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Bangladesh Development Update

Special Focus: Urbanization as a Pathway to Boost Job
Growth



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Preface and Acknowledgements

Bangladesh Development Update is a bi-annual publication by the World Bank. This report provides an assessment of the state of the Bangladesh economy, outlook, risks, and the key reform challenges the economy is currently facing. The coverage includes developments in the real sector focusing on growth and its components; inflation; monetary and financial sector developments; external sector developments focusing on the balance of payments, foreign exchange reserves and the exchange rate; and fiscal developments focusing on revenue mobilization, public expenditures, and deficit financing. The special focus in this update is on urban development for job creation.

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Abbreviations

ADB	Asian Development Bank	GDP	Gross Domestic Product
ADP	Annual Development Programme	GNI	Gross National Income
AQR	Asset Quality Review	GNN	Graph Neural Network's
BB	Bangladesh Bank	GSP+	Generalized Scheme of Preferences Plus
BBS	Bangladesh Bureau of Statistics	HAI	Human Assets Index
BDT	Bangladesh Taka	IMF	International Monetary fund
BEPZA	Bangladesh Export Processing Zones Authority	LCU	Least Currency Unit
BPDB	Bangladesh Power Development Board	LDC	Least Developed Country
CBAM	Carbon Border Adjustment Mechanism	LGD	local government division
CC	City Corporation	M2	Broad Money
CDP	Committee for Development Policy	MPS	Monetary Policy Statement
CRAR	Capital to Risk-Weighted Assets Ratio	NBR	National Board of Revenue
DMR	Dhaka Metropolitan Region	NPL	Non-Performing Loan
DSA	Debt Sustainability Analysis	NTL	Nighttime Light
EBA	Everything But Arms	OECD	Organization for Economic Co-operation and Development
EDC	Economic Development Corridors	OSR	Own-Source Revenue
EEEG	Employment Elasticity of Economic Growth	PPP	Purchasing Power Parity
ELA	Emergency Liquidity Assistance	RMG	Ready-made garments
EMDE	Emerging Market and Developing Economies	SEZ	Special Economic Zone
EPZ	Export Processing Zones	SOE	State-Owned Enterprise
ESG	Environmental, Social and Governance	STS	Smooth Transition Strategy
EU	European Union	SVAR	Structural Vector Auto Regression
EVI	Environmental Vulnerability Index	ULGI	Urban Local Government Institutions
FDI	Foreign Direct Investment	UN	United Nations
FTA	Free Trade Agreement	USA	United States of America
FX	Foreign Exchange	US\$	US dollar
FY	Fiscal Year	VAT	Value-added Tax
FYP	Five Year Plan	WTO	World Trade Organization

Executive Summary

Recent Developments

Real Gross Domestic Product (GDP) growth remained relatively resilient in fiscal year 2025 (FY25), declining marginally to 4.0 percent from 4.2 percent in FY24, despite a FY25 first-quarter slump due to the student-led mass uprising.¹ This was driven by subdued investment, high interest rates, and elevated input costs. Private sector credit growth fell to a 22-year low, and capital goods imports dropped significantly. Inflation, although recently showing signs of easing, stayed elevated throughout FY25. However, exports—especially ready-made garments (RMGs)—provided a notable boost to GDP growth.

On the supply side, industrial growth improved slightly but remained below historical averages, while construction activity declined sharply. Agriculture began to recover in later quarters following early setbacks caused by flooding, and services growth was limited by slowdowns in trade, transport, and real estate.

The employment conditions continue to be a matter of concern. Between 2023 and 2024, labor force participation fell from 60.9 percent to 58.9 percent, driven mainly by lower female participation. The employment-to-working-age population ratio fell 2.1 percentage points to 56.7 percent, while unemployment rose slightly to 3.7 percent. Job losses averaged 2.6 percent across sectors, with the sharpest decline in services. In recent years, employment elasticity with respect to economic growth has declined markedly in the industry and service sectors, while it has increased in the agriculture sector.

Bangladesh Bank (BB) moved in FY25 to align non-performing loan (NPL) recognition and provisioning requirements with international standards. As a result, banking sector-wide NPLs reached 24.1 percent by March 2025, significantly above the average for South Asian banks of 7.9 percent. The capital-to-risk-weighted asset ratio (CRAR) fell to 6.3 percent, well below the regulatory minimum of 10 percent and is likely to decline further once forbearance measures are withdrawn. In response, the authorities have initiated banking sector reform focusing on urgent measures to manage risks, including by providing liquidity. BB adopted a new Bank Resolution Ordinance in May 2025, which provides BB with effective tools for bank resolution. Preparatory measures are underway to enhance regulatory frameworks aimed at improving governance and transparency, especially within state-owned banks. Efforts include developing a high-level strategy for restoring banking sector stability and preparing amendments to legal frameworks to strengthen central bank governance and operational independence. Preparations are also underway to strengthen the deposit protection system and introduce a robust Emergency Liquidity Assistance (ELA) framework.

External pressures eased in FY25. Substantial remittance inflows and sustained export growth resulted in a current account surplus of US\$149 million in FY25—the first such surplus in eight years—contrasting sharply with the US\$6.6 billion deficit in FY24. Remittances increased significantly by 26.8 percent year-on-year (y-o-y), and export earnings grew by 8.8 percent, driven by robust performances in RMG, leather, plastics, agriculture, and footwear. Import activity rebounded by 4.3 percent, primarily due to a pronounced rise in rice and intermediate goods imports, while imports of capital goods and machinery contracted,

¹ Most of the analysis in the recent developments section of this report is based on data available up to FY25, which refers to the period from July 2024 to June 2025.

indicating subdued private and public investment. Significant budgetary support from development partners also supported the financial account. Net Foreign Direct Investment (FDI) grew 20.1 percent to US\$1.7 billion, though this remained just 0.4 percent of GDP. As a result, the overall balance of payments improved significantly, shifting from a US\$4.3 billion deficit in the previous year to a US\$3.4 billion surplus in FY25. This positive shift contributed to the stabilization of foreign exchange (FX) reserves. The exchange rate has remained broadly stable following the adoption of a more flexible, market-based regime in May 2025.

The fiscal deficit widened in FY25, primarily due to subdued tax revenue growth and an increase in current expenditures driven by subsidies and interest payments. Tax as a share of GDP is estimated to have declined to 6.8 percent in FY25 from 7.4 percent in FY24, reflecting weaker economic activity in the first quarter, and disruptions in tax collection towards the end of FY25. Concurrently, current expenditure reached 9.2 percent of GDP, driven by elevated subsidies for the energy and agriculture sectors and higher interest payments (which now constitute nearly 30 percent of total current spending). Capital spending contracted to 3.3 percent of GDP in FY25 from 3.7 percent in FY24 amid a conservative approach to project approvals and implementation disruptions.

In response to fiscal pressures, the interim government has initiated significant revenue reforms, including the institutional separation of tax policy and administration, the adoption of a policy to improve management of tax expenditures, and the mandatory implementation of online tax filing for individual taxpayers. Despite these initiatives, the fiscal deficit increased to an estimated 4.7 percent of GDP in FY25, up from 3.9 percent in FY24, with domestic borrowing accounting for 68.8 percent of total borrowing and the rest coming from external sources. As a consequence, public debt as a proportion of GDP rose. As of March 2025, domestic banks held about 36.9 percent of total public debt, rising from 34.7 percent in FY24. Debt service (including amortization and interest payments) as a share of revenue remained high at over 100 percent. Bangladesh's risk of debt distress, as assessed by the World Bank and the International Monetary Fund (IMF), shifted to moderate from low.

Outlook

Real GDP growth is expected to increase to 4.8 percent in FY26, underpinned by decelerating inflation and strengthened private consumption. Investment is likely to remain subdued due to persistent political uncertainty and vulnerabilities within the banking sector. Export growth is projected to remain robust despite remaining global trade tensions, as Bangladesh is expected to preserve competitiveness in the US market under the new tariff schedule. However, the current account balance is likely to return to a deficit as imports normalize. The fiscal deficit is expected to stay below 5 percent of GDP, supported by revenue gains from reform measures. Subsidy payments as a share of GDP are expected to decline gradually with reforms but, together with interest payments, will continue to account for more than 50 percent of current expenditure. Public debt is projected to rise gradually to about 41.7 percent of GDP by FY27.

However, the outlook is subject to considerable downside risks, including potential banking sector weaknesses, heightened political instability around the upcoming national election, delays in reform implementation, international trade disruptions, a slower-than-expected moderation in inflation, and constraints in energy supply.

Over the medium term, growth is projected to accelerate in FY27 with the recovery of investment activities. This acceleration is expected to be supported by moderating inflation and robust remittance inflows, which are expected to bolster private consumption. Modest improvements in labor market

conditions and poverty alleviation are expected, with the national poverty rate projected to decline to 19.1 percent and inflation to ease to approximately 5.5 percent by FY27. However, the recovery is expected to remain fragile and will depend on the effective implementation of reforms, the restructuring of the banking sector, and sustained improvements in both the domestic and external environments. The forthcoming graduation from Least Developed Country (LDC) status in November 2026 may not adversely affect export performance immediately due to the continuation of preferential tariff rates until 2029 for the European Union (EU), Bangladesh's largest export market. LDC graduation would be an opportunity to carry out comprehensive reforms to expand trade, strengthen private sector competitiveness, and promote economic diversification. Policy clarity and accelerated reforms following the election could support a faster than expected growth rebound, job creation, and poverty reduction.

Special focus: Embarking on a New Urbanization Pathway to Boost Job Growth in Bangladesh

Over the past twenty years, Bangladesh has experienced notable changes in employment patterns, population distribution, and infrastructure expansion, driven largely by the dynamic growth of its manufacturing sector, particularly the garment and textile industries. This industrial transformation has predominantly occurred through bottom-up market forces, most of which has taken place in the absence of appropriate planning, development control, sufficient infrastructure, and basic service support. This initially facilitated rapid economic growth and allowed market demand to be met efficiently and led to the concentration of industrial activity around major metropolitan areas such as Dhaka and along key corridors to Chattogram.

However, as industries have mushroomed in and around this job corridor, broad congestion forces have kicked in. As such, industrial development has been continuously suburbanized to the “periphery areas” of key growth engines, administratively classified as rural areas, with even less infrastructure and planning support than the urban centers. Meanwhile, outside of the corridor particularly to the western part of the country, there has been fragmented and “patchy” job growth in its spatial pattern, less connected compared with those areas within the corridor. The dispersion of job growth away from established urban cores reflects both the promise and the limitations of Bangladesh's current urbanization model.

The special focus section highlights the structural misalignment between the location of job growth and the focus of urban development policies and investments. This disconnect is compounded by institutional challenges, including weak planning, inefficient resource allocation, limited decentralization, and inadequate local capacity. To sustain Bangladesh's rapid development and job creation, a more deliberate spatial and territorial development strategy is required—one that supports diverse socioeconomic regions through targeted investment and policy formulation and implementation. Policymakers are encouraged to adopt a spatially differentiated approach to urbanization, emphasizing improved planning, efficient use of fiscal resources, and the empowerment of urban local governments through enhanced financial and technical capacities. A higher-level priority is to fully examine the existing industrial corridor that has emerged and identify comprehensive sets of policy and investment interventions that are required to transform it. Specific policy recommendations include:

- **Strengthening spatially oriented planning and investment that responds to the differentiated needs of the distinct regions in Bangladesh.** This could include: i) strengthening the five year plans by leveraging spatial analyses, ii) updating the metropolitan development plans, developing sector

master plan for key areas (i.e., transports, logistics, economic zones), and establishing the necessary institutional coordination mechanism, iii) accelerating the integration of strategic planning and budgeting process, and iv) delegating an increasing share of central government expenditure to *upzilla or subdistrict* offices.

- **Empowering urban local governments to play a more prominent role by enhancing their financial and technical capacities.** This could include: i) providing urban local government institutions (ULGIs) with capacity building support to improve their revenue administration, ii) increasing the size of local government division's (LGD's) Annual Development Program (ADP) block grant allocations to ULGIs, iii) using formula-based and population-weighted allocations to make block grant allocations, iv) ensuring that ULGIs have core deputed staff (chief executive officers, engineers, finance officers) and are able to hire additional technical staff as needed, and v) providing ULGIs with tools for and training in public investment management (e.g., planning, procurement).

Recent Developments

Context

Bangladesh's economy showed signs of recovery in the latter part of FY25, with real GDP growth declining only slightly to 4.0 percent in FY25 from 4.2 percent in FY24. Real GDP growth picked up in the second half of FY25, following a deceleration in the first half. Pressures in the external sector have eased, with the current account balance returning to a surplus for the first time in eight years. This improvement in external balance has been underpinned by a substantial increase in remittance inflows, resilient export performance, and budgetary support from development partners. Consequently, foreign exchange reserves—which have been on a declining trajectory in recent years—have now stabilized. The exchange rate has also remained steady, notwithstanding the adoption of a more flexible exchange rate regime in May 2025. Furthermore, inflationary pressures have moderated in recent months.

Despite these positive developments, considerable challenges persist. The investment climate has shown limited signs of improvement, as both private and public sector activities have remained subdued. Political uncertainty continues, and the law-and-order situation remains a concern, despite some progress since the first quarter of FY25. As a result, new job creation has stalled, leading to a rise in the unemployment rate. The financial sector remains vulnerable, characterized by elevated levels of NPLs and several banks requiring substantial liquidity support from the BB to sustain operations. Revenue collection has also remained weak.

While several reform initiatives have advanced, there remains scope for further progress. Following the formation of the interim government on August 8, 2024, more than ten reform commissions and task forces were established, addressing areas such as constitutional reform, electoral system, police administration, judiciary, banking sector, anti-corruption measures, and public administration, among others. These committees and task forces submitted numerous reform proposals. A consensus committee, comprising representatives from various political parties, was constituted to foster agreement on selected reforms. Thus far, discussion on reforms has largely focused on issues deemed critical for the upcoming election, the caretaker government, and constitutional matters. Several notable reforms, particularly those related to the banking sector and domestic revenue mobilization, have also been initiated. However, scope remains to make progress on the broader economy-wide reform agenda, particularly those recommended by the Task Force on Strategizing the Economy and the White Paper Committee. The next national election is anticipated to take place in February 2026.

Real Sector

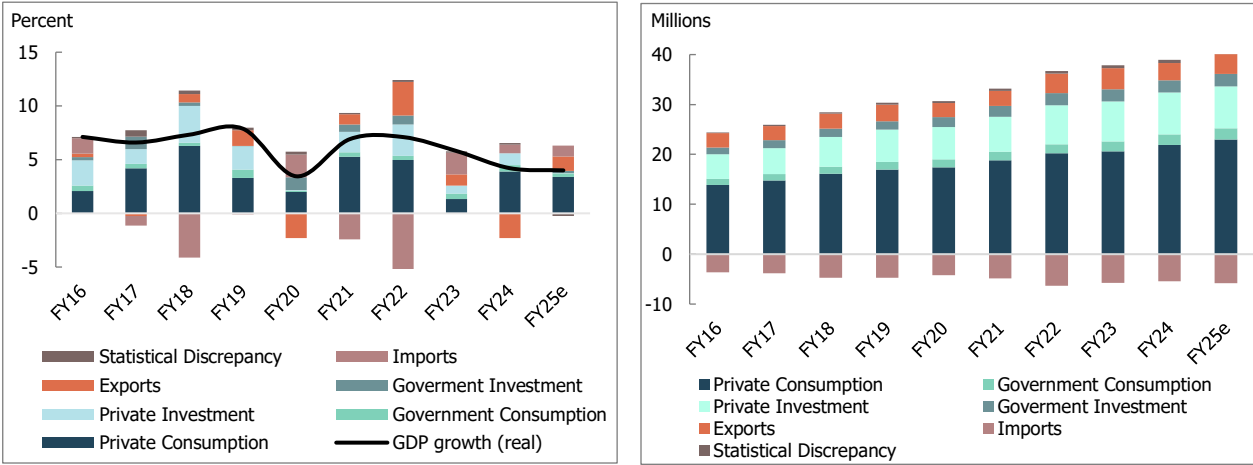
Real GDP growth eased marginally in FY25, the third consecutive year of moderation, reflecting ongoing broad-based domestic challenges. Both public and private investments remained muted, and private consumption softened under persistently high inflation. On the external side, robust exports—particularly strong demand for RMGs—provided a partial offset to the growth moderation, though overall industrial momentum remained constrained by a weak business environment. Agricultural output was hindered by

flooding in the first quarter of FY25, and services growth was modest. Inflation remained elevated, although there were some signs of easing.

Global growth is slowing due to a substantial rise in trade barriers and the pervasive effects of an uncertain global policy environment (World Bank 2025a). In advanced economies, growth prospects for 2025 have declined substantially, reflecting policy uncertainty related to trade barriers, financial volatility, and dampening effects on confidence. For emerging market and developing economies’ (EMDEs) effort to narrow per capita income gaps with richer countries, boost job creation, and reduce extreme poverty remains insufficient. The challenging global context faced by EMDEs is compounded by the fact that FDI inflows into these economies have fallen to less than half of their peak level in 2008 and are likely to remain subdued. Global headline inflation has remained somewhat elevated over the past year, briefly edging higher in advanced economies in early 2025.

