A Quick Overview of Bangladesh’s Macroeconomic Scenario and Fiscal Priorities

POLICY ExCHANGE Bangladesh
Catalyzing growth solutions

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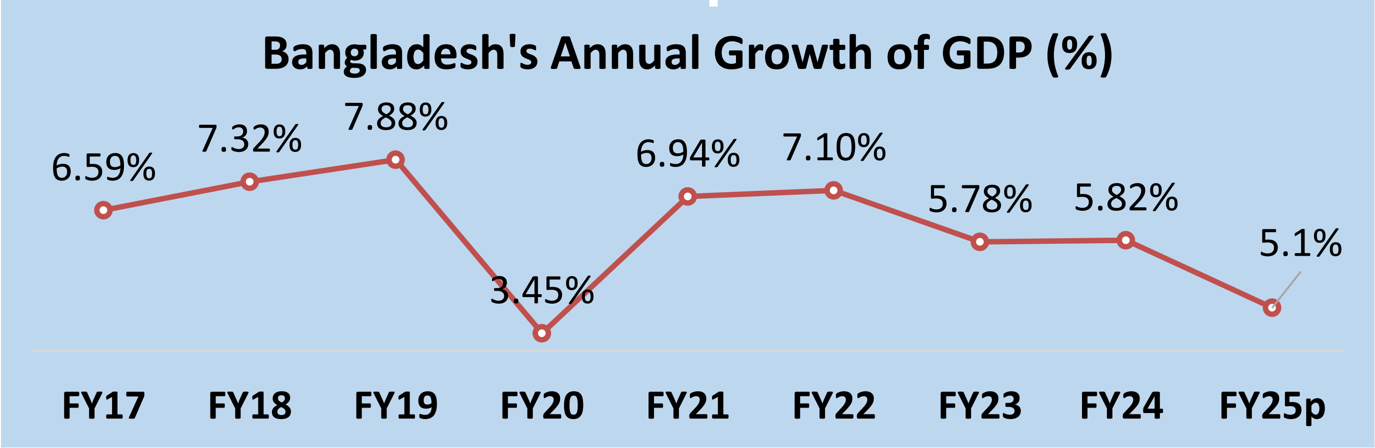
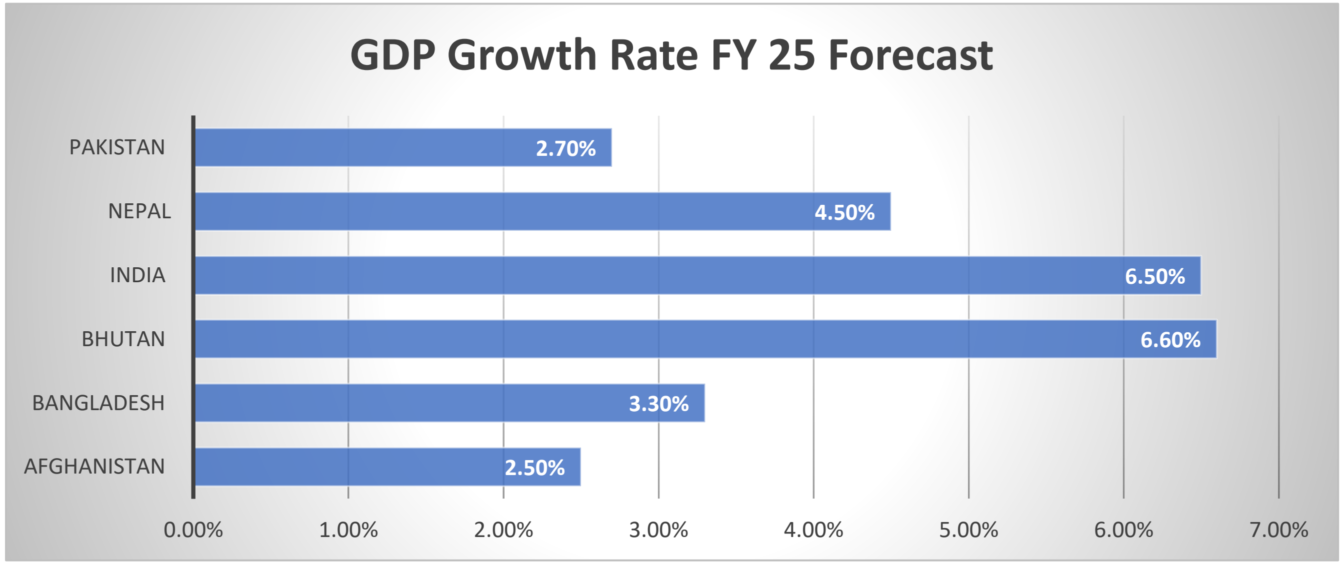
Macroeconomic Outlook: Short- and Medium-Term Prospects for Bangladesh

GDP Growth to be Sluggish Amid Global Shocks, Macroeconomic Challenges & Political Development



(Source: BBS)



(Source: World Bank)

- **GDP growth slowed to 5.8% in FY2024 (from 7.1% in FY2022)** due to weak industry and services, July unrest, inflation, and energy disruptions.

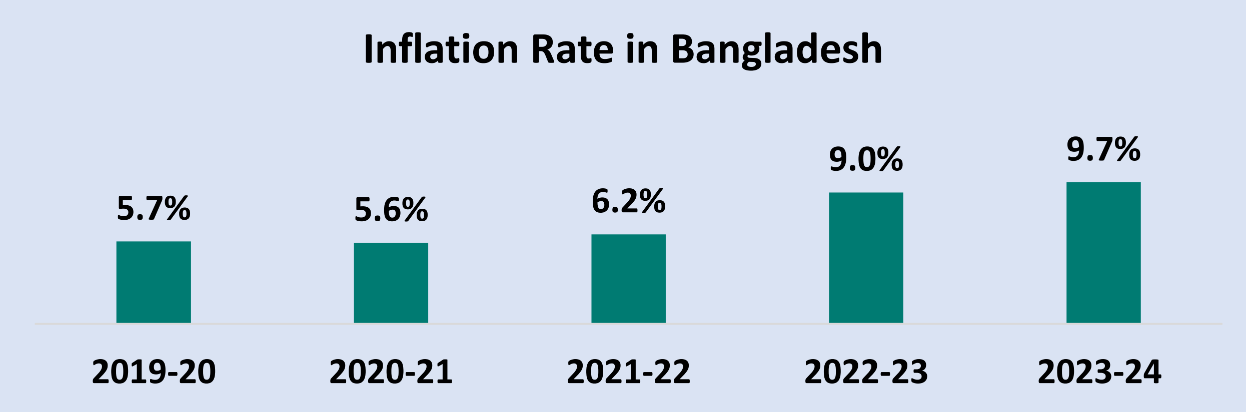
- The World Bank has revised Bangladesh's GDP growth forecast for FY 2024–25 down to **3.3%**, while the IMF has slightly lowered its projection to **3.8%** from **4.5%**.

