MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE LA SOUVERAINETÉ 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°16 – Sept-Oct 2025

A. FRANCE-BANGLADESH NEWS

Launch of a new Team Europe Initiative on Climate&Energy

France is honoured to co-chair a new Team Europe Initiative (TEI) on Climate & Energy in Bangladesh, alongside the European Union. During the launching event, our new Ambassador of France to Bangladesh, Jean-Marc Séré-Charlet underlined France's strong commitment to supporting Bangladesh's green transition, in line with the Paris Agreement and the EU's Global Gateway strategy. Through the French Development Agency (AFD), France has been a key partner in promoting climate resilience and low-carbon growth, with 80% of its 2-billion-euro portfolio in Bangladesh since 2019 contributing to climate co-benefits. This new initiative will further strengthen collective efforts to foster renewable energy, energy efficiency, and climate adaptation.

Strengthening France–Bangladesh cooperation in the blue economy

Our Head of the Economic Department, Julien Deur, has published an article in Energy & Power magazine on France's role in supporting Bangladesh's blue economy. The article highlights how closer cooperation between Bangladesh and France could unlock new opportunities for growth and innovation in areas such as marine energy, sustainable fisheries, and oceanography. As Bangladesh strives to become a strong and prosperous economy within the next decade, the blue economy will play a pivotal role in achieving this ambition. Read more here.

Our new Ambassador visited Snowtex's factories, a key partner for Decathlon

Our new Ambassador of France to Bangladesh, Jean-Marc Séré-Charlet, recently visited Snowtex, one of Decathlon's key partner factories in the country. The visit underscored Decathlon's long-standing commitment to responsible sourcing in Bangladesh. During his tour, the Ambassador explored the production facilities, and engaged in discussions on sustainable manufacturing practices. The visit also highlighted France's ongoing support for partnerships that promote inclusive growth, innovation, and social responsibility within Bangladesh's ready-made garment sector.

B. FRESH NEWS FROM BANGLADESH

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

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

Foreign exchange reserves continue to rise, while the current account returns to surplus

According to Bangladesh Bank, the country's gross foreign exchange reserves surpassed USD 32 billion at the end of October - its highest level since January 2023. Net reserves, calculated under the IMF's BPM6 methodology, reached USD 27 billion, up from around USD 20 billion a year earlier.

This improvement is mainly driven by the strong performance of the external sector, which remains the country's main short-term economic buffer. Exports have been robust, reaching USD 48 billion in FY25 (+9% year-on-year), while remittance inflows hit a record high of USD 30 billion (+25% year-on-year).

As a result, the current account swung from a deficit of USD 6.6 billion in FY24 to a surplus of USD 149 million in FY25, supported by the taka's depreciation, remittance incentives, and the formalization of transfer channels, amid efforts to curb illicit capital outflows.

The reduction in the current account deficit also helped improve the overall balance of payments, which recorded a surplus of USD 3.4 billion in FY25, compared to a deficit of USD 4.3 billion in FY24. Since July, Bangladesh Bank has purchased around USD 2.1 billion from commercial banks - reversing its previous policy of heavy dollar sales to support the taka.

NBR announces record revenue collection in the first quarter of FY26

According to official data, the National Board of Revenue (NBR) recorded its highest-ever first-quarter revenue collection, amounting to BDT 908 billion in Q1 FY26, a 20% year-on-year increase. This performance is attributed to a broader tax base, improved compliance, anti-evasion measures, and the recovery of previously evaded revenues.

Among the three main segments, VAT contributed the most with BDT 348 billion (+30% year-on-year), followed by income tax revenues at BDT 284 billion (+18%) and customs duties at BDT 275 billion (+12%).

It should be recalled that Bangladesh missed its FY25 IMF target, collecting only BDT 3,780 billion compared to the target of BDT 4,435 billion. Domestic resource mobilization will therefore be one of the key topics in the upcoming IMF review mission, expected to begin in Dhaka at the end of October.

Growth slows in the last quarter of FY2024–25; outlook revised downward for FY26

According to the Bangladesh Bureau of Statistics (BBS), real GDP growth slowed to 3.3% in Q4 FY2024–25, compared to 4.5% and 4.9% in the second and third quarters, respectively. The deceleration reflects weaker industrial and service activity, as well as lower public and private investment. For the full fiscal year, GDP growth stood at 3.97%.

