MINISTÈRE
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DES FINANCES
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INDUSTRIELLE ET NUMÉRIQUE

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ECONOMIC LETTER OF BANGLADESH

A LETTER FROM THE ECONOMIC DEPARTMENT OF THE EMBASSY OF FRANCE IN DHAKA

N°15 – July-August 2025

A. FRESH NEWS FROM BANGLADESH

This section provides a brief overview of economic and business-related news from Bangladesh

-------------------------- RECAP 2024-25 --------------------------

Exports up 8.6% and imports up +7.7%

In fiscal year 2024-25, exports of goods reached USD 48.3 bn, marking annual growth of 8.6%, driven mainly by the RMG sector, which generated 81% of total revenues. However, June saw a 7.6% year-on-year drop in exports, due to factors such as the extended Eid vacations, disruptions at ports during a strike by customs officers, and lower demand in certain markets such as the USA. Other sectors such as leather, plastics, agricultural products and seafood enjoyed moderate growth, although some suffered from structural challenges such as high input costs, transport costs, and reduced public subsidies.

At the same time, imports also rose, as a result of the loosening of the constraints due to the lack of foreign currency. Imports amounted to USD 71.1 billion, compared with USD 66.0 billion last year, up 7.7% year-on-year.

Tax collection only reached 80% of revised target

In 2024-25, the National Bureau of Revenue (NBR) recorded a significant revenue shortfall, with collections of around Tk 3682 bn against a revised target of Tk 4635 bn (and an initial target of Tk 4800 bn), thus achieving only 80% of the revised target which was set mid-year.

This result, although representing slight growth of around 2% on the previous year, is well below expectations, particularly in the context of the IMF's program to increase resources by 0.5% of GDP per year. This underperformance is attributed to a combination of factors, including the economic slowdown, political instability marked by last summer's events, and internal strikes within the NBR itself.

Development spending hit record low in FY25

Bangladesh development spending reached an all-time low in 2024-2025, with only 68% of the revised Annual Development Program (ADP) actually implemented. According to government data, ministries and divisions spent just BDT 1 534 bn of a revised BDT 2,261 bn budget (against an initial allocation of BDT 2,782 bn). This performance represents the lowest average ADP implementation rate recorded in almost 50 years. By way of comparison, the average ADP implementation rate in recent years has been 80%, mainly due to project implementation difficulties.

The authorities attribute this drop to several factors, the main one being the social and political tensions that arose at the start of the fiscal year. The arrival of the interim government also led to tighter controls and a reconsideration of many projects deemed politically sensitive, as well as the

implementation of strict spending reduction guidelines in the face of macroeconomic pressures.
In addition, ADP execution revealed sectoral disparities: while sectors such as energy, water and agriculture posted utilization rates beyond 90%, others, notably education and health, used only 58% and 21% respectively of the funds allocated to them. As a reminder, the ADP envelop was revised downwards in the budget for the current fiscal year (FY26), with an envelope of Tk 2,300 bn (3.7% of GDP), to a level more in line with the absorption capacities of the ministries.

The external debt increased by 8% year-on-year, representing 16% of GDP in FY25

According to figures from the Economic Relations Division (ERD), Bangladesh's external debt reached USD 74.3 bn (16% of GDP) at the end of FY2024-25, up 8% year-on-year. Over the past five years, it has thus risen by 46%, representing only 50.8 bn USD in 2020-21.
In FY25, foreign aid disbursements reached USD 8.11 bn, while USD 2.6 bn in principal was repaid. However, these figures do not take into account state-guaranteed loans, nor those directly granted by the IMF, whose 2023-2027 program represents USD 5.4 bn.
According to the report, the increase is mainly due to a record USD 3.41 billion in budget support loans granted by development partners, notably the World Bank and the Asian Development Bank (ADB), at the request of the interim government to stabilize the macroeconomic situation and bolster foreign exchange reserves. The amount received in FY25 is an all-time annual record, surpassing the previous peak of USD 2.6 billion in FY22.
Disbursements linked to several major infrastructure projects, including the Rooppur nuclear power plant, Dhaka Metro Line 6, Padma Bridge Rail Link, Karnaphuli Tunnel and the third terminal at Hazrat Shahjalal International Airport, also contributed to this increase.

