



MINISTÈRE  
DE L'ÉCONOMIE,  
DES FINANCES  
ET DE LA SOUVERAINETÉ  
INDUSTRIELLE ET NUMÉRIQUE

Liberté  
Égalité  
Fraternité

Direction générale du Trésor



# ECONOMIC LETTER OF BANGLADESH

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

N°10 – July-September 2024

## A. FRANCE-BANGLADESH NEWS

### Courtesy call of French Ambassador to Chief Advisor Dr. Yunus

On August 28, HE Marie Masdupuy paid a courtesy call to Honorable Chief Adviser, Dr. Yunus, to reaffirm France's full support for the Interim Government in addressing the challenges ahead for Bangladesh. At this occasion, Dr. Yunus mentioned key reforms for Bangladesh, such as the fight against corruption, and the important process of reconciliation in Bangladesh. The Ambassador underlined France's willingness to cooperate with Bangladesh in different areas including climate adaptation, cybersecurity and anti-corruption.

In September, Her Excellency also met several Advisers, including Adviser for Environment, Syeda Rizwana Hasan, the Adviser for Power, Energy and Road, Md Fouzul Kabir Khan, the Law Adviser, Asif Nazrul, and the ICT, Post and Telecom, and Information & Broadcasting Adviser, Nahid Islam. It was great opportunities to listen to the interim government's priorities and needs in order to strengthen our bilateral cooperation.



### Participation to Bangladesh Youth COP 2024

On September 18, the Economic Department had the occasion to engage with Bangladeshi Youth during the

Bangladesh Youth COP 2024, a three-day program jointly organized by ActionAid Bangladesh and the Brighters Youth Society. This event aimed at ensuring participation of young people from all districts ahead of COP29. In front of more than 200 young activists, the economic counsellor of the Embassy highlighted the power of collective action in addressing climate challenges, in particular through youth leadership. For her part, the Ambassador participated in the National Youth Climate Dialogue on September 3, at the initiative of YouthNet Global. On September 30, she also attended an event on Plastic Waste Management with the Adviser for Environment.



### The Business Club France-Bangladesh gathered to discuss business opportunities

In September, the new Business Club France-Bangladesh gathered at the French Residence to exchange on the current economic situation and business opportunities. It has been mentioned that French companies and France can play a key role today in Bangladesh and that the Business Club could be an enabler. The objective of this informal structure will be to promote interaction with relevant authorities, provide services to interested companies (support to organize visits, studies, umbrella contract, etc.), organize events, assist trade delegations, etc.

## B. FRESH NEWS FROM BANGLADESH

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

### ----- INTERIM GOVERNMENT -----

#### Formation of an interim government

Following the toppling of former Prime Minister Sheikh Hasina on August 5<sup>th</sup>, an interim government was formed, headed by Dr. Yunus, a former Nobel Peace Prize laureate for his work in microfinance with the Grameen Bank. The chief adviser appointed twenty thematic advisers, mostly from civil society. This interim government also initiated changes in high-level administrative positions. For example, the Governor of the Central Bank, the Director of the National Board of Revenue (NBR), and numerous secretaries have been replaced.

#### Chief Advisor Dr. Yunus announces a roadmap for upcoming reforms

In a public address, Dr. Yunus announced that the government had established six commissions to propose reforms for the country. These six commissions will focus on the following sectors: (i) the judiciary system, (ii) the electoral system, (iii) public administration, (iv) the police, (v) anti-corruption measures, and (vi) the constitution.

These commissions are expected to begin their work in October for a three-month period. The interim government will also hold consultations with the main political parties, as well as representatives from student organizations and civil society.

Following these consultations, a roadmap will be developed to implement the various reform proposals that emerge. According to Dr. Yunus, the objective of these reforms is to establish a fair electoral system and ensure the principle of good governance by strengthening transparency and accountability in public institutions.

### ----- MACRO -----

#### The balance of payments demonstrated resilience for the fiscal year 2023-2024

According to the Bangladesh Bank, the balance of payments deficit nearly halved during FY24, dropping from USD -8.2 billion in FY23 to USD -4.3 billion. This reduction is mainly due to the improvement in the current account deficit, which stands at USD -6.5 billion for FY24, a 44% decrease compared to USD -11.6 billion the previous year.

Indeed, the trade balance has significantly improved, registering a 18% year-on-year deficit reduction, going from USD -27.4 billion to USD -22.4 billion. This development results from a sharp drop in imports (partly restricted by the authorities), which fell by 10.6% to USD 63.2 billion, while exports saw a more moderate decline of 5.9%, amounting to USD 40.8 billion, with USD 36 billion coming from the ready-made garment sector. Remittances also performed better than last year, increasing by 10.7% to reach USD 23.9 billion.

