MINISTÈRE
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DES FINANCES
ET DE LA SOUVERAINETÉ
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ECONOMIC LETTER OF BANGLADESH

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

N°17 – Nov-Dec 2025

A. FRANCE-BANGLADESH NEWS

Courtesy call with Chief Adviser, Pr. Yunus

The French Ambassador, Mr. Jean-Marc Séré-Charlet, called on the Chief Adviser, Prof. Muhammad Yunus on November 25^{th}. He commended the efforts of the interim government and its success in achieving macroeconomic stability. The Ambassador noted the EU's readiness to engage in defining the next phase of cooperation, underscoring that a strategic partnership in civil aviation would serve as a strong signal of Europe's long-term engagement. He further emphasized France's sustained collaboration in climate change adaptation and recalled that, for more than a decade, the French Development Agency (AFD) has invested approximately 2 billion EUR in projects aimed at mitigating climate impacts and preserving biodiversity in Bangladesh.

1^{st} EU–BIDA Dialogue on Business Climate

The European Union and the Bangladesh Investment Development Authority (BIDA) held a high-level EU–BIDA Dialogue on Business Climate on 1 December 2025, bringing together ambassadors from the EU Delegation and Member States, senior government officials, and leading European companies operating in Bangladesh. The discussions focused on accelerating key reforms to strengthen Bangladesh's investment environment ahead of its LDC graduation. The event was an opportunity to start preparing a potential Bangladesh-EU Business Forum in 2026. The French Ambassador highlighted the advantages of long-term partnerships with Europe and pointed to significant untapped potential in EU–Bangladesh trade and foreign direct investment.

Organization of a European Dialogue on Bangladesh's Aviation Growth

Ambassadors from France, Germany, the United Kingdom, and the Head of the European Union Delegation took part in a European Dialogue on Bangladesh's Aviation Growth on November 4^{th}. The discussions underscored Airbus's intention to support the rapid expansion of Bangladesh's aviation sector and contribute to its long-term development. Participants reaffirmed that the Airbus proposal is designed not only to enhance the country's aviation capacity but also to strengthen the longstanding ties of friendship and cooperation between Bangladesh and the European Union.

B. FRESH NEWS FROM BANGLADESH

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

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

Bangladesh's manufacturing sector is estimated to have lost 1.4 million jobs between 2013 and 2023

According to a study by the research centre Research and Policy Integration for Development (RAPID), Bangladesh's manufacturing sector is estimated to have lost 1.4 million jobs between 2013 and 2023, even as the industry posted average annual growth of 10% over the period. Productivity gains driven by automation and the expansion of the RMG sector have therefore resulted in growth without job creation. Producing USD 1 million worth of exported goods required 220 workers in 2013, compared with only 94 in 2024.

The study highlights the situation of youth employment, particularly affected by the slowdown in the labour market: their unemployment rate stands at 17%, compared with 4% for the overall labour force, with a particularly high rate among university graduates (13.5%). The NEET rate also remains worrying, affecting 19% of women and 16% of young people, despite some improvement in recent years.

The report attributes these difficulties to a development strategy overly focused on the RMG sector, at the expense of more diversified industrialisation. RAPID considers that the country is now facing premature deindustrialisation, despite a largely untapped demographic dividend. Since 2016, net job creation has come mainly from agriculture, but in low-paid and low-productivity activities, contributing to the rise in poverty since 2022.

RAPID also stresses that Bangladesh is caught in a "triangle of vicious cycles": growth that creates few jobs, inequalities insufficiently addressed by public policy, and governance weakened by corruption.

The interim government postpones budget revision until after the elections

The interim government has decided not to revise the 2025–26 budget in December as initially planned, leaving this task – as well as preparation of the 2026–27 budget – to the future elected government expected after the February elections. The Finance adviser had initially announced that the revision would be completed by December, including changes to the civil-service pay scale. Ultimately, the revision will also be left to the next government.