In Bangladesh, after a first-quarter slump in FY25, real GDP growth accelerated in subsequent quarters. However, overall FY25 growth is still estimated to have declined slightly compared with FY24. After slowing to 1.8 percent in the first quarter of FY25 amid disruptions from the July uprising in 2024 and severe flooding, the provisional Bangladesh Bureau of Statistics (BBS) quarterly data indicate a recovery in real GDP growth, exceeding 4.0 percent in both the second and third quarters. Overall real GDP growth for FY25 is estimated to have edged down to 4.0 percent in FY25 from 4.2 percent in FY24—the third consecutive annual slowdown.

Figure 1: Real GDP Growth and Contributions to Real GDP Growth **Figure 2: Contributions to Real GDP (LCU)**



Source: Bangladesh Bureau of Statistics and World Bank staff calculations.
Note: e=estimate

On the demand side, the moderation in growth was largely due to a decline in investment, which grew by an estimated 0.8 percent in FY25. Private investment remained subdued as businesses adopted a “wait-and-see” approach amid political uncertainty, elevated interest rates, rising raw material costs, and energy supply concerns. The continued slowdown in private investment was reflected in a decline in private sector credit growth to 6.5 percent (y-o-y) in June 2025, the lowest in 22 years. Imports of capital goods and

machinery fell by 10.2 percent in FY25, confirming weak investment activity. Public investment was similarly affected, as development expenditure contracted by 25.5 percent in FY25, reflecting the government's cautious approach to project approval.

Table 1: Growth Rate (Real, percent)

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25e
GDP Growth	7.3	7.9	3.4	6.9	7.1	5.8	4.2	4.0
	<i>Growth (%)</i>							
Industry	10.2	11.6	3.6	10.3	9.9	8.4	3.5	4.0
Services	6.6	6.9	3.9	5.7	6.3	5.4	5.1	4.4
Agriculture	3.5	3.3	3.4	3.2	3.1	3.4	3.3	2.0
	<i>Growth (%)</i>							
Consumption	9.1	5.5	2.9	7.9	7.4	2.5	6.3	5.1
Private consumption	9.4	4.9	3.0	8.0	7.5	2.0	6.0	5.2
Government consumption	5.3	13.4	2.0	6.9	6.2	8.5	9.8	5.0
Investment	12.1	6.9	3.9	8.1	11.7	2.2	3.3	0.8
Private Investment	14.5	8.6	0.2	7.8	11.8	2.9	4.3	0.1
Government Investment	4.3	0.7	18.2	9.1	11.1	-0.0	-0.2	3.1
Exports, goods & services	6.1	11.5	-17.5	9.2	29.4	8.0	-17.1	12.9
Imports, goods & services	23.9	0.5	-11.4	15.3	31.2	-9.8	-4.6	6.3

Source: Bangladesh Bureau of Statistics and World Bank. e=estimate

Despite a slight deceleration, private consumption remained resilient, and exports made a substantial contribution to overall growth. Private consumption growth remained robust, despite elevated inflation, buoyed by record remittance inflows. This resilience was reflected in the 15.3 percent increase in imports of consumer goods in FY25, which turned positive after two consecutive years contractions. Despite disruptions in industrial areas during the first half of FY25 and prevailing domestic and global uncertainties, export growth remained strong. The depreciation of the taka, sustained demand from major export markets, and a shift in garment orders to Bangladesh from some of its competitors contributed to strong exports growth. Though imports growth turned positive, the trade deficit narrowed as the exports growth outpaced the imports growth (see the discussion on the external sector for more details).

On the supply side, growth in the industry sector rose moderately but remained below historical average. While industrial sector growth picked up to 4.0 percent in FY25 from 3.5 percent in FY24, it remains well below its last decade average of 8.9 percent. Though strong export demand for RMG supported the industry sector, further growth was constrained by a challenging business environment. As of May 2025, the industrial production index had increased only by 2.9 percent (y-o-y). Construction sector growth declined by 4.1 percentage points to 1.5 percent in FY25, as government infrastructure spending contracted sharply and real estate activity moderated due to subdued demand and an increase in the building material prices.

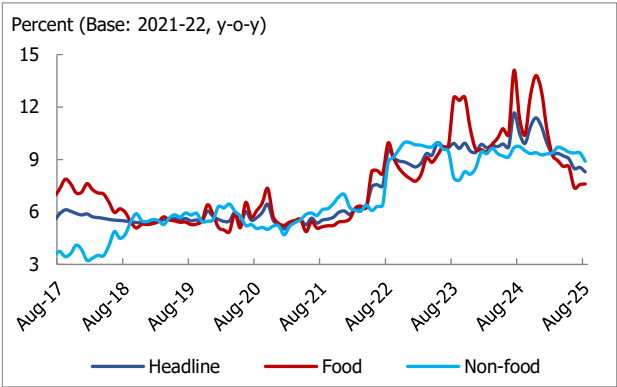
Growth in the agriculture and services sectors remained modest. Agricultural output was adversely affected in the first quarter of FY25 by severe flooding, resulting in a 1.6 percent (y-o-y) decline in *aman* and *aus* rice production—the second and third largest rice varieties by output—necessitating increased food imports. Elevated input costs and reduced agricultural loan disbursements further constrained growth. According to quarterly GDP data from the BBS, agricultural growth gradually recovered to 2.4 percent in the third quarter, after falling to just 0.8 percent in the first quarter. However, a strong *boro* rice harvest—the largest rice variety by output—provided some support to the sector in the fourth quarter. Service sector

growth remained modest at 4.4 percent, driven by a slowdown in wholesale and retail trade, transportation and storage, and real estate activities.

Inflation

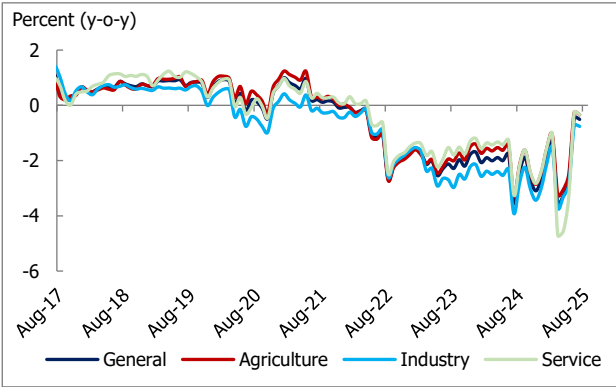
Inflation has moderated recently, but it remains elevated. Average inflation rose to 10.0 percent in FY25 from 9.7 percent in FY24, driven by taka depreciation, flooding in the first quarter of FY25, and supply-chain disruptions. Pressures were initially concentrated on food prices, which peaked at 13.8 percent in November 2024. Thereafter, both headline and food inflation moderated, reaching 8.3 percent and 7.6 percent, respectively, by August 2025. The recent moderation in inflation reflects exchange-rate stabilization, tight monetary policy, reduced import duties on essential foods, and strong harvests of vegetables and the *boro* rice crop. Growth in wages of low-income group individuals has remained below the inflation rate since May 2021; however, the gap between the two rates has narrowed in recent months due to a fall in inflation² (Figure 4).

Figure 3: Inflation



Source: Bangladesh Bureau of Statistics

Figure 4: Growth in Real Wages (Low Paid/Unskilled)



Source: Bangladesh Bureau of Statistics

Box 1: Inflation dynamics and drivers since 2022

Despite some recent moderation, inflation in Bangladesh has remained persistently elevated since 2022 (Figure 3). After a period of relative stability between 2015 and 2022, during which inflation fluctuated within a narrow band of 5–6 percent, a marked acceleration began in the latter half of 2022, following the global price increase in the aftermath of the war in Ukraine. Since then, headline inflation has consistently exceeded 9 percent, peaking at 11.7 percent in July 2024, before recently declining to below 9 percent. The primary driver of this latest inflationary surge has been food prices, which rose by 14.1 percent (y-o-y) in July 2024. High food prices and a comparatively sharper rise in inflation in rural areas have meant that poor people are being disproportionately affected by the price increases.

Multiple factors have contributed to the persistence of high inflation. The exchange rate has depreciated by more than 30 percent since June 2022, significantly increasing the cost of imports. This depreciation has directly affected the prices of key imported food items, such as edible oil, wheat, and sugar, as well as a range of non-food goods. In addition, periodic flooding has disrupted food production, while various supply-side disruptions—including hoarding, cartel control of supply chains, and extortion—have

² This is based on the Wage Rate Index published by the BBS, which tracks wages for low-income group.

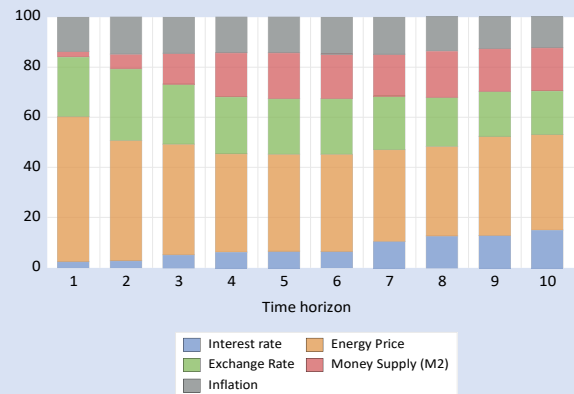
continued to exert upward pressure on prices. Domestic fuel prices were raised by nearly 50 percent in August 2022, and gas and electricity tariffs also were increased. These adjustments had broad spillover effects, raising transportation and production costs across both food and non-food sectors. However, the adoption of a market-based fuel pricing mechanism over the past year has led to a modest reduction in fuel prices.

Monetary and exchange rate policy responses have been constrained for much of the period. BB maintained a lending interest rate cap of 9 percent for an extended period, which limited the effectiveness of monetary policy transmission. The maintenance of a multiple exchange rate regime was not helpful in containing import costs. Since May 2024, steps to make both the interest rate and exchange rate more market-driven have improved monetary policy transmission.

To better understand the relative importance of these factors, a variance decomposition analysis was conducted for the period June 2022 to June 2025, using a structural vector autoregression (SVAR) model. The model incorporates five variables: inflation rate, exchange rate, domestic energy prices, interest rate, and money supply growth.³

Figure 5: Variance Decomposition of Inflation

The results of the variance decomposition (Figure 5) indicate that domestic energy prices are the most significant factor explaining the variability of inflation across different horizons. This likely reflects the extensive spillover effects of energy prices on production and transportation costs, which in turn influence consumer prices. The exchange rate emerges as the second most significant driver, accounting for an average of 22 percent of inflation variability. While money supply and interest rates have a limited immediate impact, their influence on inflation becomes more pronounced over time. It is important to interpret these findings with caution as the analysis does not fully capture the effects of certain supply-side shocks due to data limitations. Nonetheless, the results underscore the critical importance of energy prices and exchange rate management in shaping inflation dynamics in Bangladesh during this period.



Source: World Bank staff estimates based on data from BB and BBS

Poverty and welfare

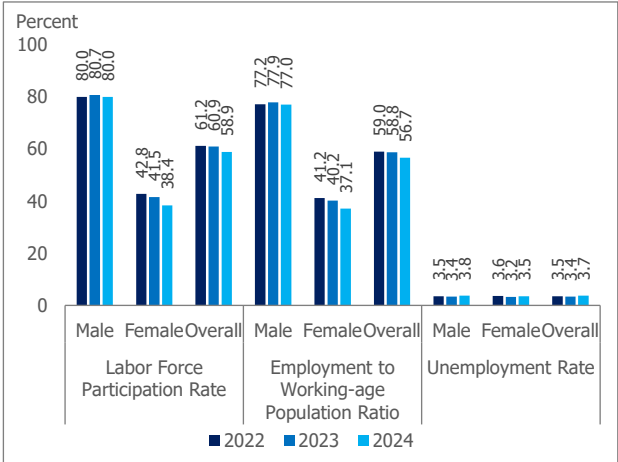
Poverty rose in FY25 as weak growth and labor market stress eroded welfare. The national poverty rate is estimated to have climbed to 21.2 percent in FY25, up from 20.5 percent in FY24, reflecting the combined impact of slower growth, high inflation, and deteriorating labor market conditions.

Labor market pressures were broad-based, with women most affected. The labor force participation rate fell from 60.9 to 58.9 percent between 2023 and 2024, driven by a sharp decline in female participation (down 3.1 percentage points to 38.4 percent). This meant 3 million more working-age people were outside

³ Diesel price is used as a proxy for fuel prices. This is because diesel is the most used fuel in Bangladesh and its price is highly correlated with other fuels like petrol, octane, and kerosene. The SVAR framework allows for dynamic interactions among these variables, with each variable potentially affecting the others with a lag. A Cholesky decomposition is employed, with interest rates and energy prices ordered first and second, and the inflation rate ordered last.

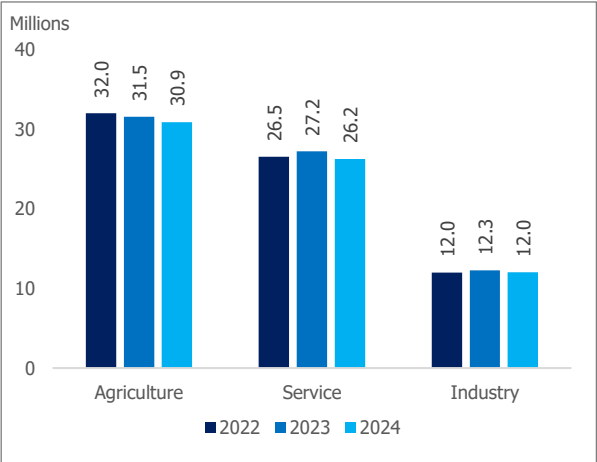
the labor force, of whom 2.4 million were women. Total employment dropped during that period by almost 2 million to 69.1 million, pulling the employment-to-working-age population ratio down by 2.1 percentage points to 56.7 percent (Figure 6). All major sectors lost jobs, with services hardest hit (-3.6 percent), followed by agriculture (-2.1 percent) and industry (-2.0 percent) (Figure 7). Unemployment rose only marginally to 3.7 percent, as many discouraged workers simply stopped looking for work.

Figure 6: Key Labor Market Indicators



Source: Quarterly Labour Force Survey 2022, 2023 & 2024, BBS

Figure 7: Sectoral Employment



Source: Quarterly Labour Force Survey 2022, 2023 & 2024, BBS

High prices and falling real wages further squeezed households. Persistently high inflation eroded purchasing power across households, but the impact was sharpest for low-paid workers, whose real wages fell by almost 2 percent in FY25. Poverty at the US\$3.0 line (2021 PPP) is projected to rise to 8.9 percent, pushing about 1.2 million more people into poverty. Inequality, however, is expected to narrow slightly (by 0.2 Gini points) as income pressures were felt broadly across the distribution. Migration and remittances provided an important cushion: with more than one million people leaving annually, remittance-receiving households remained relatively more resilient.

Table 2: Poverty and Inequality Projections

Poverty Line	2022	2023	2024	2025f	2026f	2027f
National poverty rate	18.7	19.2	20.5	21.2	19.1	18.1
International poverty rate (US\$3.0 in 2021 PPP)	5.9	6.3	8.3	8.9	6.9	6.0
Lower middle-income poverty rate (US\$4.2 in 2021 PPP)	20.5	21.0	22.6	23.1	20.9	20.1
Upper middle-income poverty rate (\$8.3 in 2021 PPP)	71.5	71.4	70.7	70.8	69.5	69.6
Gini	30.9	32.5	34.2	34.0	33.2	36.6

Source: Staff Calculations based on SAR-POV harmonization using 2022 HIES data. Actual data are from 2022, with nowcasts for 2023 & 2024 and forecasts for 2025 to 2027 based on a microsimulation methodology.

Box 2: Employment elasticity trends

Both economic theory and empirical evidence suggest that the responsiveness of employment to output growth—commonly measured as employment elasticity—varies significantly by sector. To understand whether the employment elasticity of economic growth (EEEG) for Bangladesh changed over time, we estimate the EEEG for three sectors – Agriculture, Industry and Services, for the period 1991-2016 and 2017-2022.

Table 3: Employment elasticity to growth

	1991 -2022	1991-2016	2016-2022
Agriculture	-0.1	-0.1	1.7
Industry	0.6	0.7	-0.1
Services	0.6	0.6	0.4
Overall economy	0.3	0.3	0.3

Source: World Bank staff estimate based on BBS and ILO data

The sectoral decomposition of EEEG reveals a shift in recent years: whereas industry and services previously drove employment expansion, recent job creation has been concentrated predominantly in the agriculture sector.

During 1991-2016, a 1 percent increase in agricultural output was associated with a marginal decline (0.07 percent) in agricultural employment. This finding is consistent with broader trends observed in rapidly transforming economies. Although agriculture in Bangladesh has historically been labor-intensive, its capacity to absorb additional labor has diminished over time, primarily due to mechanization and productivity improvements (World Bank, 2021). Such low or negative employment elasticity in agriculture is not uncommon in countries undergoing structural transformation. For example, a comprehensive study by Burgi et al. (2024) across more than 100 developing countries reported that agricultural EEEG is low for most countries and is negative for more than one-third of developing countries. In contrast, employment elasticity in the industry and services sectors, while inelastic (i.e., less than one), remained substantially higher than in agriculture, at approximately 0.6 during 1991–2023. This period saw significant expansion in Bangladesh’s industrial and service activities. These findings suggest that Bangladesh has undergone a structural transformation from agriculture to industry and services, not only in terms of GDP contribution but also in employment generation, as is typical for developing economies.

