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Bangladesh Development Update

Special Focus:
Creating Jobs for a Better Future

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Abbreviations

ADB	Asian Development Bank
ADP	Annual Development Programme
BAFEDA	Bangladesh Foreign Exchange Dealers Association
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BoP	Balance of Payment
BSCO	Bangladesh Standard Classification of Occupations
CAD	Current Account Deficit
CPD	Center for Policy Dialogue
EMDE	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
FX	Foreign Exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
LC	Letters of Credit
LDC	Least Developed Country
LFS	Labor Force Survey
LLC	Limited Liability Company
LMIC	Lower-Middle Income Countries
MLT	Medium and Long-Term
MPS	Monetary Policy Statement
NBR	National Board of Revenue
NDA	Net Domestic Assets
NEET	Not Engaged in Education, Employment, or Training
NFA	Net Foreign Assets
NPL	Non-Performing Loan
PCA	Prompt Corrective Action
PMI	Purchasing Managers' Index
PPP	Purchasing Power Parity
RMG	Ready-made garments
SLF	Standing Lending Facility
SMART	Six Month Moving Average Rate of Treasury Bills
SMEs	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training
VAT	Value-added Tax
WBES	World Bank Enterprise Survey

Executive Summary

An interim government led by Nobel Laureate Dr. Muhammad Yunus was sworn in on August 8, 2024 after former Prime Minister Sheikh Hasina resigned and left the country amid a student-led mass uprising. The regime change came on the back of growing dissatisfaction about a range of issues including a lack of public sector transparency and accountability and increasingly limited job opportunities, especially for the youth.

The protests and subsequent regime change came amidst a challenging global and domestic context. Global growth is projected to remain subdued at 2.6 percent this year and 2.7 percent in 2025-26, due to geopolitical tensions and continued fiscal consolidation.[1] Geopolitical risks are high with the ongoing war between Russia and Ukraine and the escalation of the conflict in the Middle East.

Real GDP growth is estimated to have slowed to 5.2 percent in FY24 from 5.8 percent in FY23, before the onset of the protest and political turmoil. This was the second consecutive year that economic growth had decelerated, driven by weak consumption and exports growth. High inflation and the resulting contractionary monetary policy, higher energy prices, and import restrictions hampered investment. On the supply side, industrial growth declined relatively significantly in FY24, but the growth of the services and agriculture sectors have held steady.

Inflation averaged 9.7 percent in FY24, up from 9 percent in FY23, and continued to erode consumer purchasing power. To combat elevated inflation, Bangladesh Bank (BB) continued to tighten monetary policy in FY24 and the first quarter (Q1) of FY25. Despite the introduction of an interest rate targeting framework in FY23, inflation increased in FY24 due to high food and energy prices and higher import prices as a result of a depreciating taka. The monetary transmission mechanism was weak due to a cap on lending rates, which was removed only in May 2024. The real policy rate remains negative.

The banking system continued to face tight liquidity conditions and private sector credit growth slowed in FY24. The non-performing loan (NPL) ratio remains elevated, and even this elevated ratio masks the true extent of banking sector stress due to lax definitions and inadequate reporting standards, forbearance measures, and weak regulatory enforcement. BB has introduced a Prompt Corrective Action (PCA) framework to address the vulnerabilities in the banking sector.

The current account deficit (CAD) narrowed to US$6.5 billion in FY24 from US$11.6 billion in FY23 due to a substantial contraction in imports and robust remittances. The increase in remittances was driven by the depreciation of the taka and various incentives offered by the government and banks. The narrowing of the CAD helped the overall balance of payments (BoP) deficit to decline to US$4.3 billion in FY24 from US$8.2 billion in FY23.[2] In May 2024, BB devalued the exchange rate and adopted a crawling peg to transition to a more market-determined exchange rate system. Foreign exchange (FX) reserves declined by approximately US$3 billion during FY24 to US$21.7 billion. Reserves continued to decline in the first quarter of FY25 amid the uprisings and despite fewer FX interventions by BB, but there are signs that it has stabilized at just under US$20 billion.

The fiscal deficit was estimated at 4.5 percent of GDP in FY24, similar to the 4.6 percent deficit in FY23. Revenue and expenditure as a percent of GDP also remained at similar levels to the previous year. The public debt-to-GDP ratio is estimated to have increased to 38.8 percent, but it remains sustainable. To contain subsidies, the

[1] Global Economic Prospects (GEP), June 2024.

[2] BB announced major revisions to the estimates of exports and net trade credit figures in the financial account for FY23 and FY24. However, the net effect of the revisions on the balance of payments was marginal.

government reduced export subsidies, increased administered electricity prices, and in March 2024 adopted a market-based pricing formula for liquid fuels which linked domestic prices to international prices.

Real GDP growth is projected to decline to 4.0 percent in FY25 but could range between 3.2 and 5.2 percent due to the uncertain impact of the protest and political transition. The country is still recovering from the popular protests and political turmoil which significantly impacted economic activities in Q1 FY25. Political uncertainty, inadequate law and order, and labor unrest in the industrial area continued to weigh on the complete normalization of the activities.

Private consumption, investment, and exports are expected to experience slower growth due to inflationary pressures, tight financing conditions, and economic and political uncertainties. Growth is expected to accelerate to 5.5 percent in FY26, as exports and investment benefit from the recovery of the economy. Inflation is expected to moderate by the end of FY25. To counter inflationary pressures, the BB is likely to maintain a contractionary monetary policy stance. Vulnerabilities in the financial sector, driven by high NPLs, may hamper effective interbank financial intermediation. Slower expenditure growth constrained by subdued revenue mobilization will keep the fiscal deficit below 5 percent in the near term. Strong growth in workers' remittances inflows and export growth, albeit at a relatively moderate level, are expected to narrow the CAD in FY25-F26. There are reportedly significant external payments due related to the imports of energy and fertilizer.

There are significant downside risks to this outlook, stemming from global and domestic factors. Increased political instability, poor corporate governance, and the likely insolvency of some banks could worsen an already weak financial sector and weigh on economic activity. Escalating geopolitical tensions and increased protectionism could lead to a surge in global commodity prices and supply chain disruptions. Weaker than anticipated growth in trade partners could also weigh on exports growth.

Bangladesh faces significant challenges in job creation, job quality, skills shortages, and skills mismatches. The student-led protests in Bangladesh were initially sparked by demands to withdraw the quota system[3] in public sector jobs but were driven by deeper economic and social challenges. Decades of relatively rapid growth have not generated sufficient jobs for an expanding working-age population. The structural transformation from agriculture to manufacturing and services that had been sustained since 2000 has slowed down in recent years as excess labor has been absorbed in the agriculture sector. As a result, from 2016 to 2022 most new jobs were in the low-wage, low-productivity agriculture sector and by contrast new urban employment growth declined. The manufacturing sector grew annually by 9.1 percent but experienced a 9.6 percent decline in jobs. Real wages across all sectors have declined. Gender disparity in the labor market is significant. Given the constraints in the labor market, emigration has been a critical source of employment for many Bangladeshis.

The private sector will need to generate more jobs, but most firms in Bangladesh are small and face significant obstacles to growth. The informal sector accounts for 84.9 percent of total employment but is limited by low productivity. Large industries have stagnated in job creation, and foreign direct investment (FDI) remains low due to a challenging business environment. The share of tertiary-educated youth among who are unemployed has increased to 27.8 percent, as many struggle to find jobs that align with their skills and educational qualifications. There is a growing mismatch between the competencies of graduates and the skills and knowledge demanded by employers. To address these challenges, Bangladesh needs a comprehensive policy approach that improves the

[3] The quota system reserved a significant portion of government jobs for various groups, including freedom fighters' descendants, women, ethnic minorities, and people from underprivileged districts. Due to widespread protests and demands for reform, the previous government scaled back the quota system in July 2024.

business environment, attracts foreign investment, promotes export diversification, and enhances education and technical training systems to align with employer demands. The Special Focus section of this report delves more deeply into the jobs challenge in Bangladesh.

Recent Developments

Context

On August 8, 2024, an interim government took office after the resignation of the former Prime Minister Sheikh Hasina following a widespread student-led uprising. The student protests, which began in June 2024, were initially aimed at reforming the quota system for government recruits. Following a crackdown and violence that led to the deaths of several hundred people, including protesting students, the unrest subsequently evolved into a broader call for the resignation of the Prime Minister, which culminated in the Prime Minister's resignation on August 5. The President dissolved Parliament on August 6 and appointed a 15-member interim government on August 8. The turmoil caused significant disruptions to economic activities. However, the transition is viewed as an opportunity to introduce critical, longstanding reforms to strengthen transparency, accountability, and improve public service delivery. There is a certain level of urgency that is driving the delivery of much needed reforms prior to holding national elections.

Bangladesh's economic growth over the past decade has faced significant challenges in recent years. Since FY23, Bangladesh has been grappling with a substantial BoP deficit, depletion of international reserves, and high rates of inflation. Existing and increasing vulnerabilities in the financial sector have also weighed on growth. The depletion of FX reserves precipitated an IMF program in January 2023 and the subsequent adoption of a crawling peg. The lack of job opportunities was considered an underlying discontent driving the student protests.

Real Sector

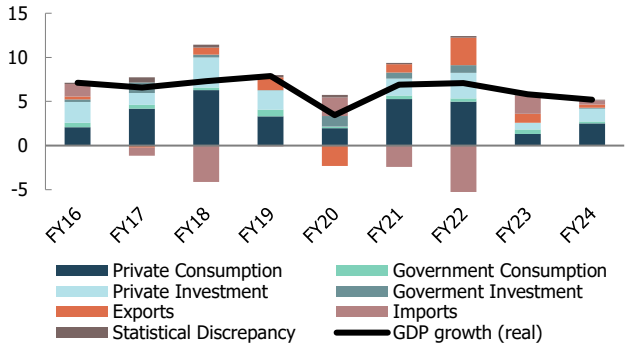
Real GDP growth is estimated to have moderated to 5.2 percent in FY24, declining from 5.8 percent in FY23. On the demand side, the slowdown was driven by weak consumption and export growth. On the supply side, the growth slowdown was mainly due to the industry sector. Inflation remained elevated, averaging 9.7 percent in FY24. Extreme poverty is projected to have increased to 6.1 percent in FY24.

The global economy is stabilizing but the outlook remains subdued—both advanced economies and Emerging Market and Developing Economies (EMDEs) are projected to grow at a slower pace over 2024-26 than in the pre-pandemic decade. Globally, inflationary pressures are anticipated to gradually ease, and headline inflation rates are expected to converge to levels broadly consistent with central bank targets by 2026. The multiple shocks of recent years have hindered per capita income catch-up, with almost half of EMDEs losing ground relative to advanced economies over 2020-24. Pronounced trade policy uncertainty could herald further trade restrictions and weigh on global trade.

Table 1: Global Growth and Commodity Prices (Real GDP Growth (%))					
	2021	2022	2023e	2024f	2025f
World	6.3	3.0	2.6	2.6	2.7
Advanced Economies	5.5	2.6	1.5	1.5	1.7
USA	5.8	1.9	2.5	2.5	1.8
Euro Area	5.9	3.4	0.5	0.7	1.4
EMDEs	7.3	3.7	4.2	4.0	4.0
Commodity Prices					
Crude Oil, Brent ($/bbl)	70.4	99.8	82.6	84.0	79.0
Coal, Australia ($/mt)	138.1	344.9	172.8	125.0	110.0
Liquified Natural gas, Japan ($/mmbtu)	10.8	18.4	14.4	12.5	13.5
Fertilizer, TSP ($/mt)	538	716	480	450	380
Cotton ($/kg)	2.2	2.8	2.1	2.1	2.2
Iron ore ($/dmt)	161.7	121.3	120.6	110.0	105.0
Soybean oil ($/mt)	1385	1,667	1,129	1,130	1,150

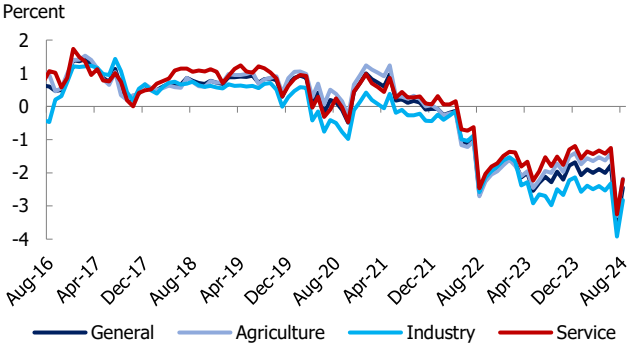
Source: Global Economic Prospects (June 2024); and Commodity Markets Outlook (April 2024)

Figure 1: Real GDP Growth and Contributions to Real GDP Growth



Source: Bangladesh Bureau of Statistics (BBS) and WB staff calculations

Figure 2: Growth in Real Wages (Low Paid/Unskilled) (y-o-y)



Source: Bangladesh Bureau of Statistics (BBS) and WB staff calculations

Real GDP growth is estimated to have moderated to 5.2 percent in FY24, driven by weak consumption and exports growth on the demand side. Despite the improvement from the previous year, private consumption growth was still lower than the average of 5.7 percent in the previous decade, as elevated inflation affected consumption through reduced purchasing power (Figure 2). Government consumption slowed to coordinate fiscal policy with the contractionary monetary policy carried out in response to the high inflation. Capital expenditure also remained muted with the implementation rate of the Annual Development Programme (ADP) at only 80.9 percent in FY24. Exports growth also moderated in FY24 due to rising input costs, weak global demand, and supply chain disruptions. The political turmoil severely affected economic activity in the first two months (July-August) of FY25 (see Box 1).

Box 1: Political Turmoil in July and August 2024 and its Immediate Economic Impact

The protest started with demands to reform the quota system for government jobs, but following a brutal crackdown, the movement transformed into a widespread anti-government uprising leading to Prime Minister Sheikh Hasina's resignation on August 5, 2024. The uprising, repression, violence, large-scale arrests, curfews, and internet shutdowns severely affected economic activity in July and August. Initially, the student-led protests, which began in June, 2024, caused localized disruptions in transportation and service sector activities, primarily in Dhaka. However, following violent clashes on July 18 and 19, a curfew was imposed, and internet services were suspended, leading to a significant disruption of economic activity beyond Dhaka. The industrial and services sectors experienced a standstill, and key highway closures disrupted supply chains. Existing container congestion at Chattogram Port was exacerbated, and export shipments declined sharply.

Communication channels with international buyers were completely cut off, affecting ongoing export orders. The internet shutdown and bank closures impeded remittance inflows. Although economic activity recovered modestly in the last week of July following the relaxation of the curfew and restoration of internet services, the situation deteriorated further prior to the Prime Minister's resignation on August 5, leading to a breakdown in law and order due to the absence of police and law enforcement agencies. Economic activity gradually picked up after the interim government was established on August 8, 2024.

Inflation spiked in the month of July and moderated in August. Headline inflation rose to 11.7 percent in July from 9.7 percent in June. The increase was mainly driven by food inflation which rose to a 13-year high of 14.1 percent. A breakdown of supply chains due to the curfew and blockades contributed to this spike. Inflation moderated to 10.5 percent in August. The Purchasing Managers' Index (PMI)[4] dropped sharply from 63.9 in June to 36.9 points in July. It improved to 43.5 in August and reached 49.7 points in September, but this still represents a deterioration of business confidence.