The decision to postpone the budget revision, taken at the Coordination Council on Fiscal, Monetary, and Exchange Rate Policies, aims to avoid inconsistencies with the priorities of the next administration.

The Council has nonetheless adjusted macroeconomic forecasts: GDP growth for the current fiscal year has been lowered from 5.5% to 5%, while the inflation target has been raised from 6.5% to 7%. For the following fiscal year, preliminary projections set inflation at 6% and growth at 6%.

The government has also reduced the Annual Development Programme (ADP) by Tk 150 billion (around EUR 1 billion) due to slow implementation and constraints linked to lender disbursements, including from the IMF.

According to the press, the issue of the central bank's policy rate was also discussed at the Council. The three advisers present (Finance, Commerce and Planning) reportedly supported a reduction in the rate (currently 10%), which they argue is hurting private investment. The BB governor reportedly instead suggested that the government reduce its borrowing from the banking sector.

------------------------- INVESTMENTS-------------------------

The Netherlands becomes Bangladesh's largest foreign investor in 2024–25, ahead of the UK and China

The Netherlands topped foreign investors in Bangladesh in FY 2024–25, with USD 454 million in net investments, representing 27% of total inflows, according to Bangladesh Bank. This amount, sharply higher than the USD 23 million recorded last year, places the Netherlands ahead of the United Kingdom (USD 300 million), China (USD 274 million), South Korea (USD 216 million), Singapore (USD 161 million) and India (USD 106 million). Capital channelled through the Netherlands is mainly concentrated in the agrifood and energy sectors. It should be noted that the Netherlands is a major conduit country for investments from multinational companies headquartered elsewhere.

Overall, FDI rose 19% in the fiscal year to USD 1.69 billion, driven largely by intra-company loans (+181%) and reinvested earnings (+23%), while fresh equity inflows fell by 17%, indicating continued investor caution amid economic and political uncertainty.

In terms of FDI stock, as of end-June 2025, the UK remains the largest investor (USD 3.2 billion), ahead of Singapore (USD 2.1 billion), the Netherlands (USD 1.8 billion), South Korea (USD 1.7 billion) and China (USD 1.6 billion).

TRADE

Bangladeshi apparel exports to the United States slightly contract following the introduction of additional tariffs

Bangladesh's ready-made garment exports to the United States fell by nearly 3% between August and October, likely as a result of the new additional 20% tariff imposed in August by the Trump administration. According to the Export Promotion Bureau, shipments during the August–October period (after the 20% tariff was implemented) reached USD 1.79 billion, a 2.9% decline compared with the previous period. This effect is also linked to a strong surge in exports in July 2025 (+29% year-on-year), with goods shipped in advance.

The BGMEA, the association of garment-factory owners, attributes this decline to a marked slowdown in US demand. Exporters report low foot traffic in stores and declining sales.

BANKING

Non-performing loans surge further, now reaching 36% of outstanding credit

Non-performing loans (NPLs) have risen sharply once again, reaching the unprecedented level of Tk 6,440 billion (USD 53 billion) at end-September 2025, representing 35.7% of total loans (compared with 24.1% in March). The sector has thus seen defaults increase by Tk 2,240 billion in six months and by +130% in one year. These new estimates align with earlier statements from the Governor, who as early as March 2025 was already forecasting an NPL ratio of 35% in June (ultimately 34.4%).

Two factors explain this surge: the uncovering of major loan irregularities under the previous regime, and the reinstatement of the strict loan-classification rule (classifying loans as "non-performing" after 90 days of arrears instead of nine months), restored to meet IMF requirements. The provisioning gap is now considerable: an estimated Tk 3,440 billion shortfall as of end-September.

The only slight improvement is that the rise in NPLs stabilised somewhat between June and September, moving from 34% to 37%, after the jump from 24% to 34% between March and June.