- Sustaining growth amid global challenges requires addressing **intermittent unrests, tight monetary policy, energy disruptions, inflation, and import compression**

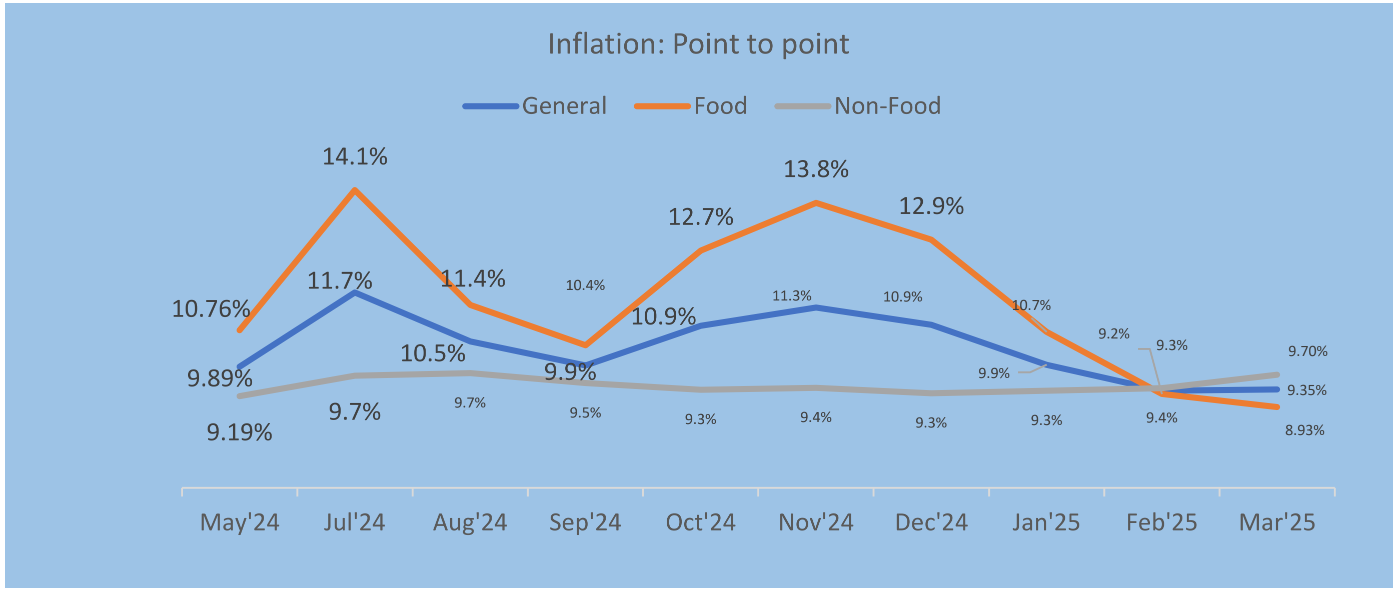
- **Break from Growth Frenzy and Prioritize Macro Stabilization and Rebound**

Source: International Monetary Fund Real GDP Growth Data

Persistent Inflation Threatens to Derail Bangladesh's Growth Trajectory



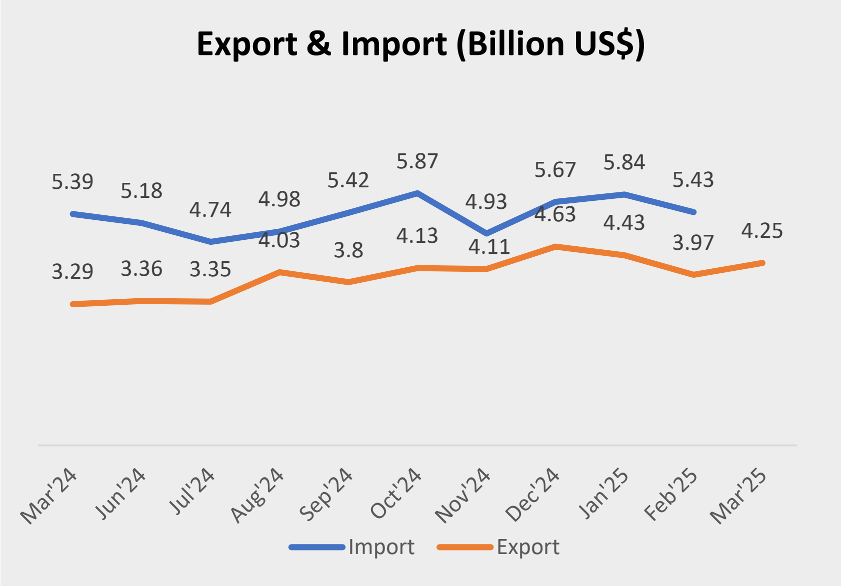
(Source: BBS)