Meanwhile, the IMF recently revised its growth forecast for FY2025–26 down to 4.9% from 5.4% projected in June. The revision is largely due to higher inflation expectations, with the FY26 inflation rate now estimated at 8.7% (up from 6.2% previously). The World Bank projects GDP growth of 4.8% in FY26 and 6.3% in FY27, indicating a gradual medium-term recovery of the Bangladeshi economy.

Inflation edges up in September, ending several months of decline

After several months of easing, inflation in Bangladesh ticked up to 8.36% year-on-year in September from 8.29% in August, according to BBS data. The rate remains well above the government's FY2025–26 target of 6.5%.

On a 12-month rolling basis (October 2024–September 2025), average inflation stood at a still-elevated 9.45%. Meanwhile, the wage growth index rose slightly to 8.02%, suggesting a modest nominal income adjustment in response to price pressures.

According to Finance Adviser Salehuddin Ahmed, the resurgence of extortion since August 2024 has contributed to price increases nationwide. However, he expects inflation to fall to around 7% by June 2026, noting that only an elected government will be able to effectively curb such extortion practices.

1.6 million women exited the labor force between 2023 and 2024

For the first time since 2010, Bangladesh's labor force has contracted. According to the final Labour Force Survey 2024 by the BBS, total employment fell to 71.7 million in 2024 from 73.4 million the previous year. While male participation remained stable (48 million), female participation dropped sharply by 6%, from 25.3 million to 23.7 million. The female labor force participation rate thus fell to 38%, down from 43% in 2022.

This marks a break from the previous decade's trend, in which labor force growth was largely driven by women entering the workforce. Economists cite several factors: slower job creation, rising competition in the ready-made garment sector (where women's share declined from about 80% to 65%), automation, limited support for entrepreneurship, and structural barriers such as inadequate childcare services.

Experts also stress that the issue is not only quantitative but qualitative: most jobs available to women remain precarious, temporary, or agricultural in nature

------------------------------ TRADE ----------------------------

The European Union submits a list of 60 non-tariff barriers to the Ministry of Commerce

The European Union (EU) has compiled a list of 60 non-tariff barriers identified as major obstacles to investment and trade for European companies operating in Bangladesh.

These barriers cover a wide range of regulatory and administrative challenges, including customs procedures, public procurement, intellectual property rights, anti-counterfeiting measures, profit repatriation, as well as restrictions related to license renewals, visas, and work permits. They also concern several key sectors such as agriculture, food products, and pharmaceuticals.

The document, transmitted to the Commerce Adviser, has reportedly been circulated by the Ministry of Commerce to more than twenty ministries, divisions, and public agencies for comments and recommendations on the EU's concerns within a seven-day deadline.

The EU reiterates in the document the importance of ensuring a level playing field for European investors and exporters. It emphasizes that, as Bangladesh prepares to graduate from the Least Developed Countries (LDC) category in 2026, the country must modernize and align its trade practices with international standards, particularly in the areas of transparency, competition, and innovation.

The EU remains Bangladesh's largest export market, thanks in particular to preferential access under the "Everything But Arms" (EBA) initiative. In 2024, bilateral trade in goods reached EUR 22.2 billion, resulting in a trade deficit of EUR 17.5 billion for the EU.

Government launches feasibility study for an EU free trade agreement

The Government of Bangladesh has launched a feasibility study for a free trade agreement (FTA) with the European Union (EU), its largest trading partner. The initiative aims to anticipate the gradual loss of trade preferences linked to the country's LDC status, which Bangladesh will exit in November 2026.

Currently, Bangladesh enjoys duty-free access to the European market, which absorbs more than USD 25 billion in exports annually, roughly 60% of the country's total exports. After a three-year transition period ending in 2029, Bangladeshi exports, particularly textiles, could face tariffs of around 10–12%.

In parallel, Bangladesh is also exploring eligibility for the Generalised Scheme of Preferences Plus (GSP+), which also provides preferential market access. Access to GSP+ is conditional on the ratification of 32 international conventions, of which 4–5 are considered difficult to adopt in the local context, according to the Ministry of Commerce. Moreover, the ready-made garment sector, which represents the bulk of Bangladesh's exports, already exceeds several safeguard thresholds under EU rules, limiting the benefits of the GSP+ option.

Bangladeshi exports to the United States could fall by 14% in FY26 due to additional tariffs imposed by the U.S. administration

According to a study by the think tank Research and Policy Integration for Development (RAPID), Bangladesh's exports to the United States could decline by more than 14% year-on-year in FY26 if the current U.S. tariff regime remains in place.

