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ECONOMIC LETTER OF BANGLADESH

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

N°14 – April - June 2025

A. FRANCE-BANGLADESH NEWS

Second Blue Talks held in Dhaka ahead of UNOC3

The French Embassy in Dhaka hosted the second edition of the Blue Talks ahead of the 3rd UN Ocean Conference (UNOC3), which took place in Nice from 9 to 13 June. The event, held at the Ambassador's Residence, focused on how satellite technology can unlock the blue economy potential of the Bay of Bengal. The talks highlighted the urgent need for satellite data to manage marine resources, monitor ocean health, and address the challenges induced by climate change.

Climate change communicators hosted at Ambassador's Residence

The French Ambassador welcomed the Climate Change Communicators community, a dynamic group of youth leaders, experts, and climate advocates, for an evening of exchange and brainstorming ahead of major global milestones, including UNOC3 and COP30. The event provided a platform to share ideas, amplify voices, and explore innovative ways to engage the public on ocean and climate issues.

Organisation of a Strategic Orientation Council at the French Embassy in Dhaka

The French Embassy recently held its first Strategic Orientation Council in Bangladesh, an important forum bringing together French public stakeholders to assess the progress of France's cooperation in the country and to outline a shared roadmap for the years ahead.

Legal seminar on legal aspects for the French business community

Barrister Md. Sameer Sattar (Sattar&Co) led two insightful and engaging legal seminars at the French Residence in Dhaka, focusing on the regulatory framework of the Bangladesh Investment Development Authority (BIDA) for expatriates and foreign investors as well as on labor law. Organized for the France–Bangladesh Business Council, the session fostered valuable exchanges on key legal challenges and practical considerations for doing business in Bangladesh. More seminars will be organized throughout the year.

B. FRESH NEWS FROM BANGLADESH

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

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

Extreme poverty expected to reach 9.3% according to the World Bank, almost double the 2022 level

According to the World Bank's Macro Poverty Outlook published ahead of the Spring Meetings in Washington, extreme poverty (below USD 2.15/day in purchasing power parity) continues to rise, reaching an expected 9.3% in 2024-25, up from 7.7% the previous year and 5.0% in 2021-22. This year-on-year increase means around 3 million more people are being pushed into extreme poverty due to high inflation and weak growth.

Remittances from an increasing number of expatriates provide critical support, without which poverty would be even more widespread. It is estimated that in the first half of FY25 (July–December 2024), 4% of workers lost their jobs, and real incomes for low-skilled workers dropped by 2%.

Bangladesh's economic growth projected at 3.97% according to BBS

According to the Bangladesh Bureau of Statistics (BBS), the country's economic growth is expected to reach 3.97% in the current fiscal year, the lowest figure in five years, down from 4.22% in FY 2024. This would place the country's GDP at USD 462 bn. The fiscal year has been marked by political and social instability, disrupting economic activities, notably with reduced investment as investment-to-GDP ratio dropped from 30.7% to 29.4% year-on-year.

These disruptions had an immediate effect: first-quarter growth dropped to 1.96%, compared to 5.87% during the same period the previous year. The economic impact continues to weigh on growth.

Meanwhile, the BBS projects that average per capita income will reach a record USD 2,820 in FY 2024–25, up 2.9% year-on-year. The previous record was USD 2,793 in FY 2022. According to the BBS, this increase is mainly due to the strong rise in remittances since the start of the fiscal year.

Reserves reach USD 26.7 billion at end June, a level not seen since November 2022

Foreign exchange reserves rebounded sharply in June, reaching USD 26.7 billion (BPM6 definition) compared to just USD 20.5 billion at the end of May. They had not been at this level since November 2022. However, this amount, inflated by massive support in the form of budget loans from donors and transfers from expatriates, is not expected to remain at this level for very long, as the country must settle its May and June imports with eight Asian countries (within the framework of the Asian Clearing Union) in early July. This settlement is expected to be in the order of USD 2 billion.