However, the results in Table 3 indicate a significant reversal in sectoral trends⁴. Notably, agricultural EEEG jumps from -0.07 to 1.7, suggesting that recent agricultural growth has been accompanied by a more than proportional increase in employment. Conversely, elasticity in the industry sector turns negative, indicating that output growth has coincided with a decline in industrial employment. The services sector, while maintaining positive elasticity, also experienced a decline from 0.6 to 0.4, reflecting a reduced capacity for job creation.

Monetary and Financial Sector Developments

Bangladesh Bank maintained a contractionary monetary policy but indicated that it might change if inflation continues to moderate. Liquidity in the banking system remained tight, broad money growth slowed, and private sector credit growth declined. Concerns about financial stability remained high, as the introduction of improved regulatory requirements on transparency and disclosure of banks’ balance sheets has started to reveal significantly higher NPLs and undercapitalization.

⁴ The COVID pandemic may have impacted the results.

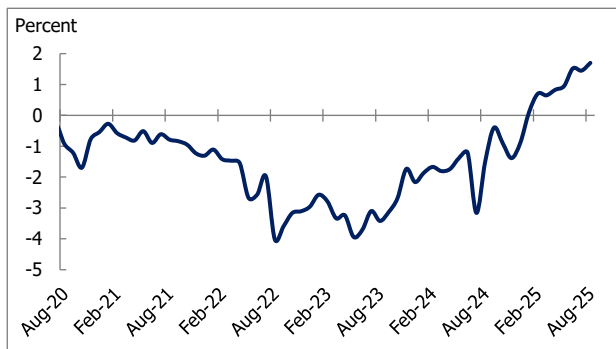
Table 4: Key Monetary Indicators (% , y-o-y growth)

	FY22	FY23	FY24	FY25
	Actual	Actual	Actual	Actual
Net Foreign Assets	-11.9	-23.4	-17.4	4.5
Net Domestic Assets	17.2	21.3	13.8	7.4
Domestic credit	16.2	15.3	10.0	8.0
Public Sector credit	29.1	35.8	10.5	13.5
Private Sector credit	13.7	10.6	9.8	6.5
Broad Money	9.4	10.5	7.7	7.0
Reserve Money	-0.3	10.5	7.9	-0.1
Inflation (end of period average)	6.1	9.0	9.7	9.9
Real GDP Growth	7.1	5.8	4.2	4.0

Source: Bangladesh Bank and Bangladesh Bureau of Statistics.

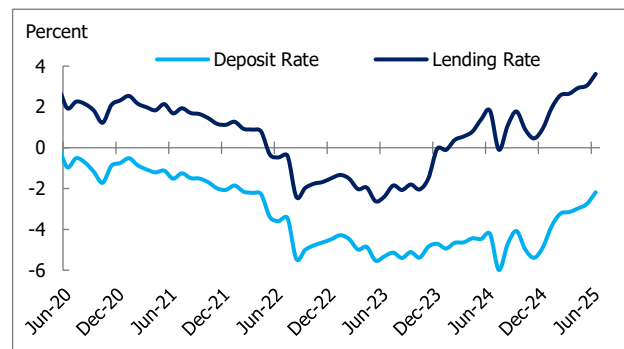
BB maintained a tight monetary stance to combat elevated inflation. Following cumulative policy rate hikes of 150 basis points between July and October 2024, the policy rate was held at 10 percent thereafter. In its July–December 2025 Monetary Policy Statement (MPS), BB signaled that policy rate cuts would occur when inflation declines below roughly 7 percent. While the Standing Lending Facility rate remained at 11.5 percent, the Standing Deposit Facility rate was lowered by 50 basis points to 8.0 percent. Real policy and lending rates have moved into positive territory, whereas real deposit rates remain negative (Figure 8 and Figure 9), indicating continued pressure on household savings.

Figure 8: Real Policy Rates



Source: Bangladesh Bank

Figure 9: Real Interest Rates on Commercial Lending and Deposits (weighted average)

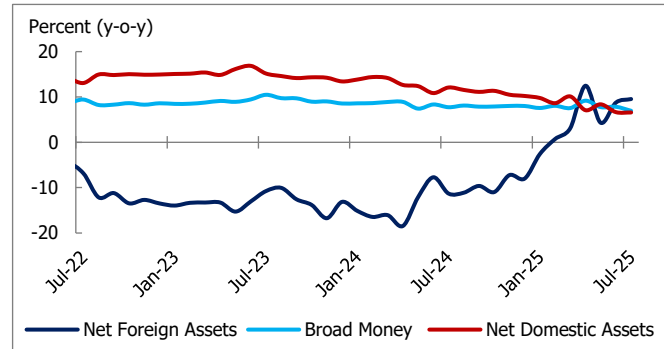


Source: Bangladesh Bank

Liquidity conditions in Bangladesh’s banking system remained tight, prompting BB to continue its liquidity injections. Pressures were driven by several factors: elevated NPLs, precautionary deposit withdrawals amid concerns about weaker institutions, and persistently negative real deposit rates. However, deposit growth started to recover in the second half of FY25. Additionally, higher government borrowing from domestic banks—reflecting slower revenue mobilization—likely crowded out private credit. In response, BB reduced the cash reserve ratio by 50 basis points to 3.0 percent for FY25, and provided sizable, uncollateralized liquidity support to institutions facing operational shortfalls, totaling BDT 523.7 billion (US\$4.3 billion) in the second half of FY25 (Bangladesh Bank, 2025), a departure from its earlier commitment to limit such interventions. Complementary measures included guarantees of BDT 111 billion under a credit guarantee scheme to facilitate interbank transactions and alleviate liquidity mismatches and net foreign exchange purchases from commercial banks that further augmented system liquidity.

Different market rates continued to face upward pressure amid tight liquidity conditions. The weighted-average nominal lending and deposit rates rose by 0.6 and 0.7 percentage points in FY25, reaching 12.1 percent and 6.2 percent, respectively. Short-term funding costs also increased; the weighted-average call money rate climbed by 1 percentage point over the year to 10.1 percent in June 2025, and the interbank repo rate rose by 1.8 percentage points to 10.4 percent. In contrast, government securities yields declined in FY25, reflecting stronger demand from banks, other financial institutions, and retail investors.

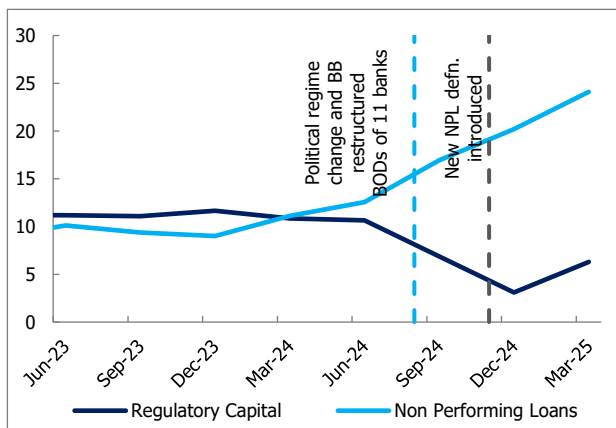
Figure 10: Growth rate of Net Domestic Assets, Net Foreign Assets, and Broad Money



Source: Bangladesh Bank

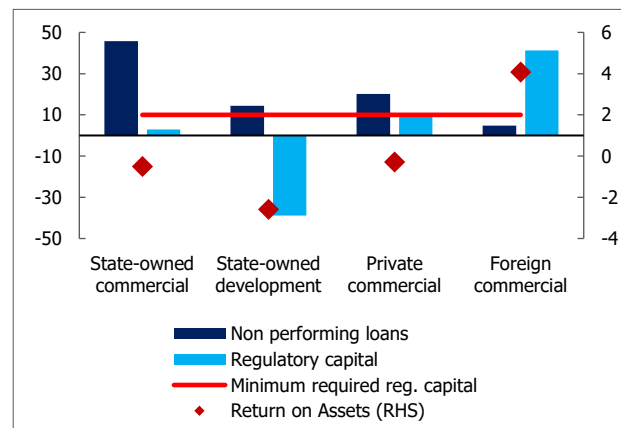
Money supply growth decelerated in FY25 and remained below the BB target. Broad money (M2) growth moderated to 7.0 percent in FY25 from 7.7 percent in FY24, falling below BB’s target of 8.4 percent for FY25. The slowdown was driven by a decline in net domestic assets growth by 4.3 percentage points to 6.7 percent in FY25, even though the net foreign asset growth improved due to remittance inflows and improvements in external balance. The latest MPS projects a recovery in monetary aggregates, with M2 and domestic credit growth increasing by December 2025.

Figure 11: Banks’ asset quality and regulatory capital (% of total)



Source: Bangladesh Bank

Figure 12: Bank group-wise performance (% of total), March 2025



Source: Bangladesh Bank

Greater disclosure of financial sector vulnerabilities in FY25 highlighted growing systemic risks. After the regime change in summer 2024, BB and scheduled banks started disclosing past mismanagement. To improve banks’ balance sheet transparency, BB started aligning regulatory policies on NPLs, loan loss provisions, and governance with international standards, revealing previously underreported NPLs and significant undercapitalization across the banking sector. Banking sector-wide NPLs reached 24.1 percent by March 2025 (Figure 11), far above the average for South Asian banks (excluding Bangladesh’s) of 7.9 percent. The CRAR fell to 6.3 percent, which is well below the regulatory minimum of 10 percent. For private Islamic commercial banks and state-owned commercial banks, the CRAR dropped to 2.7 percent and 2.9 percent, respectively. The loan loss provisions to NPLs declined to 24.8 percent in March 2025 from 46.6 percent in March 2024. At the end of March 2025, the reported provision shortfall is USD\$14.2 billion. Weak

banks are experiencing liquidity pressures. Profitability also weakened, with the return on assets turning negative due to improved recognition of asset quality risks and loan loss provisions, in line with stricter regulatory requirements (Figure 12).

The interim government and the BB, with support from World Bank Group and development partners including the IMF and Asian Development Bank (ADB), have initiated banking sector reforms. In the short term, BB and Ministry of Finance are focusing on urgent measures to manage risks. Key measures include ongoing AQRs in selected weak banks to assess their true financial condition, dissolving the boards and appointing new directors in 15 weak banks, strengthening regulations to improve governance and transparency, and enhancing disclosure on beneficial ownership, related parties, and asset classification and provisioning requirements in line with international standards. BB is strengthening financial safety nets to effectively respond to the crisis by adopting a new Bank Resolution Ordinance in May 2025, which provides BB with effective tools for bank resolution. Preparations are also underway to strengthen the deposit protection system and introduce a robust ELA framework. Draft amendments are being prepared to strengthen the legal frameworks for central bank governance and operational independence, as well as corporate governance of banks, including state-owned commercial banks. Progress needs to be accelerated on comprehensive measures to resolve weak banks by undertaking asset quality reviews for all weak, systemic, and state-owned banks to assess their true financial health. Based on these diagnostics, effective and time-bound resolution strategies need to be adopted to ensure the future viability and profitability of banks.

External Sector

External sector pressures have eased. Robust remittance inflows and resilient export growth have helped the current account balance turn into a surplus. Furthermore, substantial budget support from development partners contributed to an overall surplus in the external balance and helped arrest the depletion of foreign exchange reserves. BB adopted a more flexible market-based exchange rate regime in May 2025, and the exchange rate has remained broadly stable since then.

The current account returned to surplus in FY25 for the first time in eight years, supported by strong remittance inflows and resilient export earnings. By the end of FY25, the current account registered a surplus of US\$149 million, a marked turnaround from the US\$6.6 billion deficit recorded in FY24. The improvement was underpinned primarily by a 26.8 percent (y-o-y) increase in remittances, reflecting the impact of exchange rate depreciation and a narrowing spread between formal and informal market rates that incentivized flows through official channels. The United States remained the largest remittance source, accounting for 15.6 percent of total inflows in FY25, followed by Saudi Arabia, the United Arab Emirates, and the United Kingdom.

Export growth remained robust in FY25, increasing by 8.8 percent. Exports benefited from favorable base effects following a sharp contraction in the previous year, a depreciation of the taka that improved price competitiveness, and resilient external demand despite episodes of domestic political unrest. RMG exports increased by 8.9 percent, while non-RMG exports also strengthened, led by leather and leather products (10.3 percent), plastic products (15.9 percent), agricultural products (2.6 percent), and footwear (25.2 percent). Despite these gains, the share of non-RMG exports in total exports remained relatively unchanged, underscoring the limited progress in export diversification.

Import growth rebounded in FY25 after two consecutive years of contraction. Following declines of 15.8 percent in FY23 and 11.1 percent in FY24, imports rose by 4.3 percent in FY25. The recovery was supported by improved foreign currency availability in the banking system and the easing of selected import restrictions. Food imports rose by 12.1 percent, driven by a twenty-fold increase in rice imports. The higher reliance on rice imports to meet domestic demand reflects both moderating agricultural output and policy efforts to ensure adequate market supply to contain food inflation. Imports of intermediate goods also expanded by 2.7 percent, underpinned by a 9.9 percent increase in input for the RMG sector. By contrast, imports of capital goods and machinery fell by 10.2 percent, signaling weaker private and public investment. A slowdown in construction activity was also evident in a 7.0 percent decline in clinker imports.

Table 5: Balance of Payment (US\$ million)

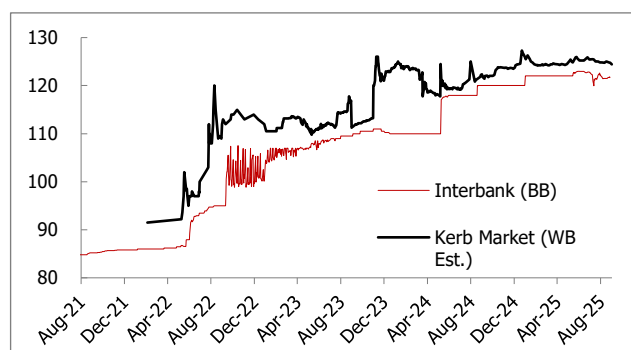
	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Overall Balance	179	2,925	9,274	-6,656	-8,222	-4,300	3,394
Current account balance	-4,490	-4,723	-4,575	-18,196	-11,633	-6,602	149
Trade balance	-15,835	-17,858	-23,778	-33,250	-27,384	-22,433	-20,389
Merchandise export f.o.b. (inc. EPZ)	39,604	32,832	36,903	49,245	43,364	40,807	43,958
Merchandise import f.o.b. (inc. EPZ)	-55,439	-50,690	-60,681	-82,495	-70,748	-63,240	-64,347
Services	-3,176	-2,541	-3,020	-3,987	-3,131	-4,241	-5,405
Income	-2,382	-3,106	-3,172	-2,726	-3,407	-4,326	-5,042
Current transfers	16,903	18,782	25,395	21,767	22,289	24,398	30,985
Official	41	19	51	65	88	86	78
Private	16,862	18,763	25,344	21,702	22,201	24,312	30,907
o/w Workers' remittance	16,420	18,205	24,778	21,032	21,611	23,912	30,329
Capital account	239	256	458	610	475	665	376
Financial account	5,130	7,537	14,067	16,691	6,889	4,487	3,980
Foreign direct investment (net)	2,628	1,271	1,355	1,827	1,649	1,425	1,712
Portfolio investment (net)	171	44	-269	-158	-30	-343	-150
MLT loans (excludes suppliers' credit)	6,263	6,222	7,449	10,295	8,704	9,922	9,013
MLT amortization payments	-1,202	-1,257	-1,417	-1,527	-1,745	-2,020	2,553
Other long-term loans (net)	302	438	1,684	1,443	434	209	-212
Other short-term loans (net)	272	931	2,064	3,315	-1,883	-1,619	-952
Trade Credit (net)	-3,493	-616	3,749	311	2,532	-1,828	-2,505
Change in Commercial Bank Assets (net)	189	-270	-548	1,185	-2,772	-1,259	-373
Errors and omissions	-700	-145	-676	-5,761	-3,953	-2,850	-1,111

Source: Bangladesh Bank.

The overall balance of payments improved significantly. Alongside a significant improvement in the current account balance, the financial account also remained in surplus, turning the US\$4.3 billion deficit of FY24 into a surplus of US\$3.4 billion in FY25. Net FDI rose by 20.1 percent to US\$1.7 billion but remained low at only 0.4 percent of GDP. Despite the slow disbursement of foreign loans throughout the year, the financial account benefitted from a significant inflow of budget support disbursement from different development partners towards the end of FY25. Net errors and omissions remained significant at US\$1.1 billion, despite declining from US\$ 2.9 billion in FY24.