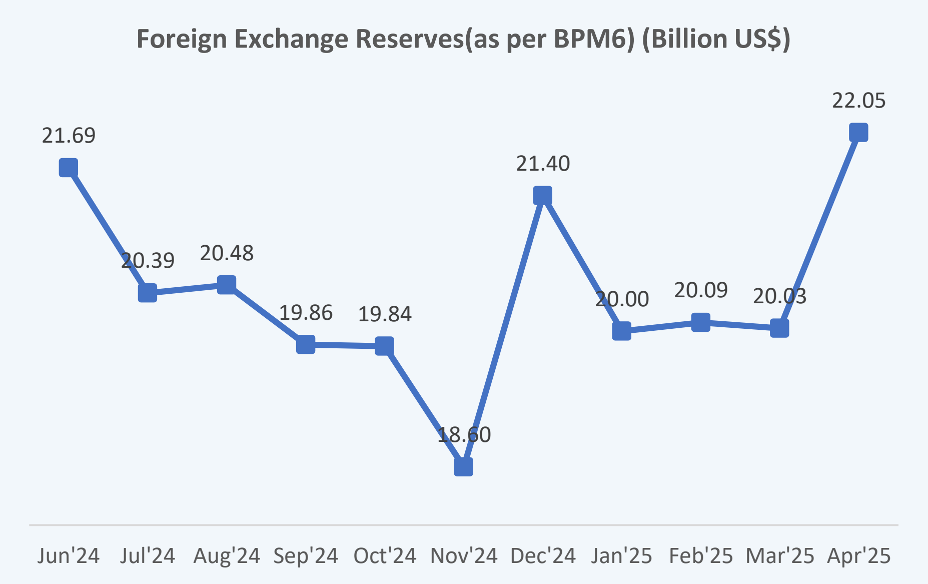


(Source: Foreign Trade Statistics of Bangladesh 2023, BBS, ADB)

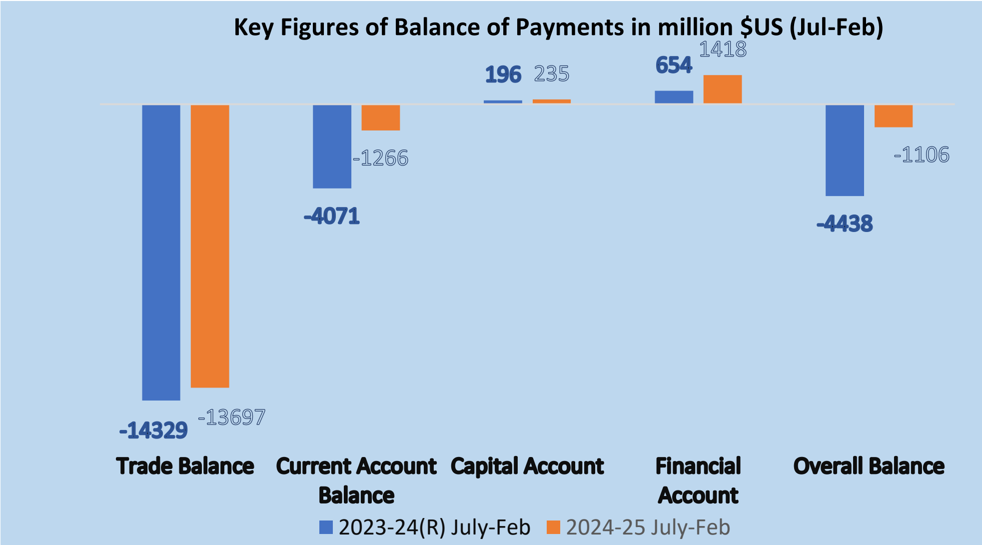
- Inflation surged to **9.7% in FY24** (up from **6.2%** in FY22), driven by high food, fuel, and fertilizer prices, as well as currency depreciation.
- General inflation edged up slightly to **9.35%** in March, up **0.05**% from February (9.3%)
- **Non-food inflation** rose to **9.7%**, up **0.3%** from February (9.4%)
- Food inflation fell **0.27%** points to **8.93%** in March, down from **9.2%** in February
- **Two out of four important Inflation battling tools already deplo**yed: adjusting interest rate, and controlling high-powered money (print)
- **Two more needs improvements**: supply boost through import normlaization, minimizing supply chain manipulation

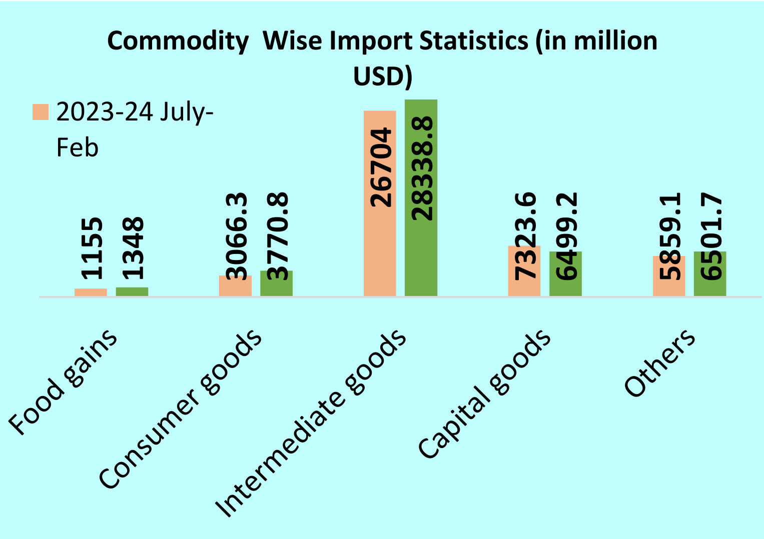
Exports, and Balance of Payment Mark Slight Recovery





(Source: Bangladesh Bank)