As a result of the additional tariffs imposed by the U.S. administration on numerous countries since August 2025, the study projects a 12% drop in U.S. garment imports in 2025, equivalent to a USD 10 billion contraction compared to the previous year.

In this context, lower U.S. demand could reduce Bangladeshi exports to the U.S. by around USD 1.25 billion, including USD 1 billion from the textile sector alone. RAPID also notes that the decline could reach 17% if a U.S.–India trade agreement were to reduce India's current tariff rate from 50% to 20%, the same rate applied to Bangladesh.

The United States remains Bangladesh's largest single export destination, accounting for 18% of total exports, nearly USD 7 billion in FY2023–24. In the U.S. ready-made garment market, Bangladesh holds about 9% of market share, behind China (21%) and Vietnam (19%). Since August 2025, the United States has imposed an additional 20% tariff on imports from Bangladesh.

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

Major central bank reform set to strengthen independence from the government

The Bangladesh Bank is preparing to submit to the interim government, led by Chief Adviser Prof. Muhammad Yunus, a draft amendment to the Bangladesh Bank Order (1972) aimed at enhancing the central bank's independence. This reform would align with IMF recommendations on the autonomy and transparency of monetary authorities.

The draft stipulates that the President will appoint the governor and deputy governors based on the recommendation of a six-member selection committee, which will include, among others, a former finance minister and a former governor or deputy governor of the Bangladesh Bank. The governor's status would be elevated to ministerial rank, and the position could no longer be terminated by the government, thereby ensuring greater stability of the mandate.

The board of directors would consist of the governor, two deputy governors, and five to six independent directors, with the removal of the three current government representatives. The Monetary Policy Committee (MPC) would also become fully autonomous in setting interest rates and monetary targets, without prior government approval. Additionally, the state's contribution to the bank's paid-up capital would increase from 30 million to 1 billion taka.

An IMF mission is expected in Dhaka on October 29 to assess progress on financial sector reforms.

Central bank interventions to maintain exchange rate at 121 Tk/USD

Since July, the Bangladesh Bank (BB) has purchased nearly USD 1.9 billion from commercial banks, injecting over 230 billion taka into the economy to maintain the dollar around 121 taka. This policy aims both to rebuild foreign exchange reserves (now above USD 26 billion) and to preserve the competitiveness of exporters and remittance flows, despite natural appreciation pressure on the taka from rising supply and weak demand.

Economists note that the primary goal is monetary stability and reserve rebuilding rather than inflation control. Inflation remains above 8%, partly driven by the taka's sharp depreciation since 2022. Dollar purchases inject liquidity into the banking system, but most of this liquidity flows into government securities rather than private credit, limiting inflationary effects.

The international context also plays a role: the U.S. Federal Reserve's September rate cut provides more room for BB's currency purchases. Maintaining a strong dollar is also consistent with the controlled flexible exchange rate mechanism implemented with IMF support.

Banks accumulate liquidity amid weak investment demand

According to Bangladesh Bank, unutilized liquidity held by banks reached 319 billion BDT in June 2025, up from 193 billion BDT a year earlier. After the political crisis of July–August 2024, which triggered large withdrawals and strained sector liquidity, deposits gradually recovered, reflecting restored depositor confidence. This recovery was supported by lower yields on savings certificates and Treasury bonds, as well as the return of capital to formal banking channels that had previously flowed through informal means ("hundi").

Under its foreign exchange market intervention strategy, the central bank injected significant liquidity by purchasing foreign currency. Since mid-July, BB has bought USD 2.1 billion (259 billion BDT) from banks to stabilize the exchange rate.

Deposit growth reached 10% in August 2025, up from 7.8% in June, while private sector credit demand fell to 6.3% in August, down from 9.9% a year earlier, leaving a large portion of liquidity unutilized. This accumulation highlights persistent weak investment demand despite restored confidence and gradually improving monetary conditions. Meanwhile, currency in circulation outside banks fell from 2.9 billion BDT in June to 2.7 billion BDT in August 2025.

Central bank prepares EUR 1.4 billion plan to restructure the banking sector

The Bangladesh Bank (BB) is preparing a plan to restructure distressed banks, with an initial phase expected in December. The operation, estimated at 200 billion BDT (EUR 1.4 billion), will be financed through the national budget with support from development partners. The Asian Development Bank and World Bank have expressed interest.