The exchange rate remained relatively stable following the adoption of a flexible exchange rate regime in May 2025. After a continued depreciation that began in FY22, the exchange rate stabilized, particularly towards the latter part of FY25. BB adopted a flexible exchange rate regime in May 2025 as part of a condition under the ongoing IMF program. The average exchange rate in FY25 was 120.9 BDT/US\$, depreciated by 8.7 percent from FY24. In the first two months of FY26, the exchange rate remained stable, averaging around 122 BDT/US\$ in July and August, and the difference between the formal and informal exchange rates remained stable at around 2 percent. In its most recent MPS BB indicated its willingness to intervene in the foreign exchange market to ensure stability. BB bought US dollars (US\$948 million between July and August) from the market recently to counter appreciation pressure on the exchange rate.

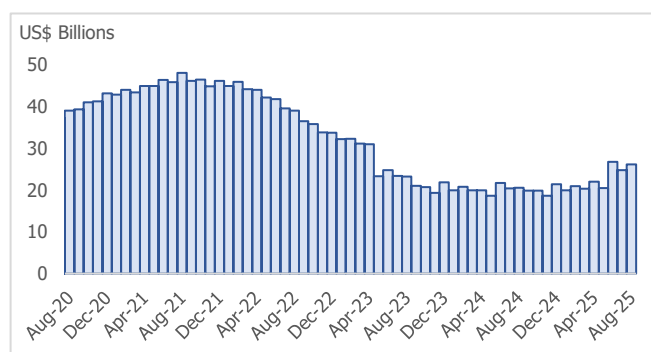
Figure 13: Bangladesh - BDT/US\$ Exchange Rates



Source: Bangladesh Bank, Staff estimates of kerb market rates

FX reserves appeared to have stabilized in FY25, after having been depleting continuously since mid-2021. The significant improvement in external balance helped FX reserves to stabilize. FX reserves rose to as high as US\$26.7 billion at the end of June 2025 following a significant disbursement of budget support from the development partners and remained stable at US\$26.5 billion (approximately 3.5 months of imports) as of September 2025.

Figure 14: Gross Foreign Exchange Reserve



Source: Bangladesh Bank

Fiscal Trends and Debt Sustainability

The overall fiscal deficit widened in FY25 to 4.7 percent of GDP in FY25, up from 3.9 percent in FY24, reflecting moderate tax revenue growth and higher current expenditures, particularly for subsidies and incentive payments. Capital expenditure declined as the government maintained a cautious approach to approving and implementing development projects. Public debt as a share of GDP increased, and Bangladesh’s risk of debt distress shifted to moderate from low in the joint World Bank–IMF Debt Sustainability Analysis. Debt service payments remained elevated, exceeding 100 percent of total revenue.

Revenue mobilization remained weak in FY25. According to Ministry of Finance data, only 71.3 percent of the FY25 revenue target was met in the first eleven months (July–May) of FY25. Based on the National Board of Revenue (NBR) data, tax collections rose by only 2.2 percent in FY25, compared to 12.8 percent in FY24.⁵ The deceleration reflects softer economic activity and a challenging business environment that compressed incomes and profitability; and elevated inflation, which eroded purchasing power and therefore

⁵ The NBR publishes only tax collection data, whereas the Finance Division reports aggregate revenue—including certain non-NBR taxes and non-tax receipts. The tax figures from the two sources often differ.

consumption and dampened value-added tax (VAT). Also, policy measures to mitigate inflation—temporary exemptions on essential food items and lower supplementary and regulatory duties—weighed on trade taxes despite a modest import rebound after two years of contraction. Collections were further disrupted in the final month of FY25 by a strike by NBR officials protesting reforms to separate tax policy and administration. In contrast, non-tax revenue—typically about 10 percent of total—surged by 46.3 percent, driven by higher administrative and service fees and stronger dividends and profits. Overall, the revenue-to-GDP ratio is estimated to have declined to 7.9 percent in FY25, from 8.3 percent in FY24. Persistent challenges in revenue mobilization—such as low compliance, a narrow tax base, weak and fragmented tax administration, and high tax expenditures—continue to hinder efforts to realize the full potential of revenue collection.

Table 6: Fiscal Outcomes (% of GDP)

	FY20	FY21	FY22	FY23	FY24	FY25e
Total revenue 1/	8.5	9.4	8.5	8.2	8.3	7.9
Tax revenue	7.0	7.6	7.5	7.3	7.4	6.8
Total expenditure	13.3	13.0	13.0	12.8	12.2	12.6
Current expenditure	8.0	8.1	8.2	8.2	8.2	9.2
Capital expenditures	5.1	4.7	4.6	4.3	3.7	3.3
Deficit 1/	-4.8	-3.7	-4.6	-4.6	-3.9	-4.7
Net external financing	1.3	1.3	1.6	1.8	1.5	1.4
Net domestic financing	3.0	2.1	2.4	2.6	2.1	3.2
General government debt stock	31.7	32.4	33.8	37.0	37.6	38.1
External	11.8	11.9	12.5	15.0	16.1	15.0
Domestic	19.9	20.5	21.3	22.0	21.5	23.1

Source: Ministry of Finance. World Bank forecast

1/Excluding grants, e=estimated, f=forecast

The interim government has initiated several notable revenue-enhancing reforms. At present, the NBR both formulates tax policy and manages tax administration, an arrangement that has generated inefficiencies and potential conflicts of interest. International experience favors institutional separation of these functions. In line with this good practice, the Ministry of Finance issued an ordinance in May 2025 to establish two distinct divisions: a Tax Policy Division responsible for tax policy design and a Tax Administration Division responsible for administrative implementation. The authorities also approved a Tax Expenditure Policy and Management Framework to curb tax expenditures and improve transparency in the granting and monitoring of tax relief. In parallel, online tax filing has been made mandatory for individual taxpayers, further strengthening administrative efficiency.

Current expenditure increased markedly. Over July–May FY25, current spending rose by 21.5 percent, largely due to a sharp uptick in subsidies and incentive transfers (Ministry of Finance, 2025a). The energy sector—especially the state-owned Bangladesh Power Development Board (BPDB)—absorbed the largest share. Elevated import costs for fuel increased electricity generation costs, but end-user tariffs were held steady to avoid adding to inflationary pressures. The government also settled part of its arrears to the independent power producers. In addition, fertilizer subsidies remained elevated and remittance incentives expanded alongside higher remittance inflows. As a result, total subsidy payments are estimated to have reached 2.2 percent of GDP in FY25. Interest payments rose by 20.0 percent, further increasing current outlays, with interest now accounting for almost 30 percent of total current expenditure. Nearly 85 percent of total interest payments are attributable to domestic debt, a trend primarily driven by the persistently high interest rates on treasury bonds and bills in recent years. As a result, current expenditure is projected to rise to 9.2 percent of GDP in FY25, up from 8.2 percent in FY24.

Capital spending remained subdued. ADP spending contracted by 25.5 percent in FY25. The government adopted a cautious stance toward execution of projects during the year, and implementation was further disrupted by the temporary absence of numerous project directors and key personnel following the July uprising in 2024. As a result, the capital expenditures are estimated to have declined to 3.3 percent of GDP in FY25 from 3.7 percent of GDP in FY24. ADP implementation rate relative to the original FY25 allocation fell to a 15 year low of 67.9 percent, with notably weak execution in critical ministries such as Health. Foreign-financed components also underperformed with a decline in implementation rate to 65.5 percent compared to 76.6 in FY24.

The fiscal deficit widened in FY25 compared to the previous year. Despite restrained capital outlays, weaker revenue collection combined with rising current expenditure pushed the deficit to an estimated 4.7 percent of GDP in FY25, up from 3.9 percent in FY24. Based on data for the first eleven months (June–May) of FY25, deficit financing shifted more heavily toward domestic sources, which accounted for 86.2 percent of total borrowing, compared with 65.5 percent in FY24. Within domestic financing, dependence on the banking system increased as sales of National Savings Certificates, the main non-bank instrument, declined.

Box 3: FY26 budget

The FY26 budget was announced on June 2, 2025, and approved by the Council of Advisors on June 22, 2025. Alongside the FY26 allocation, the authorities also published the revised budget for FY25 and FY24 outturns, providing a clearer picture of recent fiscal trends and execution.

Revenue targets remain optimistic. The FY26 revenue target is set at BDT 5.7 trillion, 32.6 percent higher than the estimated total collection in FY25. The revenue envisaged in the FY25 revised budget fell short by an estimated 16.0 percent. Revenue collections have consistently undershot targets over the past decade, and the shortfall likely widened in FY25, underscoring persistent weaknesses in mobilization and compliance. The budget highlighted several measures to strengthen revenue performance, including separating tax policy from administration, reducing tax expenditures, simplifying return filing, developing a Medium- and Long-Term Revenue Strategy, and expanding automation. While attempts to simplify various aspects of the tax system have been made, complexity is still a prominent feature. For example, while tariffs have been rationalized for a broader set of products, the tier-based customs and excise regime has become more complex. A new 3 percent tier was added to the existing six-tier customs duty structure, and a new 40 percent supplementary duty rate was introduced to the existing twelve-tier schedule.

Interest payments, subsidies, and incentives comprise the largest expenditure shares. Interest payments are projected at 15.5 percent of total spending in FY26, up from 14.2 percent in the previous budget. The budget signals an intention to rationalize subsidies to create space for livelihood support programs targeting vulnerable populations. Nevertheless, subsidies and incentives still account for 11.3 percent of the total budget for FY26, despite a 16.9 percent reduction from the revised FY25 budget. The BPDB is expected to receive the largest subsidy, at about 1 percent of GDP. While the FY26 budget reflects a slight increase in the allocation to social sector spending as a proportion of the total budget, persistent challenges in targeting continue to undermine the efficiency of actual expenditures.

Development expenditure is projected to grow at a modest 6.0 percent relative to the revised FY25 target. However, the revised FY25 target for development expenditure appears to have been missed by a wide margin. Although final FY25 development spending data are not yet available, recently released data for the ADP—which accounts for more than 90 percent of development expenditure—indicate that ADP spending was 28.9 percent below its revised FY25 target. As with revenues, execution remains a challenge, widening the gap between budgeted and actual outlays. The ADP comprises 1,085 projects (161 fewer than the previous year). Consistent with prior years, transport and communications and power and energy received the largest allocations, together accounting for 39.7 percent of the total. External sources are expected to finance 37.4 percent of the ADP.

The budget projects a narrowing of the fiscal deficit in FY26, predicting revenue growth outpacing expenditure growth. More than half (55.3 percent) of the deficit is expected to be financed domestically, primarily through borrowing from the banking sector (83.2 percent of domestic financing). Reliance on domestic financing is increasing: in the revised FY25 budget, 51.8 percent of the deficit is expected to be met from domestic sources, rising to 55.3 percent in FY26.

Bangladesh’s risk of debt distress has deteriorated from ‘low’ to ‘moderate’ in the latest Debt Sustainability Analysis (DSA) by the World Bank and IMF in June 2025. The change of risk from low in the June 2024 assessment to moderate is largely attributed to a substantial downward revision of export data for FY23 and FY24. Bangladesh’s debt-carrying capacity remains assessed as medium, consistent with the previous DSA. Bangladesh’s public debt service to revenue ratio remained high at over 100 percent.⁶ Public debt (excluding guarantees) as a share of GDP increased marginally to 38.1 percent of GDP in FY25, from 37.6 percent in FY24. Domestic debt accounts for 60.4 percent of total public debt (23.1 percent of GDP). As of March 2025, domestic banks held about 36.9 percent of total debt, rising from 34.7 percent in FY24. External debt accounts for 39.4 percent of total public debt (15 percent of GDP). Most of the external debt is owed to multilateral (56 percent) and bilateral creditors (36.5 percent). The World Bank and the ADB are the largest multilateral creditors, accounting for 90 percent of multilateral credit. Japan, Russia, and China are the largest bilateral creditors. About 53 percent of the external debt is denominated in US dollars, followed by Japanese Yen (22 percent) and euro (15 percent).

State-Owned Enterprise (SOE) debt and contingent liabilities remain elevated. In FY24, the combined debt of SOEs and Autonomous Bodies reached 12.8 percent of GDP (Ministry of Finance, 2025). The government continues to provide guarantees and counter-guarantees for loans negotiated by various SOEs. As of the end of FY25, the total outstanding sovereign guarantees amounted to BDT 1,190.8 billion, equivalent to 2.1 percent of GDP. According to a detailed Ministry of Finance study of 101 SOEs in FY23, 28 entities were classified as high risk and 14 as very high risk (Ministry of Finance, 2024).

⁶ Debt service includes amortization and interest payments

Outlook, Risks, and Reform Priorities

Real GDP growth is projected to rise to 4.8 percent in FY26, supported by moderating inflation that bolsters private consumption. Investment is expected to improve relative to FY25 but remain subdued, reflecting election-related political uncertainty and ongoing vulnerabilities in the banking sector. Export growth should stay robust despite global tariff uncertainty. From FY27, growth is expected to accelerate with investment rebounds. The current account balance is likely to revert to a deficit as imports normalize; nevertheless, the external balance should remain supportive of a gradual buildup of foreign exchange reserves. The fiscal deficit is anticipated to remain below 5 percent of GDP, underpinned by revenue gains from reform initiatives. However, downside risks have increased materially: further banking sector weakness, heightened political instability around the election, shortfalls in reform implementation, international trade disruptions from policy uncertainty, persistent inflation, and energy supply constraints could all weigh on the economic outlook.

Near-term outlook, risks

The global outlook has deteriorated substantially compared to the outlook in January 2025, with global growth in 2025 expected to register its weakest pace since 2008 (World Bank 2025a and World Bank 2025b). This deterioration is broad-based across the world's economies and follows sharp increases in trade tensions and policy uncertainty. Growth could turn out to be lower if trade restrictions escalate or if policy uncertainty persists, which could also result in a build-up of financial stress. Other downside risks include weaker-than-expected growth in major economies with adverse global spillovers, worsening conflicts, and extreme weather events.

Real GDP growth is expected to increase moderately in FY26. Real GDP is projected to increase by 4.8 percent in FY26, an improvement from FY25 but still below its past 10-year average of 6.3 percent. The increase is anticipated to be supported by a gradual recovery in private consumption as inflationary pressures ease. Private investment growth is expected to recover only marginally to 1.9 percent in FY26, remaining well below its last decade's average of 7.4 percent. Persistent policy uncertainty surrounding the national election and fragilities in the banking sector are likely to weigh on private sector activity. Similarly, public investment growth is expected to remain subdued ahead of the election and in light of the authorities' intent to implement development projects more prudently. Export growth is expected to remain robust as the new tariff schedule announced by the US is not likely to have a negative impact for now. Import growth is expected to pick up as domestic demand improves and external pressures that constrained imports in prior years recede.

On the production side, industry and services activity are expected to strengthen moderately in FY26. Industrial growth is expected to be supported by resilient external demand for RMG, but non-RMG industries are likely to remain constrained by political uncertainty and elevated costs of doing business. Uncertainty regarding energy supply may also weigh on industrial output. Bangladesh relies heavily on natural gas for about two thirds of its energy needs. Gas supply shortages undermine power generation, industrial consumers, and economic activity. Dwindling domestic gas reserve can leave Bangladesh vulnerable to volatile international gas prices., Service sector activities are expected to improve as inflation moderates and household purchasing power stabilizes. Agricultural growth is expected to revert toward its long-term average, assuming the absence of major natural disasters and the timely availability of fertilizers and other key inputs.

Real GDP growth is expected to rise further over the medium term. With the conclusion of the national election in FY26 and the resulting dissipation of political uncertainty, growth is projected to gain momentum from FY27 onward. Private investment and industrial activity are expected to strengthen in tandem with normalization of the law-and-order situation, improvement in the business climate, and lower interest rates. Moderating inflation, together with robust remittance inflows, is expected to support private consumption, bolster demand, and underpin services sector activity. The outlook will remain contingent on effective reform implementation, reduction of banking sector vulnerabilities, sustained external stability, and continued improvements in the business environment.

A fragile recovery in labor market and poverty is expected from FY26 onward. Labor market conditions are projected to improve modestly in FY26, with household labor income rising by almost 3 percent. The national poverty rate is forecast to decline to 19.1 percent, while poverty at the US\$3.0 line falls to 6.9 percent. Inequality is expected to narrow slightly to a Gini index of 33.2. Yet, the recovery is likely to remain fragile, as many households will continue to face financial stress despite modest improvements in jobs and incomes.

Inflation is expected to moderate gradually. After remaining elevated for three consecutive years, inflation is projected to ease and reach around 5.5 percent by FY27. The slowdown in inflation is expected to be supported by improved monetary policy transmission, and the easing of import restrictions. A more stable exchange rate and contained international commodity prices would help reduce imported inflation. BB has indicated it will begin lowering policy rates once the real policy rate reaches 3 percent.