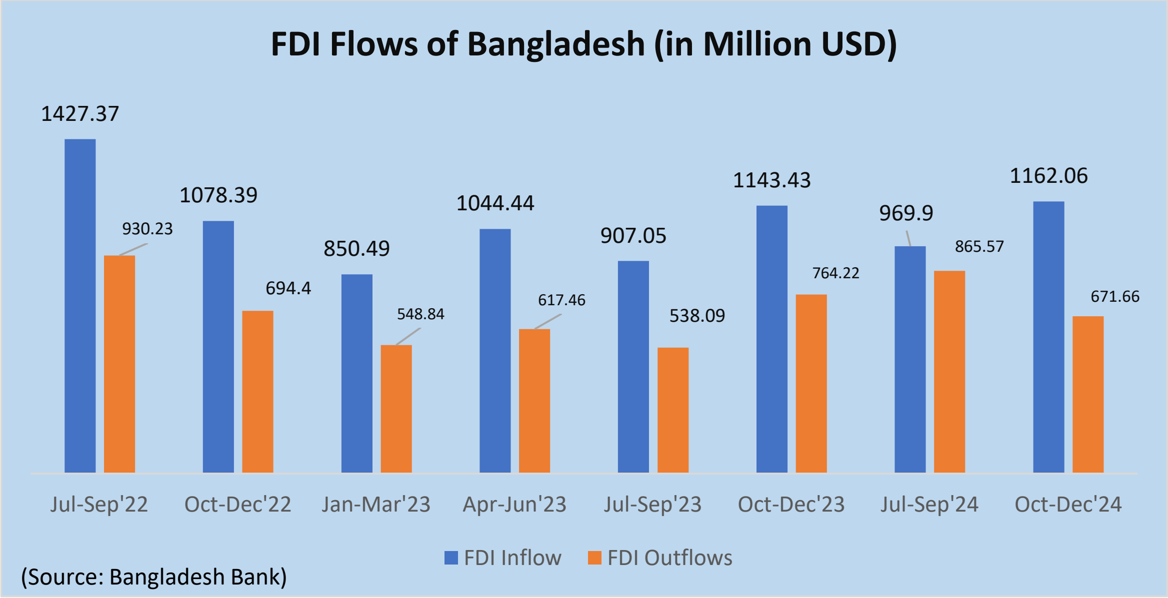




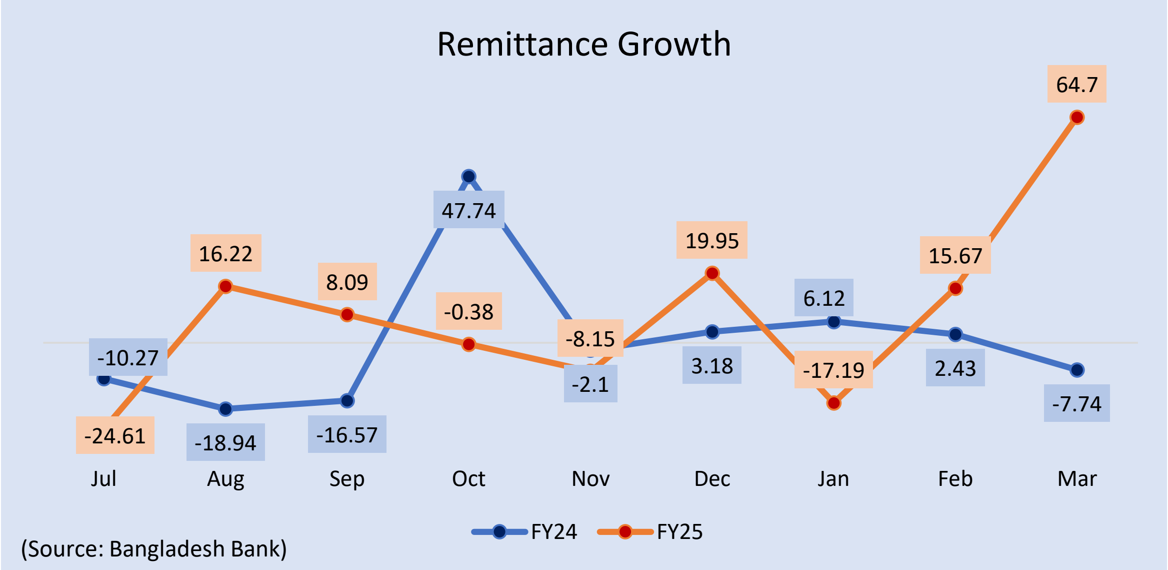
(Source: Bangladesh Bank)

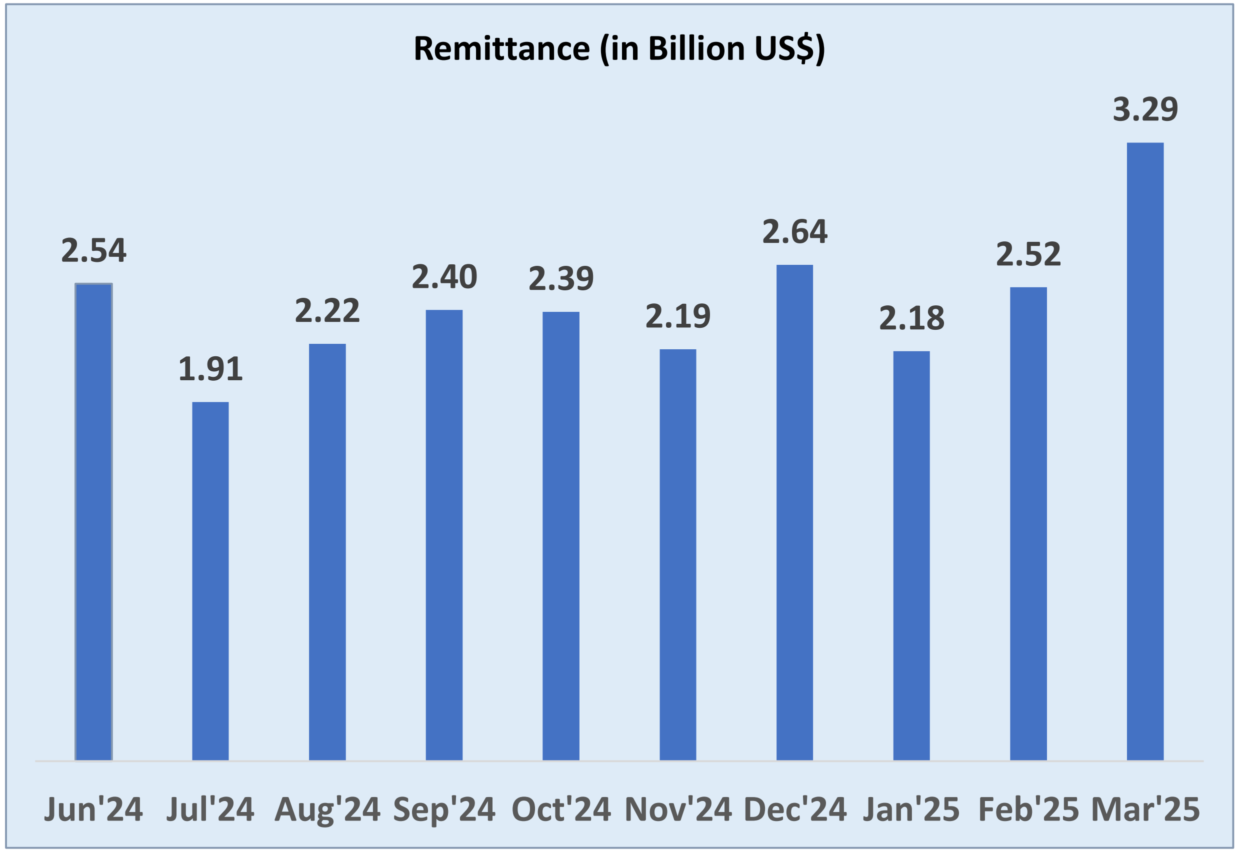
- Compared to the same period in 2024, exports from July to February of FY25 grew by **9.10% to $30B** (**from $27.54B**)
- While imports rose by **4.5% to $43.73B (from $41.87B)**
- Capital goods import dropped by **12%**
- The trade deficit for FY25 from July to February narrowed to **$13.70 billion**, down from **$14.32 billion** during the same period in the previous fiscal year
- Consolidating on early success: sustaining exports, dealing with US tariffs, energy supply to industrial sectors, minimizing exchange rate speculation and cross-border illicit flow