New reform of the tax administration on the card

As part of the negotiations with World Bank, the interim government has undertaken a major reform of the tax administration, ending the role of the National Board of Revenue (NBR) as the sole central body for tax management. It has been split into two separate entities: (i) the Revenue Policy Division, responsible for formulating tax policy, and (ii) the Revenue Management Division, in charge of implementation and tax collection. Both new divisions will operate under the Ministry of Finance. This separation between tax policy design and implementation aligns with one of the IMF's main recommendations within the tax component of its program. The goal is to improve the efficiency, transparency, and governance of Bangladesh's tax system.

This reform is facing opposition from some custom employees and unions.

Inflation slowly declining at 9.05% in May

In May, inflation in Bangladesh slightly declined to 9.05%, down from 9.17% in March, according to BBS data. Inflation has remained above 9% for 27 consecutive months. Food inflation is stable at 8.59% (from 8.63%), and non-food inflation dropped to 9.42% (from 9.61%). This can partly be explained by a slowdown in demand, with reduced consumption following Eid (celebrated on April 1).

According to a report by the General Economics Division (GED) of the Planning Ministry, rice was the main contributor to food inflation in March 2025 (34%). The rise was driven by crop losses during the Aman harvest due to floods in September–October and higher international prices. Other major contributors were fish (27%), vegetables (14%), and fruits (11%).

BUDGET

The government goes for a budget cut for 2025-26, a first in the country's history

Late June, the interim government approved its budget for the fiscal year 2025-2026. Totalling BDT 7.9 trillion (approximately USD 65 billion), or 14% of GDP, this budget marks a historic decline of BDT 70 billion compared to the previous fiscal year, which is a first in the country's history. It reflects a desire for fiscal consolidation in an uncertain economic and political context.

The budget is based on ambitious and optimistic macroeconomic forecasts. The government is targeting GDP growth of 5.5% for FY2026, after a performance of less than 4% in FY2025. Inflation, which has exceeded 9% for the past two years, is expected to fall to 6.5%. The budget also anticipates credit growth to the private sector reaching 11% (compared to 9.8% in FY25) and a slight improvement in the private investment/GDP ratio, rising from 24% to 24.3% year-on-year. However, these targets appear difficult to reach, given the persistent barriers to investment and political instability.

The budget deficit is set at 3.6% of GDP, compared with 4.6% of GDP last year. It will be financed by BDT 960 billion from external resources and BDT 1,250 billion from domestic resources. This strategy is prudent in a context of high inflation and limited fiscal room for manoeuvre.

The revenue target for FY2026 is BDT 5.64 trillion, an 8% increase over the revised FY25 budget. The tax administration is expected to collect BDT 4.99 trillion. Historically, the tax administration has struggled to meet its targets, and a deficit of more than USD 1 trillion could materialize by the end of FY25. According to calculations by the think tank Centre for Policy Dialogue (CPD), this target is actually 29% higher than the likely revenue for the current fiscal year.

The budget provides for a slight increase in the tax exemption threshold for individuals (from BDT 350,000 to BDT 375,000), but this will not come into effect until FY2026-27.

The annual development program (ADP) allocation is reduced by 13% to BDT 2.3 trillion.

ENERGY

Bangladesh gradually clears its debt in the gas sector

Payment arrears in Bangladesh’s gas sector have significantly decreased since the interim government took office. While arrears had reached USD 750 M in August 2024, they have been almost completely repaid by now. Over the past three years, the persistent dollar crisis had forced Petrobangla, the state-owned company in charge of gas and mineral resources, to face major payment difficulties. This situation led to increased pressure from suppliers and disrupted gas imports.

According to the press, arrears still stood at USD 710 M in February 2025, but most of the amount was cleared over the past two months, bringing the total down to approximately USD 240 M by mid-April. According to Petrobangla, the remaining debts amount to USD 115 M under long-term LNG supply contracts, and USD 110 M for spot market purchases. Among the notable developments, the debt owed to Chevron, responsible for around 55% of domestic gas production, has been fully repaid. These repayments come in a context of strong export performance and robust remittance inflows, which have slightly improved foreign exchange reserves.

BANKING

Non-performing loans now account for 24% of total outstanding loans

Non-performing loans (NPLs) in Bangladesh's banking sector rose dramatically by BDT 745 billion (USD 6 billion) in the first quarter of 2025 (January-March), reaching over BDT 4.2 trillion (USD 34 billion), according to data from the Bangladesh Bank.

