

MP-IDSA

Issue Brief

Bangladesh's Economic Resilience and Structural Constraints

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Summary

While Bangladesh has demonstrated considerable capacity to withstand economic shocks, structural weaknesses include its banking sector, which has been undermined by years of weak governance, politically directed lending, and rising non-performing loans. Limited fiscal resources have also increased dependence on external borrowing and development assistance.

Bangladesh’s economy has shown considerable resilience despite an uncertain domestic and global economic environment. By June 2026, Bangladesh’s Gross Domestic Product (GDP) crossed the half-trillion-dollar mark, recording an annual GDP growth rate of 4.7 per cent for Financial Year (FY) 2025–26,¹ after slowing to 3.4 per cent in the previous year. Strong remittance inflows, recovering exports, and improved foreign exchange reserves have helped improve macroeconomic stability.

Nevertheless, its recent economic performance remains modest compared to its earlier growth trajectory. Between 2014 and 2019, the country sustained an average annual real GDP growth rate of approximately 7 per cent, establishing itself as one of the fastest-growing economies in Asia. Following the economic disruption caused by the COVID-19 pandemic, Bangladesh staged a strong recovery, with real GDP expanding by 6.94 per cent in 2021 and 7.10 per cent in 2022.²

Economic Slowdown in Bangladesh

Rising inflation, driven by surging global energy and commodity prices following the outbreak of the Russia–Ukraine war in 2022, coupled with the depreciation of the Bangladeshi taka, placed significant strain on Bangladesh’s economy, bringing the GDP down to 5.87 per cent in 2023.³ Higher import costs, particularly for fuel and essential commodities, widened Bangladesh’s trade deficit, eroded its foreign exchange reserves and fuelled persistent inflationary pressures, with the annual inflation rate rising to 9.2 per cent in FY 2022–23.⁴

These developments precipitated a balance-of-payments crisis, compelling Bangladesh to seek financial assistance from the International Monetary Fund (IMF) in January 2023 for a US\$ 4.7 billion loan programme (subsequently expanded to US\$ 5.5 billion in June 2025) to restore macroeconomic stability, promote inclusive growth, and protect the vulnerable.⁵ By June 2025, the IMF had approved the disbursement of US\$ 1.3 billion to Bangladesh under its Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF) programmes.⁶

¹ [“Bangladesh Economy Crosses \\$500 Billion | Bangladesh’s GDP Crosses Half-a-trillion-dollar Mark”](#), *The Daily Star*, 11 June 2026.

² [“Bangladesh GDP Growth Rate | Historical Chart & Data”](#), *Macrotrends*.

³ Md Asaduz Zaman, [“GDP Growth Stands at 5.78% in Q4 of FY23”](#), *The Daily Star*, 23 November 2023.

⁴ For more on history of inflationary situation in Bangladesh, see Malcolm F. McPherson, [“Bangladesh’s Inflationary Bias”](#), Policy Brief, Rajawali Foundation Institute for Asia, December 2024.

⁵ [“Bangladesh to Get \\$4.7bn IMF Package”](#), *Al Jazeera*, 30 January 2023.

⁶ [“IMF Executive Board Concludes Bangladesh Combined Third and Fourth Reviews Under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility”](#), Press Release No. 25/213, International Monetary Fund, 23 June 2025.

While the IMF assistance helped ease immediate external financing pressures and supported macroeconomic stabilisation efforts, it was insufficient to reverse the broader economic slowdown. Annual real GDP growth declined to 4.22 per cent in 2024 and further to 3.40 per cent in 2025,⁷ reflecting persistent structural weaknesses and subdued investor confidence. The political turmoil culminating in the ouster of Sheikh Hasina in August 2024 exacerbated the economic downturn. The widespread protests, political unrest and subsequent regime change during July–August 2024 disrupted economic activity and generated uncertainty among domestic and foreign investors. In July 2024, overall inflation increased significantly to 11.66 per cent, with food inflation reaching a record high of 14.10 per cent.⁸

High inflation is a major concern because it discourages both domestic and foreign investment by creating uncertainty and reducing the real value of returns. As prices continue to rise, people and businesses prefer to invest in assets such as gold, real estate, foreign currency, or essential commodities rather than in businesses or long-term projects. Since interest rates often do not keep pace with inflation, saving also becomes less attractive. As a result, investors favour short-term and safer investments, which reduces investment in the economy and slows the growth of the financial sector.⁹

These challenges became even more pronounced after the interim government headed by Mohammad Yunus took charge in August 2024. While the interim government inherited an economy already weakened by high inflation, declining foreign exchange reserves, a fragile banking sector, and slowing economic growth, several of its economic and political decisions adversely affected Bangladesh’s economic growth. A major source of economic uncertainty was the absence of a clear timeline for restoring an elected government, which amplified political uncertainty and weakened business confidence. As a result, domestic and foreign investors adopted a cautious approach, postponing investment decisions until greater political clarity emerged.