Table 7: Selected Macroeconomic Indicators (annual percentage change, unless indicated otherwise)

	FY22	FY23	FY24	FY25e	FY26f	FY27f
Real GDP growth, at constant market prices	7.1	5.8	4.2	4.0	4.8	6.3
Private Consumption	7.5	2.0	6.0	5.2	6.0	6.5
Government Consumption	6.2	8.5	9.8	5.0	8.6	9.6
Gross Fixed Capital Investment	11.7	2.2	3.3	0.8	2.3	5.7
Exports, Goods, and Services	29.4	8.0	-17.1	12.9	6.2	7.1
Imports, Goods, and Services	31.2	-9.8	-4.6	6.3	7.2	7.8
Real GDP growth, at constant factor prices	7.2	6.2	4.3	4.0	4.8	6.3
Agriculture	3.1	3.4	3.3	2.0	3.1	3.2
Industry	9.9	8.4	3.5	4.0	4.9	6.4
Services	6.3	5.4	5.1	4.4	5.1	6.9
Inflation (Consumer Price Index)	6.1	9.0	9.7	10.0	7.4	5.7
Current Account Balance (% of GDP)	-4.0	-2.7	-1.5	0.0	-0.3	-0.9
Financial Account Balance (% of GDP)	-3.6	-1.6	-1.0	-0.9	-0.8	-1.1
Fiscal Balance (% of GDP) 1/	-4.6	-4.6	-3.9	-4.7	-4.7	-4.5
Primary Balance (% of GDP) 1/	-2.7	-2.6	-1.7	-2.1	-1.9	-2.0
Debt (% of GDP)	33.8	37.0	37.6	38.1	40.3	41.8

Source: Bangladesh Bureau of Statistics; Ministry of Finance; Staff Estimates. 1/ including grants

The current account balance is expected to revert to a deficit, although the overall external position should remain supportive of growth. The return to the current account deficit reflects a normalization of imports growth as domestic demand recovers. Remittance inflows are expected to remain strong, although year-on-year growth will likely moderate in FY26 and FY27 due to base effects, a slower pace of migrant outflows, and a more gradual exchange rate depreciation than in recent years. Exports are projected to remain robust in the short to medium term, but Bangladesh needs to start preparing urgently to face the challenges regarding its upcoming graduation from LDC status (see box 4). With continued support from development partners and an anticipated pickup in FDI driven by an improved business climate, the financial account is expected to remain in surplus. As a result, FX reserves are expected to rise gradually.

Box 4: Bangladesh's LDC Graduation: Implications and Priorities

Bangladesh's LDC graduation path: As an LDC, Bangladesh has long benefited from preferential access to export markets, including duty-free, quota-free treatment in most major economies and flexibilities under WTO rules, such as exemptions from certain intellectual property obligations and the right to use export subsidies. Graduation from LDC status is based on meeting thresholds for Gross National Income (GNI) per capita, the Human Assets Index (HAI), and the Economic and Environmental Vulnerability Index (EVI).⁷ Bangladesh has surpassed these thresholds in successive triennial reviews of the UN Committee for Development Policy (CDP). The CDP first recommended graduation in 2018, reconfirmed the decision in 2021, and taking account of the COVID-19 shock extended the preparatory period from the usual three years to five years, shifting the expected graduation date from 2024 to November 2026.⁸ The 2024 triennial review reaffirmed this timetable.⁹

Graduation challenges and policy shifts: Bangladesh's graduation from LDC status in 2026 will present significant challenges, including gradual loss of preferential market access and Special and Differential Treatment, resulting in higher tariffs in key export markets and increased exposure to external competition. The end of LDC-specific flexibilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement will also require Bangladesh to enforce stricter intellectual property rights, potentially increasing medicine costs and constraining the competitiveness of its pharmaceutical industry. These pressures are compounded by an increasingly fragmented global trade landscape. To address these challenges, Bangladesh should prioritize export diversification, gradually reduce tariff and non-tariff barriers in line with the National Tariff Policy, enhance logistics and trade facilitation as outlined in the National Logistic Policy, pursue strategic realignments through Free Trade Agreements (FTAs) and Regional Trade Agreements to increase resilience, and modernize labor laws to improve compliance with international standards.

EU market access: transition from Everything But Arms (EBA) to Generalized Scheme of Preferences Plus (GSP+). The impact of LDC graduation will be cushioned in the EU, Bangladesh's largest export market. Bangladesh currently benefits from the EBA scheme, which grants duty-free, quota-free access to almost all products. These preferences will remain in place for a three-year transition period after graduation, ending in 2029. Continued duty-free access thereafter will require securing GSP+ status, which depends on meeting the vulnerability criterion—already satisfied by Bangladesh—and demonstrating effective implementation of 32 international conventions on labor rights, human rights, environment, climate, and governance.¹⁰ Bangladesh has ratified 20 of these conventions and acceded to the rest, but enforcement will be decisive. A further complication is that, under EU safeguard provisions, apparel exports from a

⁷ Graduation thresholds (2021 triennial review): GNI per capita of \$1,222 or above (Bangladesh: \$1,827); HAI score of 66 or above (Bangladesh: 75.3); and EVI score of below 32 (Bangladesh: 25.2). UN CDP, Report on the 2021 Triennial Review of the LDC Category. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/Bangladesh-2021-Plenary-B.pdf>

⁸ UN CDP (2018, 2021) recommendations on Bangladesh's graduation; UN General Assembly Resolution A/RES/76/8 (November 24, 2021), confirming the decision and extending the preparatory period from 2024 to November 2026. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2024-6-2-Bangladesh.pdf>

⁹ UN CDP, Report on the 2024 Triennial Review of the LDC Category, reaffirming Bangladesh's graduation in November 2026. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2025-BGD-transition.pdf>

¹⁰ The current EU GSP regulation (Reg. 978/2012) requires compliance with 27 conventions. The proposed new GSP framework for 2024–2034 expands this list to 32 conventions, which is the regime Bangladesh is expected to face post-2029.

GSP+ beneficiary may be excluded once their share exceeds thresholds¹¹, meaning that over 90 percent of Bangladesh’s EU exports—clothing—could still face Most-Favored-Nation tariffs of about 12 percent, compared to zero under EBA.

Competitive pressures are intensifying: Vietnam’s FTA with the EU will progressively reduce tariffs on its apparel exports from an average of 9 percent to zero by the late 2020s. By contrast, Bangladesh could face tariffs of around 12 percent on garments if it loses EBA preferences and safeguard provisions under GSP+ apply. Other competitors such as Pakistan and Sri Lanka already benefit from GSP+, while India and Indonesia are negotiating FTAs with the EU. Bangladesh is not yet on an FTA track with the EU, which could create a long-term competitive gap. Advancing domestic reforms in trade policy, investment climate, intellectual property, and environmental protection would strengthen Bangladesh’s credibility as a potential FTA partner and help ensure more durable access to the EU market.

New sustainability and compliance requirements: The EU’s Green Deal and its Carbon Border Adjustment Mechanism (CBAM) will gradually raise compliance costs for carbon-intensive sectors, beginning with steel, aluminum, cement, and fertilizers, and are likely to extend to additional sectors over time. In parallel, Environmental, Social and Governance (ESG) and supply-chain due-diligence requirements are expanding, as buyers demand verifiable adherence to labor, environmental, and governance standards. For Bangladesh, the absence of credible monitoring, reporting, and verification systems would pose a serious risk: exporters could find themselves excluded from EU value chains even if tariff preferences remain in place.

Navigating a fragmented global trade landscape: The global trade is becoming more fragmented: large economies are adopting strategic industrial policies, introducing new sustainability and supply-chain rules, and advancing preferential trade agreements that reduce reliance on multilateral disciplines. This creates a more complex environment where Bangladesh’s market access will depend not only on tariff preferences but also on its ability to adapt to partner-specific standards and to negotiate bilateral or regional arrangements. Graduation therefore needs to be managed within this fragmented trade landscape, where resilience, diversification, and credible reforms will be central to sustaining competitiveness.

Expected impact: The short-term impact of Bangladesh’s LDC graduation is expected to be limited, largely due to the continuation of preferential tariff rates until 2029 in the EU—its largest export market. The macro projections of a moderate near-term impact on exports are consistent with this extension, which cushions Bangladesh’s RMG exports to the EU¹². However, without appropriate and decisive policy measures, graduation will gradually weigh on exports and revenue collection in the medium term. Future macro projections should also account for post-2029 risks such as the loss of EBA, safeguard provisions under GSP+, competitor FTAs, and tightening ESG/CBAM standards.

¹¹ Under the proposed EU GSP regulation, safeguard clauses apply to apparel products under HS Sections 61, 62, and 63 (termed “product group S-11b”) if a beneficiary’s share exceeds 6 percent of total EU imports of those products. Bangladesh’s current share exceeds 20 percent, well above this threshold, creating a significant risk that preferences would be withdrawn.

¹² The macro projections of a moderate near-term impact on exports are consistent with the extension of EBA preferences until 2029, which cushions Bangladesh’s RMG exports to the EU. However, this only delays the adjustment: the larger risks such as loss of EBA, safeguard provisions under GSP+, competitor FTAs, and tightening ESG/CBAM standards will weigh more heavily beyond 2029. Such scenarios will be incorporated into future general equilibrium assessments and macro projections.

The overall fiscal deficit is expected to remain below 5 percent of GDP. With effective implementation of the authorities' critical reform initiatives, the revenue-to-GDP ratio is projected to improve gradually. Direct taxes and domestic VAT collections are expected to increase more rapidly, but reductions in tariffs stemming from the implementation of the government's National Tariff Policy and the forthcoming LDC graduation will weigh on trade-related revenues. Capital expenditure is expected to increase from FY27 as the new government advances its development program. Subsidy payments as a share of GDP are expected to decline gradually with reforms but, together with interest payments, will continue to account for a significant share of current expenditure. Public debt is projected to rise gradually to about 41.7 percent of GDP by FY27.

Downside risks to the outlook have increased substantially. Further weakening of the banking sector and heightened political instability surrounding the election—potentially persisting into the post-election period—could depress investment more than anticipated. Slippage in reform implementation on domestic resource mobilization, rising subsidy costs, and inefficiencies in public spending could worsen the fiscal position. Heightened uncertainty in global trade, and post-LDC graduation uncertainties could strain the external sector. Unexpected natural disasters, renewed global supply chain disruptions, and domestic supply bottlenecks could slow the pace of disinflation, keeping interest rates higher for longer and further weighing on investment prospects. On the upside, policy clarity and accelerated reforms following the election could support a faster growth rebound.

Reform priorities

Some of the urgent reform priorities to strengthen macroeconomic stability include:

- *Improving domestic resource mobilization*

Bangladesh's declining revenue-to-GDP ratio is constraining the state's capacity to finance essential investments in infrastructure, education, health, and social protection, and heightening risks of a wider fiscal deficit and a rising debt burden. The tax system remains heavily reliant on indirect taxes, which are regressive, and collections are hampered by very low compliance, fragmented and inefficient administration, and sizable tax expenditures—estimated at 6.9 percent of GDP (just 1 percentage point lower than revenue collection) in FY22. Recent reforms to separate tax policy from tax administration within the NBR and to adopt a Tax Expenditure Policy and Management Framework are steps in the right direction, but their impact will hinge on consistent and effective implementation. Despite some progress, automation advanced slowly over the past decade, leaving substantial room to digitalize and integrate core revenue functions. Policy reform opportunities also remain, notably in VAT, where streamlining rates and reducing exemptions could broaden the base, improve equity, and enhance revenue mobilization.

- *Restoring stability and building resilience of the banking sector*

To restore the banking sector's health in an orderly and lasting manner, BB and the Government need to accelerate reforms in three key priority areas: strengthening financial safety nets and crisis management,

restructuring banks and accelerating NPL resolution, and improving corporate governance and enforcement.

(i) A key gap in Bangladesh's financial safety nets is that deposit insurance covers most depositors but only a small share of total deposits; payout processes are slow; and the Deposit Protection Fund is limited in size. The proposed new Deposit Protection Ordinance will expand the deposit insurance mandate, enabling it to support the resolution of small, weak banks more effectively and speed up payouts. The key next step is to fully operationalize the deposit protection system, expand fund size and flexibility, and implement emergency funding arrangements.

(ii) Banking sector reform and restructuring should follow clear objectives and strategy. Legal and market gaps, and slow courts continue to hinder NPL resolution. Improving legal frameworks for NPLs and bankruptcy through adoption of key legislations, and creating an NPL secondary market, will help reduce problem assets and boost credit flow. The adoption of the Bank Resolution Ordinance in May 2025 equipped BB with the necessary powers and tools to resolve weak banks. Effective banking sector restructuring should focus on banks' future viability and profitability, avoid regulatory forbearance, share burdens to reduce fiscal costs, define clear fiscal support measures, and set a time-bound implementation plan. BB and Ministry of Finance are developing a high-level strategy for financial sector stability.

(iii) Addressing weak governance is essential to improve transparency, avoid political interference and regulatory capture. The proposed amendments to BB Order seek to enhance central bank governance and operational independence at the same time as amendments to the Banking Companies Act will strengthen corporate governance in banks by improving transparency in ownership and robust fit and proper criteria for boards, including state-owned banks. Prioritizing the passage of these legislations, along with the implementation of risk-based supervision, is recommended.

- *Taming inflation*

Although inflation has eased in recent months, vigilance remains warranted. BB should continue close price monitoring, maintain a contractionary monetary policy as necessary, and ensure monetary policy transmission. Further analysis is needed to diagnose supply-side bottlenecks—particularly in logistics, input markets, and market structure—to inform targeted, non-monetary interventions. To mitigate inflation risks from climate and disaster shocks, authorities should maintain adequate public food stocks and ensure rapid support to affected farmers. While tariffs on several essential food items have been reduced, aligning a broader set of tariff adjustments with the new National Tariff Policy could further ease price pressures and improve transmission. Liquidity support to weak banks should avoid unsterilized injections that could add to inflationary pressure and undermine the ongoing monetary tightening. An effective and transparent ELA framework should be adopted with clear eligibility criteria, collateral and risk management requirements, and pricing based on international standards. Finally, allowing the taka to appreciate if warranted by market conditions would help contain imported inflation.

- *Reducing energy subsidies and incentives*

Subsidy and incentive payments in Bangladesh have been increasing at a notable pace, raising concerns about potential fiscal pressures in the future. The energy sector, and specifically the BPDB, accounts for the

largest proportion of these subsidies. In a positive move, the interim government has repealed the Quick Enhancement of Energy and Power Act 2010, which is expected to improve transparency and accountability in the power sector and reduce the subsidy requirement. Nevertheless, it would be important to enhance sector-wide efficiency and reduce electricity production costs, which currently exceed those of peer countries in the region, through modernization and improved operational practices. The tariff structure may also require rationalization at an appropriate juncture. Meanwhile, incentives for remittances have risen in response to increasing inflows. The adoption of the flexible exchange rate regime should eliminate the need for supplementary incentives.

Bangladesh also needs reforms to address some of the long-standing structural bottlenecks and medium to long term challenges. They include:

- *Improving investment climate*

Business regulations remain burdensome and time-consuming, and the cost of entry for new firms is high. Firms face more days to obtain licenses and comply with procedures than regional peers; for instance, securing construction permits or import licenses averages 49 days—nearly twice as long as in China or India (Galal et al., 2024). The World Bank’s recent Business Ready (B-Ready) assessment flags particularly weak performance on insolvency, dispute resolution, and market competition. Ports continue to face significant inefficiencies, with Chattogram port ranking 356th among 403 ports in the latest Container Port Performance Index published by the World Bank. These bottlenecks are longstanding, and progress has been slow. The launch of the One Stop Service platform is a welcome step toward consolidating and digitizing services, but careful implementation is essential to eliminate shadow manual processes, close gaps that force firms off-platform, and add complementary features that improve end-to-end efficiency. Sustained reforms to strengthen regulatory bodies, reduce trade and FDI restrictions, and improve access to finance, dispute resolution, and market competition, would further unlock private investment (World Bank 2022, 2024, 2025a).

- *Preparing for LDC graduation*

Bangladesh’s Smooth Transition Strategy (STS)¹³, adopted in February 2025, lays out a comprehensive reform agenda to manage graduation risks. It calls for moving away from reliance on tariff preferences, low wages, and weak compliance, and toward a “high-road” development path built on productivity, innovation, stronger labor and environmental standards, skills development, and improved domestic resource mobilization. The STS also underscores the urgency of trade liberalization to reduce anti-export bias, greater investment in compliance and quality upgrading, and the need to maintain macroeconomic stability.

While the STS strategy rightly acknowledges that the preference-driven model has reached its limits, implementing this vision will be far more difficult in a fragmented global order where rules are less

¹³ <https://www.un.org/ldcportal/content/bangladesh-smooth-transition-strategy-graduation-group-least-developed-countries-2025>

predictable and power asymmetries more pronounced. Together these priorities provide the foundation for a set of policy actions that Bangladesh must now operationalize:

- (i) Diversifying exports beyond RMG to reduce dependence on a single sector. including by reducing tariff and non-tariff barriers in line with the National Tariff Policy.
- (ii) Accelerating logistics reforms and trade facilitation to reduce costs and improve competitiveness as outlined in the National Logistics Policy.
- (iii) Securing GSP+ status before 2029 through rigorous implementation of the required conventions, while negotiating with the EU to mitigate safeguard impacts on apparel.
- (iv) Developing national ESG and carbon compliance systems to meet EU Green Deal and expanding supply-chain due-diligence requirements.
- (v) Advancing a medium- to long-term FTA strategy with the EU and other key partners, while also pursuing regional arrangements.
- (vi) Strengthening resilience in a fragmented trade order by building capacity to meet diverse partner standards, deepening regional cooperation, and embedding flexibility in trade strategy.