Central bank keeps policy rate unchanged

Bangladesh Bank has kept its policy rate at 10%, assessing that inflationary pressures and external vulnerabilities justify the continuation of its current monetary stance. The Monetary Policy Committee, meeting in early October for its review of the first quarter of FY 2025–26, warned of a temporary rise in demand ahead of national elections and during Ramadan.

Headline inflation eased to 8.36% in September, but localised food-price increases remain possible due to supply disruptions. The committee noted a slight easing in interbank rates but continued weak private-sector credit ahead of the February 2026 elections.

Exports recorded moderate growth and imports picked up after the relaxation of LC margin requirements for essential goods, while remittance inflows remained stable. The central bank will maintain a restrictive stance until the real policy rate reaches 3% (i.e., inflation at 7%).

Private-sector credit growth continues to decline, hitting a four-year low

Private-sector credit growth fell to 6.29% in September, its lowest level in four years, according to Bangladesh Bank. This reflects a sharp slowdown in investment despite improvements in exports, remittances and foreign-exchange reserves. High interest rates, cautious bank behaviour, and political uncertainty explain the decline, as firms adopt a wait-and-see attitude ahead of the February 2026 elections.

Economists warn of risks of stagnation in investment and employment, particularly for SMEs, while banks—holding excess liquidity—prefer to invest in Treasury instruments rather than productive lending.

-------------- INTERNATIONAL DEVELOPMENT -----------

Bangladesh stays on course for LDC graduation despite calls for postponement

In its 2025 annual report submitted to the UN Committee for Development Policy (UN-CDP), the interim government confirmed that it will move forward with the transition out of the Least Developed Country (LDC) category, arguing that the country meets the three required criteria — per capita income, social indicators, and economic vulnerability — and that any request for postponement to the UN-CDP would be bound to fail.

Despite concerns expressed by business circles and some experts, the authorities consider that requesting a delay would amount to risking "humiliation."

The submitted report acknowledges several vulnerabilities — rising debt, weaknesses in the banking sector, and export volatility due to U.S. tariffs — but defends graduation as a necessary step to launch reforms and support long-term growth.

IMF staff ultimately withhold approval of the 5th tranche of the program

In its latest review mission (Article IV and 5th review of its financing program), the IMF recognizes Bangladesh's progress in macroeconomic stabilization, notably through fiscal and monetary tightening and the rebuilding of foreign reserves following the exchange rate reform.

However, the Fund warns that the economy remains weakened by insufficient tax revenues, undercapitalization in the banking sector, and high inflation. In particular, the country reached only 85% of the IMF's tax collection target for June 2025. According to the IMF, bold reforms remain necessary: optimizing the tax system (removal of exemptions, simplification, improved administration), strengthening bank governance, expanding Asset Quality Reviews to all major banks, and establishing a credible recapitalization or restructuring strategy.

For these reasons, the IMF will not propose approval of the 5th tranche (USD 450 million) to its Executive Board. A new mission will be organized after the general elections (February 2026) for the combined review of tranches 5 and 6.

On the macroeconomic front, the IMF forecasts growth of nearly 5% in FY26 and FY27, but warns that delays in reforms could reverse progress, reignite inflation, and undermine financial stability.