At the same time, continued political protests and labour unrest over wage demands, particularly in the ready-made garment (RMG) sector, which accounts for more than four-fifths of Bangladesh’s merchandise exports, disrupted industrial production and export activities. Large-scale demonstrations in the country’s major garment manufacturing hubs, first in November 2023 and later during the political upheaval of August 2024, were accompanied by attacks on businesses and industrial facilities, forcing nearly 300 apparel factories to suspend operations, either temporarily or

⁷ [“Bangladesh Economy Grew 3.49% in FY25”](#), *The Daily Star*, 26 February 2026.

⁸ [“Rate of Inflation \(as measured by CPI, from April 2023 base 2021–22\)”](#), *Bangladesh Bank*.

⁹ Malcolm F. McPherson, [“Bangladesh’s Inflationary Bias”](#), no. 4, p. 4.

permanently. The resulting factory closures, cancelled export orders, damage to commercial property, and widespread layoffs adversely affected the livelihoods of tens of thousands of workers, further exacerbating the country's economic challenges.¹⁰

Economic Impact of Strained Relations with India

The Yunus government’s efforts to strengthen governance through anti-corruption measures and administrative reforms also produced unintended economic consequences. As part of this process, the interim government reviewed infrastructure and connectivity projects, as well as MoUs signed with India under the Sheikh Hasina government. It justified these decisions by citing high project costs, lack of transparency and concerns over economic mismanagement. The ouster of Sheikh Hasina and the consequent straining of relations disrupted investment flows and created uncertainty in India–Bangladesh economic cooperation. For example, Bangladesh dropped the Khulna–Darshana railway-line project from the Indian Line of Credit (LoC).¹¹

Indeed, the review of India-backed projects reflected the broader deterioration in India–Bangladesh relations, with political differences increasingly spilling over into the economic sphere. This was further evident in a series of policy measures that strained bilateral trade and economic cooperation. In April 2025, Bangladesh restricted the import of Indian yarn through land ports to protect its domestic spinning industry. It further subjected Indian exports to stricter inspections, resulting in significant delays, and suspended the import of Indian rice through the Hilli and Benapole Integrated Check Posts (ICPs) from 15 April 2025.¹²

As anti-India sentiments surged in Bangladesh and bilateral ties weakened, Dhaka actively sought to expand economic cooperation with China, Türkiye and Gulf countries to reduce dependence on any single partner. During his trip to China, Yunus had called Bangladesh the “only guardian of the ocean” for India’s landlocked northeast. He suggested that the region could become an “extension of the Chinese economy”.¹³ Dhaka also revived economic dialogue and expanded trade discussions

¹⁰ Tanya Dawar, [“Bangladesh's Reforms, Recovery, and Economic Transition”](#), Asia Pacific Foundation of Canada, 18 June 2025; [“300 Garment Factories Shut Amid Lingerin](#)g Protests”, *The Daily Star*, 2 November, 2023; Refayet Ullah Mirdha, [“Mob Attacks Hindu Households, Businesses in Bangladesh Over Death of Muslim Youth”](#), *The New Indian Express*, 11 April 2026.

¹¹ FHM Humayan Kabir, [“Ministry Eyes Fresh Foreign Fund After Project Dropped from LoC”](#), *The Financial Express*, 17 April 2026; Anowar Hossain, [“Railway in Trouble with Projects Involving Indian Loan”](#), *Prothom Alo*, 26 February 2025; Yeshe Seli, [“Bangladesh Hits Pause on India’s Big-ticket Projects”](#), *Business India*, 24 June 2026.

¹² Rezaul H Laskar and Rajeev Jayaswal, [“India Restricts Bangladeshi Imports Citing Fairness”](#), *Hindustan Times*, 18 May 2025.