The first targeted institutions are five Islamic banks—First Security, Social Islami, Global Islami, Union Bank, and EXIM Bank—which could potentially be merged. Audits by KPMG and Ernst & Young have already revealed a capital shortfall of approximately 460 billion BDT across six Islamic banks.

With IMF support, the government will publish a comprehensive banking stability strategy to rehabilitate the sector.

According to the latest BB data, distressed loans in Bangladeshi banks reached a record BDT 7,565 billion by the end of 2024, up 59% year-on-year. This represents nearly half of total outstanding loans (BDT 16,829 billion). The Financial Stability Report 2024 shows that these claims include BDT 3,458 billion in non-performing loans, BDT 3,485 billion in rescheduled loans, and BDT 623 billion in written-off loans. The report also notes that nearly 40% of rescheduled loans in 2024 reverted to non-performing status, highlighting the fragility of these loans.

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

IMF program – the country meets all conditions for the 6th tranche except the revenue target

Bangladesh has met most of the IMF conditions for the disbursement of the sixth tranche (USD 450 million) of its USD 5.5 billion program, except for the most challenging criterion: mobilizing fiscal revenue.

Foreign exchange reserves, which had previously posed a challenge requiring waivers, have now recovered significantly. Net reserves under the IMF definition reached USD 20.7 billion in June, well above the target of USD 17.4 billion. Bangladesh also met the criterion for reducing public sector arrears in the energy and fertilizer sectors, bringing foreign currency arrears down to USD 314 million (target: USD 870 million) and domestic arrears to BDT 180 billion (target: BDT 281 billion).

However, tax collection remains the program's weak link: against a target of BDT 4,435 billion for FY24-25, revenues reached only BDT 3,780 billion. Since the last tranche, this revenue criterion has become a quantitative performance target, requiring an IMF Board waiver. To address this, the government has announced the formation of a National Taskforce on Tax Restructuring, comprising economists, private sector representatives, and civil society, tasked with proposing measures to raise the tax-to-GDP ratio.

A two-week IMF mission is scheduled to begin at the end of October.

IMF caps new public external borrowing under the program

Under the USD 5.5 billion IMF program, Bangladesh will face a ceiling on new external borrowing. For FY25-26, new borrowing is capped at USD 8.44 billion, including USD 1.91 billion in Q1 and USD 3.34 billion for H1. This comes as external public debt has increased 3.5-fold between 2010 and 2023, compared with 2.1 for India and 2.5 for Nepal.

The finance adviser stated that this will not pressure the country, and Bangladesh will not take any budgetary loans this year. In particular, no additional loans will be requested from the IMF, World Bank, or ADB.

According to the latest IMF analysis, the debt-to-exports ratio surged to 162.7% in FY24, well above initial projections. While external public debt remains moderate at around 20% of GDP, the foreign currency debt service burden weighs on public finances as reserves remain under pressure. Debt service is projected to reach nearly 3% of the budget in FY26, affected by higher global interest rates and a significant depreciation of the taka.

The gradual end of grace periods (typically 5–7 years) for loans contracted during the borrowing acceleration around 2017-18 is rapidly increasing principal repayments on external debt.

Bangladesh under pressure ahead of LDC graduation

The UN Committee for Development Policy (CDP) has invited Bangladesh to submit by October a report on the progress of its Smooth Transition Strategy, which prepares the country for graduation from the Least Developed Countries (LDC) category. Under the CDP's Enhanced Monitoring Mechanism (EMM), a consultation with the Bangladeshi government could be held in November to assess progress.

This request comes as Bangladesh's graduation from the LDC list is increasingly questioned by business circles, which are calling for a three- to six-year postponement. They warn of higher export costs and a sharp decline in competitiveness in the coming years due to the loss of preferential advantages, especially in the European market, and amid a politically unstable environment where the cost of doing business remains high due to surging energy prices, excessive interest rates, and an under-automated, suboptimal tax system.

The interim government has so far stated it will not request a postponement, emphasizing that the decision will be made by the elected government after the next elections in February 2026. However, on September 16, the Commerce Secretary hinted that a possible three-year extension via a UN resolution was under discussion within the government.