This sharp increase is mainly due to the implementation of stricter guidelines for loan classification. Loans classified as NPLs account for approximately 24% of total outstanding loans, meaning that nearly a quarter of bank loans are now considered risky. Among these classified loans, a significant portion of BDT 3.42 trillion, or 80% of NPLs, is categorized as "bad loans," which requires banks to set aside 100% provisions, reducing their ability to grant new loans.
With an asset quality review (AQR) underway in weakened banking institutions and new loan classification rules gradually coming into force, the NPL ratio is expected to continue to grow. The Central Bank anticipates that it could exceed 30% of outstanding loans.

The Central Bank announces plans to merge several Islamic banks

Bangladesh Bank plans to merge five struggling Islamic banks—Social Islami Bank, Global Islami Bank, First Security Islami Bank, Union Bank, and EXIM Bank—as part of a broad plan to stabilize the banking sector. The formal merger process will begin in July 2025 and be completed by December. This operation is part of the new Bank Resolution Ordinance 2025, a recently enacted law that strengthens the central bank's powers to restructure financial institutions in difficulty. Of the six banks currently in resolution, five are part of this merger process. The foreign-owned ICB Islamic Bank is ultimately excluded.

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

Bangladesh secured the disbursement of the fourth and fifth tranches of the program

After three months of negotiations, the IMF and Bangladesh have reached a staff-level agreement for the disbursement of the fourth and fifth tranches of the program. The Fund has agreed to disburse USD 1.3 bn to Bangladesh during its Board end of June. Besides, the program has been extended for 6 months until January 2027 and the total amount increased to 5.5 bn USD from 4.7 bn.
In recent weeks, discussions focused on the liberalization of the exchange rate regime, particularly the cap imposed by the central bank limiting the spread between the buying and selling rates of the dollar to 1 taka. The central bank has now agreed to remove this restriction, paving the way for a more market-driven exchange rate system. Commercial banks will henceforth be allowed to freely determine the dollar rate within a non-disclosed band set by the central bank. The Bangladesh Bank will publish a monthly reference rate based on interbank transactions, with a wider fluctuation band, estimated by local media at around 4% to 5%. Until now, the system was based on a reference rate set by the central bank with a 2.5% fluctuation margin.
In addition to the IMF, Bangladesh received around USD 3.5 bn in June from other development partners such as the World Bank, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), and JICA.

C. Budget as usual for 2025-26, navigating through macroeconomic challenges

SUMMARY. In a macroeconomic context that remains difficult, the 2025-26 budget was adopted by the Council chaired by Prof. Yunus at the end of June. It is the first austerity budget in the country's history, with spending slightly down on 2023-24 - enabling the public deficit to be reduced to 3.5% mainly due to cuts in the development budget (EUR -2.5 bn, i.e. -14%). This development budget is however historically under-spent by around 20%, due to a lack of capacity to spend the envelopes. Besides, certain assumptions still appear optimistic (inflation, growth), the tax collection target is ambitious, and reforms are mostly parametric rather than structural. The optimistic revenue target and a more realistic estimation of expenditures could lead to a widening of the public deficit, which the government will have to make up through domestic financing from the banking sector, further restricting access to credit for the private sector and hence growth. The interim government will seek to reduce its dependence on donors at a time when external debt servicing is growing rapidly (from 0.1% to 0.4% of GDP in four years).

1. An optimistic budget for the revenues and growth assumption; more credible for expenditures

The budget for fiscal year 2025-2026 has been prepared in an economic context marked by persistent imbalances: slow growth, high inflation, pressure on foreign exchange reserves, and political uncertainties. The objectives are therefore many: to restore macroeconomic stability, initiate a moderate growth rebound while slowing inflation, and meet the demands of donors, in particular the IMF.

In the absence of Parliament, the budget was approved ahead of schedule this year, on June 22 by the Advisory Council. The total budget amounts to BDT 7,900 bn (around USD 68 bn), or just 12.7% of GDP. Constrained by low tax collection and a slowing economy, this budget is once again expected to be one of the 5 smallest in the world as a percentage of GDP, compared with India's almost 30% and Pakistan's 20%. Unprecedented since the country's independence, this budget is restrictive, with a spending envelope slightly down by 0.9%, aimed at countering inflation and reducing the deficit.