¹³ Anbarasan Ethirajan, [“Businesses Count Costs as India, Bangladesh Impose Trade Restrictions”](#), *BBC*, 2 May 2025.

with Pakistan after many years of limited engagement. Notably, bilateral trade between Bangladesh and Pakistan expanded significantly, increasing from US\$ 628 million in 2023–24 to US\$ 865 million in 2024–25. During this period, Pakistan’s exports to Bangladesh grew by 28 per cent, while Bangladesh’s exports to Pakistan increased by 20 per cent, indicating a notable strengthening of economic ties between the two countries.¹⁴

India responded with a series of reciprocal trade measures that tightened the movement of Bangladeshi goods through land ports. In May 2025, India prohibited the import of several Bangladeshi products including plastics and PVC goods, wooden furniture, processed food items, fruit-flavoured and carbonated beverages, and cotton and cotton yarn waste through 11 land customs stations along the north-eastern border. Similar restrictions were extended to the Changrabandha and Phulbari Land Customs Stations in West Bengal to prevent the diversion of trade through the Siliguri Corridor.¹⁵

New Delhi limited the import of Bangladeshi RMG to the seaports of Kolkata and Nhava Sheva, ending the trans-shipment arrangement that had, for nearly five years, allowed Bangladeshi exports to third countries through Indian ports and airports. Given that Bangladesh exports over US\$ 1 billion worth of RMG to India annually and that nearly 93 per cent of these exports previously moved through land ports, the decision significantly increased transport costs and delivery times.¹⁶ As a result, established supply chains, particularly in the yarn, garment and jute sectors, were disrupted, and business uncertainty increased.

Interestingly, these trade restrictions did not affect bilateral trade as the overall trade between India and Bangladesh continued to grow. Bangladesh’s exports to India rose by 12.4 per cent during FY 2024–25. Exports increased from US\$ 1.57 billion in 2023–24 to US\$ 1.76 billion in 2024–25, with particularly strong growth in footwear, RMG and fish exports.¹⁷ Export data for the first few months of FY 2025–26 also showed continued growth, with India emerging as Bangladesh’s second-largest trading partner.¹⁸ These figures reveal that the imposition of non-tariff measures led to price increases for specific items rather than causing economic decoupling. For instance, Bangladesh’s ban on land-route yarn imports raised domestic yarn prices,

¹⁴ Ashish Shukla, “[The Unease amid Newfound Warmth in Pakistan-Bangladesh Relations](#)”, Commentary, Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), 1 September 2025.

¹⁵ Rezaul H Laskar and Rajeev Jayaswal, “[India Restricts Bangladeshi Imports Citing Fairness](#)”, no. 12.

¹⁶ Ibid.

¹⁷ Saqlain Rizve, “[Why Bangladesh-India Trade is Surging Despite Strong Anti-India Sentiment](#)”, *The Diplomat*, 23 October 2023.

¹⁸ Wafiur Rahman, “[India Surpasses US as Bangladesh’s 2nd-largest Trading Partner](#)”, *Dhaka Tribune*, 22 May 2026.

while India’s restrictions on jute products reduced Bangladesh’s earnings from that sector. Another reason was that the restrictions primarily affected non-apparel products, which accounted for only about 1 per cent of Bangladesh's total exports to India.¹⁹

The continued growth in India–Bangladesh trade was primarily driven by strong structural economic interdependence between the two countries. Bangladesh’s geographical location makes India the closest and most cost-effective source of industrial raw materials, intermediate goods and essential commodities, while also providing an important market for Bangladeshi exports. Consequently, despite restrictions on certain land routes, industries continued to rely on Indian supplies, with trade shifting to sea routes where necessary. Although these changes increased logistics costs, duty-free market access helped maintain the competitiveness of Bangladeshi exports in the Indian market. Bangladesh also remained dependent on India for electricity, fuel, construction materials and capital goods, with electricity imports continuing to rise despite political tensions.²⁰ These deep geographical, industrial, and supply-chain linkages ensured that economic cooperation remained stable even as bilateral political relations deteriorated.

Although Bangladesh’s trade with India continued to grow, the country’s broader economic outlook remained constrained by persistent structural weaknesses. These vulnerabilities were reflected in the IMF’s decision to withhold further loan disbursements under its existing programme, citing slow progress in implementing reforms related to revenue mobilisation, exchange-rate management, banking-sector reforms, energy-subsidy reforms, and public financial management.²¹

Acknowledging that the economic and political environment had changed significantly following the August 2024 transition, the interim government subsequently sought to replace the IMF programme negotiated under the Sheikh Hasina government with a new arrangement better suited to the country’s evolving circumstances.²² In response, the IMF maintained that continued financial assistance would depend on credible progress in these reforms. Similarly, the Asian Development Bank (ADB) and the World Bank have stressed that while macroeconomic conditions have improved, stronger and more inclusive growth will require deeper institutional and policy reforms.