The special envoy of the Chief Adviser, Lutfey Siddiqi, recently described the transition as "inevitable," while acknowledging that a postponement of "a few years" remains possible. He also outlined five priorities for a successful transition: (i) Diversification of exports ; (ii) Logistics and administrative reforms ; (iii) Negotiation of free trade agreements ; (iv) Upskilling and workforce training ; (v) Modernization of labor law

The decline of concessional loans accelerates

Concessional loans, granted on favorable terms, have historically formed the backbone of public borrowing in Bangladesh, but they are now rapidly declining. Authorities follow the IMF definition, under which any loan with a grant element below 25% is considered non-concessional.

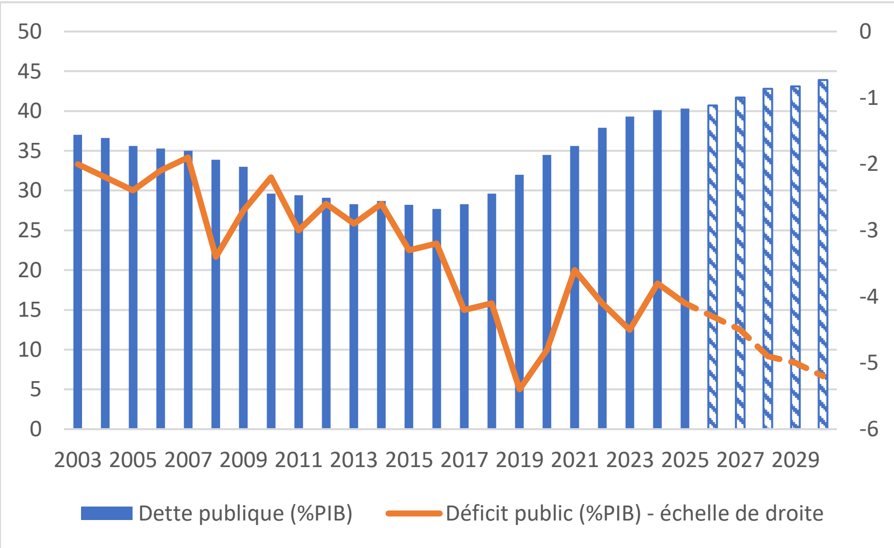
According to the Economic Relations Division (ERD), 43% of Bangladesh's external borrowing in FY24-25 was contracted at market rates, compared with 28% a year earlier and 26% in FY22-23, marking an unprecedented acceleration. This shift reflects tighter financing conditions from major multilateral institutions (led by the World Bank and Asian Development Bank). For instance, in FY24-25, only 20% of the USD 2 billion loaned by the ADB was at a fixed 2% interest rate.

Moreover, these market-rate loans have become particularly expensive amid the global rise in interest rates—especially the SOFR, which reached 5.3% in 2023 and 2024. To offset this, Dhaka is increasingly turning to loans in yen or RMB, which offer more attractive rates but increase currency risk.

C. Level of public debt, some developments to monitor

Bangladesh's public debt has increased significantly over the past decade, from 27% of GDP in 2015 to 40% in 2025. While still below the IMF's alert threshold (55%), it is expected to rise further to around 43% by 2028, according to IMF projections. Several weak signals should be monitored in the coming years: i) the sustainability of debt servicing, with interest payments now representing the second-largest expenditure item (15%) in a budget constrained by low tax revenues; ii) the growing difficulty, following the country's graduation from the Least Developed Country (LDC) category in November 2026, of accessing concessional external financing, which the government relied upon to fund 47% of its public deficit in FY2024–25; and iii) increasing pressure on a banking sector facing liquidity shortages, as the government will rely more heavily on domestic financing from banks.

Public debt in Bangladesh has risen steadily in recent years, reaching approximately Tk 20 trillion (around USD 164 billion) at the end of March 2025, equivalent to roughly 40% of GDP. Although this ratio remains well below that of many emerging economies (India 80%, Pakistan 74%), it reflects a steady upward trajectory over the past decade, raising questions about long-term sustainability. Official projections suggest this ratio could decline to 37.7% by June 2028 (MTMPS), while the IMF projects 42.8% for the same period. This remains comfortably below the IMF's 55% alert level.