Remittances declined in July but bounced back in August while FX reserves remained stable. Remittance inflows faced severe disruptions during the last two weeks of July due to bank closures and the unavailability of internet services. Total remittance inflows for July 2025 were US$1.9 billion, representing a 24.6 percent decline from June and a 3.0 percent decline year-on-year (y-o-y). However, remittance inflows bounced back in August, increasing by 39.1 percent (y-o-y) driven by exchange rate depreciation, a narrowing of the difference between formal and informal exchange rates, and a sharp base effect. As of September 24, 2024, gross foreign exchange reserves had declined to US$19.5 billion, down from US$21.7 billion at the end of June. The interbank exchange rate remained relatively stable at approximately BDT 120/US$ throughout July and August. As of September 24, the informal exchange ("kerb") rate stabilized around BDT 122/US$.

The popular protests resulted in significant damages to public and private properties. Numerous government offices, private properties, and places of historical interest suffered damages. That includes the Metro rail, toll counters of the elevated expressway, various government offices, and police stations across the country. The full extent of the physical damages remains unknown.

On the supply side, industrial growth is estimated to have moderated to 5.8 percent in FY24. Industrial growth was affected by lower imports caused by a shortage of foreign currency in the banking system, rising interest rates, and high energy prices. Gas supplies were disrupted due to lower domestic production and the damage caused by cyclone Ramal to one of the two Floating Storage and Regasification Units (FSRU) in Bangladesh. Construction growth also slowed due to a rise in the building material price index by 6.1 percent and a decline in demand.

Table 2: Growth Rate (Real, percent)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
GDP Growth	**6.6**	**7.3**	**7.9**	**3.4**	**6.9**	**7.1**	**5.8**	**5.2**
			Growth (%)					
Industry	8.3	10.2	11.6	3.6	10.3	9.9	8.4	5.8
Services	6.4	6.6	6.9	3.9	5.7	6.3	5.4	5.3
Agriculture	3.2	3.5	3.3	3.4	3.2	3.1	3.4	3.3
			Growth (%)					
Consumption	**6.3**	**9.1**	**5.5**	**2.9**	**7.9**	**7.4**	**2.5**	**3.5**
Private consumption	6.3	9.4	4.9	3.0	8.0	7.5	2.0	3.9

[4] PMI is an index prepared by the Metropolitan Chamber of Commerce and Industry (MCCI) and Policy Exchange Bangladesh. It is based on data compiled from monthly surveys of over 500 private sector enterprises. A PMI reading above 50 generally indicates 'expanding' and below that shows a 'contraction'.

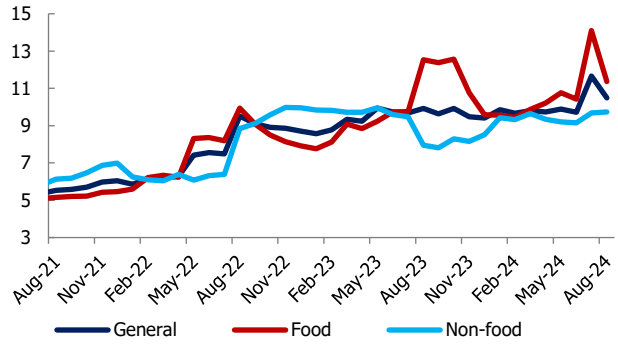
Government consumption	7.2	5.3	13.4	2.0	6.9	6.2	8.5	3.5
Investment	**8.4**	**12.1**	**6.9**	**3.9**	**8.1**	**11.7**	**2.2**	**4.8**
Private Investment	5.7	14.5	8.6	0.2	7.8	11.8	2.9	5.8
Government Investment	17.9	4.3	0.7	18.2	9.1	11.1	-0.0	1.5
Resource Balance	**33.1**	**76.4**	**-18.9**	**3.4**	**27.0**	**34.2**	**-38.4**	**-40.6**
Exports, goods & services	-1.8	6.1	11.5	-17.5	9.2	29.4	8.0	2.7
Imports, goods & services	5.2	23.9	0.5	-11.4	15.3	31.2	-9.8	-2.5
Statistical discrepancy	**115.6**	**31.5**	**18.9**	**19.4**	**7.5**	**10.8**	**7.1**	**5.9**

Source: Bangladesh Bureau of Statistics (BBS).

Inflation

Average inflation increased to 9.7 percent in FY24 from 9 percent in FY23 mainly due to high food and energy prices and higher import prices as a result of a depreciating taka. External factors such as Russia's invasion of Ukraine, and the conflict in the Middle East contributed to the elevated inflationary pressure through supply chain disruptions. The international prices of key commodities eased, but this did not translate to a significant reduction in inflation. Domestically, the primary contributors of persistent inflationary pressure were upward adjustments to administered energy and food prices and import restrictions. Monetary policy tightening and fiscal consolidation should help anchor inflation expectations and rein in inflation over the medium-term.

Figure 3: Inflation (Base: 2021-22, y-o-y, %)
Percent



Source: Bangladesh Bureau of Statistics

Inflation continued to increase in the first quarter of FY25 (averaging 10.7 percent) and in July reached 11.7 percent – a 13-year high (Figure 3). The spike was caused by supply chain disruptions on the back of unrest social and political unrest in the lead up to the change in the political regime on August 5, 2024. Food inflation surged to 14.1 percent in July and averaged 11.9 percent in Q1. Inflation is now showing signs of moderation as food supply chain challenges begin to ease.

Poverty and welfare[5]

Several socioeconomic factors may have contributed to the demand for change by the protestors, including persistent poverty, vulnerability to falling into poverty, and limited opportunities in a rapidly urbanizing environment. Between 2016 and 2022, poverty reduction in rural areas outpaced urban areas, even as urbanization accelerated. By 2022, one in four Bangladeshis lived in urban settings, compared to fewer than one in five in 2016. As a result, a higher proportion of the poor population became urbanized, despite rural poverty being six percentage points higher than urban poverty. Vulnerability to poverty has shifted towards urban areas. About 20 percent of the population remains vulnerable to poverty due to shared characteristics with the poor. In 2022, four in ten Bangladeshis were either poor or at risk of falling into poverty. Urban vulnerability grew, with more at-risk individuals living in cities by 2022.

Rising income inequality in urban areas is likely another contributor. Despite poverty reduction, income inequality has surged recently, particularly in urban regions. From 2010 to 2022, Bangladesh's Gini index—a

[5] World Bank (forthcoming), *Paving the Road to Prosperity*, Poverty and Equity Assessment.

measure of income inequality—increased by nearly three points from 0.50 to 0.53. The Gini for consumption is much lower and has remained stagnant in the same periods. While income growth improved overall welfare, the benefits were distributed unevenly, especially in urban areas. The gap between rural and urban inequality widened between 2016 and 2022, contributing to a national rise in inequality. Another potential contributing factor, especially among the youth, is that educational improvements and better access to education have not translated into better welfare or lower inequality, whether measured by consumption or income. While inequality of opportunity in education nearly halved due to the expansion of primary education, the gap in consumption remained static. The labor market has failed to turn educational gains into economic ones. Labor markets have not adjusted to increasing levels of education in the workforce. In other words, better education has not been transmitted to better wages. Except for salaried jobs, which receive a premium but are limited, other forms of wage work or self-employment have not seen a rise in premium.

The lack of urban job opportunities for young graduates is another structural issue that may have contributed to tensions. National unemployment (i.e., 3.4 percent in 2022) figures hide the challenges faced by young, more educated cohorts in urban areas. Despite a decrease in the overall unemployment rate between 2016 and 2022, unemployment among young women remained high (i.e., 18 percent), with young men's unemployment rate increasing by 2.5 percentage points (11 to 13 percent). Educated women face exceptionally high unemployment rates, and many are discouraged from entering the labor force due to a lack of suitable jobs, leading to increased inactivity rates among women (the inactivity rate increased by 7.7 p.p. during this period). Urban employment creation has been insufficient to absorb young workers, and job quality has deteriorated. The number of young people employed in urban areas declined, with many working in low-paying service sector jobs. Competition for jobs has intensified due to urbanization, particularly in Dhaka, with internal migration benefiting higher-skilled workers at the expense of lower-skilled job seekers.

Finally, the recent deterioration in labor market conditions and higher inflation may have also contributed to people's discontent. Labor force participation declined from 61.2 in 2022 to 60.9 in 2023 and reached 59.9 percent in the first half of 2024. Employment has also declined, particularly in 2024, and the unemployment rate remained stagnant at around 3.5 percent. The reduction in labor force participation and employment with a constant unemployment rate indicates that discouraged workers are leaving the labor market as they cannot find jobs. Between FY23 and FY24, workers in industry and services have been especially affected, facing job losses (by 5.6 and 4.1 percent, respectively) and wage reductions (by 2.3 and 0.7 percent, respectively), likely pushing their families into extreme poverty. Consequently, extreme poverty at the US$2.15 (2017 PPP) threshold is projected to increase by 0.7 percentage points (or affect 1.2 million people) in 2024. Some families—particularly families in agriculture or receiving remittances from abroad—have been able to maintain their welfare. The opposing trends have likely contributed to higher inequality, with the Gini index increasing by 1.1 points over the year.

Monetary and Financial Sector Developments

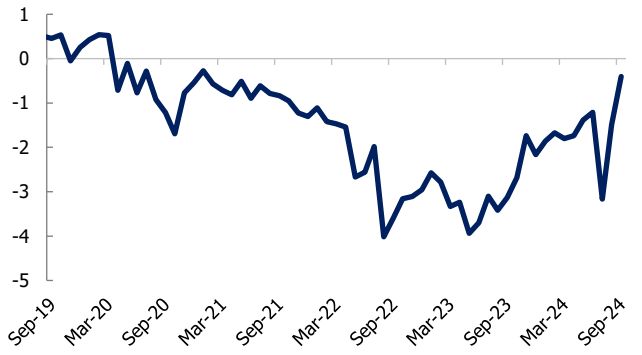
Bangladesh Bank continued to tighten monetary policy in response to elevated inflation. It also made steps towards more market-determined interest rates via the discontinuation of the Six Month Moving Average Rate of Treasury Bills (SMART) interest rate system which was introduced at the start of 2024. Liquidity in the banking system remains constrained, contributing to heightened vulnerabilities within the financial sector. The interim government has initiated an initial set of reforms aimed at restoring discipline and stability in the banking sector, including restructuring the boards of underperforming banks and establishing a taskforce dedicated to overseeing banking sector improvements.

Table 3: Monetary Program Performance					
	FY20	FY21	FY22	FY23	FY 24
	Actual	Actual	Actual	Actual	Actual (p)
Net Foreign Assets	10.2	27.7	-11.9	-23.4	-17.0
Net Domestic Assets	13.4	9.3	17.2	21.3	14.1
Domestic credit	13.7	10.4	16.2	15.3	10.5
Public Sector credit	53.4	21.7	29.1	35.8	12.8
Private Sector credit	8.6	8.3	13.7	10.6	9.8
Broad Money	12.7	13.6	9.4	10.5	8.2
Reserve Money	15.7	22.4	-0.3	10.5	7.9
Inflation (end of period average)	5.6	5.6	6.1	9.0	9.7
Real GDP Growth	3.4	6.9	7.1	5.8	5.8

*Source: Bangladesh Bank and Bangladesh Bureau of Statistics. *FY24, provisional GDP growth*

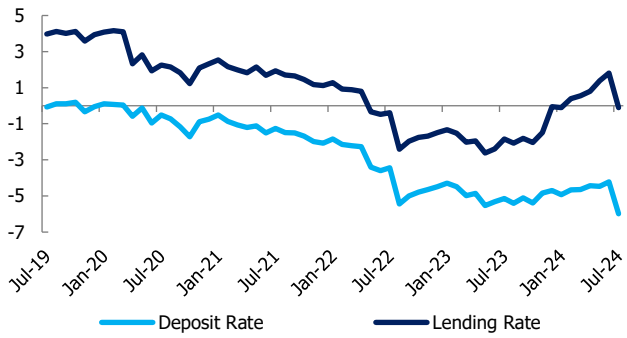
BB has tightened monetary policy further and attempted to move to more market-determined interest rates. In order to combat high inflation, BB increased the policy rate by 50 basis points to 9.5 percent in September 2024. The second consecutive 50 basis points increase. The policy rate has now been increased cumulatively by 475 basis points since May 2022. However, the monetary policy transmission mechanism is weak given limited interbank financial intermediation. In addition, the efficacy of monetary policy is relatively limited when inflationary pressure is driven by supply-side factors such as supply chain disruptions. BB has made a concerted effort to improve the transmission mechanism and move towards more flexible market-driven interest rates with a series of measures, including the discontinuation of a lending rate cap in July 2023 and the variable SMART reference rate in May 2024. Despite the increase in the interest rates, the real policy rate, real weighted average lending, and deposit rates remain negative (Figure 4 and Figure 5).

Figure 4: Real Policy Rates (%)



Source: Bangladesh Bank

Figure 5: Real Interest Rates on Commercial Lending and Deposits (weighted average, %)



Source: Bangladesh Bank

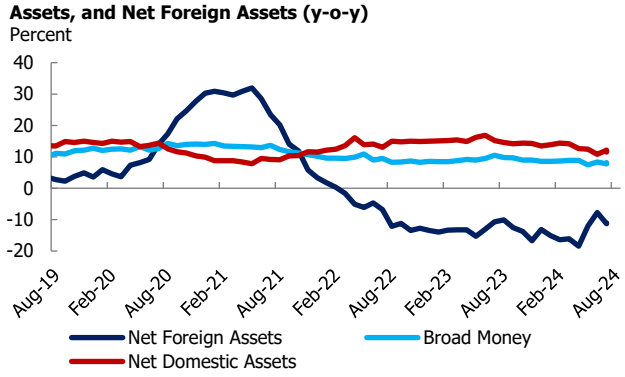
Banking system liquidity has remained tight. Falling deposit growth, driven by the negative real deposit rates, has contributed to liquidity constraints in the banking system. Furthermore, a series of large-scale fraud allegations in the banking sector significantly dented public confidence, weighing on deposit growth. Moreover, sluggish recovery of the NPLs, increased cash holding by the public, and government borrowing from commercial banks have also contributed to the tightening liquidity situation. In the face of declining liquidity, the BB conducted liquidity support in the local currency market through various instruments.[6] Liquidity support was also provided to some ailing Shariah-based Islamic Banks through facilities such as Special Liquidity Support (SLS), Mudarabah Liquidity Support (MLS), and the Islamic Banks Liquidity Facility (IBLF). Towards the end of FY24, reduced FX sales

[6] Including Repo facilities, Assured Repo (AR), Assured Liquidity Support (ALS), Liquidity Support against claims of Remittance (LSR), and Standing Lending Facilities (SLF) for conventional banks and non-bank financial institutions.

by the BB also supported liquidity. The call money rate rose to 9.5 percent as of September 25, 2024, compared to 6.6 percent a year ago, reflecting tighter liquidity conditions in the banking sector. Rates on government treasury bills have also risen significantly over the past 12 months.

Money supply growth decelerated in FY24 and remained below the BB target. Broad money growth declined to 7.7 percent at the end of FY24, declining by 2.8 percentage points compared to the previous year. The persisting BoP deficit and net sales of foreign exchange by BB led to a 7.7 percent decline in Net Foreign Assets (NFA). This was offset by a 10.9 percent increase in Net Domestic Assets (NDA). As a result, the growth in money supply remains well below the target of 10.0 percent announced by the BB in the January-June 2024 Monetary Policy Statement (MPS). The broad money growth target has been reduced to 8.2 percent for December 2024 in the latest MPS released in July 2024.