------------------------------ BANKING ------------------------------

An independent audit of 6 Islamic banks reveals that NPLs are 4 times higher than official figures, with a ratio of 77%.

Asset quality reviews (AQR) conducted by international firms KPMG and Ernst & Young have revealed a deep financial crisis at six Islamic banks. The audits, supported by the Asian Development Bank (ADB) and covering financial statements up to last September, have revealed a massive concealment of non-performing loans (NPLs), which in reality amount to Tk 1476 bn (EUR 10 bn), more than four times the officially declared amount (Tk 350 bn). It represents almost 77% of the total outstanding loans. The 6 banks are: First Security Islami Bank, Social Islami Bank, Union Bank, Global Islami Bank, ICB Islamic Bank and Exim Bank.
The discrepancies between official data and audit findings are sometimes alarming. For example, First Security Islami Bank's actual NPL rate was 96%, whereas it had declared only 21%. Union Bank and Global Islami Bank also posted rates beyond 95%, well above their declared figures. The audits also highlighted a combined provision deficit of over Tk 1150 bn. By September 2024, these six banks accounted for nearly Tk 1470 bn in deposits (8% of deposits in the country).
As a reminder, Bangladesh Bank recently activated a new banking resolution ordinance adopted in 2025, enabling the merger of five of the six banks concerned. Only ICB Islamic Bank is excluded from the process due to the presence of foreign investments.

The central bank prepares a EUR 1.4 bn plan to restructure the banking sector

Bangladesh Bank (BB) is preparing a plan to restructure the Bangladeshi ailing banks, with a first phase expected as early as December. The operation, valued at Tk 200 bn (EUR 1.4 bn), will be financed by the national budget, with the support of foreign funding from development partners. The Asian Development Bank and the World Bank have reportedly expressed interest. The first institutions targeted are five Islamic banks - First Security, Social Islami, Global Islami, Union Bank and EXIM Bank - which could be merged.

With the support of the IMF, the government will soon publish a comprehensive financial stability strategy aimed at improving the overall banking sector.

According to the latest BB data, distressed loans in Bangladeshi banks reached a record level of BDT 7,565 billion at the end of 2024, up 59% in one year. This corresponds to almost half of total outstanding loans (BDT 16,829 billion). According to the Financial Stability Report 2024, it includes BDT 3,458 bn in defaulted loans, BDT 3,485 bn in rescheduled loans and BDT 623 bn in written-off loans. According to the same report, almost 40% of loans rescheduled in 2024 fell back into the default category - illustrating the fragility of the sector.

Central bank keeps the repo rate at 10% despite relative slowdown in inflation

On July 31st, the Bangladesh Bank published its new Monetary Policy Statement for the first half of fiscal year 2025-26. The central bank announced that it would be maintaining its repo rate at 10%, in order to continue its efforts to combat inflation. For the record, the rate was raised by 50 basis points to 10% last October.

This decision is in line with the Governor's statement that no rate cut would be considered until inflation falls below 7%. After peaking at 11.6% in July 2024, inflation fell back to 8.5% in June 2025, its lowest level for almost three years. The central bank hopes to bring annual inflation down to 6.5% by June 2026, with a long-term target of 3-5%. Noting that monetary policy alone is insufficient to contain rising prices, largely fuelled by the rising cost of rice, the central bank is also recommending increased rice imports to stabilize food stocks and prices. The government recently allowed duty-free imports of 500,000 tonnes of rice in this regard.