FDI Under Pressure while Remittances on a Robust Track



FDI inflows dropped by **71 percent** year-on-year, falling to **$104.33 million** in the **July-September** quarter of **FY25**, the lowest in six years, according to Bangladesh Bank.

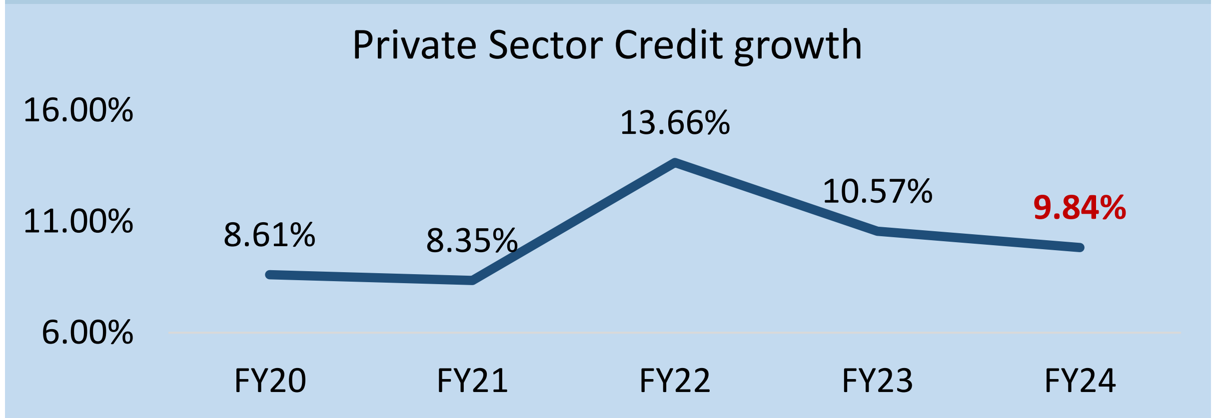




(Source: Bangladesh Bank, EPB,BBS)

Private Sector Growth Stalls Due to Contractionary Monetary Policy, Sluggish Demand/Import

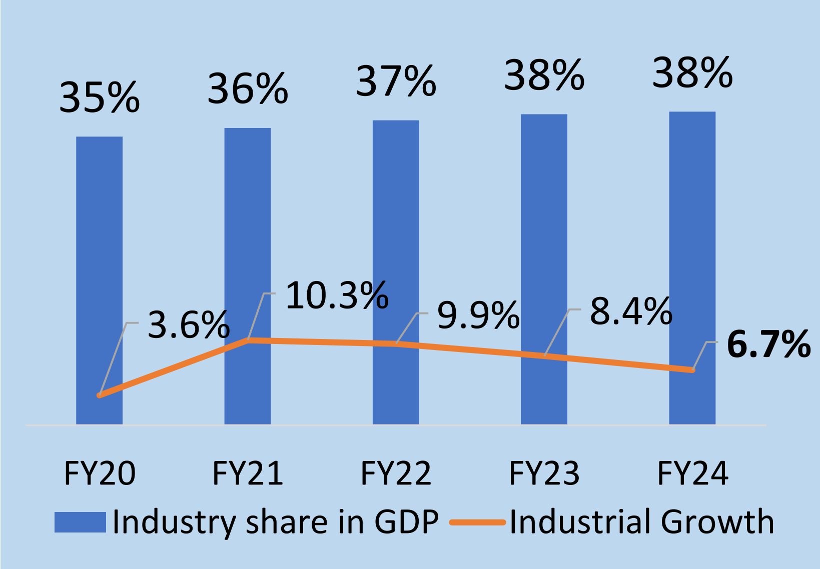
Bangladesh's Private Sector Credit Growth



(Source: Bangladesh Bureau of Statistics, BBS)