While the assumptions on which the budget is based seem a little more cautious than usual, it should be noted that, overall, the Ministry of Finance has opted for still optimistic rebound projections, in line with previous budgets. It expects growth to pick up to 5.5%, compared with less than 4% in FY25 (the World Bank forecasts 3.3% and the IMF 3.8%). While the main donors are also forecasting growth of between 5.0 and 5.5% for FY26, these forecasts still seem very optimistic, given that the country is likely to face uncertainties with the organization of elections, and that the trajectory of inflation reduction could be affected by the rise in global prices. Growth in credit to the private sector, expected at +11% versus +7.5% in April 2025, will be difficult to achieve. Indeed, according to some experts, the first cuts in the key interest rate are unlikely to take place until early 2026, while the political situation and heavy reliance on the banking sector to finance the public deficit will also contribute to limiting private investment.

	FY24 actual	FY25 budget	FY25 revised	FY26 budget	FY27 proj.	FY28 proj.
GDP growth (%)	4,2	6,8	5,0	5,5	6,0	6,5
Inflation (%)	9,7	6,5	9,0	6,5	6,0	5,5
Private investment (%GDP)	24,0	27,3	24,0	24,3	25,4	25,7
BDT/USD	111,2	114,0	121,9	128,2	134,6	136,0
Foreign exchange reserves ($bn)	26,9	31,8	26,7	34,0	34,1	35,0

Source : MTMPS 2025-26

The inflation target of 6.5% for FY26 will require a drastic change, as consumer prices rose by a further +9.1% year-on-year in May 2025. While imported inflation is a major contributor to the price index, the assumption of a 5% devaluation of the taka also suggests that inflation will remain high.

In addition, the revenue target of Tk 5640 bn will require a 29% year-on-year increase in collections, according to estimates by the think tank CPD. The previous budget had already forecasted an increase of +27% - the latest projections show that collections will ultimately have risen by just 3% in FY25.

2. Ambitious tax targets and increased use of indirect taxes

2.1. Under the IMF program, a collection target of 8.3% of GDP. As part of the negotiations with the IMF for the 3rd and 4th program reviews, the authorities committed to generating Tk 300 bn in additional tax revenues for the 2025-26 budget. Total tax revenues should thus amount to Tk. 5,180 bn, but this represents a drop in tax-to-GDP ratio from 8.6% to 8.3%. VAT collection is forecast to grow at almost the same rate as inflation. The actual rate of collected VAT is around 3.6%.

Growth in tax collection could be affected by protests taking place at the National Board of Revenue (NBR). Some employees are protesting against the government's plan to split the NBR into 2 entities, and the government has promised to review its plan by the end of July.

The reduction in public subsidies, another lever that the IMF would like to see, is still struggling to get off the ground, with a budget of Tk 1157 bn compared with Tk 1115 bn a year earlier. It represents 15% of the budget.

According to the tax administration's medium- and long-term strategy, a modest target of 10.5% of GDP has been set for 2035, with an intermediate target for FY28 of 9.09%.

2.2. Indirect taxes will weigh more on disadvantaged households and the middle class. The tax hike in the 2025-26 budget is largely based on an increase in indirect taxes, mainly VAT on many goods and services (e.g. e-commerce), raising concerns about its impact on disadvantaged households and the middle class. It has also approved increases in customs duties and consumption taxes on certain goods, including energy products, household items and some consumer goods. VAT continues to account for over 50% of NBR revenues.

3. Budget cuts are sizeable but limited by spending constraints and rising debt cost

In line with the desire to propose a restrictive budget, the budget focuses on controlling recurrent expenditure and rationalizing the Annual Development Programme (ADP), which amounts to Tk 2,300 bn (3.7% of GDP). This represents a reduction of 1.0% of GDP on the previous budget, to a level more in line with the absorption capacities of the ministries. Investment expenditure is increasingly constrained by the steady rise of recurrent expenditure in the budget, from 55% in FY20 to 65% in FY25. While the wage cost has been kept under control, debt servicing expenditure (particularly external) has risen to 2.2% of GDP in FY25, and public subsidies have now reached 4.1% of GDP, compared with 2.9% four years earlier.