- *Reforms leading to more and better jobs*

Bangladesh continues to face structural challenges in creating more and better jobs; youth unemployment has risen sharply—particularly among women—and many entrants cannot find work aligned with their skills and education. Job creation in industry and services lags South Asian and lower-middle-income peers and urban job growth has slowed. The reforms outlined above are expected to bolster the country’s economic stability and competitiveness by fostering a more conducive environment for private sector growth, investment, and the creation of more and better jobs. Spatial policy is also pivotal; well-managed urbanization strategy to connect infrastructure linking secondary cities to growth poles and improving could support jobs creation. These issues are examined further in the report’s Special Focus section.

Special Focus: Embarking on a New Urbanization Pathway to Boost Job Growth in Bangladesh¹⁴

Summary and key messages:

Over the past two decades, Bangladesh has undergone significant shifts in the geography of employment, population growth, and infrastructure development. Underlying this development and urbanization process lays a very vivid and evolving industrial dynamism of the country's manufacturing sector, particularly its garment and textile industry. Such dynamism has been shaped mainly through bottom-up market forces, most of which has taken place in the absence of appropriate planning, sufficient infrastructure, and basic service support.

This somewhat chaotic and unregulated development and industrialization process, at least at the earlier stage, has contributed to the overall growth story of Bangladesh as market demand was able to be accommodated quickly and responsively. As a result, industrialization at the national level has further polarized in and around the country's key metropolitan areas, indicating the significance of Bangladesh's primary urban centers to the overall growth. However, as industries have mushroomed in and around the Dhaka metropolitan region and in key locations along the corridor to Chattogram, broad congestion forces have kicked in. As such, industrial development has been continuously suburbanized to the "periphery areas" of key growth engines, administratively classified as rural areas, with even less infrastructure and planning support than the urban centers. The dispersion of job growth away from established urban cores reflects both the promise and the limitations of Bangladesh's current urbanization model.

The study which this section builds upon points to a major policy "blind spot" in Bangladesh, which is the mismatch between where jobs growth has been happening and where the focus of urban development policies and associated investment has been. This development trend and policy bottleneck is further undermined by institutional binding constraints, including weak planning, inefficient resource allocation, insufficient devolution and deconcentration¹⁵ and weak local capacity.

To ensure Bangladesh's continued rapid development and sustained job creation in the future, efforts are required to outline a deliberate spatial and territorial development strategy so that diverse social economic regions are supported in a more targeted and spatially differentiated manner, including investment and policy formulation. Policy makers need to rethink their spatial approach to urbanization, adopting a new strategy that focuses on enhancing efficiency in planning and utilization of fiscal resources, and strengthening and empowered urban local governments, including:

- Strengthening spatially oriented planning and investment that responds to the differentiated needs of the distinct regions in Bangladesh
- Empowering urban local governments to play a more prominent role by enhancing their financial and technical capacities

Moving forward, Bangladesh's future success depends on not only sustained growth and quality of jobs but also how more and better jobs would benefit people's lives, particularly the youth and women in

¹⁴ This Special Focus is summarized from a recently completed World Bank report titled Embarking on a New Urbanization Pathway in Bangladesh to Boost Job Growth, 2025.

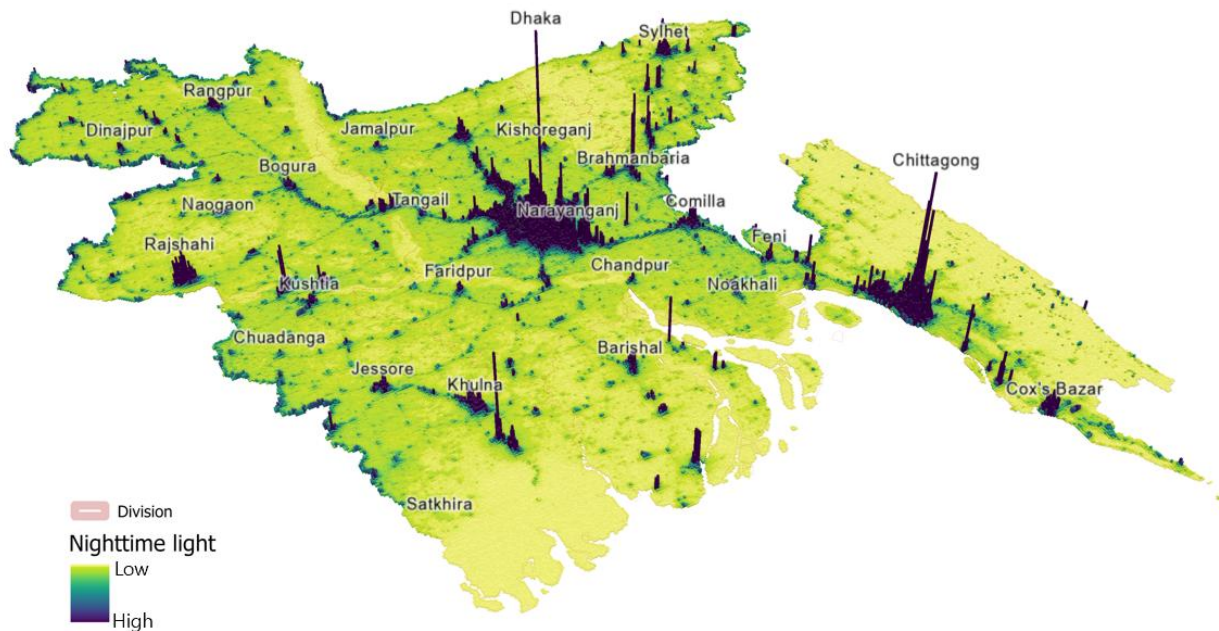
¹⁵ Devolution and deconcentration are different types of decentralization. Devolution is the transfer of power and authority for planning, management, resource allocation, and other functions from the central government to semi- autonomous local (or regional) government units. In contrast, deconcentration is the transfer of responsibility for public sector functions from the central government to field units or lower administrative levels of the central government.

Bangladesh. This requires the country’s ability to support productive diversification toward activities with higher value added, and also a coherent spatial and territorial development strategy integrating various sectoral planning that could support each diverse region’s unique characteristic and comparative advantages.

Bangladesh’s economic geography exhibits both strong polarization and at the same time significant diffusion.

On the surface, job growth in Bangladesh has been highly *diffused* while major industrial development¹⁶ has been further *polarized* in the key metropolitan areas. In Bangladesh, over 85 percent of the establishment jobs¹⁷ are owned and operated by individuals or families, employing only 2.8 persons on average¹⁸, spreading across vast rural areas. The spatial pattern of industrialization appears extremely diffuse. However, larger and more productive industries have further concentrated in and around traditional growth centers – the key metropolitan areas in Bangladesh. At the national level, industrial job creation has become increasingly concentrated in and around the Dhaka Metropolitan Region (DMR) and Chattogram region and, more recently, in Rangpur city corporation area, therefore further increasing their economic dominance. Furthermore, the majority of firms with large fixed assets (over BDT 5 million) are largely concentrated in the DMR, Chattogram region, and Tangail-Sirajganj area, the latter an area near the Jamuna Bridge. This polarization trend is also evident in nighttime lights (NTL) satellite imagery. NTL value is highest and grow fastest in the DMR and Chattogram region. More broadly, stronger NTL growth has occurred in the major regional cities with a population of more than 200,000 as well as the neighboring highway areas linking these cities (Map 1).

Map 1: A three-dimensional representation of night-time light data of Bangladesh in 2021

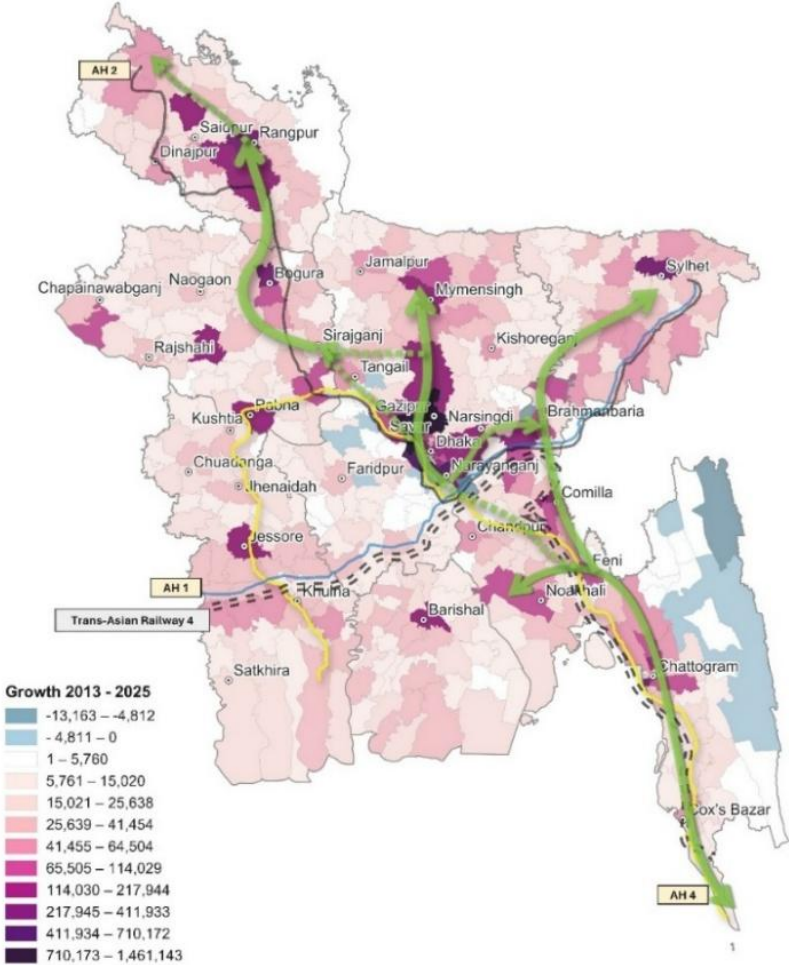


Source: Analysis of Visible Infrared Imaging Radiometer Suite Night Time Light data v2, 2021

¹⁶ Industrial development or industrialization in this sector refers to job growth in the secondary and tertiary sectors.
¹⁷ “Establishment jobs “ in the Economic Census refers to an enterprise or part of an enterprise that is situated in a single location and in which only a single productive activity is called out or in which the principal productive activity accounts for most of the value added.
¹⁸ Author’s analysis using Bangladesh Economic Census, 2013.

Geographic concentration of job growth facilitated the formation of a “trident” shape growth corridor. Industries in Bangladesh tend to have grown faster as long as they were located in the “right” location, representing two prominent factors: (i) access to major urban labor markets and (ii) access to the port in Chattogram for import and export purposes. These factors have shaped the clustering of firms, mainly through bottom-up market forces and, as a result, have facilitated the formation of a growth corridor. Our analysis shows that the fastest job growth areas have continued to cluster along the traditional Dhaka-Chattogram corridor—one that hosts the majority of larger-scale and higher productivity manufacturing jobs, including the garment and textile sector that has contributed the lion’s share to the overall growth to date. A more recent growth pattern has extended this corridor toward the south (toward Cox’s Bazar) and in a three-pronged manner to the north (i.e., toward Sylhet, Mymensingh, and Rangpur)—although with much less intensity and scale—thus forming a **trident-shaped** growth spurt (Map 2).

Map 2: Simulation of spatial pattern of job growth 2013-2025, formation of the trident-shaped growth corridor



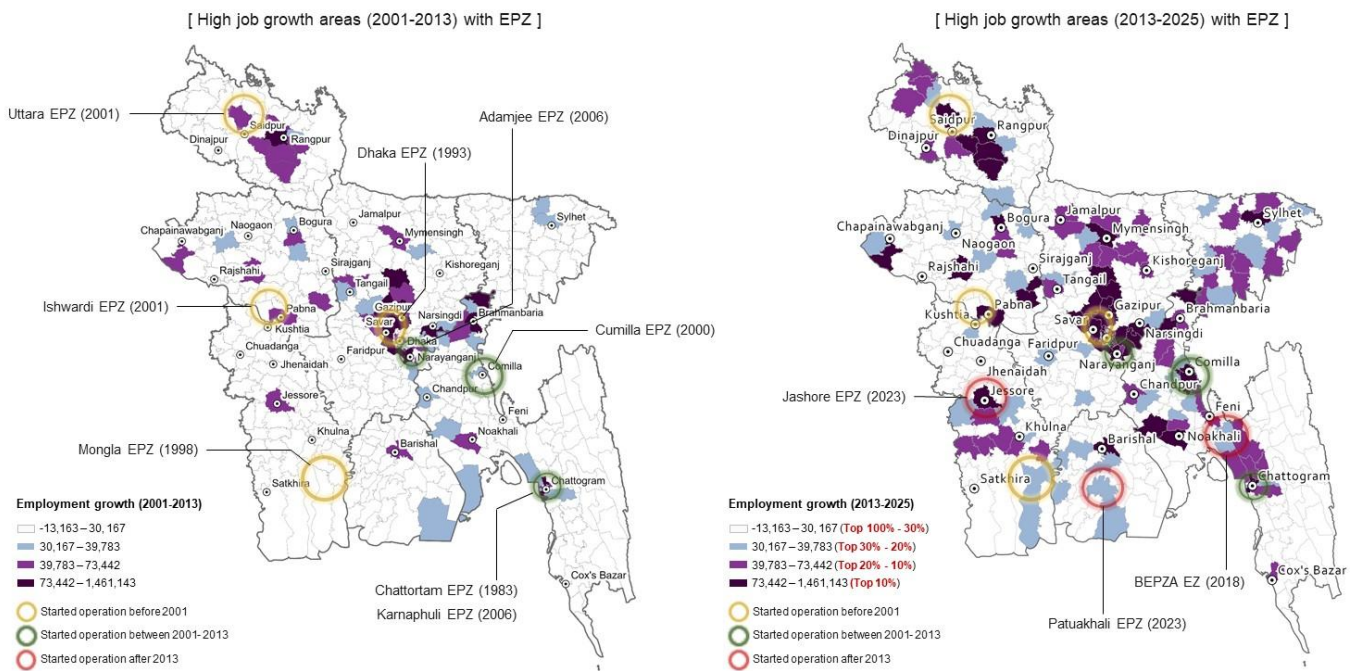
Source: Analysis of the Bangladesh 2001 and 2013 Economic Censuses; and a machine-learning analysis simulation to 2025.

Within this corridor and outside of the primary growth engines, analyses indicate the increasing relevance of several Pourashavas (municipalities), given their respective strategic location including, for example, the Madhabdi-Narsingdi, Brahmanbaria, and Noakhali areas. Narsingdi and Madhabdi are located slightly beyond and to the east of the DMR and close to the Meghna River. This area has attracted many textile industries during the past decade, including some foreign direct investments. Brahmanbaria also has

experienced robust growth due to its important nodal location in connecting Sylhet with Chattogram, without having to pass through the Dhaka area. Furthermore, along the Dhaka-Chattogram Corridor, the Noakhali area has experienced rapid population and job growth, indicating a spillover growth effect away from the Dhaka-Chattogram highway.

The importance of location factors is also reflected in the relative performance and success of Export Processing Zones in contributing to job growth. While Bangladesh started late in planning for Special Economic Zones (SEZs), it initiated preparing for Export Processing Zones (EPZs) much earlier, with the establishment of the first EPZ by the Bangladesh Export Processing Zones Authority (BEPZA) in 1983 (Chattogram EPZ). Among the dozen EPZs that have been developed since then, not all of them have successfully contributed to the job growth of the region, the ones near Dhaka, Chattogram and along the corridor have rapidly become important production and employment sites. Others, particularly those in the more remote locations, such as Mongla and Uttara, have struggled to attract investors, despite land being available there for development as well as various investment incentives¹⁹ (Map 3).