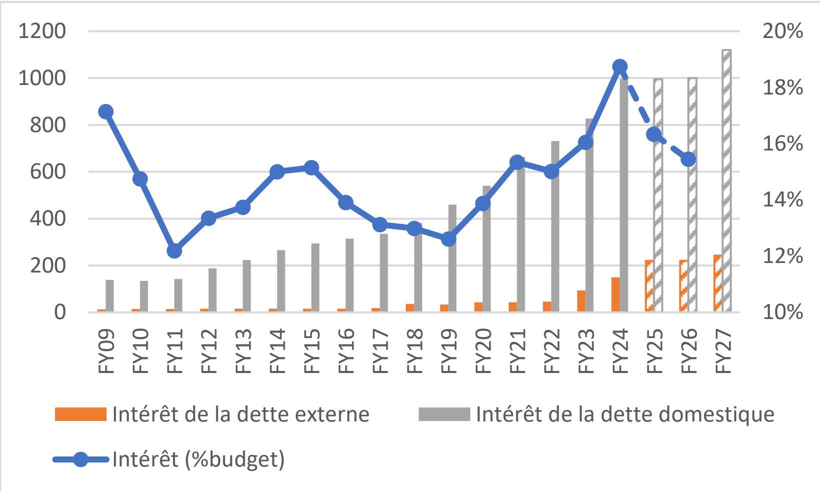


Evolution of Public Debt and Deficit (right scale), as % of GDP. Source: IMF

Although Bangladesh's debt level may appear moderate at first glance, the steady rise in borrowing raises concerns about the country's capacity to finance growth without undermining economic stability. Bangladesh has one of the lowest tax-to-GDP ratios in the world, around 7–8%. Consequently, when compared to government revenues, the public debt ratio stands at about 460%, implying that it would take nearly five years of fiscal revenue to repay the debt (compared with approximately seven years for Pakistan and Sri Lanka, and six years for India).

A Significant and Rapid Increase in Debt Servicing

Debt service (interest and principal) has grown sharply in recent years, driven by rising debt stock and higher domestic and external interest rates. In FY2023–24, debt service reached 5.8% of GDP (approximately USD 26.2 billion), of which 4.7% related to domestic debt and 1.1% to external debt. Domestic borrowing is particularly costly, with an average interest rate of 9.8% in FY2023–24, compared to just 2.0% for external debt, which remains largely concessional.



Intérêt de la dette externe et domestique (en Mds Tk). Source : MinFi

Interest payments account for an increasingly large share of the limited national budget, reaching up to 19% in FY2024 and projected to be around 15.4% in FY2026 — a notable increase compared with the 2010–2020 average of 13.6%. Some 87% of this expenditure covers domestic borrowing. This growing debt burden is eroding the government's fiscal space for social and investment spending. Persistently high inflation through mid-2026 and ongoing budgetary constraints suggest that the relative weight of public debt servicing will continue to rise, while the country remains vulnerable to external shocks.

Furthermore, the gradual expiry of the grace periods (typically 5–7 years) on loans contracted during the borrowing surge of 2017–18 is leading to a rapid increase in principal repayments on external debt.

A Reduction in External Borrowing That Will Be Difficult, Even After LDC Graduation

The government aims to gradually reduce its reliance on external borrowing, which accounted for 47% of public deficit financing in FY2025, compared with less than 20% a decade earlier. The target for FY2028 is to reduce this share to 33%, and the FY2025 objective is to limit the deficit to 3.5% — a level not achieved since 2016. However, this target will be difficult to meet: between September 2024 and June 2025, external debt rose by nearly USD 7 billion (+9.3%).

This reduction goal must be viewed in light of Bangladesh's forthcoming graduation from the LDC category in November 2026, which will accelerate the loss of access to concessional lending windows from development partners.

As a result, external debt service is expected to rise to nearly 3% of the budget in FY2026, driven by higher global interest rates and a sharp depreciation of the taka. Given the accumulation effect, the upward trend will likely persist.

In addition, the downgrade of Bangladesh's sovereign credit ratings by major agencies in 2024 — Moody's (B2), Fitch (B+), and S&P (B+) — has directly affected the country's external financing conditions, leading to higher borrowing costs.

Domestic Debt Increasingly Dependent on the Banking Sector

Domestic public debt mainly consists of short- and medium-term instruments, such as Treasury bills and government bonds, largely subscribed by commercial banks and, to a lesser extent, the central bank, as well as National Savings Certificates (NSCs). The latter are popular savings instruments, particularly among retirees, offering attractive interest rates.

As NSC issuance declines due to their high cost and the government's efforts to limit foreign currency borrowing, the state is increasingly reliant on the domestic banking sector. However, the sector is already facing significant liquidity constraints due to a high level of non-performing loans, which in turn discourages banks from lending to the productive sector.

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