C. Poverty is on the rise in Bangladesh

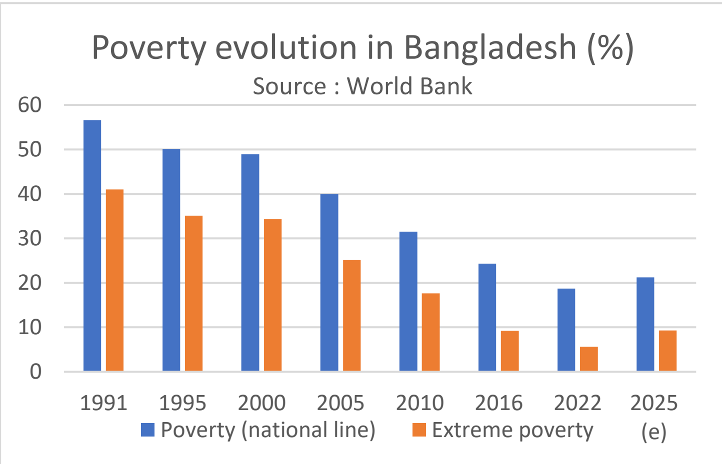
After more than two decades of progress in reducing poverty, the situation in Bangladesh has significantly deteriorated in recent years. In 2025, according to World Bank estimates, the national poverty rate could reach around 21.2%, meaning more than 36 million people living below the national poverty line, compared to 18.7% in 2022. Over the past fifteen years, three distinct periods can be identified: (i) 2010–2016: continuation of the momentum from the previous decade, with strong poverty reduction supported by sustained economic growth averaging around 6% per year; (ii) 2016–2022: still-robust growth but generating fewer gains in poverty reduction, due to governance factors, fiscal issues (growth increasingly driven by debt), and industrial dynamics (a slowdown in job creation in the textile sector); (iii) 2022–2025: a reversal of progress achieved over the past three decades, driven by the combination of several crises (the COVID-19 pandemic, persistent inflation, economic slowdown, climate vulnerability, and rising inequalities).

Poverty reduction now depends mainly on rural areas, thanks to a marked rebound in agricultural employment, while the urban manufacturing sector is stagnating. Worryingly, the World Bank estimates that 62 million people, half of the population currently above the poverty line, live just barely above it, leaving the country highly vulnerable to any shock.

I. The socio-economic progress of the past two decades is now under threat

A sharp decline in poverty since the 1990s

Since its independence in 1971, Bangladesh has undergone a profound socio-economic transformation. In the years following the Liberation war, the country faced endemic poverty, exacerbated by famines, repeated natural disasters, and a lack of infrastructure. In 1991, the national poverty rate still stood at 57%, while extreme poverty affected 41% of the population (see chart). Beginning in the 1990s, economic reforms, trade liberalization, and the rise of the textile sector triggered a sustained growth dynamic. Between 2000 and 2022, annual growth remained between 5% and 7%, and between 2010 and 2020, GDP per capita almost tripled, rising from under USD 700 to USD 2,068. This trajectory resulted in a significant decline in poverty: **the national poverty rate fell from 49% in 2000 to around 18.7% in 2022, while extreme poverty dropped from 34% to 5.6% over the same period.**



These gains were accompanied by notable **social progress**: increased access to primary education for girls, reduced child mortality, and improved life expectancy.

A slowdown in progress after 2016 due to a less inclusive labour market

Since 2016, Bangladesh's growth model has become significantly **less inclusive**. Although the economy continued to expand, poverty reduction has slowed sharply compared with the 2010–2016 period. The contribution of labour income to poverty reduction has indeed weakened considerably: it accounted for 89% of poverty reduction between 2010 and 2016 but only 51% between 2016 and 2022.

According to the World Bank, job creation has increasingly shifted toward low-productivity sectors, leading to deteriorating job quality and limiting improvements in household welfare. Since 2016, most poverty reduction has come from rural areas, driven by a substantial rebound in agricultural employment, with around 1.5 million additional jobs per year between 2016 and 2022. In contrast, the urban manufacturing sector has stagnated, signalling a **reversal of the socio-economic transformation that had begun in the previous decade**.

A reversal of previous gains since 2022 due to multiple external shocks

This slowdown has intensified in recent years. The period 2020–2025 has been marked by a succession of shocks that have weakened the progress achieved over previous decades. The COVID-19 pandemic caused a sharp drop in incomes, widespread job losses, and a significant decline in consumption. In 2022, severe floods affecting more than seven million people destroyed part of the harvests, damaged homes, and undermined livelihoods, particularly in rural regions. Since the beginning in 2023, persistent inflation (around 10%) further eroded the purchasing power of already vulnerable households.

