479	37
FY2018	15,953	15,410	11,200	10,958	32
FY2019	18,961	18,438	12,100	12,893	53
FY2020	20,383	19,892	13,300	12,738	58
FY2021	22,031	21,280	14,500	13,792	78
FY2022	22,482	21,680	15,800	14,782	86
FY2023	24,911	24,171	17,100	15,648	3,818
FY2024	28,098	26,947	17,830	16,477	2,251

Source: BPDB Annual Report 2023-24.

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

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

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

On the other hand, electricity tariffs have also risen. Between 2021 and 2024, annual average growth rates for residential users (0–50 kWh) rose by 13.6 per cent, while other categories like shops and small industries saw increases of 6.5 per cent (Table 7. 6). These hikes have impacted affordability, especially for low- and middle-income users (BPDB, Traiff Rate, 2024). This rise in electricity tariff has been carried out to lessen the huge loss of the BPDB over the years owing to faulty pricing for purchasing electricity from IPPs, capacity payment, creating excess generation capacity, etc. The consumers have to take the burden of these faulty activities.

Table 7. 6: Year-wise electricity tariff changes (2021–2024).

Consumer Category	Voltage Level	2021 (BDT)	2023 (BDT)	2024 (BDT)	% Change (2021-2024)
Residential (0-50 kWh)	Low Voltage (LV)	3	4.35	4.63	13.6
Residential (76-200 kWh)	Low Voltage (LV)	5	6.31	7.2	11.0
Residential (301-400 kWh)	Low Voltage (LV)	6.5	6.99	8.02	5.8

Consumer Category	Voltage Level	2021 (BDT)	2023 (BDT)	2024 (BDT)	% Change (2021-2024)
Commercial (Shops)	Low Voltage (LV)	7	8.49	9.71	9.7
Industrial (Small Scale)	Low Voltage (LV)	6	6.64	7.55	6.5
Agriculture (Pumps)	Low Voltage (LV)	4.5	5.25	5.25	4.2
Medium Voltage (General)	11 kV	8.87 / 10.55	9.78 / 11.63	10.61 / 11.63	4.3/2.6
High Voltage (Industrial)	33 kV	9.73 / 12.17	10.44 / 13.05	11.39 / 14.40	4.3/4.6
EHV Bulk Supply	132/230 kV	9.68 / 9.63	9.63 / 9.68	9.68 / 9.63	0/0

Source: Tariff Rate-BPDB.

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

7.2.3 Petroleum fuels

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

According to Table 7. 7, over the last five years, fuel consumption initially increased across all four fuel types but saw a notable decline in FY2024. Diesel, the most consumed fuel, dropped by 14 per cent, from 4.94 million metric tons in FY2023 to 4.24 million metric tons in FY2024. Petrol and octane also declined by 5.2 per cent and 2.1 per cent, respectively, while kerosene consumption fell by nearly 10 per cent. This reversal reflects both high domestic prices and weakened purchasing power, especially among low-income and informal sector users (BPC, Sales Statistics of Petroleum Products, 2025).

Table 7. 7: Petroleum oil consumption statistics for the last 5 (five) financial years in M.ton.

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

Source: Bangladesh Petroleum Corporation (BPC).

These consumption drops occurred alongside persistently high fuel prices. Between June 2024 and May 2025, prices remained elevated, with diesel and kerosene fluctuating between BDT 104–108 per litre, petrol between BDT 121–127, and octane from BDT 125–131 (Table 7. 8). Although these prices are marginally lower than the August 2022 peak, they remain high by historical standards, maintaining pressure on households, transport services, and farming operations (BPC, Local Selling Price of Petroleum Products, 2025). Although the BPC is supposed to follow

automated pricing formula considering the global price, there is little reflection of it in retail pricing and consumers face the burden of a higher price.

Table 7. 8: Domestic fuel oil price trend (June 2024 – May 2025)

Month	Diesel	Octane	Kerosene	Petrol
Jun-24	108	131	108	127
Jul-24	106.8	131	107.8	127
Aug-24	106.8	131	107.8	127
Sep-24	105.5	125	105.5	121
Oct-24	105.5	121	105.5	125
Nov-24	105	121	105	125
Dec-24	105	125	105	121
Jan-25	104	125	104	121
Feb-25	105	126	105	122
Mar-25	105	126	105	122
Apr-25	105	126	105	122
May-25	104	125	104	121

Source: Bangladesh Petroleum Corporation (BPC).