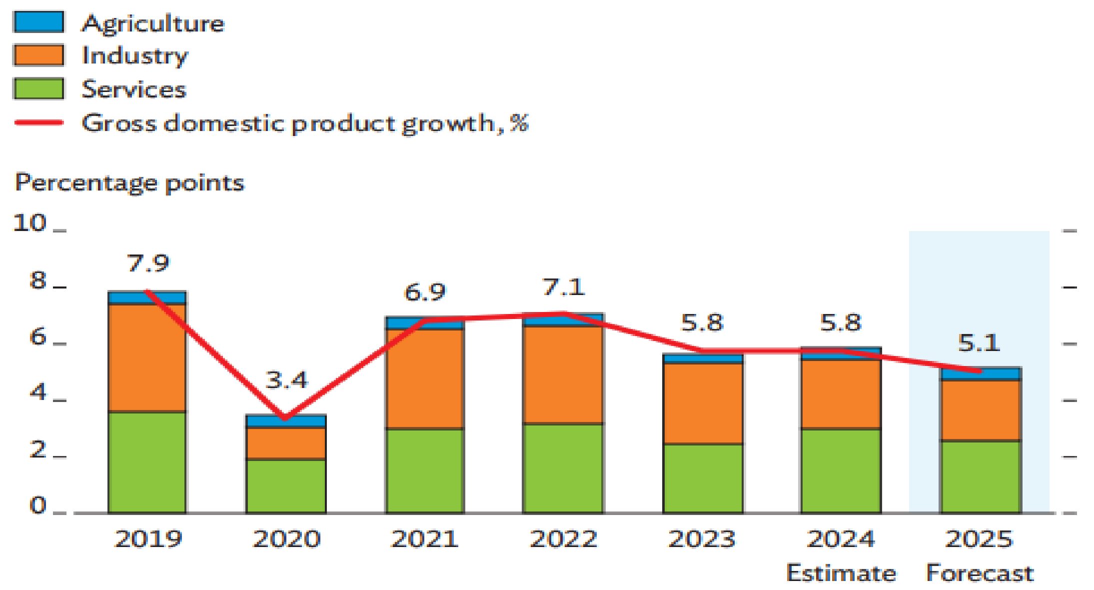
- Industrial Growth declined to **6.7%**, largely due to reduced export demand and energy shortages.
- Private Sector Credit Growth slowed to **6.8%** in February 2025 (due to high interest rates and import restrictions)
- Agriculture Growth slowed **to 3.2%** (from 3.4% in FY2023) due to floods and cyclones.

Trend in Industrial Growth and Share of GDP



(Source: Foreign Trade Statistics of Bangladesh 2023, BBS, ADB)

Supply-Side Contributions to Growth



Note: Years are fiscal years ending on 30 June of that year.

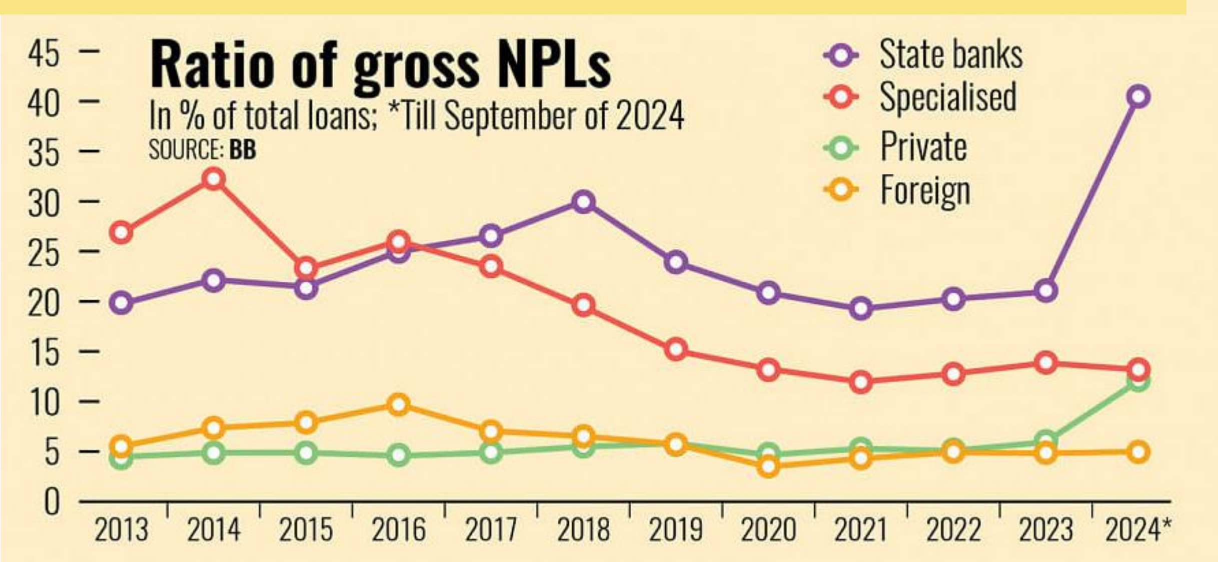
Banking Sector Remains in Challenge but Receiving Highest Recovery and Reform Attention

Experiencing a severe crisis due to significant governance failures and abuse in the past years

Factors that Led to Current Scenario :

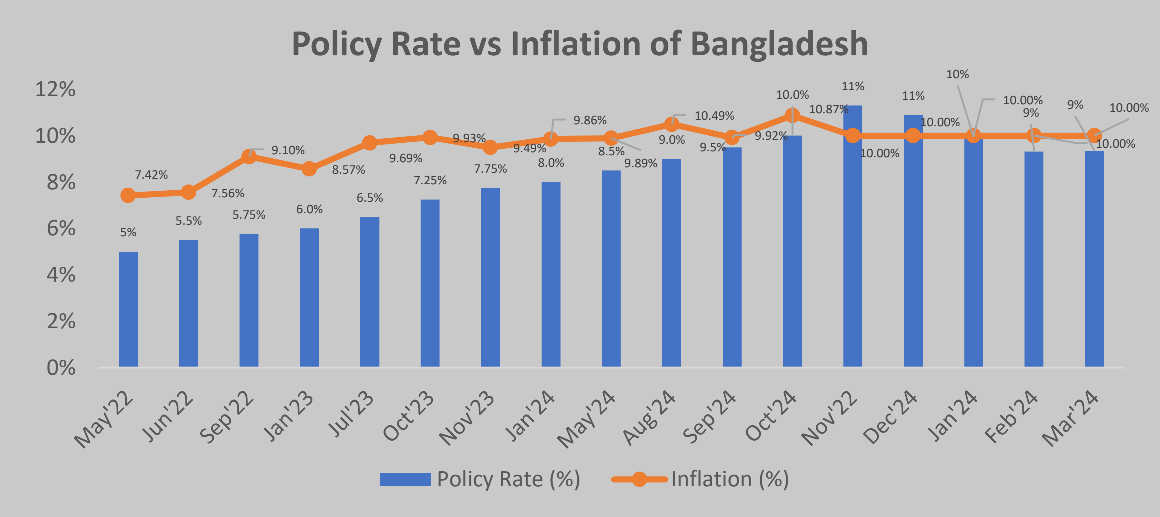
- **High NPLs**
- **Lack of Liquidity**
- **Low Forex Reserves**
- **Lack of Autonomy of Central Bank**
- **Internal control and Audit Weakness**

NPLs hit Tk 284,977 crore in September 2024 **(17% of total loans)** due to **poor risk assessments, political unrest, and lax regulation.**



Bangladesh Bank raised the **policy rate to 10%** (fifth hike this year, aiming to curb inflation.