In addition, Bangladesh Bank announced a downward revision of its private credit growth target to 7.2% year-on-year, from 9.8% in the previous half-year. In June 2025, private sector credit growth stood at 6.4%, having remained below 7% for several months. The central bank anticipates a gradual rebound to 8% by the end of FY26.

---------------------------- MACRO ------------------------------------

S&P confirms Bangladesh's sovereign rating at B+/B, with stable outlook

Rating agency S&P Global Ratings has confirmed Bangladesh's credit rating at B+ for the long term and B for the short term. These ratings come with a stable outlook, as the agency estimates that weighted average real GDP per capita growth could reach 4.3% over ten years, well above the median for comparable-income countries.

This assessment is based in particular on the improvement in official foreign exchange reserves, which rose by USD 5 bn in FY25 to USD 26.7 bn, or 4.1 months of imports versus 3.3 months a year earlier. S&P also points out that the macroeconomic reforms undertaken over the past 18 months, including the adoption of a more flexible exchange rate, devaluation of the local currency and monetary tightening, have boosted foreign currency liquidity.

-----------------INTERNATIONAL TRADE ------------------

Additional tariffs to the USA finally set to 20%

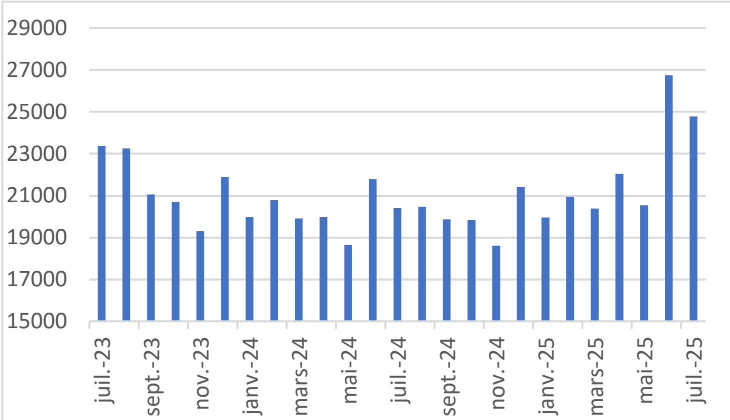
Since August 7, Bangladesh has been subject to an additional tariff rate of 20% for shipments to the United States, compared with the previously announced rates of 37% and 35%. This is a level similar to that of competitors such as Pakistan (19%) and Vietnam (20%). The rate for India is expected to reach 50%, and the one for China, the world's leading RMG exporter, is 30%.

B. One year of the interim government

The interim government led by Pr. Yunus has been running the country for a year. On the economic front, the external situation is improving, notably with the conclusion of the negotiations with the IMF in June and the improvement in the balance of payments. But a slowdown in growth and a return of extreme poverty in an inflationary context are giving cause for concern.

I - Bangladesh has experienced an improvement in exports, and above all in expatriate remittances, which reached record levels in 2025.

Over the period July 2024 - June 2025, remittances rose by +27% and exports by +9% year-on-year. This dynamic is reflected in a significant rise in foreign exchange reserves to USD 24.8 bn at the end of July 2025 (according to the IMF's BPM6 methodology), compared with USD 20.4 bn one year earlier. While this level still remains relatively low, the improvement in inflows facilitates better access to dollars for imports (which are on a slight upward trend), and enabled the government to settle arrears, notably in the energy sector.



Evolution of FOREX reserves (in bn USD). Source: BB

Thanks to the support of donors - mainly multilateral (IMF, World Bank, ADB), Bangladesh received USD 3.5 billion in budget support last June, enabling to boost the level of FOREX reserves. For most donors, the release of funds was conditional on the continuation of the IMF program, which has been settled after lengthy negotiations leading to the release of the fourth and fifth tranches. Indeed, after several months of (sometimes difficult) discussions, the IMF approved a new USD 1.3 billion disbursement and a USD 750 million increase in the program, bringing it to a total amount of USD 5.4 billion. The talks had mainly focused on two sticking points: easing the exchange rate regime and improving tax collection.