These repeated shocks led to an actual reversal of progress for a substantial portion of the population. As a result, **the poverty rate could rise to 21.2% and extreme poverty to 9.3% in 2025**. This amounts to six million new poor in just three years. Today, the poorest 20% of households earn on average only 11,400 BDT (around 80 EUR).

Poverty remains endemic in 2025

Furthermore, the World Bank estimates that 62 million people, half of the population currently above the poverty line, live just barely above it. These households, characterized by low consumption, limited savings, and insufficient social protection, remain highly vulnerable to even the smallest economic shock. Overall, **two-thirds of the population is therefore poor or near-poor.**

II. Growing social and economic fragility as the labour market stops driving inclusion

Since 2022, the country has faced severe macroeconomic pressures that social safety nets have been unable to offset

The recent resurgence of poverty in Bangladesh results from a combination of economic, social, and structural shocks that have slowed the country's activity, with **growth falling to 4% in the 2024–25 fiscal year**, its lowest level in twenty years. The war in Ukraine, in particular, has contributed to higher costs for food and energy imports, putting **additional pressure on the balance of payments and fuelling inflation**. Inequalities have also increased slightly between 2022 and 2025 (with the Gini coefficient rising by nearly 2 points to 34).

Social programs have helped mitigate the immediate effects of successive crisis, but their overall impact remains limited. Despite the expansion of social protection schemes, targeting remains highly deficient: in 2022, half of the poorest households received no assistance, while 35% of the wealthiest households benefited.

Remittances from Bangladeshi expatriates have also played a stabilizing role. In 2022, 14% of households received remittances (compared with 12% in 2010), with an average monthly amount of 29,000 BDT, but the poorest half of households capture only 25% of these funds.

Territorial and sectoral dynamics that deepen vulnerabilities

Territorial disparities remain significant and contribute to persistent poverty. Rural areas show a higher poverty rate (20.5% compared to 14.7% in cities in 2022), although they recorded the strongest progress between 2016 and 2022 (-8.5 percentage points compared with -4.6 in urban areas). They had already accounted for 90% of poverty reduction between 2010 and 2016, although agricultural households benefited less than those working in industry or services. Poverty reduction has mainly relied on households employed in manufacturing and construction, but job creation in these sectors is now slowing, limiting potential gains.

Today, the **labour market, long a driver of inclusion, is showing clear signs of exhaustion**. Total employment declined by more than two million jobs between 2023 and 2024, with a further drop of around 0.8 million expected in 2025. Since 2016, job creation has relied primarily on agriculture, which generates more jobs but

often poorly paid and low-productivity ones. Young people are particularly affected, with an unemployment rate of around 17% today compared with 4% overall, and a high rate among university graduates (13.5%). The NEET rate (Not in Education, Employment or Training) remains high for women (19%) and young people (16%), even after substantial improvements in recent years.
The structural precariousness of the labour market reinforces these vulnerabilities: around 84% of Bangladeshi workers are employed in the informal sector. Women are even more exposed: 96% of working women are in informal employment, often in domestic work, agriculture, or micro-enterprises. Female labour force participation remains low (around 38%), despite significant progress in girls' education.

Multidimensional poverty remains a major public policy challenge

Beyond monetary poverty, **Bangladesh faces a significant challenge of multidimensional poverty** (as defined by the World Bank[i]), which, despite falling from 47% in 2010 to 21% in 2022, still affects around 34 million people. Children remain particularly vulnerable: nearly 29% live in multidimensional poverty, compared with 18% of adults.
Reducing multidimensional poverty requires **sustained investments in education, health, and housing**. However, these sectors are already among the least funded, even as Bangladesh's fiscal resources remain limited.

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[i] The World Bank uses what it calls the Multidimensional Poverty Measure (MPM) to assess poverty not only based on income or consumption but also by taking into account deprivations in education and access to basic services (water, sanitation, electricity, etc.).

The French Treasury is present in more than 100 countries through its Economic Departments. To learn more about its missions and network: https://www.tresor.economie.gouv.fr/Institutionnel/our-international-network

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