Conversely, the financial account surplus decreased from USD 6.9 billion to USD 4.5 billion, mainly due to a 6.1% decline in foreign direct investment (FDI), which totalled USD 4.1 billion only for FY24.

#### The tax collection target has been missed for 2023-2024

Tax revenue collection for the 2023-2024 fiscal year fell short by USD 2 billion compared to a revised government target of USD 34 billion. The National Board of Revenue (NBR) collected BDT 3,826 billion (about USD 32 billion), marking a notable 15% increase compared to the previous fiscal year. However, this increase still did not meet the target set by the IMF program of BDT 3,945 billion, for which the government will need a waiver to receive the next tranche.

Despite missing this target, VAT revenues showed significant growth. In June 2024, VAT registered a record 47% growth, with USD 1.9 billion collected in a single month. For the full year, VAT revenues reached USD 12.5 billion, nearly hitting the target of USD 12.6 billion and representing a 20% increase compared to the previous year. This improvement includes the collection of USD 400 million from Petrobangla, stemming from long-overdue payments, which contributed to revenue stability. Other sources of tax revenue also showed positive signs. Income tax increased by 16%, while customs duties rose by only 9%, impacted by the contraction in imports.

#### Inflation eases below 10% in September

Inflation dropped to 9.92% in September, against 10.49% in August, after hitting a record 11.66% in July. This drop is mainly attributed to the decline in food prices, following several weeks of political, social, and economic disruptions, as well as a slowdown in non-food prices.

Food inflation fell from 11.36% to 10.4%, while non-food inflation slightly decreased from 9.74% to 9.5%.

Inflation has been staying at over 9% since March, although the central bank hiked the policy rates several times in the last few months.

#### Foreign exchange reserves stable since early 2024, hovering around USD 20 bn

In mid-September, gross foreign exchange reserves stood at USD 19.44 bn (according to BPM6), the same level as in January 2024 (USD 19.91 bn). Reserves performed relatively well over the summer, with the Central Bank explaining these positive results by a sharp increase in remittances in recent months, with a 40% year-on-year rise for August.

Since the arrival of the new Governor of Bangladesh Bank in August 2024, several initiatives have been taken by the central bank to improve foreign exchange management. These include reducing the sale of dollars from reserves and relaxing the "crawling peg" system to speed up the process of liberalizing the USD/BDT exchange rate. Today, the exchange rate stands at around 120 USD/BDT, compared with 117 USD/BDT in August, which somehow corresponds to its market rate according to the central bank.

### BANKING

#### Central bank raises policy rate to 9.5%

On September 24, the Bangladesh Bank announced an increase in its policy rate from 9% to 9.5%, a record high. This is the second hike in policy rate since the new central bank governor, Ahsan H. Mansur, took office on August 20. Prior to his appointment, the policy rate was set at 8.5%. This decision is in line with IMF recommendations and aims to address persistent inflation, which remains around 10%, significantly affecting the population's purchasing power. Further rate hikes are expected in an effort to bring inflation down to the target range of 6-7%.

#### Non-performing loans (NPLs) surpass BDT 2 trillion (USD 16 Billion) for the first time

NPLs in Bangladesh have exceeded BDT 2 trillion (more than USD 16 billion) for the first time, highlighting the fragile state of the country's banking sector, plagued by endemic corruption and numerous irregularities. According to the Bangladesh Bank, as of June 2024, bad loans represented 12.6% of total loans. This is the highest NPL ratio in the past 16 years. Industry experts indicate that more reliable information about the banks' situation, previously concealed, might begin to surface with the establishment of the new



interim government and the appointment of Dr. Ahsan Mansur, a former IMF official, as head of the central bank.

The situation is even more alarming for public banks, where 33% of loans are classified as NPLs (compared to 8% in private banks). The rate stands at 13% for specialized banks. When restructured loans are considered, the amount of bad debt becomes much larger, potentially reaching around USD 31 billion as of December 2022.

#### ----- INTERNATIONAL DEVELOPMENT -----

##### Development partners expected to commit significant new financing for Bangladesh

At the request of the interim government, the World Bank is expected to mobilize up to USD 2 billion in new financing for fiscal year 2024-2025. The Asian Development Bank (ADB) plans to provide about USD 900 million over the next six months, and the Islamic Development Bank (IsDB) between USD 4 and 5 billion over the next three years. The World Bank's new commitments are likely to translate into budget support to assist in reforms in the banking and financial sectors, as well as project financing in the energy and health sectors. The World Bank is also expected to reallocate approximately USD 1 billion from its existing programs, in consultation with the government.