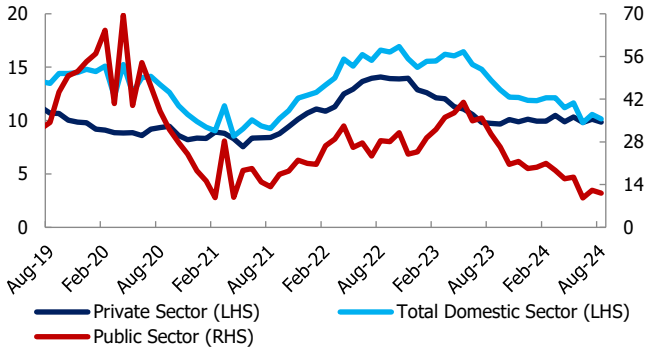
Figure 6: Growth of Broad Money, Net Domestic Assets, and Net Foreign Assets (y-o-y)



Source: Bangladesh Bank

Private and public sector credit growth moderated in FY24. Tight domestic liquidity conditions, rising interest rate, and a shortage of foreign currency holdings in banks weighed on private investment. Growth in total domestic credit moderated to 9.8 percent in FY24 from 15.3 percent in FY23. This was led by a deceleration in private sector credit growth to 9.8 percent in FY24, down from 10.6 percent in the previous year. Public sector credit growth decelerated sharply to 9.7 percent in FY24 from 34.9 percent in FY23, due to lower borrowing needs compared to the previous year to finance the deficit.

Figure 7: Credit Growth (y-o-y)



Source: Bangladesh Bank

Financial sector vulnerabilities are elevated. As the interim government begins to take stock of various sources of vulnerability in the financial sector, evidence of the extent of weak corporate governance is slowly being revealed. The volume of officially recognized stressed assets is likely to be affected over the next few months as a newly formed taskforce on banking completes its review. By the end of June 2024, officially recognized NPLs increased by 35.5 percent year-on-year. The gross NPL ratio (ratio of NPLs to total loans) increased to 12.6 percent at the end of FY24, compared to 10.1 percent at the end of FY23. However, the NPL ratio understates banking sector vulnerabilities due to lax regulatory definitions, inadequate reporting standards, repeated forbearance measures, and weak regulatory enforcement. Weak governance and political influence have exacerbated these challenges, distorting decision-making processes and hampering effective oversight in the sector. Loan loss provisions stood at 42.2 percent of NPLs at the end of June 2024, declining from the previous quarter and also y-o-y. Furthermore, NPLs are concentrated in state-owned banks, which accounted for nearly 48.5 percent of the total NPLs. The capital adequacy ratio of the banking sector marginally declined to 10.6 percent at the end of FY24, down from 11.2 percent at the end of FY23, mainly driven by the fall of the ratio in private banks.

Since the formation of the interim government in August 2024, significant reforms have been initiated to restore discipline and stability within the banking sector. The BB has reformed boards of eleven banks and one non-bank financial institution, replacing members in institutions where boards have been captured by business groups engaged in questionable practices, such as related party lending, violation of single borrower exposure limits, money embezzlements, and money laundering to overseas bank accounts. These governance failures, compounded by weak internal control and poor compliance, appear to have contributed to massive deposit withdrawals and liquidity crisis in several banks, although the full data are not yet available. These issues may have resulted in elevated NPLs and capital inadequacy, posing a systemic risk to the financial sector.

BB has established a task force to address banking sector reforms. The six-member task force will focus on key issues such as distressed assets, NPLs, and governance failures. It will review the asset quality and the true extent of the capital position of the banks, particularly the weak banks, identify provisioning shortfalls, and assess liquidity conditions. Additionally, the task force will propose regulatory reforms. Priority reforms for the task force could include an independent and comprehensive asset quality review (AQR) of most banks by internationally reputed audit firms, review and strengthening of the governance framework, and introducing a modern resolution framework to recover or resolve banks. The bank resolution framework, including the recently established PCA, is urgently needed for immediate implementation along with the restructuring of the deposit insurance system. Overall, BB should be conferred with ample resolution powers in line with the Financial Stability Board Key Attributes for Effective Resolution Regimes.

BB has adopted a new approach to handle the liquidity situation. BB stopped injecting liquidity directly into the banking system since the change in government. Earlier the Shariah banks were receiving special liquidity support without any collateral starting from the end of 2022 to keep them in business. BB also introduced a special guarantee window to address acute liquidity stress by facilitating borrowing from the interbank money market. Three banks with restructured boards have already sought the BB guarantee facility for borrowing BDT 68 billion from the interbank money market. Overnight and two-week interbank interest rates increased from 7.7 and 9 percent in September 2023 to 10.5 and 12.6 percent in September 2024, respectively. The advance-to-deposit ratio increased to 80.2 percent in June 2024 from 78.5 percent in June 2023. Yields on government securities are also increasing. The yield on six-month treasury bills rose to 11.8 percent in August 2024 and 10-year treasury bonds yielded over 12.6 percent in August 2024.

BB announced its Agriculture and Rural Credit Policy for the FY25. The overall target is to disburse BDT 380 billion which is 8.6 percent higher than last fiscal year's target. Banks are allowed to disburse loans using their own branches, agent banking network, or bank-Macrofinance Institution (MFI) linkages. For recent flood-affected districts, BB has announced a special loan repayment facility for installments of August – October 2024 for short-term agriculture and Cottage, Micro, Small, and Medium Enterprise (CMSME) sector term loan borrowers without any penalty or additional interest charge.

There were notable improvements in the regulatory framework. Through the long-awaited enactment of the Payment and Settlement Systems Act 2024 by the national parliament in July 2024, the payment, clearance, and settlement systems of the country now have a stronger legal basis with a mandate to BB for operation, oversight, and regulations. BB issued Guidelines on Licensing, Operation and Regulation of Credit Bureau in June 2024 which would allow banks to assess creditworthiness and repayment capacity of individuals, by gathering data from various sources, even if they are not existing bank customers. The establishment of such private credit bureaus can facilitate access to credit and financial inclusion.

The capital market is also undergoing various changes including restructuring of the boards of the two stock exchanges. The new leadership of the Bangladesh Securities and Exchange Commission (BSEC) has lifted the floor price of all shares except for two companies - Beximco Ltd. and Islami Bank[7]. The Dhaka Stock Exchange broad index (DSE-X) decreased by 7.8 percent (y-o-y) in August 2024. However, the index increased by 9.9 percent compared to July 2024 indicating a rebound in investors' sentiment. In FY24, there were two Initial Public Offerings totaling BDT 800 million. Out of total twenty-five capital issues, fourteen were from non-financial corporates equivalent to BDT 67.8 billion.

External Sector

The improvement in the current account deficit, driven by a decrease in imports and strong remittance inflows, offset the decline in the financial account surplus. On net, the overall balance of payments deficit contracted. The BB devalued the exchange rate from 110 BDT/US$ to 117 BDT/US$ and adopted a crawling exchange rate regime in May 2024, narrowing the gap between the official and kerb market rates, which contributed to greater stability in the foreign exchange market. Nevertheless, foreign exchange reserves decreased by approximately US$3 billion in FY24.

Table 4: Balance of Payments

US$ millions

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Overall Balance	**3,169**	**-857**	**179**	**2,925**	**9,274**	**-6,656**	**-8,222**	**-4,300**
Current account balance	**-1,331**	**-9,567**	**-4,490**	**-4,723**	**-4,575**	**-18,196**	**-11,633**	**-6,512**
Trade balance	-9,472	-18,178	-15,835	-17,858	-23,778	-33,250	-27,384	-22,432
Merchandise export f.o.b. (inc. EPZ)	34,019	36,285	39,604	32,832	36,903	49,245	43,364	40,810
Merchandise import f.o.b. (inc. EPZ)	-43,491	-54,463	-55,439	-50,690	-60,681	-82,495	-70,748	-63,242
Services	-3,288	-4,201	-3,176	-2,541	-3,020	-3,987	-3,131	-3,808
Income	-1,870	-2,641	-2,382	-3,106	-3,172	-2,726	-3,407	-4,817
Current transfers	13,299	15,453	16,903	18,782	25,395	21,767	22,289	24,545
Official	59	51	41	19	51	65	88	72
Private	13,240	15,402	16,862	18,763	25,344	21,702	22,201	24,473
o/w Workers' remittance	12,769	14,982	16,420	18,205	24,778	21,032	21,611	23,912
Capital account	**400**	**331**	**239**	**256**	**458**	**610**	**475**	**554**
Financial account	**4,247**	**9,011**	**5,130**	**7,537**	**14,067**	**16,691**	**6,890**	**4,545**
Foreign direct investment (net)	1,653	1,778	2,628	1,271	1,355	1,827	1,649	1,697
Portfolio investment (net)	457	349	171	44	-269	-158	-30	-62
MLT loans (excludes suppliers' credit)	3,218	5,987	6,263	6,222	7,449	10,295	8,704	9,680
MLT amortization payments	-895	-1,113	-1,202	-1,257	-1,417	-1,527	-1,745	-2,021
Other long-term loans (net)	-153	141	302	438	1,684	1,443	434	249
Other short-term loans (net)	1,030	1,508	272	931	2,064	3,315	-1,883	-1,574
Trade Credit (net)	-1,185	-1,270	-3,493	-616	3,749	311	2,532	-1,762
Change in Commercial Bank Assets (net)	122	1,631	189	-270	-548	1,185	-2,771	-1,662
Errors and omissions	**-147**	**-632**	**-700**	**-145**	**-676**	**-5,761**	**-3,954**	**-2,888**

Source: Bangladesh Bank.

The current account deficit narrowed in FY24, driven by a substantial contraction in imports and rising remittances. The CAD narrowed to US$6.5 billion in FY24 from US$11.6 billion in FY23. The narrowing was driven by a fall in merchandise imports by 10.6 percent, the second consecutive year imports growth contracted. The fall in imports was driven in part by import suppression measures and a shortage of foreign currency in the banking system. This resulted in a sharp decline in imports of capital goods (21.9 percent decline in FY24) and consumer goods (12.8 percent decline). Merchandise exports also declined by 5.9 percent, driven by a decline in ready-made garments (RMG) exports by 5.4 percent. The actual decline in exports became evident after the data revision in

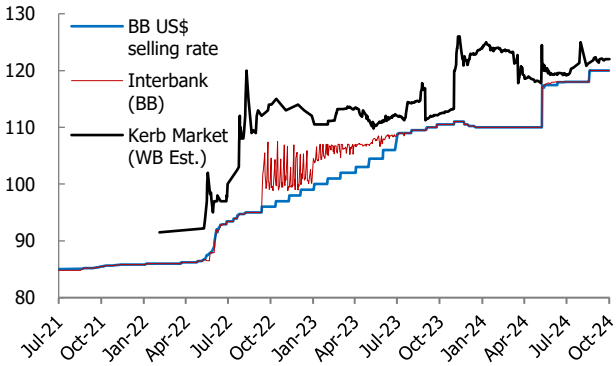
[7] A floor price was introduced on July 28, 2022 on all share prices to prevent shares from falling beyond a certain level which resulted in the share prices of most companies being stuck at their floor prices for an extended period.

June 2024 (see Box 2). Despite the depreciation of the taka, exports were negatively affected by rising raw material costs, supply chain disruptions from the Middle East crisis[8], and a slowdown in global demand. A robust increase in remittances (up 10.7 percent in FY24) also bolstered the current account. The increase in remittances was driven by the depreciation of taka, incentives given by the government, and additional incentives provided by banks to encourage remittance inflow through the formal channels, particularly in the second half of FY24.[9]

The balance of payments deficit improved. The considerable narrowing of the CAD helped the overall BoP deficit to decline to US$4.3 billion in FY24 from US$8.2 billion a year ago, despite the financial account surplus also declining. A major revision in the BoP data by BB turned the current account surplus into a deficit and the financial account deficit into a surplus for FY23 and FY24 (see Box 2). The decline in the financial account surplus in FY24 was driven by a sharp decline in net trade credit resulting from weak imports growth. However, disbursement of medium to long-term loans increased, supported by the IMF's third tranche of disbursement and budget support (development policy) financing by the World Bank and other development partners towards the end of FY24. Other short-term lending contracted because of higher US interest rates and deteriorating private sector creditworthiness. Similar to FY23, net errors and omissions continued to represent an unusually large share of the BoP deficit (67.4 percent).

BB adopted a crawling peg exchange rate system on May 8, 2024 which has helped narrow the gap between the formal exchange rate and the informal (kerb) rate. Under the previous multiple exchange rate system, the interbank exchange rate was insufficiently flexible to clear the FX market, resulting in dollar illiquidity in domestic banks. On the back of continued distortion in the FX market, BB decided to adopt a crawling peg exchange rate system in May 2024, with the mid-point exchange rate set at 117 BDT/US$, which was a 6.3 percent depreciation of the currency. A trading band of +/-1 percent was created around the midpoint. The band was widened to 2.5 percent on August 21, 2024 to enhance the flexibility of the exchange rate resulting in further depreciation of the currency to 120 BDT/US$ and a narrowing of the gap between the formal and informal exchange rates to approximately 1.7 percent.

Figure 8: Bangladesh - BDT/US$ Exchange Rates



Source: Bangladesh Bank, Staff estimates of kerb market rates

FX reserves continued to remain under pressure, despite budget support from the development partners and strong remittance inflows. BB continued to intervene in the FX market throughout FY24 (albeit less than they did in FY23), selling US$12.8 billion of foreign reserves.[10] Gross FX reserves declined by approximately US$ 3 billion in FY24 (from US$24.8 billion in June 2023 to US$21.7 billion in June 2024). They fell to a 5-year low of US$18.3 billion in May before stabilizing over the past five months. BB's dollar-taka swap facility for commercial banks, which initially bolstered gross reserves, was discontinued on May 8, 2024. In June 2024, the release of the IMFs third tranche of disbursement under the ongoing program and budget support from the World Bank and other

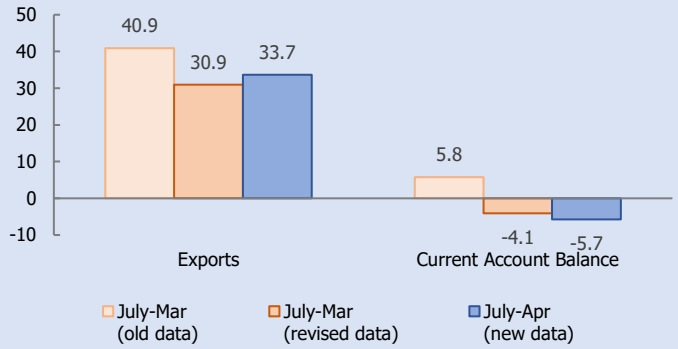
[8] Due to the Middle East crisis, cargo ships from Asia were required to take a longer route via South Africa's Cape of Good Hope to reach their destinations in Europe and the Americas, causing significant increases in costs and delivery time.
[9] In November 2023, the Bangladesh Foreign Exchange Dealers' Association (BAFEDA) allowed banks to purchase remittance inflows above the formal cap by providing additional incentive payments, and BB allowed deviations from the remittance exchange rate cap through verbal instructions to individual banks.
[10] BB also bought US$3.4 billion, resulting in net sales of US$9.4 billion.

development partners helped FX reserves to increase to US$21.8 billion. As a result, the quantitative performance criteria (QPC) on net international reserves of US$14.7 billion under the IMF program were met in the second review in June 2024. FX reserves declined to US$19.7 billion as of September 30 (approximately 3.2 months of prospective imports), as a result of a US$1.3 billion payment to the Asian Clearing Unit. Payment due to several energy suppliers continues to put pressure on the FX reserves.