¹⁹ Mohammad Abdur and Razzaque Syful Islam, [**“Border Frictions and Rising Trade Costs: The Impact of Recent Port Access Restrictions between Bangladesh and India”**](#), Policy Brief, Research and Policy Integration for Development (RAPID), July 2025, p. 3.

²⁰ Saqlain Rizve, [**“Why Bangladesh-India Trade is Surging Despite Strong Anti-India Sentiment”**](#), no. 17.

²¹ [**“Bangladesh: IMF Withholds Loan Tranches Over Reform Failures, Fresh Deal Proposed”**](#), *News on AIR*, 17 April 2026.

²² [**“IMF Accepts Bangladesh’s Request for New Loan Programme”**](#), *The Daily Star*, 4 June 2026.

Structural Challenges to Bangladesh’s Economic Recovery

A major structural weakness of Bangladesh's economy remains its banking sector, which has been undermined by years of weak governance, politically directed lending, and rising non-performing loans. Several politically connected business groups, particularly the S. Alam Group, reportedly secured large bank loans and later became major defaulters by exploiting weaknesses in the financial system. The growing burden of bad loans eroded confidence in the banking system, constrained lending to productive sectors and weakened the financial sector’s ability to support economic growth.²³

A weak banking system discourages private investment, increases borrowing costs and constrains industrial expansion.²⁴ Bangladesh’s gross non-performing loan (NPL) ratio rose from 20.2 per cent in December 2024 to 32.26 per cent in March 2026, and the net NPL ratio rose from 10.57 per cent in December 2025 to 15.01 per cent in March 2026.²⁵ Accordingly, the volume of default loans in the country’s banking sector stood at Tk588,704 crore. Recognising these challenges, both the World Bank and the ADB have approved financial assistance worth more than US\$ 1.5 billion to strengthen banking supervision, improve governance, modernise financial regulation, and support bank restructuring.²⁶

Going forward, Bangladesh Bank plans to address the NPL problem through a series of long-term structural reforms. These include strengthening risk-based supervision and asset quality reviews, linking capital restoration to loan recovery, restricting loan restructuring to financially viable borrowers, and accelerating the recovery of large defaulted loans through stronger legal mechanisms and dedicated recovery units. The central bank also aims to improve liquidity management, implement the Bank Resolution Act 2026 and the Deposit Protection Act 2026 to strengthen financial stability and depositor protection, and enhance credit risk assessment to identify problem loans at an early stage.²⁷ However, these reforms are likely to yield results only if they are implemented consistently and transparently.

Another important challenge is Bangladesh’s limited ability to mobilise domestic revenue. The country’s tax-to-GDP ratio was 6.7 per cent in FY 2025, remaining

²³ Md Mehedi Hasan, “[11 of Top 20 Loan Defaulters Linked to S Alam Group](#)”, *The Daily Star*, 7 April 2026; Shawkat Hossain, “[In Search of an ‘Anti-S Alam Law’ in the Banking Sector](#)”, *Prothom Alo*, 25 May 2026.

²⁴ “[Banks Losing Funds Due to Weak Governance](#)”, *The Daily Star*, 1 July 2026.

²⁵ “[Monetary Policy Statement, July-December, 2006](#)”, *Bangladesh Bank*, p. 19.

²⁶ “[ADB, World Bank Approve Loans Worth \\$1.5 billion to Bangladesh](#)”, *The Hindu*, 20 June 2025. Also see, “[ADB Approves \\$500 Million to Stabilize, Reform Banking Sector in Bangladesh](#)”, Asian Development Bank, 19 June 2025; “[World Bank Helps Bangladesh Strengthen Its Banking Sector](#)”, World Bank, 26 June 2026.

²⁷ “[Monetary Policy Statement, July-December, 2006](#)”, no. 25, pp. 19–20.

among the lowest in Asia and limiting the government's capacity to invest in infrastructure, education, healthcare and climate resilience. The challenge lies less in low tax rates than in a complex tax system characterised by numerous exemptions, weak tax administration, low compliance and heavy reliance on trade-related taxes, all of which reduce revenue collection and discourage investment.