The ADB has announced it will provide USD 400 million in budget support by December, along with a USD 500 million loan (the first part of a USD 1.5 billion total loan) to help the country reform its banking and energy sectors. Discussions are also underway for an additional USD 1 billion in budget support. The IsDB plans to finance key sectors for Bangladesh, such as infrastructure, climate change adaptation, and socio-economic development. Support for fuel financing through the International

Islamic Trade Finance Corporation (ITFC) is also being discussed. The government is additionally seeking USD 3 billion in extra funds from the IMF program.

#### ----- EXPORTS -----


##### A USD 10 Billion Error in export data skews Bangladesh's economic assessment

In July, the Bangladesh Bank (BB) revealed that export figures for the first ten months of the last fiscal year were overestimated by about USD 10 billion due to multiple data entry errors by the National Board of Revenue (NBR). Total exports for the July-March FY24 had initially been recorded at USD 40.8 billion. However, after correction, this figure fell to USD 30.9 billion.

This revision reflects a contraction in exports rather than the previously reported positive growth. Export revenues, which initially showed a 5.53% year-on-year growth from July to March, actually decreased by 6.9% from July to April. These errors will also affect the export-to-GDP ratio, which will be lower than anticipated, as well as debt service calculations, which will now be higher. The decline in exports has also reversed the current account balance, shifting from a USD 5.7 billion surplus for July-March FY24 to a USD 5.7 billion deficit for July-April.

##### Recurrent RMG sector strikes may lead to order shifts to other countries

Since August, following the fall of the Awami League government, multiple protests have erupted in garment factories. Initially, these protests built on demands such as the creation of a new Minimum Wage Board, an increase in attendance bonuses, and meal allowances. After a brief return to normalcy in mid-September, new disruptions have emerged on the outskirts of Dhaka. Workers' demands mainly focus on improving working



conditions, particularly raising the minimum wage to BDT 25,000 (USD 209).

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) estimates that around 30% of orders could be lost or transferred to other countries for the next season due to

disruptions caused by the protests. Some buyers are shifting their orders to India, Vietnam, Sri Lanka, Indonesia, and Pakistan.

## C. A Youth Not Fully Reaping the Benefits of Development?

While Bangladesh has experienced significant growth in recent years, this economic development does not seem to have sufficiently benefited the younger generation. Youth face an unemployment rate nearly five times higher than the rest of the population, with 13 million young people between 15 and 24 neither employed nor in education or training (NEET). Those who are employed often hold low-quality jobs. This situation drives expatriation, whether for education (to the West) or work (to the Middle East), and increases pressure to secure public sector jobs. The country's challenges are numerous, ranging from chronic underfunding of education to the economy's inability to create quality formal jobs.

### 1. A High Proportion of Youth Not in Employment, Education, or Training (NEET)

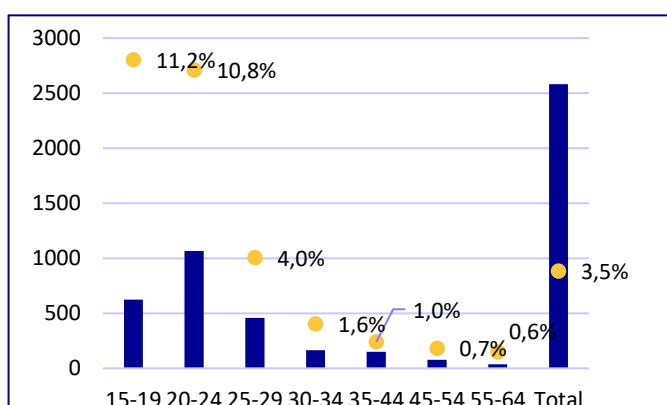
In Bangladesh, 50% of the population is under 26. According to the Bangladesh Bureau of Statistics (BBS), nearly 15.4 million young people (ages 15-24) are part of the labour market, with 1.7 million of them actively seeking jobs—a rate of 11%, far above the overall unemployment rate of 3.5% or that of the 35-44 age group (0.7%). The labour market is particularly challenging for young graduates. Among young people, university graduates are the most affected by unemployment. Additionally, young graduates tend to experience long-term unemployment, with 34% of job-seeking graduates having been unemployed for over a year, compared to 20% for the general population.