Box 2: Revisions to the Balance of Payments

BB recently revised the BoP – specifically, exports and the financial account – for FY23 and FY24 which lowered the estimates of the BoP deficit. The revised data indicated that merchandise exports were significantly lower than the estimates published earlier. The revised data from the BB indicate that exports, during the first 3 quarters (July-March) of FY24 totaled US$30.9 billion, which is US$9.9 billion lower than previously reported. As a result, the current account, previously thought to be in a surplus of US$5.8 billion for the July-March period of FY24, turned into a deficit of US$4.1 billion. The revised data for FY23 indicated that merchandise exports were US$6.9 billion lower than earlier estimates. This resulted in a downward revision of the current account balance by US$6.5 billion.

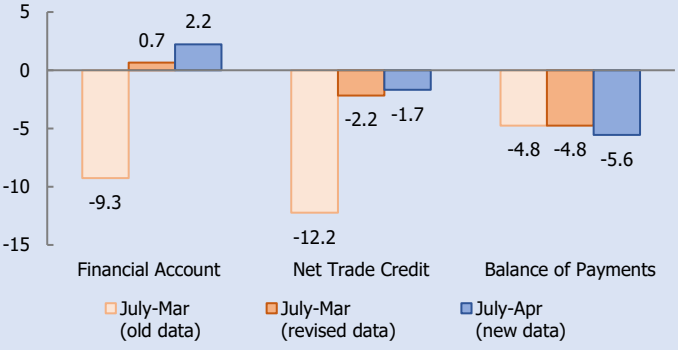
Figure 9: Merchandise Exports and Current Account Balance in FY24
US$ Billions



Source: Bangladesh Bank

The financial account was also revised. Prior to the revisions, the financial account was in a significant deficit of US$9.3 billion for the July-March period of FY24, mainly due to a deficit in net trade credit. However, due to the revisions, the financial account moved to a surplus of US$0.7 billion for the same period. The net trade credit deficit of US$12.2 billion was revised to a smaller deficit of US$2.2 billion. The revisions to net trade credit centered on reconciling the difference between exports receipts and shipments, which previously contributed to a net credit outflow. The adjustment in the financial account effectively offsets the changes in the current account. As a result, the overall impact of data revisions on the BoP was small. The revised data for FY23 indicate the net credit inflow was US$6.9 billion more than previously recorded for the July-April period. However, similar to FY24, the downward revision of the current account was offset by the upward revision of the financial account, resulting in an unchanged BoP deficit of US$8.8 billion for FY23.

Figure 10: Financial Account, Net Trade Credit, and Balance of Payments in FY24
US$ Billions



Source: Bangladesh Bank

Concerns about the veracity of exports data have been growing over the past years. Earlier data showing robust exports growth was not reconcilable with data available from a variety of sources. Exporters and business leaders had expressed doubts over official exports figures, citing their declining export orders and difficulties due to rising input costs, energy shortages, and supply chain disruptions caused by the Middle East

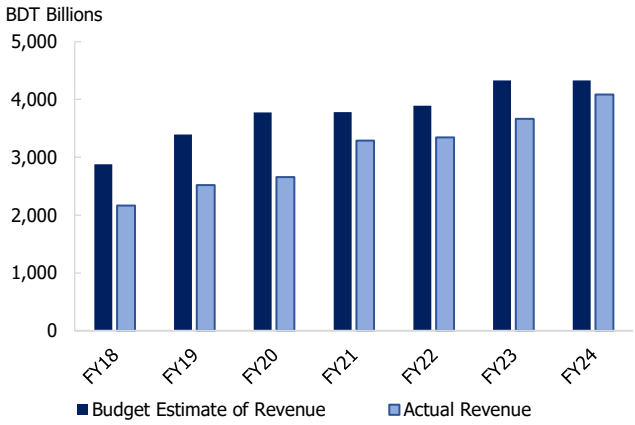
crisis. According to the Office of Textiles and Apparel (OTEXA) under the US Department of Commerce, apparel imports by the USA from Bangladesh declined by 12.3 percent (y-o-y) during the January-May period of 2024. The gap between the exports shipments and exports receipts had grown significantly by over US$12 billion in FY23. The revisions to the data are expected to resolve the discrepancy between shipments and receipts.

Fiscal Trends and Debt Sustainability

The fiscal deficit was estimated at 4.5 percent of GDP in FY24, similar to the 4.6 percent deficit in FY23. Revenue and expenditure as a percent of GDP also remained at similar levels to the previous year. Bangladesh's revenue-to-GDP ratio remains among the lowest globally. The stock of public debt increased modestly to 38.8 percent of GDP.

Bangladesh's revenue-to-GDP ratio remains one of the lowest in the world. Revenue collection is estimated to have increased to 8.5 percent of GDP percent in FY24 from 8.2 percent in FY23. Growth in trade-related taxes remained moderate due to the fall in imports. As in previous years, the National Board for Revenue (NBR) set an ambitious target of BDT 4300 billion for taxes in FY24 (22.0 percent higher than the provisional FY23 collection). However, revenue collections have persistently fallen short of budgeted targets in recent years (Figure 11). The annual average shortfall over FY18 to FY22 was BDT 749 billion (2.4 percent of GDP). The main contributors to the shortfalls are VAT and supplementary duty collections.

Figure 11: Budget Estimate vs. Actual Total Revenue Collection



Source: Ministry of Finance

Table 5: Fiscal Outcomes (% of GDP)

	FY19	FY20	FY21	FY22	FY23	FY24e	FY25f
Total revenue 1/	8.6	8.5	9.4	8.5	8.2	8.5	8.3
Tax revenue	7.7	7.0	7.6	7.5	7.3	7.4	7.3
Total expenditure	13.3	13.3	13.0	13.0	12.8	13.0	12.6
Current expenditure	7.4	7.4	7.5	7.7	8.0	8.3	8.3
Capital expenditures	5.2	5.1	4.7	4.6	4.3	4.2	3.8
Deficit 1/	-4.7	-4.8	-3.7	-4.6	-4.6	-4.5	-4.3
Net external financing	1.1	1.3	1.3	1.6	1.8	1.9	2.0
Net domestic financing	3.6	3.4	2.3	2.9	2.8	2.6	2.3
General government debt stock	28.5	31.7	32.4	33.8	37.0	38.8	40.6
External	10.4	11.8	11.9	12.5	15.0	16.1	17.4
Domestic	18.1	19.9	20.5	21.3	22.0	22.7	23.1

Source: Ministry of Finance. World Bank MFMoD forecast for FY25
1/Excluding grants, e=estimated, f=forecast
Note: FY24 estimated result based on data available as of 20th September 2024.

The fiscal deficit is estimated to have declined marginally in FY24 as expenditure growth remained modest. Total expenditure as a share of GDP is estimated to have increased modestly by 0.2 percentage points to 13.0 percent of GDP in FY24. Current expenditure as a share of GDP increased by 0.3 percentage points to 8.3 percent of GDP, and capital expenditure's share declined incrementally to 4.2 percent of GDP. Capital expenditures were affected by restrictions on imports because of the foreign exchange shortages and reprioritization of projects.

Implementation of the ADP remained low in FY24. The FY24 ADP budget was BDT 2.7 trillion (US$23.7 billion), with BDT 1.69 trillion (US$15.4 billion) of domestic financing and BDT 940.0 billion (US$8.5 billion) of external financing. The implementation rate was 80.9 percent in FY24 compared to 85.2 percent in FY23. The slowdown can be attributed to the lack of US dollars for imports, capacity constraints within ministries on implementation, and a lack of coordination within government ministries and agencies. The budget for the ADP was increased modestly by 8.1 percent for FY25. However, the interim government is likely to revise the budget estimate downwards.

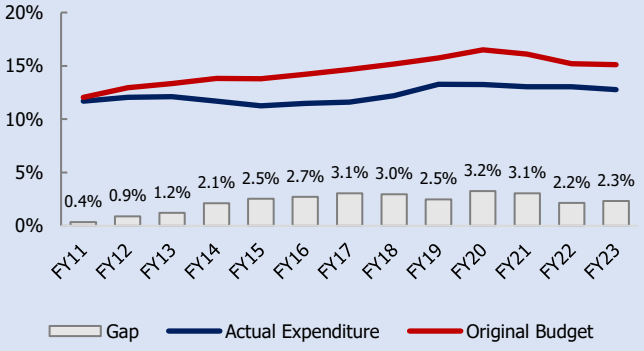
The stock of public debt grew modestly. Public debt (excluding guarantees) is estimated to have increased to 38.8 percent of GDP in FY24, from 37 percent in FY23. Domestic debt accounts for 56 percent of total public debt. External debt amounted to around 16.1 percent of GDP. Most of the external debt is long-term and is owed to multilateral creditors (58 percent of total external debt). The World Bank and the Asian Development Bank are the major multilateral creditors accounting for 90 percent of multilateral credit. Japan, China, and Russia are the major bilateral creditors. About 37 percent of the external debt is denominated in US dollars, followed by Special Drawing Rights (36 percent) and Japanese Yen (18 percent) (Ministry of Finance, 2024). The June 2024 joint World Bank-IMF Debt Sustainability Analysis (DSA) assessed Bangladesh to be at low risk of debt distress.

Box 3: Bangladesh Public Finance Review

Public expenditure and fiscal policy will play a key role in supporting Bangladesh's growth objectives. In the near-term, fiscal policy will need to support monetary policy tightening to help contain inflationary pressure while protecting vulnerable groups. Over the medium-term, increased public spending is needed to improve human capital and infrastructure outcomes. A forthcoming Public Finance Review analyzes fiscal data to inform policy recommendations, several of which are summarized below.

Budget execution remains weak and ambitious targets have not been met, undermining budget credibility. Budgets have targeted a significant increase in public expenditure over the past decade. However, the gap between original budget targets and actual expenditure has widened since FY11 (Figure 12). The execution gap grew from 0.4 percent of GDP in FY11 to 2.2 percent of GDP in FY22. In FY23, 15.4 percent of the total budget was not executed. Energy and fertilizer subsidies have risen, while strategic investments in health and education have lagged. Addressing these implementation gaps will require reforms to strengthen revenue mobilization and efficiently execute expenditure programs.

Figure 12: Total Expenditure – Variation between budget and actual expenditure (Percent of GDP)



Key recommendations - domestic revenue generation

- Shift from trade-based taxes to consumption and income taxes in preparation for LDC graduation, requiring fundamental tax reforms, inter-agency cooperation, and stakeholder consultation.
- Separate tax policy from tax administration, setting specific revenue targets for each tax type. Establish a unit within the MoF to coordinate reforms and manage the transition to income and consumption taxes.

- Implement the 2023 National Tariff Policy by rationalizing tariffs, reducing para-tariffs in phases, and adopting uniform tariff rates for similar goods.
- Amend the VAT to a single standard rate with limited exemptions. Introduce a modern electronic VAT system to increase revenues and improve compliance.
- Strengthen direct taxation through enhanced income tax enforcement, wealth and capital gains taxes, and updated property tax rates based on market valuations. Avoid tax amnesties to sustain compliance.
- Identify and rationalize tax expenditures, reviewing and quantifying each major tax type. Reduce SROs and ad-hoc tax exemptions for consistent policy.
- Automate tax administration, integrating data between income tax, VAT, and customs. Use third-party data to strengthen compliance and build NBR staff capacity for better implementation.

Key recommendations – restoring budget credibility and increasing efficiency

- Strengthen fiscal transparency and budget credibility by setting realistic budget targets and integrating investment programs into the budget framework. Prioritize green and climate-resilient objectives in economic planning and align them with the budget process. Adjust the chart of accounts to properly classify key investments and conduct annual expenditure reviews.
- Improve public sector staffing and compensation by adopting a systematic approach to salary adjustments and addressing gender gaps in the labor force. Rationalize unfilled vacancies, linking staffing to budget availability.
- Enhance expenditure efficiency by aligning National Savings Certificate interest payments with market rates and controlling subsidy spending. Implement market-based tariffs in the power sector and transition fertilizer subsidies to a voucher-based program. Replace emergency procurement with competitive bidding to reduce generation costs.
- Plan for future government revenues by increasing funding for health, education, and social protection programs, particularly for vulnerable children and the urban poor. Improve social protection through better use of the national household database and G2P payment systems. Review operations and maintenance budgets to support recent infrastructure investments.

Outlook, Risks, and Reform Priorities

Real GDP growth is projected to decelerate to 4.0 percent in FY25 but could range between 3.2 and 5.2 percent. The wide range reflects the uncertainty on the outlook regarding the impact of the protests and political turmoil at the beginning of the fiscal year. The slowdown in growth will be driven by subdued investment and industrial sector activities. Recent floods could also weigh on agriculture growth. Growth is expected to accelerate to 5.5 percent in FY26 and revert to its long-term trend thereafter. Inflation is likely to remain elevated in the near-term and gradually subside in the medium-term if import prices stabilize and prudent monetary and fiscal policies are maintained. Pressure on the external sector is expected to persist in FY25, but the pressure can ease in the latter part of the FY if global conditions are favorable and exchange rate flexibility remains. The fiscal deficit is expected to remain within the government's target of 4.3 percent of GDP in FY25, with fiscal space for capital expenditure increasing only gradually. However, there are significant downside risks to this outlook. Persistent inflationary pressures, weak demand in Bangladesh's major export markets, and intensifying financial sector vulnerabilities could weigh on growth.

Near-term outlook, risks, and priorities

The global economic outlook has improved but remains subdued. Global growth is projected to remain subdued at 2.7 percent in 2025-26 after 2.6 percent growth in 2024. Global growth outlook remains below long-term trends, as both advanced and emerging market economies are expected to grow at a slower pace than in the decade preceding the COVID-19 pandemic. Several downside risks to the outlook persist. Escalating geopolitical tensions, notably the conflict in the Middle East and Russia's invasion of Ukraine, and further trade fragmentation could lead to a surge in global commodity prices and supply chain disruptions. Elevated core inflation in advanced economies could hinder monetary easing and prolong tight financial conditions. Slower than expected growth in China could adversely impact global economic activity.

Real GDP growth in Bangladesh is expected to moderate in FY25 before accelerating in FY26. Real GDP growth is projected to decline to 4.0 percent in FY25 but could range between 3.2 and 5.2 percent. The wide range of the projection reflects the significant uncertainties on the outlook. On the demand side, the deceleration in growth will be driven by a slowdown in private consumption, investment, and exports, amid high inflationary pressures, tight financing conditions, and supply disruptions in FY25. On the supply side, these uncertainties are expected to keep industrial growth subdued in the short-term. Recent floods are expected to moderate agriculture growth. Growth is expected to rise gradually over the medium-term, benefiting from critical financial sector reforms, increased revenue mobilization, improved business climate, and expanded trade. These reforms will help Bangladesh to prepare for LDC graduation in 2026, after which the country will gradually have reduced access to concessional financing and preferential export market access. However, there are significant downside risks, including increased political instability and prolonged impact of the protests and political turmoil, and the potential insolvency of some banks that would worsen an already weak financial sector.

Inflation is projected to decline marginally but remain elevated in FY25. Headline inflation is expected to moderate from 9.7 percent in FY24 to 9.0 percent in FY25. High food and import prices exacerbated by supply disruptions are expected to keep headline inflation elevated during the forecast period. The inflation trajectory will also depend on the effective transmission of the central bank's monetary policy and the government's fiscal policy stance. The adoption of the crawling peg will help stabilize the exchange rate and foreign exchange reserves. Given that Bangladesh is an oil importer, significant downside risks stem from higher than anticipated global energy prices, driven by geopolitical tensions.