Concerns about the potential negative impact of additional customs duties on exports to the United States were a priori dismissed by the announcement of a 20% rate early August, in line with some of its competitors (Pakistan, Vietnam), well below that of China and India and, above all, down sharply on the initial rate of 37%.

Nevertheless, the balance of payments remains unbalanced, and the recovery in reserves is not yet sustainable, as demonstrated by the USD 2 bn drop within only one month after the peak of USD 26.7 bn in June when donor disbursements were made.

II - High inflation and falling investment undermine growth and purchasing power

This deterioration in economic indicators is attributable to a slowdown in investment and persistently high inflation, both of which are affecting economic growth. Average inflation over the period June 2024-July 2025 still stands at 9.8%, despite a slight downturn in recent months, with inflation reaching 8.6% in July. Growth for the fiscal year 2024-25 is expected to be below 4%, well below the pace of previous years, due in particular to the summer protests, heavy flooding in August and heightened uncertainty. The World Bank thus forecasts growth of just 3.3%, the worst performance since 1989 (2.8%), close to the level of the Covid-19 period in 2020 (3.4%).

Reflecting the erosion of economic activity, tax revenues remain well below expectations, with only 80% of the revised annual target achieved. This result, although representing a slight increase of around 2% y-o-y, falls well short of expectations, particularly in the context of the IMF program which seeks to increase internal resources by 0.5% of GDP per annum. Collection was also affected by the recent strikes and internal protests within the NBR.

Credit growth to the private sector has also fallen to unprecedented levels, at 6.4% in June 2025 compared with an average of 10% in 2023-24, and at a level not seen for two decades. Because of high repo rates, a worsening BDT-USD exchange rate and major political uncertainties, companies are opting to cancel or postpone their investment decisions. Bangladesh Bank has thus revised its private sector credit growth target for July-December 2025 to just 7.2%, compared with 9.8% for the previous six months.

Finally, weak growth coupled with falling total employment (4% of workers lost their jobs between July and December 2024), and inflation at nearly 10% for over two and a half years, has pushed part of the population back into poverty. According to the World Bank, extreme poverty (below 2.15 USD/day in purchasing power parity) continues to rise, reaching almost 9.3% in 2024-25, compared with 7.7% the previous year and 5.0% in 2021-22.

III - The energy and banking sectors are undergoing some tentative reforms

In its fight against corruption, the interim government has placed particular emphasis on reforms in the banking and energy sectors, accused of having been the main channels for embezzling money under the previous administration.

In the banking sector, governance problems had previously reached an unsustainable level, with the involvement of the administration itself. The rate of non-performing loans is said to be 35% on average, but in some banks, it reaches over 90%. To restore some order, Bangladesh Bank has implemented several reforms in line with the recommendations of international donors (IMF, World Bank and Asian Development Bank) - including the Bank Resolution Ordinance and the Distressed Asset Management Ordinance, which better equip the interim government to restructure the sector. In this respect, the BB is in the process of setting up a Tk 200 bn (EUR 1.4 bn) recapitalization plan to restructure 5 Islamic banks, and is also planning to shut 9 non-bank financial institutions.

In the energy sector, the main measure was the withdrawal of the Quick Enhancement of Electricity and Energy Supply (Special Provision) Act 2010. Initially enacted by the Awami League for a period of 4 years in response to the urgent need to put an end to incessant power cuts, the Act allowed exemptions from the public procurement rules in the energy sector (power plants, energy imports), in particular to enable direct negotiations. Extended on several occasions, this law is said to have facilitated corruption in the sector and increased the financial burden on the state. Since the repeal, the interim government favors tenders or auctions. Other reforms are also underway, on economic attractiveness, governance, taxation, etc., and there are still many improvements to be carried out to enhance the business climate.