Policy Rate vs Inflation of Bangladesh

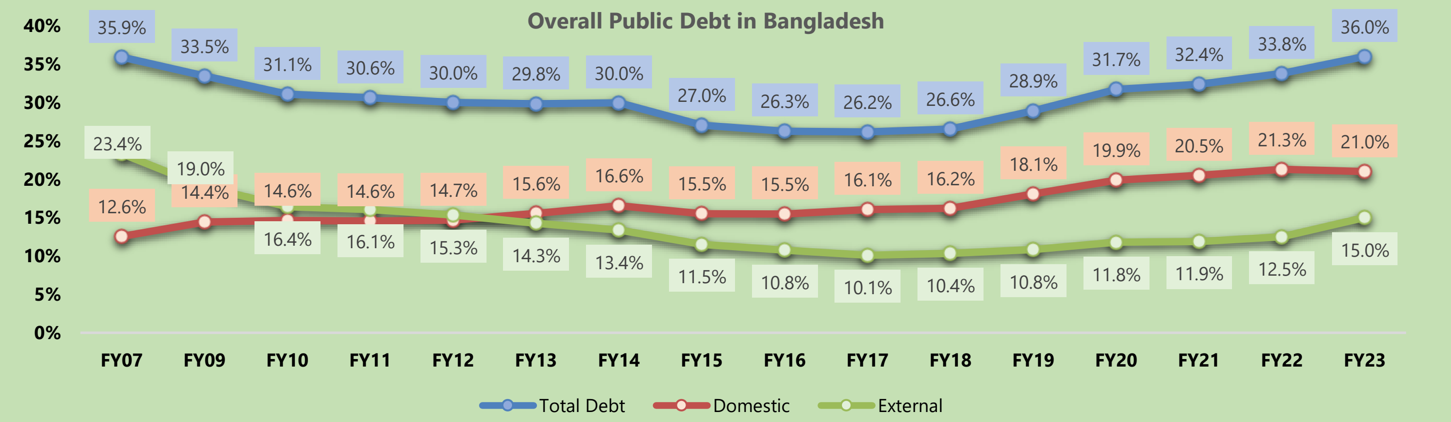


(Source: BB)

Ensuring Fiscal Prudence:

Towards Debt Sustainability and Robust Public Investment Management

Legacy Issues and Fragmented Debt Management Undermining Fiscal Resilience



Source: Debt management, Finance Division, Ministry

Composition of Public Debt in Bangladesh

Crore BDT

Source of Borrowing	As of 30 June 2021	As of 30 June 2022	As of 30 June 2023	As of 30 June 2024
A. Domestic Debt (1+2)	7,23,939	8,47,930	9,44,335	10,20,205
1. Debt from Banking Sources	3,34,252	4,19,627	5,07,763	5,96,863
1.1. Treasury Bills	51,268	77,024	1,23,681	1,33,446
1.2. Treasury Bonds & SPTB	2,74,983	3,24,603	3,66,083	4,44,419
1.3. Sukuk	8,000	18,000	18,000	19,000
2. Debt from Non-Bank Sources	3,89,686	4,28,303	4,36,572	4,23,342
2.1. Debt from NSCs	3,45,655	3,65,562	3,65,233	3,44,109
2.2. Others (GPF)	44,031	62,741	71,339	79,233
B. External Debt	4,20,357	4,95,793	6,72,978	8,12,077
C. Total Debt (A+B)	11,44,296	13,43,723	16,17,313	18,32,282
GDP	*35,30,184*	*39,76,462*	44,49,959	50,48,027
Debt to GDP (%)	32.41%	33.79%	36.34%	36.30%
Domestic Debt to GDP	20.51%	21.32%	21.22%	20.21%
External Debt to GDP	11.91%	12.47%	15.12%	16.09%

Source: Quarterly Debt Bulletin, Issue 11, Finance Division

- **Total Debt-to-GDP** ratio rose to **36.30%** in **FY2024**, up from **32.41%** in **FY2021**, reflecting **higher fiscal pressures**.
- **Domestic debt stock** expanded to **BDT 10.20 trillion** in **FY2024**, compared to **BDT 7.23 trillion** in **FY2021**, driven by **Treasury bonds** and **bank borrowing**.
- **Borrowing from banking sources** increased sharply to **BDT 5.97 trillion** in **FY2024**, up from **BDT 3.34 trillion** in **FY2021**, signaling **crowding-out risks**.
- **Treasury bond** and **SPTB holdings** rose to **BDT 4.44 trillion** in **FY2024**, from **BDT 2.74 trillion** in **FY2021**, indicating a **shift to longer-term debt**.
- **External debt stock** surged to **BDT 8.12 trillion** in **FY2024**, compared to **BDT 4.20 trillion** in **FY2021**, raising **external vulnerability** (**External Debt-to-GDP** ratio increased to **22.60%** in **FY2024**)
- The debt service to revenue ratio is rising rapidly and is expected to **exceed 100% in near future**
- A significant portion of the national budget goes **to debt servicing to** deal with the enormous debt burden. In FY25, **14.24% of the** budget was reserved for **interest payments (16% in FY23)**

Bangladesh's Debt Challenges: Fragmented Control, Shallow Markets, Rising Servicing Pressure

Debt Management: Overarching Challenges

Overlap and Fragmentation among BB, ERD, and SOE.	Shallow and underdeveloped debt market
Scattered Data	Currency depreciation in case of debt repayment
Shortage of Capacity	Unidentified Contingent liability
Lack of Connection between markets and security certificates	Outdated reports and data