Map 3: Location of Economic Processing Zones and high job growth region



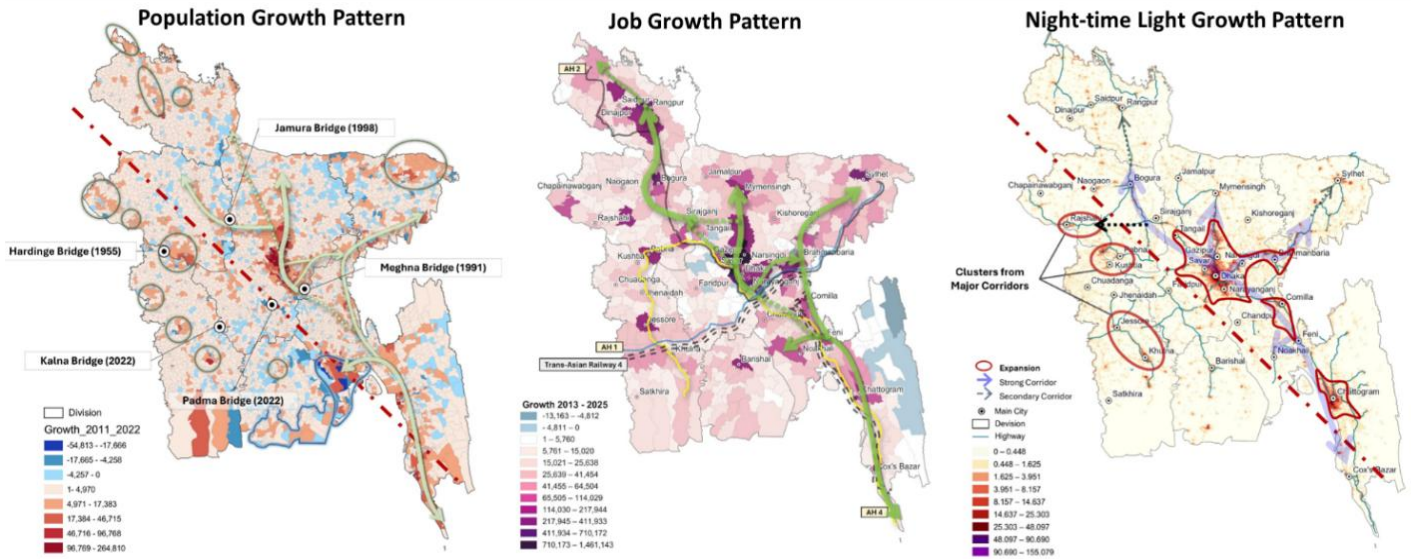
Source: Authors' summary from analysis of the Bangladesh 2001 and 2013 Economic Censuses and machine learning GAT model simulation.

Spatial industrial analysis under this work indicates a “east-west divide” pattern with what has been assessed in previous World Bank studies, but from the economic geography perspective. This east-west divide was considered to have caused regional disparity and welfare gaps, although being reduced in recent years, is also evident from spatial job growth pattern. In the northeastern region of Bangladesh, job growth areas are more interconnected, connecting localities including the Cox's Bazar-Chattogram-Feni-Comilla-Brahmanbaria- Narsingdi-Naranganj-Dhaka CCs-Gazipur-Mymensingh-Savar-Sirajganj-Bogura-Rangpur border areas adjacent to India; in the southwestern region, however, job growth is limited to a few areas within a patchy pattern. A similar pattern is reflected not only in job growth but also in population

¹⁹ These include both fiscal incentives (e.g., tax holidays, duty free imports, exemptions of dividend tax, etc.) and non-fiscal incentives (e.g., 100 percent foreign ownership permissible, full repatriation of capital and dividend, etc.).

growth and NTL growth (Map 6). These development and growth patterns have further intensified regional disparity and shaped significantly distinct regional characteristics of job growth.

Map 4: Distinct spatial growth pattern between more connected northeastern region and fragmented southwestern region



Source: Analysis of the Bangladesh 2001 and 2013 Economic Censuses; and machine-learning analysis simulation to 2025.

Cities in Bangladesh, especially the larger city corporations, have led the job growth in their respective regions. Comparisons across divisions show a pattern generally observed worldwide, that is, of cities leading the economic growth of regions. Among the eight divisions in Bangladesh, three fastest job growth divisions (Rangpur, Chattogram and Mymensingh) are also the three divisions where job growth rate in cities is higher than rural job growth. On examining the largest urban centers in the country—the 12 City Corporations (CCs)—they have generally driven job growth in their respective divisions, particularly among those divisions where urban job growth rate is higher than rural areas. CCs account for approximately 27 percent of total establishment employment and, as a whole, CCs exhibit the fastest pace of growth among the type of place.

Figure 15: Growth rate ranking across divisions, cities, and urban areas (including periphery areas)



Source: Authors' analysis, based on the Bangladesh 2001 and 2013 Economic Censuses.

Emerging headwinds and challenges underpinned by key institutional and governance binding constraints.

Within the growth engines, jobs are being “pushed” out of the core urban areas, into the peripheries.

Following the earlier phase of highly concentrated industrial development in Dhaka and Chattogram, many industries have moved out of the traditional core areas of Dhaka city and have suburbanized to the peripheries of the metropolitan areas due to heavy congestion (Map 4). Industrial growth in the periphery areas of the DMR has been the fastest and has driven the overall job growth in the country. While the annual employment growth rate in Dhaka city is 4.4 percent, the periphery areas in the DMR have experienced a 10.96 percent employment growth, marking it as the fastest large area of economic growth in Bangladesh. Furthermore, the analysis shows that industries have spread to areas beyond the metropolitan area’s boundary that was earlier recognized by Bangladesh’s Statistics Bureau or its Planning Commission, continuing the spatial expansion of the Dhaka agglomeration.

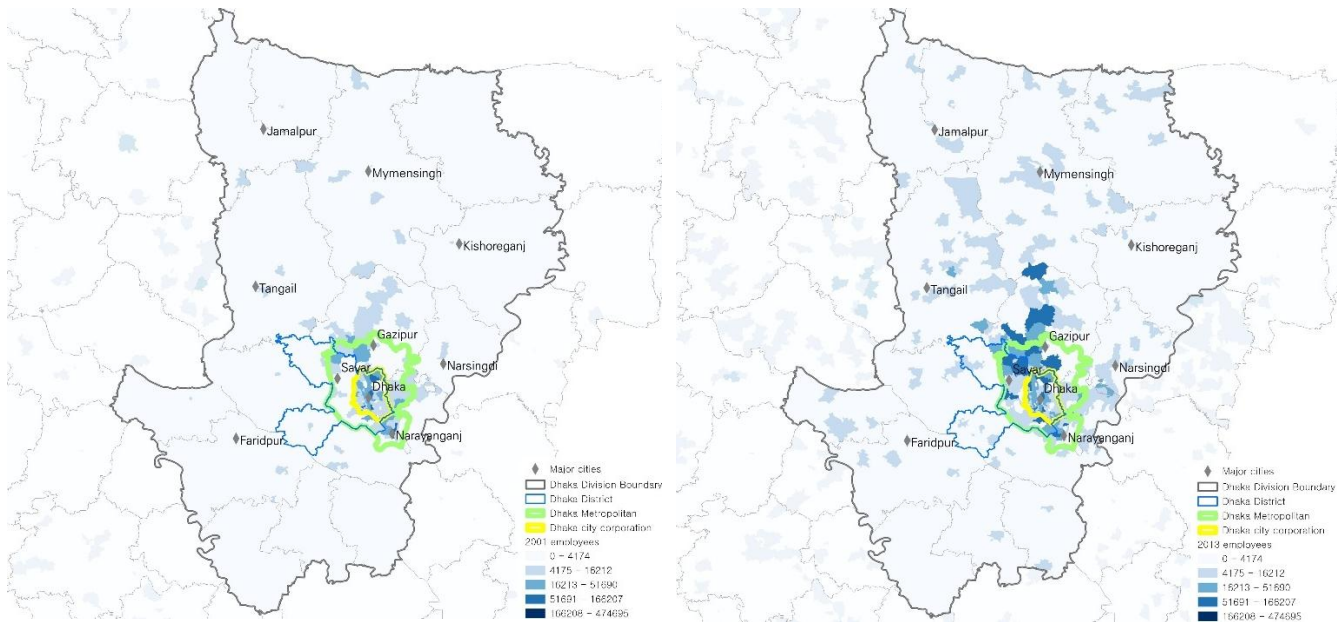
Dhaka city’s productivity has shown stagnancy as a result of relocation of the city’s medium to large size firms to its neighboring cities.

A more recent industrial locations pattern could be revealed from the World Bank enterprise survey of 2013 and 2022. During this period, a significant number of large- and medium-size firms had established or had begun moving out of the Dhaka CCs. By 2022, many large firms had left Dhaka CC to other cities (e.g., Gazipur and Savar), as well as to rural areas in the metropolitan area and beyond. On the eastern side, the area usually referred to as “East Dhaka” which are now part of Dhaka CCs’ boundaries have not experienced industrial growth. Instead, the areas further to the east, such as Narsingdi, have experienced substantial employment growth. (Map 5). While the exodus of garment manufacturers has been studied, other manufacturing firms, especially those requiring large land areas, also moved out of the city. Residential areas also have moved in the same direction, supported by population growth, albeit to a lesser extent than by industries.

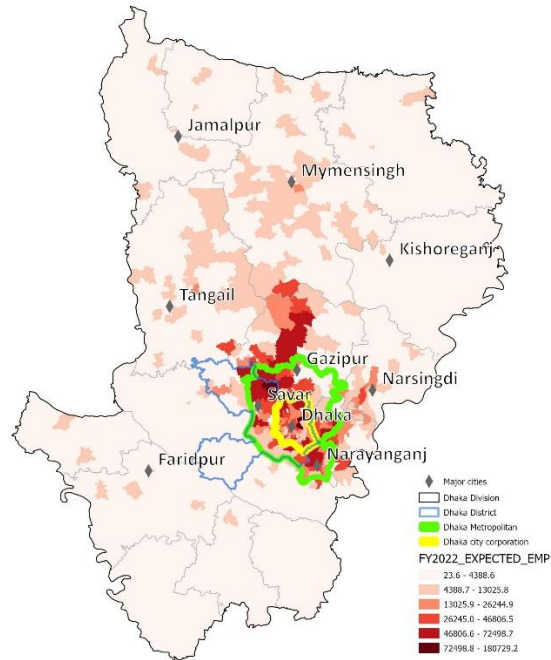
Map 5: Spatial suburbanization of Dhaka’s industries to the metropolitan peripheries and beyond

[Dhaka Employees using Economic Census 2001]

[Dhaka Employees using Economic Census 2013]



[Prediction value of 2022 employee using GNN machine learning]

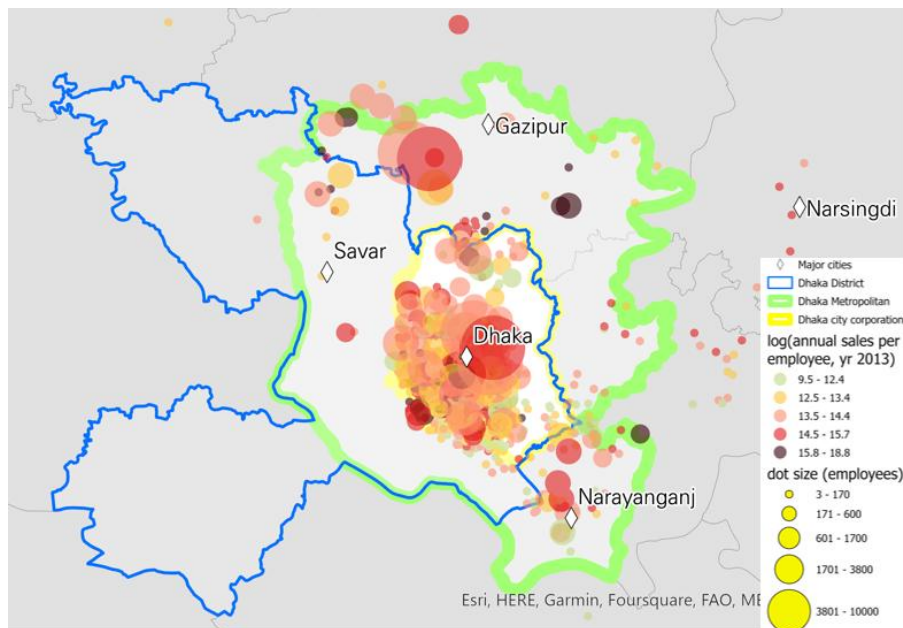


Source: Analysis of Bangladesh 2001 and 2013 Economic Censuses and machine-learning analysis simulation to 2025.

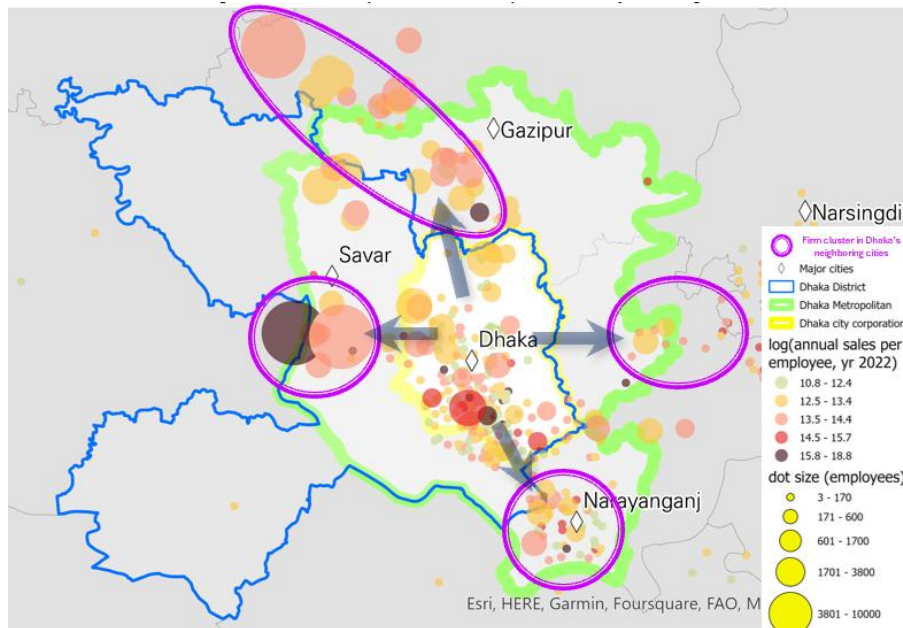
Notes: The 2025 job pattern was conducted using the Graph Neural Network's (GNN) deep learning for processing the data represented as Graph network developed for this work. The team's trained GNN machine-learning algorithm provides 93 percent accuracy to match 2013 union-level employment in the Dhaka division. GNN expresses Graph network data mathematically and makes useful predictions at the level of nodes, edges, and entire graphs

Map 6: Medium & large size, high-productivity firms moved out from Dhaka corporations to the metropolitan peripheries and beyond

[Dhaka Metropolitan Labor productivity 2013]



[Dhaka Metropolitan Labor productivity 2022]



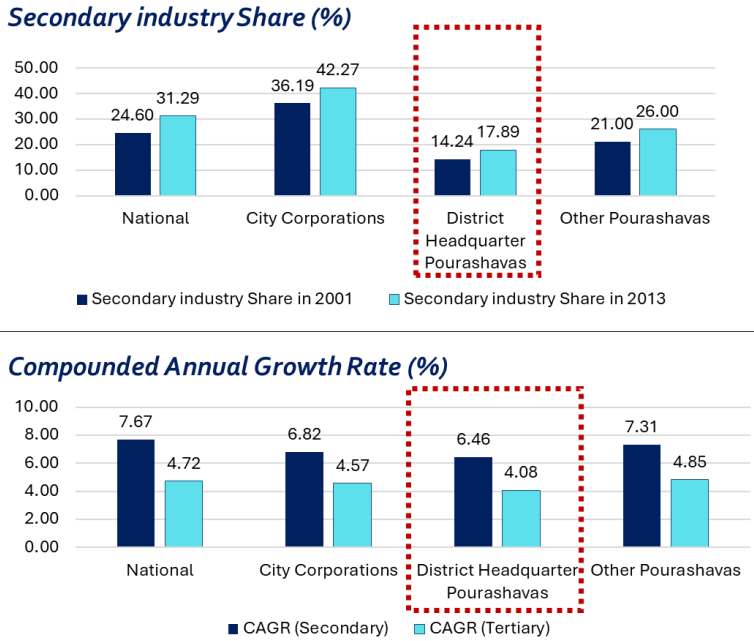
Source: Analysis using 2013 and 2022 World Bank Enterprise Surveys.

Notes: Analysis of Enterprise Survey: Labor productivity of a firm = Real total annual sales / the number of employees (calculated as a proxy due to data limit). The total number of enterprises surveyed in Bangladesh in the 2013 and 2022 Enterprise Surveys is 1,381 and 964, respectively. Among the total enterprises in these two surveys, the total number of enterprises located in the Dhaka division is 856 and 417, respectively.

The lack of agglomeration economies in Bangladesh is also evident in the weak growth of its secondary cities. District headquarters—typically the larger *Pourashavas* of each Zila—have played only a limited role as centers of employment growth and have struggled to generate and sustain jobs outside the major growth poles in their respective regions. Among the 55 district headquarters, only about ten^[1] have recorded notable job growth; the rest have registered some of the lowest employment growth rates, not only compared with other urban administrative areas but also relative to rural regions. This underscores the limited contribution of secondary cities to support economic growth. While district headquarters have functioned as important local and regional population centers, their employment growth and overall urban dynamism have remained sluggish.

Our analysis also shows that district headquarters *Pourashavas* exhibit the lowest share of employment in the secondary sector—14.2 percent in 2001 and 17.9 percent in 2013—as well as the lowest overall employment growth (6 percent). Examining the top five employment-generating subsectors reveals that district headquarters *Pourashavas* have virtually no presence in the secondary sector; instead, all leading sources of employment are in the tertiary sector. Moreover, even in the tertiary sector, district headquarters *Pourashavas* display slower growth than the national average in both establishments and employment, signaling a broader slowdown (Figure 16).