The impacts of these high fuel prices have been felt across sectors. In transport, bus and freight services have reduced operations or raised fares, triggering public dissatisfaction and reduced mobility, especially in rural and peri-urban areas. Informal operators such as autorickshaws and motorbike ride-share drivers reported income losses due to low passenger demand and high fuel costs. In agriculture, diesel price increases raised irrigation costs by 20–30 per cent, particularly affecting boro season farmers reliant on shallow diesel pumps.

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

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

7.2.4 Inefficiencies and system loss

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

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

Meanwhile, energy subsidies remain substantial, approximately BDT 360 billion for electricity and BDT 200 billion for energy annually, in addition to BDT 60 billion spent on LNG imports. Yet these investments are undermined by systemic inefficiencies, poor governance, and a lack of competition in public procurement processes (Banik Barta, 2024).

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

7.3 Sectoral impacts of the energy crisis based on KIIs

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

7.3.1 Household sector

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

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

7.3.2 Industrial sector

Loss in production and earning: Bangladesh's industrial sector—particularly energy-intensive industries such as textiles, garments, cement, ceramics, and steel—has been severely affected by a prolonged and worsening energy crisis. These industries rely heavily on natural gas for process

heating and captive power generation. However, due to declining domestic gas production and a policy preference to prioritise gas supply for power plants, industrial gas allocations have been frequently curtailed, often without sufficient notice. This has forced many factories to operate well below capacity or suspend operations altogether. Between 2021 and 2023, production in several key industrial zones dropped by an estimated 20–30 per cent during peak shortage periods. In recent months, the situation has further deteriorated, with many textile and garment factories operating at only 40–50 per cent capacity. Output in yarn, fabric, and garments has declined sharply, and nearly half of the textile factories have reportedly shut down. As a stopgap, large industries have turned to diesel generators, but with diesel prices exceeding BDT 104 per litre, the cost of self-generated power is three to four times higher than that of grid electricity. This has significantly driven up production costs and negatively impacted their earnings.

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

Beyond the garments and SMEs, the broader industrial landscape has also suffered. Production in the steel industry has dropped by 25–30 per cent, while the ceramic industry has seen a decline of more than 50 per cent due to energy shortages (Banik Barta, 2024).

7.3.3 Transportation sector

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

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

7.4 Policy recommendations

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

Second, pricing adjustments should find a balance between fairness and efficiency. The establishment of an automated, transparent fuel pricing method will help with volatility management. Earlier, CPD investigated the pricing mechanism of BPC and BERC and found that the pricing could be reduced up to Tk15 per litre. MoEPMR should follow the scientific pricing mechanism in order to set the fuel and electricity prices.

Third, the infrastructure needs to be updated. Smart monitoring technology and grid upgrades are required to reduce transmission and distribution losses, which are now around 12 per cent. To expedite the transition to clean transportation, the government should invest in EV charging infrastructure throughout the country, promoting concessional finance and public-private partnerships.

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

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

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SECTION VIII. CONCLUSIONS AND WAY FORWARD

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

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

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

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

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

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

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

Way forward

The government has initiated several reform measures in recent months, including the separation of the National Board of Revenue into two departments - the Revenue Policy and Revenue Management - to improve revenue collection and efficiency, alongside measures aimed at enhancing stock market performance and attracting FDI. Additionally, steps have been taken to address the structural weaknesses in the banking sector, aiming to improve governance and resilience.

However, the success of these initiatives has been limited so far. For example, the NBR reform has faced resistance from within the tax administration, leading to temporary disruptions and necessitating further consultations to address concerns. Governance challenges and regulatory bottlenecks continue to undermine investor confidence and impede economic potential.

The government must move beyond piecemeal measures and demonstrate a clear commitment to comprehensive reform. In the upcoming fiscal year, the focus should be on strengthening institutions, improving governance frameworks, and ensuring transparency and accountability in policy implementation. Only with visible and bold reforms can Bangladesh's economy build resilience, attract investment, and sustain inclusive growth in the years ahead.