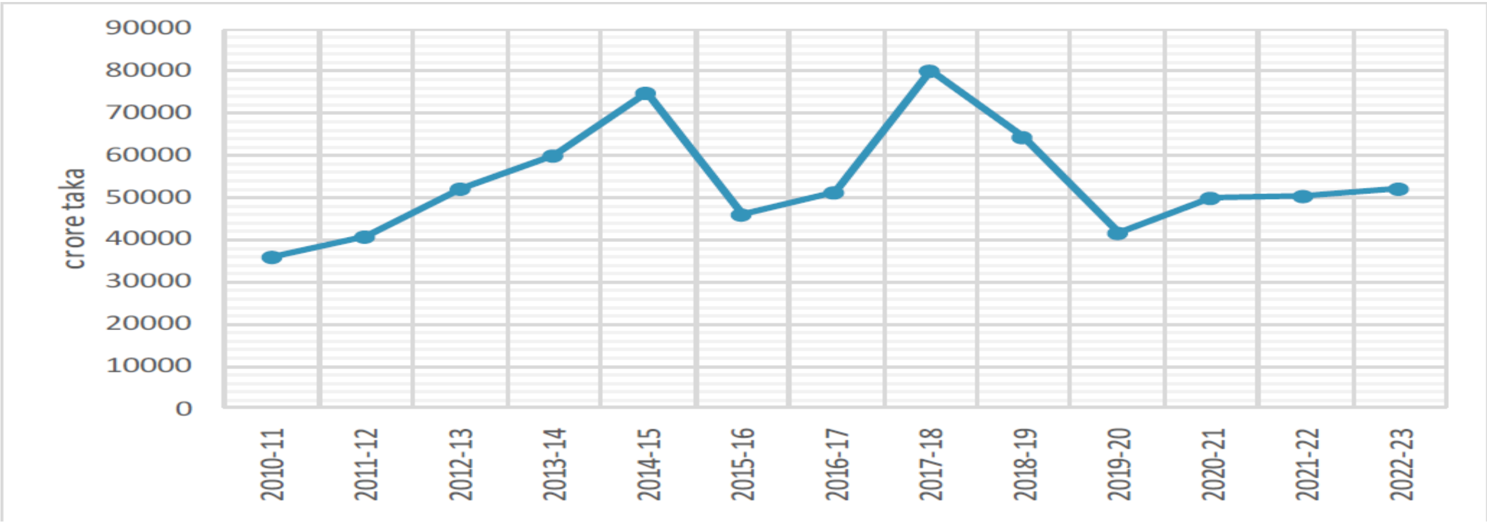
Public debt responsibilities are scattered among Bangladesh Bank, the Economic Relations Division (ERD), Finance Division (FD), and State-Owned Enterprises (SOEs), causing weak coordination and inefficiency.

(Source: Freedom House)

- Fragmented data prevents **real-time access**, slowing **debt monitoring** and **decision-making** across institutions and increasing **management risks**.
- Bangladesh's bond market remains **small and illiquid**, accounting for only **21.3% of the financial sector**, limiting financing options beyond **bank borrowing**.
- Lack of a vibrant bond market forces the government to depend **heavily on banks**, risking **crowding out private sector credit** and **destabilizing the financial system**.
- Continued **Taka depreciation** is **raising external debt servicing costs**, worsening **fiscal pressure** and exposing Bangladesh to **foreign exchange vulnerabilities**.
- Fragmented data across institutions hinders real-time access, making debt monitoring and decision-making slower and less effective.

Weak Public Investment Management Undermining Budget and Development Effectiveness

Amount of Revised Public Expenditure (ADP) from 2010-2023



Source: White Paper on State of the Bangladesh Economy, 2024

Sectoral Allocations as % of Development Budget

Sector	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Public Service/Administration	4.59	3.99	6.60	6.23	6.61	6.04	6.44	7.50	12.73
Local Government & Rural Dev	19.74	18.85	16.58	17.02	17.40	17.61	16.31	17.12	16.93
Education & Technology	12.15	15.51	16.27	15.49	17.95	17.43	17.76	13.94	12.76
Health	5.53	4.37	5.66	5.82	4.58	6.67	6.80	5.04	4.36
Social Security & Welfare	3.84	3.76	2.65	2.94	3.09	2.72	3.23	3.83	3.40
Energy & Power	17.86	12.86	15.68	15.21	12.87	11.39	11.00	11.21	10.84
Agriculture	6.43	6.38	5.49	5.69	5.36	6.17	6.16	7.72	8.04
Transport & Communication	22.08	25.97	25.21	23.32	24.23	24.25	24.98	25.56	24.49

Sectoral Allocations as % of

- The size of the ADP has remained around 30% of the total budget for the last 10 years.
- ADP grew at 6.6% annually (2010-2023), with 1.45x increase since 2011.
- Election years (2014, 2017-18) saw ADP spending peaks.
- High incidence of ghost projects (3.2%) and major time overruns (31.4% delayed 6-10 years).
- Persistent "last quarter syndrome" and "construction bias" reduce spending quality.

Weak Public Investment Management Undermining Development Effectiveness

Institutional Challenges

- Lack of central authority causes duplication and poor resource alignment
- Irregular oversight meetings weaken project monitoring and accountability
- Weak enforcement and lack of real-time monitoring hurt project outcomes
- Poor inter-ministerial coordination and incomplete information sharing
- Limited capacity and governance issues reduce efficiency

Political Economy Issues

- No clear roadmap for comprehensive PIM reforms
- Top-down project selection ignores local needs and priorities
- Political intervention leads to cost overruns and ghost projects
- Weak oversight and corruption undermine transparency and outcomes
- Absence of strategic national action plan for project alignment

Technical Challenges

- No unified digital platform creates fragmented project management
- Limited GPS and outdated planning software delay project tracking
- Poor API linkage between databases hampers data integration
- Incomplete environmental assessments risk sustainability compliance
- Delays in procurement, land acquisition, and weak financial management
- Lack of project evaluation reports limits learning for future improvements

Critical Macro Issues: Implications for National Budget

Addressing Sluggish GDP: Measures to boost private investment; ensure smooth energy supply and affordability ; targeted allocation for employment-generating activities

Sustaining Exports : allocation to improve connectivity/trade infrastructure and trade facilitation efficiency; energy supply stability

Managing Inflation: keep the budget size /increase rational and in sync with the conservative monetary policy; allocate resources for systematic tools and capacity for market /supply chain monitoring

Institutional Capacity to better manage Debt Sustainability and Public Investment Function

Strengthening Balance of Payments: Restrained Annual Development Program, particularly ones with heavy import components

Thank You

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