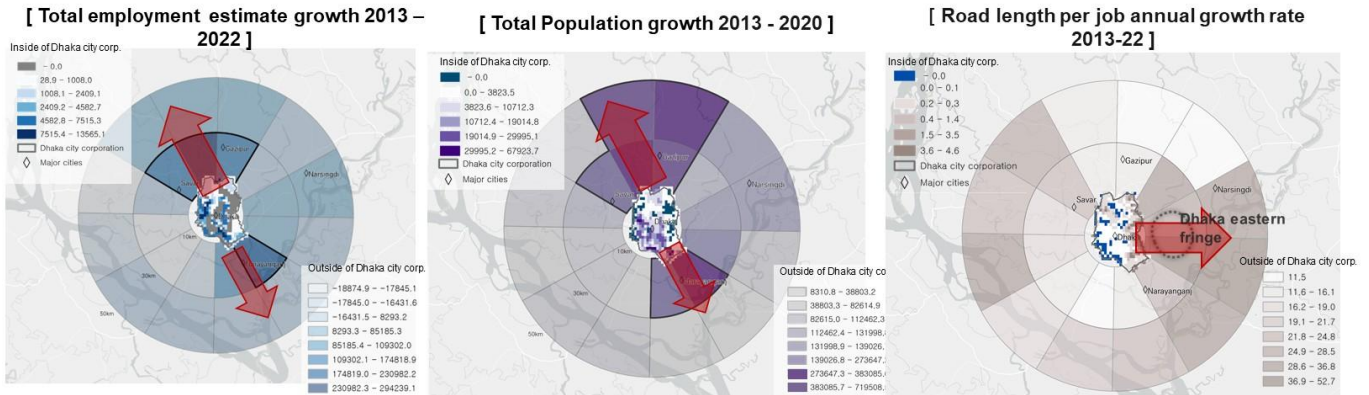
Figure 16: Performance of District Headquarter Municipalities



Source: Analysis of the Bangladesh 2001 and 2013 Economic Censuses; and machine-learning analysis simulation to 2025.

A major policy “blind spot” is the mismatch between where jobs growth has been happening and where the focus of urban development policies and associated investment has been. Taking Dhaka metropolitan as an example, not only is the infrastructure grossly insufficient but it is often out of alignment with on-the-ground development. A graphic example is reflected in Figure 16. While most economic and population growth has taken place to the north and northwest, outside of Dhaka CC boundaries, more road extensions have occurred toward the eastern and western sides of the CCs, highly vulnerable to floods and earthquakes which limit development.

Figure 17: Spatial mismatch between growth and public investment in Dhaka metropolitan region



Source: Analysis using the Bangladesh 2001 and 2013 Economic Censuses and machine learning; Bangladesh 2022 Population and Housing Census; and OpenStreetMap data.

Note: The inner circle represents area covering the Dhaka city corporations; the middle circle, for the periphery city corporations and Pourashavas at the Dhaka metropolitan level; and the outer circle, for rural areas beyond the metropolitan level.

At the aggregate level, this “mismatch” is rooted in several institutional binding constraints. The Government, through highly centralized resource allocation mechanisms, have long prioritized rural areas without a clear spatial strategy that considers each region’s distinct economic advantages and growth

potential. This has yielded limited results in fostering local economic and industrial bases. Meanwhile, the development and relocation of economic and industrial activities have been driven largely by market forces and bottom-up organic growth. In contrast to its East Asian peers—which pursued planned and systematic manufacturing development with strong emphasis on urban and infrastructure investment—Bangladesh’s industries have largely mushroomed over the past few decades without adequate planning, policy guidance, or investment. The absence of such coordination has hindered the spatial organization of industry and limited the ability to harness agglomeration benefits. As a result, Bangladesh’s spatial economic and urbanization trends have increasingly imposed costs on industrial efficiency and productivity, contributing to a slowdown in the country’s growth trajectory.

The economic impacts of infrastructure investment and economic zone development have been constrained by the lack of spatial orientation in Bangladesh’s development planning system, as well as by institutional fragmentation. Since independence in 1971, the country has relied on five-year plans (FYPs) as the foundation for medium-term strategic planning. A major weakness of these FYPs, however, has been the absence of spatial analysis and spatially informed strategies for industrial development and urbanization. As a result, the FYPs have largely overlooked the organic industrial dynamism around the Dhaka Metropolitan Region (DMR) and along the main industrial corridor between Dhaka and Chattogram. This has meant missed opportunities to guide strategic investments in the corridor—both to ease congestion in logistics systems and ports, and to provide urban infrastructure to support EPZs. While the Eighth FYP (2021–2025) introduced the concept of economic development corridors (EDCs) for selected secondary cities and metropolitan areas, it stopped short of identifying specific corridors or assigning a lead government entity to implement the strategy. Without such clarity, the EDC agenda could not move forward to support critical growth corridors and enhance the productivity and competitiveness of firms located there.

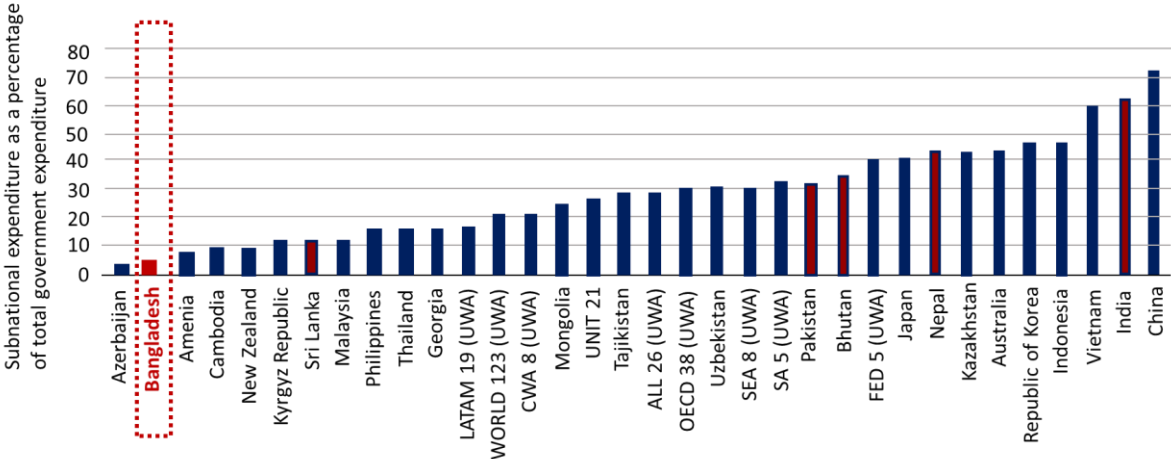
Furthermore, the absence of a strategic plan has constrained the ability of BEPZA) to coordinate with key infrastructure ministries and local governments to address deficiencies in the transport and logistics networks that connect the EPZs to airports and seaports, including the municipal services (e.g., local roads, sanitation, and housing), so as to enable support for firms and workers alike. This has hindered the support need for its long-standing policy to boost industrialization and job creation by developing EPZs²⁰ with a strategic plan to map out their systematic development. More recently, the Bangladesh Economic Zones Authority Act of 2010 was enacted to develop SEZs to cater to the domestic and export markets (World Bank 2018). However, as was the case with the EPZs, the SEZ policy is not supported by a clear strategic plan. Despite the previous government’s aim to establish 100 SEZs throughout the country, aimed to have employed 10 million workers, the strategies to achieve this objective were not articulated in a master plan.

These constraints are compounded by extremely weak urban local government institutions. Local governments in Bangladesh account for only 5.1 percent of total government expenditure, compared with around 15 percent in Kenya, the Philippines, and Thailand; 20–30 percent in Indonesia and South Africa; and

²⁰ The Bangladesh Export Processing Zones Authority Act of 1980 was enacted to enable the development of EPZs that lease serviced land to industrial tenants across the country while also providing fiscal and nonfiscal incentives and streamlined bureaucratic processes to foreign investors.

60 percent in Vietnam (Figure 18),²¹ Of the 94.9 percent of public spending concentrated at the central government level, 60 percent is executed directly by national ministries at headquarters, while the remaining 40 percent is deconcentrated—three-quarters of it at the District (Zila)²² level (World Bank, 2020). This indicates that Bangladesh’s public sector relies heavily on vertical, sector-driven programs, with limited deconcentration and minimal devolution. The result is a limited local government mandate, inadequate intergovernmental fiscal transfers, and weak mobilization of own-source revenue. Furthermore, most grants to local governments are earmarked for narrowly defined subprojects, with the central government retaining authority to decide which subprojects are prioritized and funded.

Figure 18: Subnational government expenditure as a share of total government expenditure



Source: reproduced from OECD (2023)

Policy directions and recommendations

Bangladesh needs to adopt a new strategy that will place enhanced efficiency in the use of resources at its center and considers the needs and strengths of its diverse regions. Bangladesh’s spatial growth pattern is common around the world and is complementary in the process of economic transformation and growth by allowing efficient use of limited human and physical capital. In Bangladesh, this concentrated and polarized spatial growth model has served the country well in the past, enabling the country’s sectoral shift (from primary sector to secondary/tertiary sector) to occur in higher-productivity urban centers. However, given the increasing negative externalities and diseconomy of key urban centers, particularly and mainly in the DMR— it is increasingly unfit for purpose. Thus, without action, Bangladesh faces the threat of a long-term slowdown in economic growth. To ensure continued rapid development, Bangladesh’s policy makers need to rethink their approach to urbanization and spatial transformation, adopt a new strategy that will place enhanced efficiency in the use of resources at its center, and ensure that the strategy considers the needs and strengths of its diverse regions.

²¹ Figure 18 is taken from OECD (2023). OECD data refer to subnational expenditure as a whole (including state and provincial governments) and clearly show that devolved subnational government in Bangladesh is much less important than it is in most countries. However, some nuancing is needed. In India, for example, most subnational expenditure is undertaken by state governments, with city-level governments account for only less than 3 per cent of total government spending. See <https://theprint.in/opinion/india-isnt-competing-with-china-its-up-against-many-city>

²² Zilas (or Districts), of which there are 64, are administration units led by appointed Commissioners who oversee and coordinate deconcentrated line ministries or departments within Zila jurisdictions.

A higher-level priority is to fully examine the existing industrial corridor that has emerged and identify comprehensive sets of policy and investment interventions that are required to transform the industrial corridor into an integrated growth corridor. Bangladesh’s prime corridor has emerged as the preferred destination for organic and often fragmented industrial development, functioning in practice as an “*industrial corridor*”. Despite its strategic importance, the corridor lacks a coherent policy framework, integrated planning, and adequate infrastructure investment to guide its growth. Development so far has been uncoordinated, resulting in inefficiencies and missed opportunities for synergy across sectors and regions. The corridor’s potential could be substantially enhanced if transformed into an integrated “growth corridor” capable of driving sustained job creation and economic transformation. Achieving this will require a coordinated effort across various parts of the government to address key binding constraints, including: (i) limited and fragmented access to land (both industrial and residential) and potential for consolidating industrial development; (ii) strategic investment, both at corridor level and local level, to establish or better integrate urban amenities and facilities for laborers with key industrial locations, including for example rental housing development for migrant workers; (iii) develop a system to better capture the land value and improve domestic resource mobilization through better land management; (iv) strengthen role of urban local government institutions to play a more active role in facilitating local economic development; and (v) outline dedicated development strategy and plan for the two key metropolitan areas, (Dhaka metropolitan region, and Chattogram metropolitan region).

It also requires policy makers to fully acknowledge the vibrant private sectors’ initiatives that have been evident through the very dynamic bottom-up industrial development throughout the corridor and provide supporting policies and infrastructure to address their current needs and challenges. Policy makers also need to critically examine the outcome of previous EPZs and ongoing SEZs development and prioritize the ones which are nearer the major urban labor market and easy access to the port facilities. The overall master plan for EPZ and SEZ development needs to consider the linkages with urban facilities and other transport and logistic facilities, while considering the environmental and resilient features of the region.

Moving forward, an increased attention to spatial dimensions is needed to enable Bangladesh to develop more spatially oriented development plans that can guide investment planning and policy formulation—ones that are fit for purpose to meet the diverse needs of its regions. These fundamental reforms are critical in order to support four broad policy goals: (i) **aligning investment with demand**, thereby redirecting infrastructure spending toward regions with latent industrial capacity, unmet connectivity needs, and demonstrated responsiveness to investment; (ii) **leveraging urban agglomeration benefits** by strengthening policies that promote clustering effects in high-potential urban areas and support integrated land use and transport planning, industrial zoning, and intermunicipal coordination to harness agglomeration economies; (iii) **reducing regional disparities** by directing targeted investment, training, and planning to integrate lagging regions into national growth corridors; and (iv) **anticipating and addressing urban spillovers** by empowering CCs and local governments in key urban areas to extend planning and services to fast-growing peri-urban areas to prevent unplanned expansion and infrastructure deficits.

Achieving these goals requires reforms to government planning and public financial management systems. These reforms are mutually reinforcing: improving the spatial orientation of planning will, in and of itself, not result in better targeted public expenditures unless improvements are made in parallel to strengthen the strategic orientation of resource allocation and, importantly, to program a greater share of central government expenditures at the *Upazila* level. This will provide more transparency and accountability for resource allocation and also enable the government to more effectively evaluate the impact of localized expenditures.

Planning Reforms:

- Leverage spatial analysis in Five Year Plans to identify high-growth corridors and urban areas, and adopt spatially targeted strategies reflecting regional needs.
- Update the metropolitan development plans for Dhaka and Chattogram and strengthen the institutional and coordination mechanisms for the local governments and authorities responsible for planning and enforcing development controls in the metropolitan areas (namely, Rajdhani Unnayan Karttripakkha and the Chittagong Development Authority).
- Adopt regional-scale planning systems to support comprehensive development planning for major economic and industrial clusters and corridors. This requires establishing clear institutional and oversight arrangements that are able to coordinate among central ministries and local government institutions for effective interjurisdictional and cross-sectoral coordination to implement regional development plans.
- Develop sector master plans for transport, logistics, and economic zones, alongside regional and metropolitan plans for major clusters, corridors, Dhaka, and Chattogram—supported by strong institutional and coordination mechanisms—to ensure infrastructure investments align with economic growth, labor markets, and urban expansion.

Resource Allocation Reforms:

- Accelerate integration of strategic planning and budgeting by scaling up use of tools from the 2024 Strategic ADP Guideline that link national priorities to resource allocation—such as Sector Strategy Papers, Sector Action Plans, Results Frameworks, and Multiyear Public Investment Programs with forward baseline estimates to guide medium-term investment planning.
- Delegate an increasing share of central government expenditures from the central and division offices of ministries to the *Upazila* offices of the ministries in order to improve the targeting of public investments in industrial and urban hubs and growth corridors, and strengthen the transparency of the geographic targeting of central government spending.
- Increase the quantum of funding for ULGIs (and local government institutions, in general) and institutionalize allocations to subnational governments by earmarking a portion of national revenues for local government transfers.²³ In the medium term, the central government could consider a conditional grant targeting local government institutions located in main corridors of urban and industrial expansion or other areas of strategic importance to meet their special investment needs.

Improve ULGI Own-Source Revenue (OSR) Mobilization²⁴

LGD and Local Government Engineering Department could:

²³ For example, several countries “institutionalize” the size of the funding pool set aside for local government by earmarking a percentage of national revenues to be allocated to local government (e.g., the National Tax Allocation in the Philippines, the local government VAT grant in North Macedonia, and the Equitable Shares allocation in Kenya).

²⁴ There is a good deal of international experience in this area, especially with respect to local property taxation (referred to as holding tax in Bangladesh). See, among others, (i) Kelly, White, and Anand (2020); Grote and Wen (2024); and World Bank (2024).

- Provide ULGIs with capacity building support to improve their revenue administration (e.g., enforcement, property valuations, outreach, among others), especially with respect to their principal OSRs (i.e., holding tax, market fees/rents, business taxes).
- Assist ULGIs in the application of digital technologies for revenue administration (e.g., as mass appraisal methods for holding tax assessments, electronic billing, digital payment methods).

Increase the Quantum, Equitability, and Transparency of Block Grant Allocations to ULGIs

The proposed reforms fall within the scope of LGD's existing development budget decision-making process and do not require an increase in the overall size of LGD's ADP allocation. Specific measures could include:

- Increase the size of LGD's ADP block grant allocations to ULGIs, relative to earmarked or conditional grants, thus strengthening ULGI capacity to respond to local needs.
- Use formula-based and population-weighted allocations to make block grant allocations more equitable and transparent.
- Introduce a performance-based element to ADP block grants to incentivize improvements in ULGI management and service delivery, thereby rewarding those ULGIs that demonstrate robust absorption capacity, adopt sound investment planning methods, and improve their revenue administration.

Strengthen ULGI Technical and Managerial Capacities

- Ensure that ULGIs have core deputed staff (chief executive officers, engineers, finance officers) and are able to hire additional technical staff as needed. This action requires coordination between the LGD and Ministry of Public Administration.
- Provide ULGIs with tools for and training in public investment management (e.g., planning, procurement), in particular in strengthening linkages between annual development budgets and medium-term investment plans.
- Provide ULGIs with support for financial management (budgeting, accounting, reporting).

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