Table 6: Selected Macroeconomic Indicators (annual percentage change, unless indicated otherwise)						
	FY21	FY22	FY23	FY24e	FY25f	FY26f
Real GDP growth, at constant market prices	6.9	7.1	5.8	5.2	4.0	5.5
Private Consumption	8.0	7.5	2.0	3.9	3.8	4.8
Government Consumption	6.9	6.2	8.5	3.5	3.5	9.2
Gross Fixed Capital Investment	8.1	11.7	2.2	4.8	3.1	6.4
Exports, Goods, and Services	9.2	29.4	8.0	2.7	2.1	4.5
Imports, Goods, and Services	15.3	31.2	-9.8	-2.5	0.4	5.1
Real GDP growth, at constant factor prices	7.0	7.2	6.2	5.3	4.0	5.5
Agriculture	3.2	3.1	3.4	3.3	3.0	3.1
Industry	10.3	9.9	8.4	5.8	3.3	5.4
Services	5.7	6.3	5.4	5.3	4.7	6.0
Inflation (Consumer Price Index)	5.6	6.1	9.0	9.7	9.0	7.5
Current Account Balance (% of GDP)	-1.1	-4.2	-2.8	-1.4	-0.9	-0.5
Financial Account Balance (% of GDP)	3.4	3.9	1.7	1.0	1.0	1.1
Fiscal Balance (% of GDP) 1/	-3.7	-4.6	-4.6	-4.5	-4.3	-4.6
Primary Balance (% of GDP) 1/	-1.7	-2.6	-2.5	-1.9	-1.4	-1.6
Debt (% of GDP)	32.4	33.8	37.0	38.8	40.6	41.8

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

BB is expected to maintain a tight monetary policy stance in the near term to curb inflationary pressures. BB will continue to hike the policy rate to anchor inflationary expectations and undertake steps to improve the transmission of monetary policy. The policy rate was raised by 100 basis points in August-September 2024 to 9.5 percent (cumulatively by 425 basis points since May 2022). Measures introduced by BB in FY24, including the introduction of the crawling peg exchange rate system and the removal of the cap on bank lending rates, will help improve transmission and result in a slow but sustained moderation in inflation as monetary tightening is expected to impact the real economy with a lag. However, the financial sector remains vulnerable to high NPLs, which impedes effective interbank financial intermediation.

The fiscal deficit is projected to narrow marginally to 4.3 percent of GDP in FY25. Expenditure growth constrained by subdued revenue mobilization will keep the fiscal deficit below 5 percent in the near term. Capital expenditure is expected to be muted due to the government's decision to prioritize only essential projects for FY25. Over the medium-term, strengthening revenue performance will be crucial to expand investments in infrastructure and human capital. Debt as a share of GDP is expected to remain sustainable with external debt accounting for only 17.4 percent of GDP.

The current account deficit will narrow in FY25-26, driven by strong inflows of workers' remittances from abroad. Remittances are projected to stay robust in FY25, supported by the adoption of the crawling peg exchange rate regime. This will help narrow the current account deficit in FY25 and FY26. Exports growth is expected to remain moderate, in the face of high input costs, weak global demand, and manufacturing sector uncertainties. There are reportedly significant external payments due related to the imports of energy and fertilizer.

Downside risks have increased, and significant uncertainties remain. Uncertainties arise from several factors. First, safety and security concerns persist and are likely to remain until the police force is fully operational. This can have an impact on the recovery of economic activities. Although the interim government is prioritizing law and order, restoring the police's full strength may take time due to the widespread destruction of police infrastructure. Second, the timing of the next election is uncertain. Disagreements between political parties and the interim government over the election date could heighten political tensions in the future. Financial sector reforms are underway, but the sector remains quite vulnerable to shocks. Unforeseen natural disasters have the potential to disrupt food production and escalate food inflation, thus keeping inflation higher than projected in the medium term.

Reform priorities

The interim government has a historical opportunity to undertake major reforms that will bolster economic and institutional resilience. Bangladesh faces several multifaceted challenges in the short and medium-term. Ensuring macroeconomic stability is critical given the elevated inflation and the potential for prolonged disruptions to economic activity from the political transition.

Governance is an underlying theme that cuts across all the critical reforms. Improving governance in the public sector and the corporate sector is crucial for restoring trust in public institutions and protecting consumers. This will require reforms to enhance transparency and accountability and reduce corruption. Strengthening public sector capacity in domestic revenue management, public investment, procurement, financial management, and data systems will be critical for a more open, effective, responsive, and citizen-centric public sector.

Bangladesh needs to raise more public revenue to adequately meet its development financing needs. The current tax-to-GDP ratio of 7.4 percent (FY24) is woefully insufficient to meet the country's critical development financing needs. This low collection significantly constrains the government's capacity to finance critical public investments in energy and infrastructure, human capital development, and social sectors. Priority reforms include the separation of tax policymaking and administration, rationalization of tax expenditures, moving to a uniform VAT rate, and reducing tariffs and non-tariff barriers in line with the National Tariff Policy.

Reforming the financial sector is urgently needed to ensure financial stability and bolster private sector investment. It is critical to strengthen the enforcement of banking regulations, including the PCA framework for weak and stressed banks, to prevent further deterioration of the banks' balance sheets. In addition to the management of NPLs, stressed banks need to be restructured. State-owned banks require reforms to strengthen their corporate governance and prudential oversight by BB.

Bangladesh needs to create more jobs. Bangladesh requires a comprehensive and coordinated policy approach that addresses the demand and supply constraints for jobs. The business climate needs to be strengthened to promote private investments and FDI, which will create more jobs. The World Bank's B-Ready report 2024[11] indicates that Bangladesh will need to improve business insolvency, dispute resolution, and market competition. To address supply constraints, improvements in education quality and reforming technical training systems are major priorities, to ensure that job seekers develop the skills demanded by employers. The Special Focus section on jobs provides greater details.

[11] The Business Ready (B-READY) 2024 report is the World Bank's new flagship report and it assesses the regulatory framework and public services directed at firms, and the efficiency with which regulatory framework and public services are combined in practice.

Special Focus: Creating Jobs for a Better Future[12]

Summary and key messages:

The recent student-led popular protests started with a demand to withdraw the quota system in public sector jobs, but the protests reflected widespread dissatisfaction with an economy that was perceived to be generating insufficient employment opportunities. Bangladesh's economic progress over the last decade did not translate into a sufficient number of urban jobs in industry. As a result, Bangladesh is at risk of missing out on a historical opportunity to take advantage of demographic dividends.

Between 2016 and 2022, the manufacturing sector grew annually by 9.1 percent on average, but jobs in this sector declined by 9.6 percent. Most new jobs were created in the agriculture sector, where a significant portion are low-paying informal employment. Between 2016 and 2022, the employment in urban areas grew by only 0.7 million. Slow growth in urban employment was accompanied by declining labor participation across all divisions and declining employment for urban women. Gender disparity in the labor market remains significant. Between 2016-2022, real wages in all sectors have declined.

Most firms in Bangladesh are small and encounter various obstacles to growth and hence job creation. The informal sector continues to dominate the economy, creating 84.9 percent of total employment. Job creation in large industries has stagnated. Frontier[13] readymade garments firms generate nearly half of the country's total firm revenues but provide just 1 out of every 12 formal private sector jobs. FDI remains low, and the business environment has significant shortcomings, including challenges in access to finance and energy, high costs of doing business such as time dealing with regulators and trade and customs regulations, and cumbersome customs and trade regulations.

There is an excess supply of labor compared to demand particularly for the more educated and skilled workforce. Tertiary educated unemployed youth as a share of total unemployed increased significantly to 27.8 percent, with many young people struggling to find jobs that align with their skills and educational qualifications. There is a growing mismatch between the competencies of graduates and the skills and knowledge demanded by employers.

Moving forward, Bangladesh requires a comprehensive and coordinated policy approach that addresses both the demand and supply constraints for jobs. To address demand constraints, it is critical to strengthen the business environment to attract new firms, increase foreign investment, and promote export diversification. The World Bank's 2024 B-Ready report[14] indicate that Bangladesh will need to improve business insolvency, dispute resolution, and market competition. A strong public-private sector dialogue is needed to identify the key business climate constraints. To address supply constraints, improvements in education quality and reforming technical

[12] The analysis in this report is largely based on the Bangladesh Labor Force Survey (2022), the World Bank Enterprise Surveys (2022) and the Jobs Group Global Macro Indicators Database. It also draws from several World Bank reports, including Poverty and Equity Assessment (forthcoming), Galal. R. et.al, (forthcoming).

[13] Frontier firms are the most productive- 10 percent of all firms and are identified using the World Bank Enterprise Surveys (2013 and 2022) and the Survey of Manufacturing Industries (SMI, 2019).

[14] The Business Ready (B-READY) 2024 report is the World Bank's new flagship report designed to help countries establish a conducive business climate for progress on key development goals.

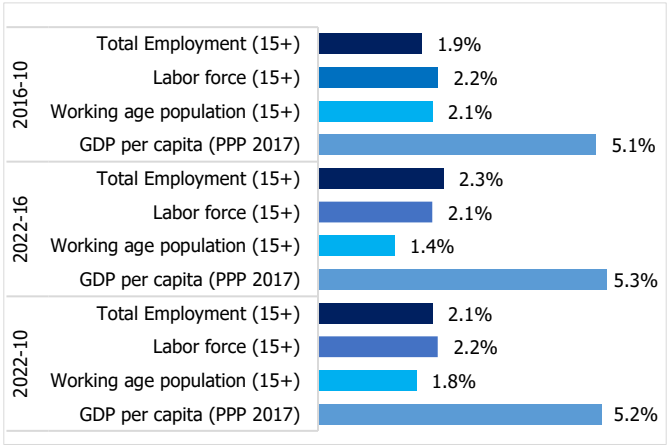
training systems are major priorities. It is essential to collaborate with skills development providers and the private sector to ensure that job seekers develop the skills demanded by employers.

Section A: Growth and Job Creation

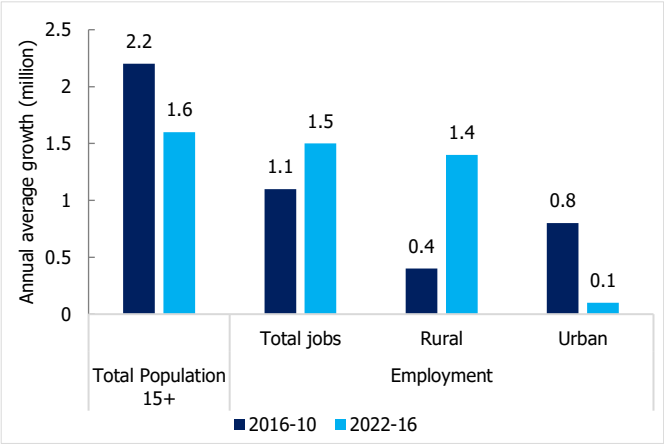
In recent years, jobs growth has been nearly sufficient to absorb working age population growth. From 2016 to 2022, an additional 9.7 million jobs were created, and the total number of employed people rose by 30.2 percent to 70.5 million. The gap between employment growth and working age population growth essentially closed from 2010-16 to 2016-2022, due to the declining population growth (Figure 13B). Since 2010, the labor force participation rate remained relatively steady between 57 to 59 percent before modestly increasing to 61.2 percent in 2022. The unemployment rate declined from 4.2 percent in 2016 to 3.5 percent in 2022, driven by a 3.1 percentage point decline in female unemployment. However, the improvements in aggregate job creation concealed several underlying structural challenges in the labor market.

Figure 13: Employment, Labor Force, and Working Age Population Growth

A. Employment growth has outpaced growth in the working-age population and labor force in recent years…



B…the average annual expansion of 1.5 million jobs since 2016 has been nearly sufficient to absorb population growth



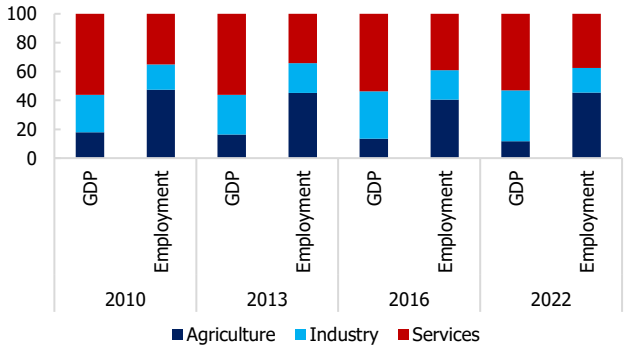
Source: World Bank staff calculations based on Labor Force Survey (LFS) 2010, 2016, and 2022.

The agriculture sector has been driving the growth of jobs. The share of jobs in industry and services sectors in total employment have declined.

Bangladesh has sustained growth over decades, but this has not been accompanied by commensurate creation of industry and services jobs. From 2016 to 2022, the industry and service sectors grew by 9.0 percent and 5.9 percent on average every year, respectively. However, the share of employment in the industry and services sectors declined by 3.4 and 1.4 percentage points, reaching 17 percent and 37.6 percent, respectively (Figure 14). The manufacturing sector grew annually by 9.1 percent between 2016 and 2022, but jobs in this sector declined by 9.6 percent. In 2022, the manufacturing sector employed 11.3 percent of the total employed population, down from 14.4 percent in 2016. The robust growth and low job creation in the manufacturing sector have resulted in productivity gains. Jobs in the construction sector have remained stable, consistently providing around 5.5 percent of employment over the last decade. The share of employment in key service sectors, such as wholesale and retail trade, and transportation, has also declined. This decline can be partially attributed to the COVID-19 pandemic, which particularly impacted these sectors.

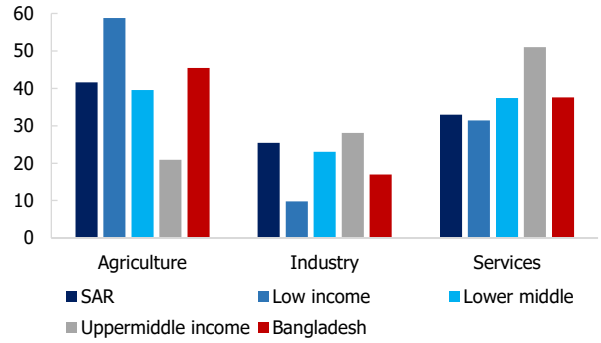
Bangladesh lags behind other South Asian and Lower-Middle Income Countries (LMICs) in terms of progress in jobs creation in the industry and service sectors (Figure 15). This contrasts with the typical trend seen in other rapidly growing developing countries, where employment in industry and services increases as income rises. Bangladesh's share of employment in the industry sector is not only lower than its fellow LMICs and other South Asian countries, it is also lower than the average of low-income countries. For services, the ratio is higher than the low-income group countries, but still lower than the LMIC and South Asian country average.

Figure 14: Sectoral share in GDP and employment



Source: Bangladesh Bureau of Statistics (BBS)

Figure 15: Sectoral share in total employment (%)



Source: World Development Indicators (WDI) and BBS

In recent years, most new jobs have been created in the agricultural sector, resulting in a slow-down of structural transformation. Typically, as countries develop, there is a shift away from agriculture, with a corresponding decline in the sector's share of employment. The structural transition from agriculture to manufacturing and services has been sustained since 2000, but this has significantly reversed in recent years as excess labor has been absorbed in the agriculture sector. Since 2016, the share of employment in agriculture has increased by 4.9 percentage points, reaching 45.4 percent in 2022, despite a decline in agriculture's share in GDP during the same period (Figure 14).