Limited fiscal resources also increased dependence on external borrowing and development assistance. Recognising these shortcomings, the IMF and the World Bank have called for comprehensive tax reforms, including broadening the tax base, rationalising exemptions, strengthening tax administration, expanding digitalisation, and improving public financial management.²⁸ These measures are essential to reduce dependence on external borrowing and generate the resources required for sustainable long-term development.

Persistent inflation continues to constrain economic recovery. However, inflation has moderated from its peak to 9.4 per cent in May 2026.²⁹ Higher fuel import costs, caused by disruptions to energy supply chains in West Asia, contributed to rising inflation across most sectors of the Bangladeshi economy. As a result, food and energy prices remain high, reducing household purchasing power and increasing production costs.³⁰ The IMF has consequently identified maintaining a tight monetary policy stance, greater exchange rate flexibility, and revenue-based fiscal consolidation as essential to restore both external and internal balances.³¹

Investment activity remained weak during FY 2025, reflecting slower growth in both savings and investment. Gross investment declined from 30.7 per cent of GDP in FY 2024 to 29.38 per cent in FY 2025, mainly due to a fall in private investment, whose share in GDP decreased from 23.96 per cent to 22.48 per cent.³² Although public investment increased marginally from 6.74 per cent to 6.9 per cent of GDP, it was insufficient to offset the decline in private sector investment. Net foreign direct investment (FDI) inflows increased by nearly 20 per cent during the year, rising from US\$ 1.43 billion to US\$ 1.71 billion.³³

However, the overall level of FDI remained low compared with that of many developing countries at a similar stage of development. Despite Bangladesh's

²⁸ Ibid.

²⁹ [“Bangladesh Inflation Rate”](#), *Trading Economics*.

³⁰ [“Asian Development Outlook April 2026: The Middle East Conflict Challenges Resilience in Asia and the Pacific”](#), Asian Development Bank, 2026, pp. 155–156.

³¹ [“IMF Executive Board Concludes Bangladesh Combined Third and Fourth Reviews under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility”](#), Press Release No. 25/213, International Monetary Fund, 23 June 2025.

³² [“Monetary Policy Statement, July-December, 2006”](#), no. 25, p. 17.

³³ Ibid., p. 30.

competitive labour costs, investors remain discouraged by structural constraints, including inadequate infrastructure, an unreliable energy supply, weak power transmission networks, inconsistent policy and regulatory frameworks, limited industrial land, corruption, and uneven enforcement of rules and regulations.³⁴ Addressing these structural weaknesses will be essential to strengthen investor confidence and attract higher levels of domestic and foreign investment.

Finally, Bangladesh’s exposure to climate-related disasters presents an additional structural challenge. Frequent floods, cyclones, river erosion, and other extreme weather events impose high economic costs and threaten infrastructure, agriculture and livelihoods. Between 2000 and 2023, natural disasters caused US\$ 13.6 billion in damage in Bangladesh.³⁵ Strengthening institutional capacity, improving climate-related public investment and mobilising climate finance have therefore become important components of Bangladesh's long-term development strategy.

Conclusion

Bangladesh has demonstrated considerable capacity to withstand shocks by sustaining economic growth despite political instability, external shocks and slowing global demand. Strong remittance inflows, recovering exports and expanding regional trade have supported this recovery and helped restore macroeconomic stability. However, resilience should not be mistaken for structural strength. Weak banking institutions, low domestic revenue mobilisation, persistent inflation, limited investment, export concentration and governance challenges continue to constrain the country’s long-term economic potential.

Sustaining higher and more inclusive growth will therefore depend not only on favourable external conditions but also on the successful implementation of long-pending structural reforms. Priorities include diversifying exports, attracting greater foreign direct investment, strengthening governance, improving institutional capacity, enhancing productivity and creating a more conducive investment climate. Addressing these structural weaknesses will be essential to building a more competitive, resilient and inclusive economy. Ultimately, Bangladesh’s long-term economic success will depend on its ability to translate short-term macroeconomic stabilisation into durable institutional and economic transformation.

³⁴ Ibid., pp. 30–31.

³⁵ [“Bangladesh: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bangladesh; IMF Country Report No. 26/024”](#), International Monetary Fund, 6 January 2026, p. 18.

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