Recent data shows that the NEET rate for 15-24-year-olds reached 40% in 2023 (18% for men and 61% for women), totalling around 13 million inactive people (or engaged in domestic work). This rate puts Bangladesh closer to Afghanistan (44% in 2021) than Pakistan (35% in 2021), India (23%). As part of the Sustainable Development Goals, the previous government's target was 3% by 2030.

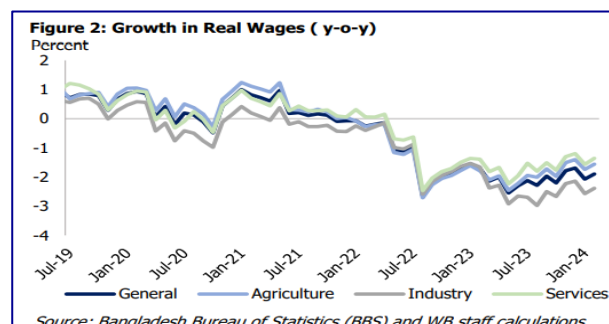
### 2. Precarious, Low-Paying, and Challenging Jobs

For those young people who are employed, working conditions are often difficult, characterized by job insecurity, low wages, long hours, and physically demanding tasks.


While salary data is limited, sources suggest that university graduates typically earn between 15,000 and 25,000 BDT per month (120-200 EUR). This figure can be compared to the 2022 Household Income and Expenditure Survey, which indicated that the average income for an urban household was 46,000 BDT.



Unemployment by age (in thousands and %). Source: BBS



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



Beyond wages, the difficulty of upward mobility in a society where power is often held by older individuals is a source of frustration. Like the rest of the population, real wage growth has been negative since early 2022, with average wages declining by 4% over the past two years.

### 3. The Attraction of Opportunities Overseas and Public Sector Jobs

*Many young people are driven to emigrate.* According to UNESCO, 53,000 Bangladeshi students chose to pursue higher education abroad in 2023, a stable figure over recent years, seeking better education and job opportunities abroad. Simultaneously, many less-educated young people, primarily from rural areas and small towns, migrate to the Middle East for work in sectors like construction or cleaning. More than a million Bangladeshis leave the country each year, an increasing figure.

*Public sector jobs remain highly sought in Bangladesh.* Each civil service recruitment cycle sees around 400,000 applicants for only 2,000 positions, as young graduates are attracted by job security, decent working conditions, relatively good starting salaries (23000-40000 BDT/month for entry-level positions), and the prospect of a lifelong pension. The number of applicants for each position has been increasing overtime.

### 4. Numerous challenges as 2 million new workers enter the labor market each year

The low quality of the education system and the economy's inability to create quality formal jobs are the primary reasons for the high NEET rate. Moreover, the country's dynamic demography, with nearly 2 million new entrants to the labor market each year, exacerbates the issue.


*A highly informal Bangladesh's economy.* In 2022, 85% of jobs were considered informal. Despite the country's economic growth, the formal economy struggles to create enough jobs. For instance, while the industrial sector (particularly ready-made garments) grew by 86% in value between 2017 and 2022, the number of industrial jobs fell by 300,000 during the same period. Agriculture remains the largest source of employment in Bangladesh, increasing from 41% of jobs in 2017 to 45% in 2022, primarily in subsistence or low-paying activities.

*An under-financed education system.* The education sector suffers from chronic underinvestment, with the public education budget capped at 1.5%, making Bangladesh one of the worst least developed countries in terms of education spending. Despite aspirations to move out of this category by 2026, higher education is plagued by poor quality and a growing gap between academia and the private sector. A CPD think tank study highlights that finding the right skills is the biggest obstacle to recruitment. Of the 2 million new workers entering the labour force each year, about 400,000 hold higher education degrees (100,000 at the master's level). Furthermore, insufficient emphasis is placed on technical education, even as industries look to develop new sectors.

### 5. A Demographic Dividend That Must Be Leveraged Now

United Nations estimates show that Bangladesh's youth population (15-24 years old) has already peaked at around 30 million and will begin a slow decline. The demographic dividend, according to the IMF, could reach its peak by the mid-2030s. At the same time, due to improvements in life expectancy, Bangladesh is projected to become an aging society by 2029 (with more than 7% of the population over 65) and an aged society by 2047 (with over 14% of the population over 65). This transition will take less than 20 years, one of the fastest in Asia. By comparison, this shift took 115 years in France, 69 years in





the United States, and 25 years in Japan. The challenge of caring for an aging population will soon arise, especially in a country with a failing pension system and an imperfect healthcare sector.

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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