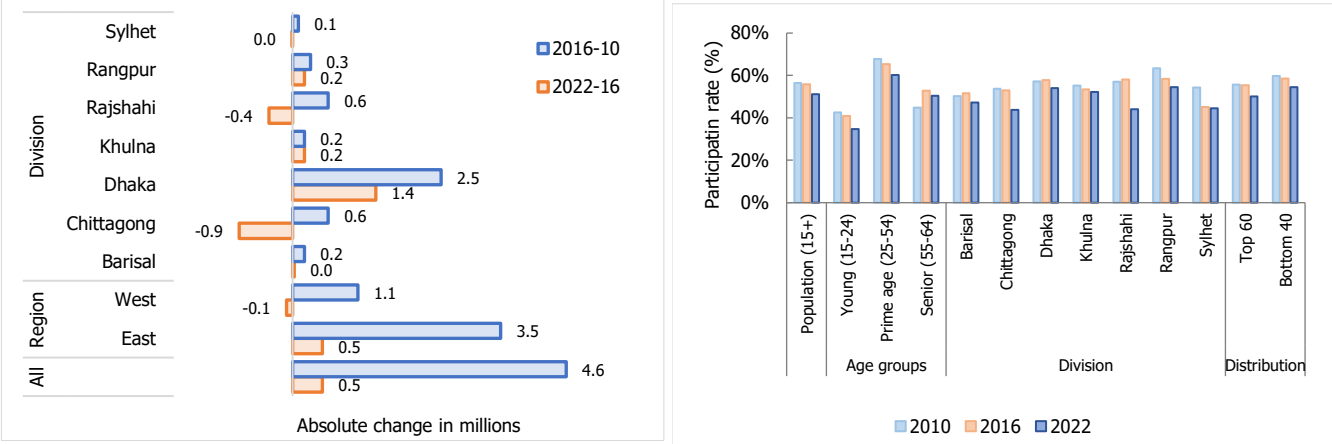
Urban areas created few jobs

Since 2016, rural areas drove job growth while urban areas outside Dhaka have stagnated. Rural employment creation tripled from 0.4 million annually between 2010-2016 to 1.4 million between 2016-2022, largely due to increased female labor participation[15]. In contrast, urban areas outside Dhaka experienced a sharp decline in employment growth, with only about 500,000 new urban jobs created between 2016-2022, compared to 4.6 million from 2010-2016 (Figure 16A). Notably, 80 percent of these new urban jobs were concentrated in Dhaka, while three divisions (Chittagong, Rajshahi, and Sylhet) reported net employment losses. This trend represents a slowdown of the expected structural transformation, with agriculture dominating job creation instead of manufacturing and industry. The employment landscape is further characterized by a significant portion of the workforce remaining in low-paying, informal agricultural jobs, increasing unemployment among university-educated youth, and weak female labor force participation, especially in urban areas.

[15] This report analyzes labor market developments using the Labor Force Surveys of 2010, 2016, and 2022. Therefore, it compares labor market development pre- and post-2016.

Figure 16: Diminished employment in urban areas was accompanied by a decrease in labor force participation

A. Contrasting trends across divisions offset each other, resulting in negligible job creation in urban areas…	B.…accompanied by a decrease in labor force participation across space and the consumption distribution



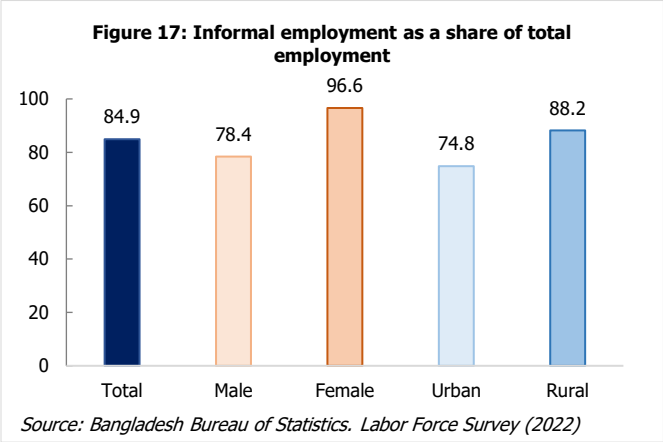
Source: World Bank staff calculations based on LFS 2010, 2016, and 2022.

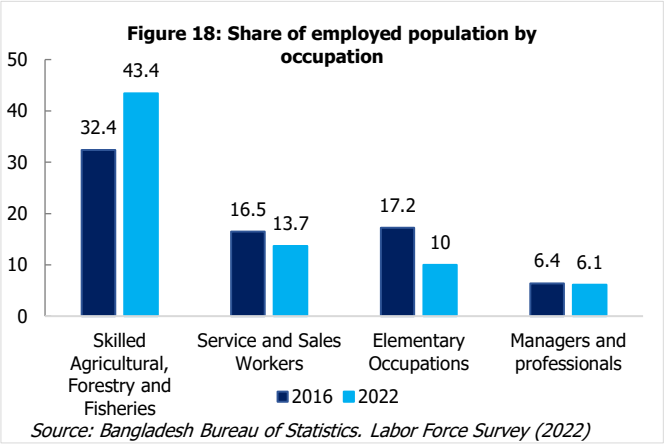
Slower growth in urban employment was accompanied by declining labor participation across all divisions and particularly among urban women. Since 2016, labor participation rates declined by 4.8 percentage points, with particularly sharp declines in Rajshahi (14.1 percentage points) and Chittagong (9.3 percentage points). This downturn was pronounced among urban women, whose labor participation fell by 7.7 percentage points – more than three times the decline observed among men (Figure 16, Panel B). This decline is driven by a combination of factors, including a slowdown in job creation in the RMG sector. The impact has been particularly severe for young, educated women, whose participation rate fell by 11 percentage points between 2016 and 2022. Some young women have shifted toward investing in education, and others have become inactive, been discouraged by the lack of employment opportunities and poor working conditions.

Rural female labor force participation has been increasing, primarily driven by younger, educated women entering agricultural work. Most of these jobs are characterized by low pay and poor working conditions, and female employment remains heavily concentrated in elementary occupations[16], such as crop production. The shift toward agricultural work is primarily driven by the lack of job opportunities in other sectors, combined with social norms restricting women's mobility and employment options outside their homes even as they become more educated. Limited access to financial resources and assets, such as land, further constrain rural women's ability to diversify their income sources, leaving them relying on low-quality agricultural employment. In contrast, men in rural areas are increasingly transitioning to relatively skilled positions in the services sector.

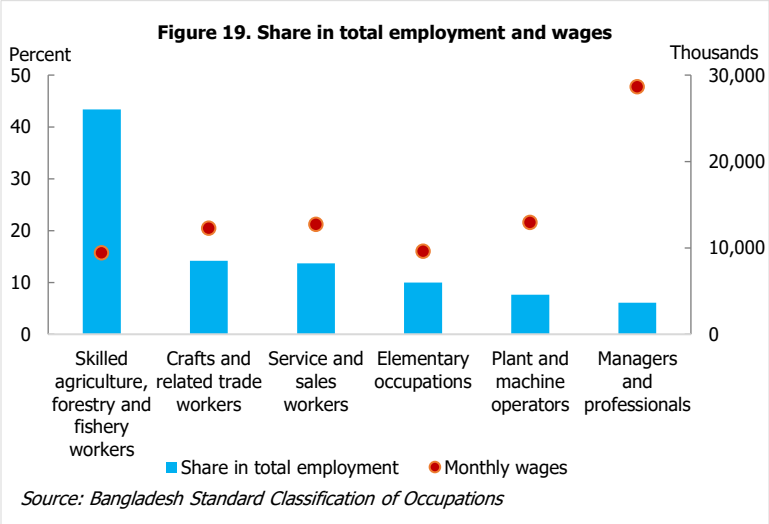
[16] Based on the Bangladesh Standard Classification of Occupations 2020 (BSCO-2020), elementary occupation includes cleaners and helpers, laborers in different sectors, food preparation assistance, street and related sales and service workers, and refuse workers, among others.

The majority of jobs are in the informal sector[17]





The growth in employment in Bangladesh has largely been driven by informal jobs[18]. A notable decline in the contribution of the industry and service sectors suggests an overall deterioration of job quality. Currently, an overwhelming 84.9 percent of jobs are in the informal sector, reflecting only a marginal reduction in informality over the past 12 years, down from 87.5 percent in 2010. This trend is even more pronounced for women, with informality rates at 96.6 percent. Bangladesh lags behind other lower-middle-income countries, where informal employment accounts for approximately 55 percent of the workforce (World Bank, 2018a). According to the Bangladesh Standard Classification of Occupations (BSCO), the largest segment of the workforce is classified under the category "skilled agriculture, forestry, and fisheries," comprising 43.4 percent of total employment. Employment in this category saw some of the highest growth rates between 2016 and 2022, indicating that any job creation gains during this period were predominantly in informal positions. In contrast, managers and professionals represent less than 10 percent of the overall workforce, and their numbers have declined slightly since 2016. About three-quarter of the jobs are in the rural area.



The share of wage employment has declined marginally. Currently, wage employment accounts for approximately 38.1 percent of total employment in Bangladesh, a decrease of 1 percentage point since 2016. In

[17] Informal sector enterprises are private unincorporated enterprises (excluding quasi-corporations), i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s).

[18] Informal jobs are carried out in formal sector enterprises, informal sector enterprises, or households (paid domestic workers, goods production for own consumption), during a given reference period. Notably, informal employment refers to those jobs that generally lack basic social or legal protection or employment benefits.

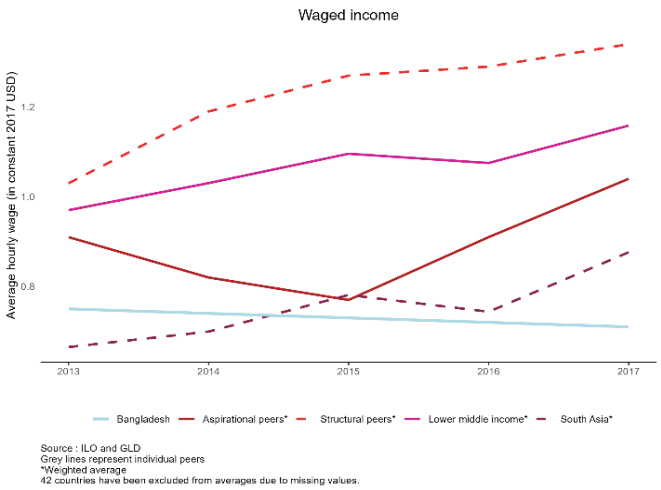
contrast, own-account workers and contributing family workers make up 57.4 percent of total employment, with a significant share of women in rural areas.[19] This is contrary to the broader trend observed in many developing countries where economic growth typically leads to a transition from self-employment and unpaid family work to wage employment, particularly in formal sectors. Generally, this increase in wage employment is accompanied by a reduction in agricultural employment and a slight decrease in unpaid work and off-farm self-employment (World Bank, 2018).

Despite improvements in recent years, workers in the informal sector encounter numerous challenges related to their employment conditions. Currently, approximately 42.8 percent of the employed population lacks written contracts, relying predominantly on verbal agreements. This marks an improvement from 2016, when 69.4 percent had only oral contracts. The situation is particularly concerning for women, with over 50 percent lacking any written agreements. Among paid employees, only 14 percent benefit from employer contributions to a pension scheme or retirement fund. Only 63.3 percent of paid employees aged 30 to 64 have access to paid sick leave, although this is an improvement from 30.3 percent in 2016. Around one-third of workers are exposed to extreme temperatures, and another third encounter hazardous conditions such as dust, fumes, noise, or vibrations. Alarmingly, 62.1 percent of the workforce reported experiencing at least one occupational injury in the past 12 months.

Wages and productivity have stagnated

Wages remain exceedingly low. Overall, real wage declined by 2.6 percent on average across all categories, indicating a significant deterioration in the standard of living, particularly for low-income groups. The average hourly wage in Bangladesh remains lower than the lower-middle-income countries, South Asia, and structural peer countries[20] (Figure 20).

Figure 20: Average hourly wages



Source : ILO and GLD
Grey lines represent individual peers
*Weighted average
42 countries have been excluded from averages due to missing values.

Productivity remains low, leading to low wages. Between 2000-2005 and 2012-2016, capital's contribution to GDP relative to labor increased, indicating a shift towards a more capital-intensive economy. Labor productivity in Bangladesh was the lowest compared with its peers[21] during the period 2010-2019. The average output per worker in Bangladesh in 2019 was just 72 percent of that of workers in India, half those in Indonesia, one-third of those in Sri Lanka, and only one-fifth of those in China. Despite some improvement over time, labor productivity remained relatively low compared to these peer countries.

Emigration remains a critical source of employment

Emigration has been a significant source of employment for many Bangladeshis. Between FY16 and FY24, an average of 800,000 workers migrated abroad each year, primarily to Gulf Cooperation Council (GCC) countries. Beyond the GCC, Malaysia and Singapore emerged as key destinations for Bangladeshi migrants. The pandemic

[19] Own account workers are defined as persons, who hold self-employment jobs and do not engage 'employees' on a continuous basis.
[20] The structural peers consisted of Cambodia, India, and Vietnam.
[21] Galal, R. et al. (2024)

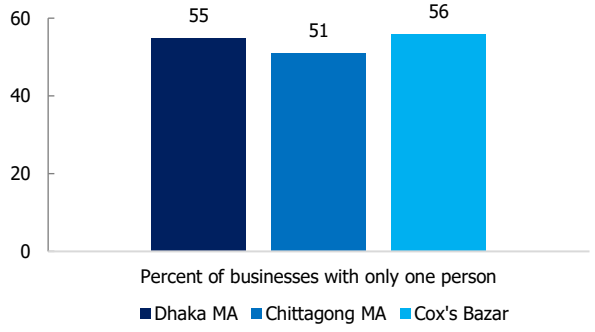
significantly disrupted this trend, leading to a substantial number of migrants returning home. However, the outflow of workers rebounded strongly in FY23 and FY24. These migrants played a crucial role in bolstering Bangladesh's economy through remittances. Recently, migration to Malaysia, Oman, the United Arab Emirates, and Saudi Arabia has faced challenges due to visa restrictions and increased hiring fees in those countries.

Migrating can incur substantial costs, but remittances remain a major source of income for the households of the migrants. Remittances sent by the migrants support their families in Bangladesh and play an important role in the growth of private consumption. Between FY16 and FY24, formal remittance inflow grew at an average annual rate of 6.1 percent. A large fraction of the remittances also come through informal channels. However, the high cost of migration can force many migrants to deplete their life savings or take on significant loans to finance their journeys. According to the Labor Force Survey (LFS) 2022, the average recruitment cost for migration in 2022 was BDT 381.9 thousand, with considerable variations depending on the destination. Once migrants arrive in their destination countries, it typically takes about 14.6 months for them to recover these expenses. The high costs can lead to severe indebtedness. A significant portion of these expenses—estimated at around three-quarters—arises from intermediation services, primarily paid to private agencies, including visa fees.