	FY20	FY21	FY22	FY23	FY24	FY25(r)	FY26(p)
Salaries	1,7	1,7	1,6	1,4	1,4	1,4	1,3
Goods and services	0,9	0,9	0,8	0,8	0,8	0,8	0,8
Internal debt servicing	1,7	1,9	1,8	1,8	2,0	1,8	1,6
External debt servicing	0,1	0,1	0,1	0,2	0,3	0,4	0,4
Subsidies	2,9	2,9	3,4	3,7	3,5	4,1	3,8
Annual Development Program (ADP)	4,8	4,5	4,7	4,3	3,9	3,8	3,7
Capital expenditure (excluding ADP)	0,7	0,8	0,6	0,5	0,4	0,8	0,2

Trend in main expenditure (as % of GDP). Source: MoF (MTMPS)

A deficit of 3.5% of GDP, likely to increase. By presenting an ambitious tax revenue plan and more reasonable development expenditure, the interim government hopes to achieve a public deficit of 3.5%, compared with

4.5% of GDP in the FY25 budget. As the risks to the tax administration's ability to raise taxes remain high, it seems plausible to get a higher-than-expected deficit, which will have to be financed, probably by increased borrowing from the banking sector.

Substantial reduction in the Annual Development Programme (ADP). The 13% reduction compared with the 2024-25 budget is welcome as this target seems more realistic. The average ADP implementation rate in recent years has been only 80%, mainly due to difficulties in implementing projects. This implementation rate could even reach only around 70% by 2024-25.

To achieve this reduction of Tk 350 bn (EUR 2.5 bn cut), the three ministries most impacted are those with the largest budgets: transport (-Tk 117 bn), energy (-Tk 83 bn) and local government (-Tk 45 bn). The Ministries of Education (-Tk30 bn) and Health (-Tk25 bn) come after, in a context where poverty regains ground. It should be noted, however, that these are traditionally weak ministries in terms of execution. This year's ADP includes 1,085 projects, compared with 1,246 the previous year.

The interim government's room for manoeuvre is nevertheless constrained by the ongoing megaprojects (i.e. projects costing over Tk 100 bn) launched by the previous administration, which will use up almost 20% of the total envelope. Of these 20 megaprojects (Roopur Nuclear Power Plant, Matarbari Coal Power Plant, MRT 1-5-6, Matarbari Port, etc.), eight are theoretically scheduled for completion in the upcoming fiscal year.

Faced with rising external debt servicing, an attempt to lower external financing. Thanks to its efforts on the deficit, the government hopes to start reducing the need for additional external debt, which represented 47% of public deficit financing in FY25, compared with less than 20% ten years earlier. The target for FY28 is to reduce external financing to 33%. This target should also be seen in the context of the country's graduation from the category of Least Developed Countries in 2026, which will accelerate further the end of access to concessional windows from donors.

As a result, external debt servicing swelled to almost 3% of the budget, affected by higher global interest rates, a sharp devaluation of the taka and the end of the grace period (generally 5-7 years) for loans contracted when donor borrowing accelerated around 2017-18. Due to accumulation, the trajectory will remain bullish.

Significant reliance on borrowing from the banking sector, limiting credit to the private sector. The 2025-26 budget expects that 46% of the budget deficit (Tk1040 bn) will be financed by net borrowing from the banking system. Although significantly lower as a percentage of GDP than in previous years (1.7% vs. 2.5% in 2023-24), this high level of domestic mobilization reflects the difficulty of expanding the tax base and diversifying sources of financing (bond issuance).

By absorbing a significant proportion of available bank liquidity, the state budget is reducing the resources available for private sector. This tension is all the more problematic as credit growth to the private sector remains weak, with only 7.5% growth in April 2025, well below the official target of 11% for FY25. Against a backdrop of fragile economic recovery and heavy pressure on the banking sector, this could act as a brake on private investment, particularly by small and medium-sized enterprises.

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