Informal firms encounter various challenges in their efforts to grow and transition to the formal sector

Informal enterprises encounter significant challenges that hinder their growth and the creation of jobs[22]. In Bangladesh, the employment landscape is dominated by microenterprises,[23] mostly small retail operations run by families. According to the 2022 Informal Enterprise Survey conducted by the World Bank[24], a significant majority of informal businesses—55 percent in Dhaka and 51 percent in Chattogram—are owned by single households (Figure 21). The majority of these informal businesses are engaged in retail sales (Figure 22). These informal firms struggle to transition to the formal sector. The lack of formal registration leads to regulatory obstacles, and limited access to credit restricts investment opportunities, leaving many businesses

Figure 21. Share of one-person operated informal businesses



Source: World Bank Informal Enterprise Survey (2022)

Figure 22. Percentage of businesses across sectors

Source: World Bank Informal Enterprise Survey (2022)

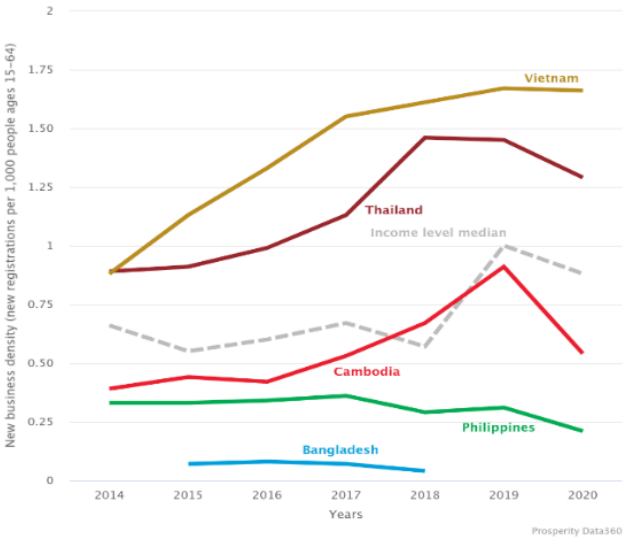
relying on personal funds or informal loans at high interest rates. A significant majority of businesses cited the time, fees, and paperwork involved in registration as burdensome and time-consuming. Taxes are seen as a significant barrier, and many businesses are concerned about regulatory scrutiny and the potential for

[22] Based on the World Bank Informal Enterprise survey for Bangladesh 2022.
[23] According to the 2013 Economic Census 98 percent of economic units are microenterprises.
[24] The surveys are not nationally representative but are designed to be geographically representative of selected urban areas (Dhaka MA, Chittagong MA, and the Cox's Bazar District) and cover all unregistered businesses.

having to pay bribes. Additionally, these firms are less resilient to economic downturns due to inadequate buffers such as insurance, and many workers lack the skills necessary to enhance productivity. They often struggle to compete with larger, formally registered businesses that benefit from economies of scale and better marketing. Compounding these issues, informal firms face difficulties accessing essential infrastructure, and there is a notable lack of awareness about formal registration processes. Many firms do not see the benefit of becoming formal and even make informal payments to remain unregistered.

As a result, formal firm entry in Bangladesh is low. The limited number of new firm entrants in Bangladesh's formal private sector suggests significant entry barriers, hindering efficient resource allocation and the creation of productive jobs. In 2018, Bangladesh registered approximately 4,500 new limited liability companies (LLCs), down from 8,100 in 2016, resulting in only 0.04 LLCs per 1,000 working-age people, one of the lowest rates among peers (Figure 23).

Figure 23. Firm entry is low



In addition to low firm entry, most firms in Bangladesh fail to grow or exit, contributing to a lack of dynamism in the formal enterprise sector. The stagnation in Bangladesh's microenterprise sector can be partially attributed to the role these businesses play as a means of livelihood in the absence of quality employment opportunities. In such a scenario, few microenterprises are geared toward growth, and exiting the market is rarely an option. However, this lack of dynamism is also apparent among enterprises with 10 or more employees.

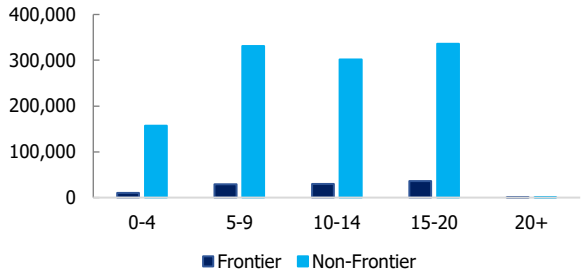
Large and high-performance firms are also not generating enough jobs.

Large manufacturing firms in Bangladesh are concentrated in the RMG industry, and the job creation in this sector has stagnated. Within the formal sector, the RMG sector has a significant presence in both the frontier and non-frontier firms.[25] RMG frontier firms generate nearly half of the country's total firm revenues but provide just 1 out of every 12 formal private sector jobs. Nevertheless, the RMG sector has been a major driver of job creation, particularly for women. However, total employment in the RMG sector rose by a modest 4.4 percent between 2016 and 2022, and female employment in the sector declined sharply by 11.8 percent. The sector is experiencing challenges from global price competition, supply chain consolidation, and rising wage demands, which hinder its job creation capacity.

[25] Frontier firms are the most productive 10 percent of all firms and are identified using the World Bank Enterprise Surveys (2013 and 2022) and the Survey of Manufacturing Industries (SMI, 2019).

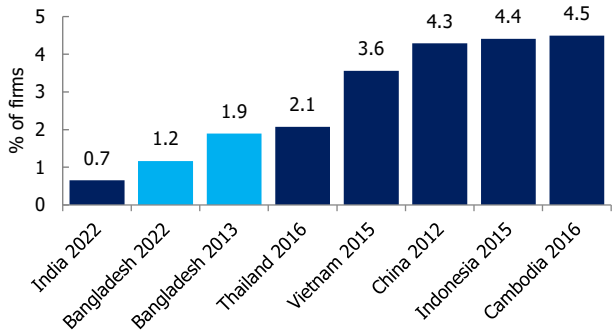
Frontier firms contribute around 75 percent of total sales[26] and offer higher wages, but they account for only 15 percent of formal employment. Frontier firms outperform competitors on innovation, research and development (R&D) investment, and adoption of foreign technologies[27]. Frontier firms offer higher wages and employ a larger proportion of skilled workers. Wages in these firms are 42 percent higher compared to non-frontier firms of similar size and age and operating in the same state and sector. However, these firms account for only 15 percent of formal employment. Frontier firms are unlikely to generate many jobs due to their capital-intensive nature and dependence on a smaller number of highly skilled labor. From 2013 to 2022, capital intensity among garment firms has risen by 70 percent, while it increased by 166 percent in the broader manufacturing sector. This significant increase in the capital-labor ratio in both sectors has been primarily driven by frontier firms. Within manufacturing, most job creation occurs in younger, non-frontier firms that started operating in the past 20 years.

Figure 24: Job creation within manufacturing by firm age-group



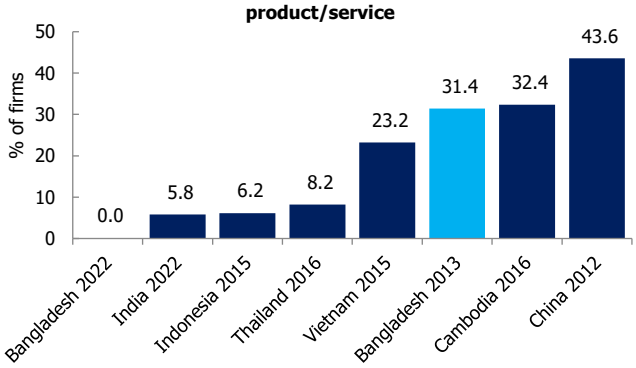
Source: Bangladesh SMI Manufacturing Survey (2019)
Note: Total number of manufacturing employees by age-group

Figure 25: Percent of firms with foreign ownership



Source: World Bank Enterprise Surveys 2022

Figure 26: Percent of firms that introduced a new product/service



Source: World Bank Enterprise Surveys 2022

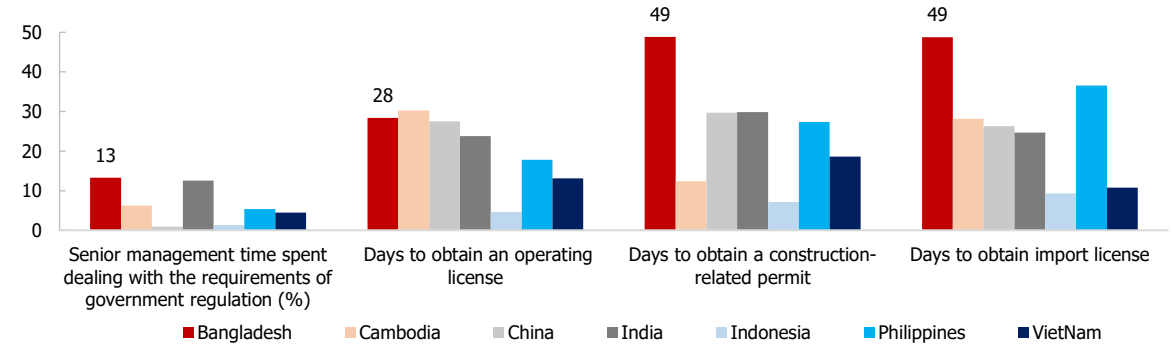
The creation of productive jobs depends on firms' ability to invest in productive new technologies, areas where Bangladeshi firms lag. Compared to peers like Indonesia, the Philippines, and Vietnam, where around 10 percent of firms license a technology from a foreign firm, the share is only 3 percent for Bangladesh. FDI, a key channel for introducing advanced and more productive technologies, remains limited with its share stagnating around 1 percent of GDP, well below the average for lower-middle-income countries and regional peers. In 2022, Bangladesh had a relatively low percentage of firms with foreign ownership compared to other countries such as India, Thailand, Vietnam, China, Indonesia, and Cambodia (Figure 25). Relatively low levels of foreign investment limit opportunities for technology transfer and innovation. The percentage of firms that introduced new products have also declined sharply and remained low compared to peer countries (Figure 26). Most firms use rudimentary information technologies for business processes, although some firms are at an advanced technological level. For example, 47 percent of firms still use handwritten processes for business management, and 72 percent practice manual quality inspections (World Bank, 2021). Firms have started using digital technologies for sales and payments, but the use of cash and traditional sales methods are still predominant.

[26] Total sales of all firms in the formal sector with more than 5 employees (World Bank Enterprise Surveys, 2022)
[27] Galal et al (2024)

The business environment is not supportive of firm entry and growth

Business regulations are burdensome and time-consuming, and starting a business is expensive. The number of days required to obtain business licenses and for compliance are higher than in regional peers (Figure 27). For example, securing construction permits or import licenses takes an average of 49 days, nearly double the time required in China or India (Galal, et. al., 2024). Public procurement contracts are frequently awarded non-competitively. Starting a business involves significant costs, posing challenges for new firms. Stakeholder consultations estimate the cost of starting a business at around US$10,000. This expense poses a challenge, particularly for new companies. The total expense covers registration with the Registrar of Joint Stock Companies and Firms (RJSC), trade licenses, and annual audit fees, regardless of firm size. For over 50 percent of firms under six years old, these startup costs exceed 10 percent of their annual revenues, making market entry difficult for new companies. Based on the recent B-Ready report by the World Bank, Bangladesh scores lowest in business insolvency, dispute resolution, and market competition. Within these areas, there are no digital services regarding liquidation and reorganization proceedings, the economy lags in the organizational structure of courts, and lacks digitalization of intellectual property services.

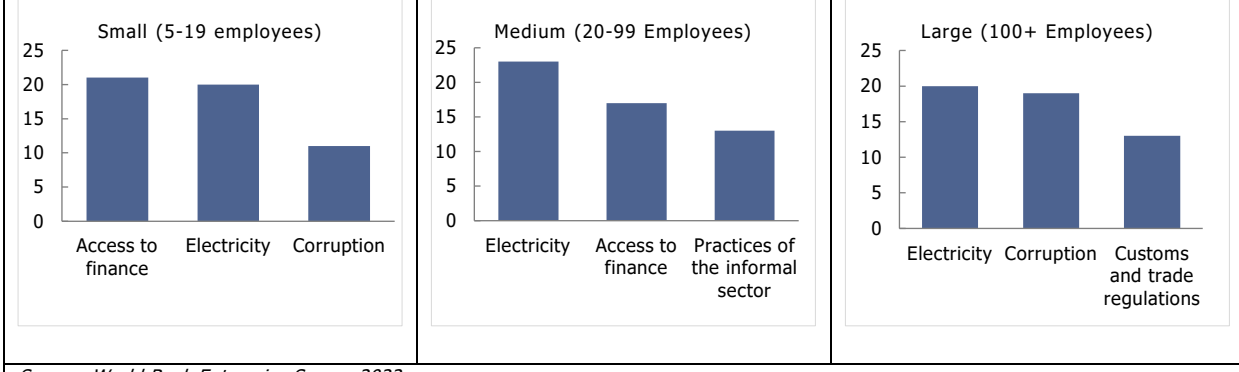
Figure 27: Firm's regulatory experiences



Source: World Bank Enterprise Survey 2022.
Note: Only peer countries with data available are listed

The challenges faced by formal sector firms vary based on the firm size. Small businesses (5-19 employees) primarily struggle with access to finance, unreliable electricity supply, and corruption. Medium-sized firms (20-99 employees) face similar issues, along with competition from unregistered informal businesses. Large companies (100+ employees) mainly contend with electricity disruptions, corruption-induced inefficiencies, and bureaucratic hurdles in customs and trade regulations, which impact their international competitiveness. Access to finance is particularly critical for small firms' growth, while electricity issues and corruption affect businesses across all size categories, increasing operational costs and hindering efficiency.

Figure 28: Top three business environment constraints by size



Source: World Bank Enterprise Survey 2022

Urban congestion and poor infrastructure in secondary cities are creating challenges for firms. Greater Dhaka alone generates one-fifth of the country's GDP and almost half of its formal employment and creates over 30 percent of its formal manufacturing jobs (World Bank, 2022). As a result of poor urban planning and governance, Dhaka's rapid urbanization has led to significant congestion costs, including high housing and transport costs, which are putting pressure on wages and hindering firm growth. Managing urban congestion through improved infrastructure and urban planning is critical to sustaining economic growth in major cities. Secondary cities in Bangladesh lack the infrastructure and services needed to attract investment and become alternative centers for job creation. For the expected surge in urban population to generate economic growth and lift Bangladesh to high-income country status, cities outside of Dhaka will have to absorb more than 50 million people, provide them with gainful employment, and generate productivity growth. Newer urban industrial growth has been located mostly in areas around Dhaka as well as along the Dhaka-Chittagong corridor and around Chittagong. They as well as centers of other regions need to be supported with more efficient planning and provision of infrastructure and services.

A protective trade regime is creating barriers to export diversification. The current export basket is as heavily dependent on RMGs (at 83 percent of total exports in 2020) as it has been over the past two decades. The lack of export diversification can be at least partly attributed to the country's protective trade regime. The average tariff rate on intermediate goods in Bangladesh is 18.8 percent, which is more than double the rate in China (7.4 percent) and almost double the rate in Thailand and Vietnam (9.6 percent). Average tariffs, or nominal protection rate, more than double (29 percent) if para-tariffs are included, making Bangladesh an outlier among countries with a similar income level. With trade competitiveness based on low wages and trade preferences eroding, the overreliance on RMG exports and the perpetuation of a protective tariff regime challenge the sustainability of Bangladesh's growth model (World Bank, 2022).

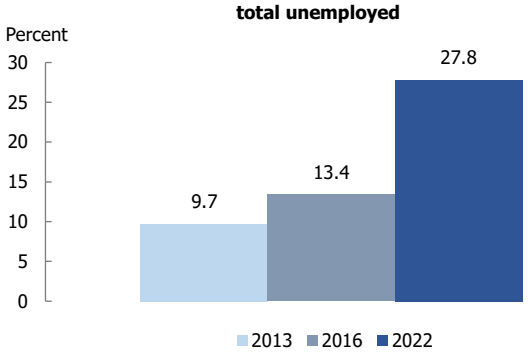
Section B: Educated and Skilled Labor

Unemployment among university-educated youth has increased significantly

Youth unemployment in Bangladesh has become a pressing issue. The recent uprising by the students initially started with a demand to withdraw the quota system in public sector jobs but reflected the wider issue of unemployment among the youth. Government jobs can accommodate only a little more than 5 percent of the total workforce. The private sector is not creating enough jobs. Tertiary educated unemployed youth as a share of the total unemployed rose significantly from 9.7 percent in 2013 to 27.8 percent in 2022 (Figure 28).

Younger and more educated cohorts, especially females, face high unemployment rates. Despite a decline in the country's unemployment rate between 2016 and 2022, almost one-fifth of young women have remained unemployed, and the unemployment rate for young men has increased by 2.5 percentage points to reach 13 percent in 2022. The gap between male and female labor force participation rate declines with higher level of education (from 50.7 percentage points for no education to 27.7 percentage points for higher secondary), but it rises after tertiary education (30.1 percentage points), indicating greater difficulties for women to find appropriate jobs after completing higher education. Discrimination in pay, upward mobility, and hiring practices inhibit female employment. For example, women comprise 80 percent of production line workers in the RMG industry but only 5 percent of production line supervisors (World Bank, 2019b). There are no protections in Bangladeshi law against gender discrimination in hiring, pay, or provision of credit.

Figure 29: Tertiary educated unemployed as a % of total unemployed



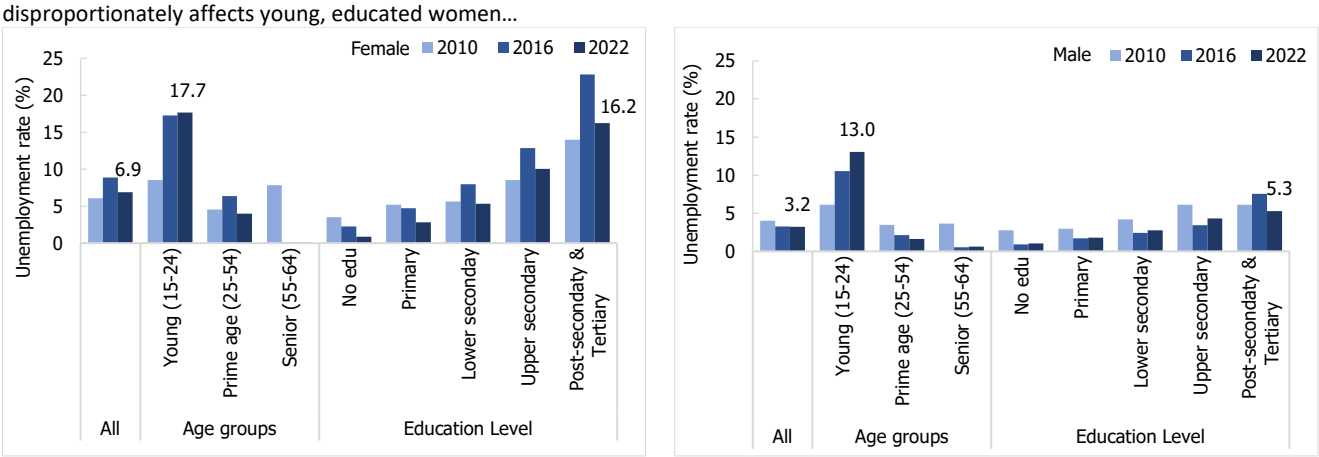
Source: Bangladesh Bureau of Statistics. Labor Force Survey 2022

Additionally, many young people face challenges in pursuing entrepreneurship. In many countries, policies supporting entrepreneurship and start-ups play a critical role in creating employment for youth. However, it is difficult in Bangladesh due to a lack of resources, financing, and mentorship (Azad, 2022; Hossain, 2006). Limited access to financing due to limited collateral and gender discrimination by banks is the main constraint female entrepreneurs face in expanding their business and exporting products (Livani and Solotaroff, 2019; ADB 2010).

Figure 30: Investing in higher education does not guarantee finding a job in urban areas

A. The scarcity of job opportunities in urban areas disproportionately affects young, educated women…

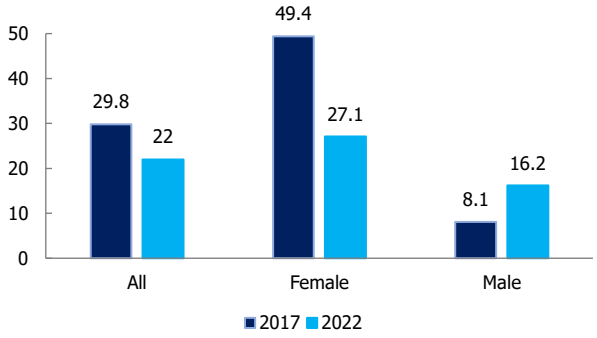
B…and men, albeit less severely



Source: World Bank. Forthcoming. Paving the road to prosperity in Bangladesh. Poverty and Equity Assessment.

More than one-fifth of the youth population in Bangladesh is not engaged in education, employment, or training (NEET). Although the youth NEET rate has declined since 2016, it remains elevated at 22 percent. While the gender composition of the NEET youth population is changing, women still constitute the majority at 65 percent, suggesting their engagement in household chores and the presence of institutional barriers limit female participation in the labor market. The rural-urban composition of the NEET youth population has also shifted significantly, with 52.4 percent of NEET youth located in urban areas in 2022, up from 30.5 percent in 2016. The availability of vocational training for these NEET youth remains insufficient, as 98.5 percent of the working-age population has not received any vocational training, and the types of training provided are limited, with about one-third focused on computer skills.

Figure 31: Percent share of youth (15-29) reporting NEET

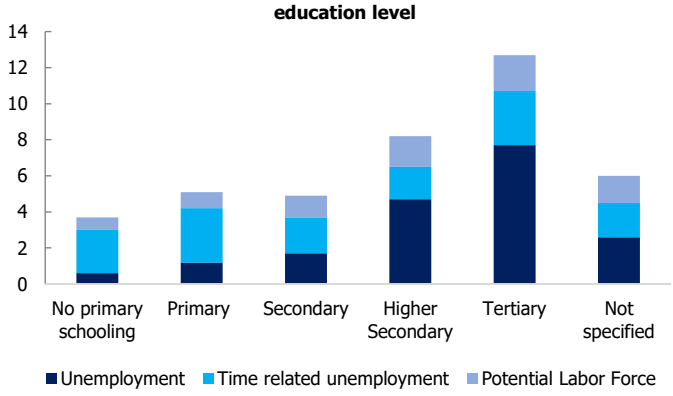


Source: Bangladesh Bureau of Statistics. Labor Force Survey 2022

There is a mismatch between the supply and demand of skills possessed by the youth

The excessive supply of labor compared to demand seems to be more pronounced for the more educated skilled workforce. Labor underutilization encompasses various forms of employment inadequacies, including unemployment, underemployment (time-related unemployment)[28], and potential labor force (those who are not actively seeking work but are available for employment). A high labor underutilization rate suggests that there are more people willing and able to work than there are suitable job opportunities available, indicating a mismatch between labor demand and supply. The data shows that the labor underutilization rate increases with the level of education (Figure 32) in Bangladesh.

Figure 32: Labor underutilization rate (%) based on education level



Source: Bangladesh Bureau of Statistics. Labor Force Survey 2022

Numerous studies indicate a growing mismatch between the competencies of graduates and the demands of the job market. There is a lack of skills and knowledge demanded by employers, as the education system often fails to provide industry-relevant training (Ehsan, 2021; Rahman, Farooq, & Mohamad, 2021). Employers identify three higher-order cognitive and soft skills as particularly crucial for today's work environment: (a) problem-solving and independent thinking, (b) work attitude, and (c) positive personality traits (World Bank, 2019a). Unfortunately, many recent graduates fall short in these areas. Research focused on business graduates in Bangladesh reveals significant gaps in essential employability skills. Key deficiencies include inadequate teamwork abilities, poor communication and interpersonal skills, an inability to learn and adapt to new environments, a lack of negotiation skills, and insufficient organizational skills (Milon et.al, 2021). In the banking sector—a major source of formal private sector jobs—employers in Bangladesh report challenges in finding graduates who can effectively

[28] Time-related underemployment (working less than 40 hours in a week) is when total working hours is less than the total hours a person is willing and available to work.

solve problems in group settings, communicate well both orally and in writing, provide quick solutions to challenges, and maintain positive relationships with colleagues (Chowdhury, 2020). Moreover, there is a notable discrepancy between the skills employers prioritize in candidates and the perceptions held by job seekers in Bangladesh. For instance, employers consider writing proficiency critical in their evaluation processes, but many candidates underestimate its importance (CPD, 2024).

Many young individuals express dissatisfaction with their jobs, and labor underutilization is notably high among the tertiary-educated workforce, reaching 12.8 percent. A recent survey by the Center for Policy Dialogue (CPD) highlights a disconnect between employees' expectations and the realities of employment benefits, organizational culture, salary scales, required attributes, and working hours. In private enterprises in Bangladesh, workers feel they are often underpaid and overworked, with compensation structures failing to meet the aspirations of ambitious job seekers. Furthermore, young professionals feel that entry-level wages are too low to support the start of their careers. In the CPD survey, 82 percent indicated they were actively seeking other employment opportunities (CPD, 2024).

Technical and Vocational Education and Training (TVET) education in Bangladesh is failing to equip students with the skills necessary for appropriate employment. Many young individuals prefer pursuing graduate and postgraduate academic degrees from universities and tertiary colleges over technical education from polytechnic institutions (academic track over technical track). The limited number of technical institutions does not produce enough skilled workers relevant to market needs (Rahman et al, 2021). Approximately 80 percent of employers of polytechnic graduates in Bangladesh indicate that problem-solving skills are a critical skill that needs improvement in training (World Bank, 2019a). Graduates from TVET institutions in Bangladesh face significant barriers in the job market, primarily due to a mismatch between their skills and job demands (Alam et al. (2024)). Notably, only 9.5 percent believe they possess high employability skills.

Section C: Agenda Ahead

Tackling the challenges related to the jobs market in Bangladesh requires a comprehensive and coordinated policy approach. The policies can be organized using the 3Ps framework– production, people, and places.[29] *Production* policies should address labor demand constraints by removing barriers to private sector growth and productivity. *People* policies should target labor supply constraints by investing in skills and human capital. Finally, *Places* policies should address labor market frictions and limited market access that hinder efficient labor reallocation. These policy pillars need to be supported by sound fiscal, monetary, and financial sector policies to ensure macroeconomic stability, without which sustained private sector growth is not possible. It is essential to examine short-term policy actions that address the immediate challenges facing the current workforce. Equally important, however, is the consideration of medium- to long-term strategies aimed at fostering both the demand and supply of future workers.

Production Policies	
Enhancing the Investment Climate: Improved business environment and regulations would promote private sector development, attract FDI, and create better jobs. This includes improving the investment climate, strengthening regulatory bodies,	**Medium to long-term**

[29] World Bank 'Jobs for Development' report (forthcoming)

enhancing financial sector governance, promoting competition, and adopting a more open trade policy. **Promote export diversification and attract foreign direct investment:** Implementing policies that level the playing field for non-RMG sectors is crucial. This includes standardizing tax, expanding access to customs facilities and financing for all sectors, and removing trade policy distortions like para-tariffs and non-tariff barriers.	
Reducing the level of protection by rationalizing the tariff regime is an urgent and immediate priority to support export diversification. The National Tariff Policy outlines a framework for reducing tariff and non-tariff barriers. The government can immediately start implementing this policy, including by moving toward low and uniform tariffs and adopting a single rate for similar goods, irrespective of origin. The government could enhance export diversification and global value chain (GVC) participation by complementing tariff modernization with non-tariff barriers (NTB) liberalization, advancing trade facilitation and services reforms in strategic sectors, and supporting firms' adoption of modern digital technologies	**Short-term**
People policies	
Support for entrepreneurship. Given that over two-thirds of employment in Bangladesh is self-employment, it is crucial to support entrepreneurship. This can include online freelancing, gig work, tailoring, and food processing from home. Necessary interventions could involve expanding the current training program and seed capital. Bangladesh has successful programs that integrate training and microfinance in these areas. **Job Search and placement assistance:** The government can expand active labor market policies that help individuals find employment, including job placement services, career counseling, and job matching.	**Short-term**
Skills development through industry-academia collaboration: It is essential to develop curricula and programs in partnership with industry to ensure they meet current market needs. Bangladesh has made significant investments in skills development systems, but it is critical to strengthen the alignment of these systems with employer needs.	**Short-term**
Quality Education: Investing in education is vital, not just in terms of coverage but also in the quality of education from the primary level through to university (foundational skills needed for lifelong learning). **Skilled Workforce:** In a globalized economy, the private sector's growth is contingent on access to a skilled workforce. Expanding technical and vocational training, particularly digital skills, and improving their quality is a priority.	**Medium to long-term**
Laws and regulations: An updated labor law can help address the issues related to workplace harassment, child labor, and freedom of association at the factory level. The new law could make sure it complies with the Generalised Scheme of Preferences Plus (GSP+) criteria for exports to the European Union (EU) after LDC graduation. Barriers to female labor force participation (FLFP) could be reduced by expanding access to childcare.	**Short-term**

Support for emigration could focus on reducing emigration costs and promoting skills development that aligns with the needs of destination countries. This could enhance employment opportunities for more Bangladeshis abroad.	
Places policies	
Bangladesh will need to enhance productivity growth and structural transformation of the largest cities, particularly Dhaka. Key policy recommendations include: (a) develop intracity as well as intercity transport infrastructure to transform Dhaka into a globally competitive metropolitan city; (b) reform urban housing policies (e.g. zoning) to increase housing supply elasticities; and (c) plan for combating the potential impacts of climate change in low-lying areas in and around Dhaka and Chittagong which are vulnerable to sea level rise. **Urban agglomeration:** The next tier of cities outside of Dhaka will need better planning, infrastructure, and services to become more attractive to formal firms and skilled workers to incubate and nurture agglomeration externalities. They will also need improved intercity transport and digital connectivity so that these cities can integrate better into the domestic and international trade network and improve access to public services to the standards in metropolitan cities such as Dhaka and Chittagong. **Strengthen urban institutions, governance, and accountability:** A well-governed city helps to deliver required services and attract more businesses and jobs, particularly in the industry and services sectors. Raising own revenues and tapping into possibilities for public-private partnerships to finance infrastructure and provision of services will require strengthened urban institutions, governance, and accountability.	**Medium to long-term**
Strengthening Managed Economic Migration for access to better jobs: International migration to Gulf economies, Korea, Malaysia, and other destinations has been a significant source of employment. However, the financial and transaction costs are high. The government should consider interventions to improve these systems, including (a) Government-to-Government Programs that can reduce costs if governance issues are effectively managed; and (b) Privately Mediated Recruitment, by strengthening the regulation of the recruitment agent market can help lower costs and improve outcomes.	**Medium to long-term**

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