

ECONOMIC UPDATE & OUTLOOK AUGUST 2025



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ECONOMIC UPDATE

Editor's Note

Charting a New Course: A Year of Recovery, Reforms, and Economic Transformation in Bangladesh

Over the past year, Bangladesh has experienced a critical period of economic transition under the interim government, led by Professor Muhammad Yunus, tasked with stabilizing the nation's economy, restoring public confidence, and paving the way for lasting institutional reforms. This period has been characterized by bold decisions, quick interventions, and an ambitious vision focused on creating a new path for sustainable and inclusive growth.

Recovery: Stabilizing the Economy and Rebuilding Trust

When the interim government assumed responsibility, it inherited a fragile economy battered by multiple shocks, including spiraling inflation, currency depreciation, declining foreign exchange reserves, financial and current account deficits, high non-performing loans, and lingering effects of macroeconomic mismanagement. Investor confidence had weakened, and the rising cost of living had eroded public trust in institutions.

One of the government's first priorities was to *restore macroeconomic stability*.

This began with urgent fiscal discipline measures, including reducing subsidies, rationalizing public expenditures, and improving tax collection. A temporary freeze on non-essential government spending created fiscal space to redirect resources to essential sectors such as health, agriculture, and social protection.

At the same time, the government took steps to curb inflation, which had surged into double digits. Coordinated efforts between Bangladesh Bank and the Ministry of Finance included a tighter monetary policy, increased interest rates, and import restrictions on luxury goods. These measures began yielding results by mid-year, as inflation showed signs of easing and the exchange rate stabilized.

Although macroeconomic stability has been largely restored, persistent revenue shortfalls have led to substantial government borrowing from commercial banks, somewhat crowding out private sector investments. The limited fiscal space constrains public investments in social sectors. As part of strengthening revenue mobilization, the government has taken a bold step to demolish the NBR and create two separate divisions—revenue management and revenue policy, which are expected to make a positive impact on revenue mobilization.

Editor and Key Contributor: Dr. Monzur Hossain, Member, General Economics Division (GED), Bangladesh Planning Commission

GED contributing team: Dr. Munira Begum; Dr. Nashid Rizwana; Tanvir Bashir; Napoleon Dewan; Nasrin Sultana

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Economic Reforms: Laying the Groundwork for Structural Change

One of the boldest moves came in the banking and financial sector, too. Years of unchecked non-performing loans (NPLs), weak regulation, and political interference had created vulnerabilities in the financial system. The government has empowered Bangladesh Bank with greater autonomy and launched a series of reforms to strengthen oversight, improve risk management, and enforce loan and stolen asset recovery.

In the public sector, reform efforts focused on digitization, transparency, and performance accountability. The government repaid most of the outstanding bills of foreign energy suppliers and brought the supply of energy almost to a normal state.

Economic Transformation: Building for the Future

Looking beyond recovery and reform, the interim government recognized the need for a long-term strategic vision to transform Bangladesh's economy into one that is **resilient, diversified, and inclusive**. A Taskforce on re-strategizing the economy in that direction prepared its report, which will serve as a background document for a future long-term strategic plan for the government. The General Economics Division hosted the Taskforce report and aims to prepare a long-term strategic plan for the government to transform the economy that would be more resilient, diversified, sustainable, and inclusive.

Bangladesh has long relied on its ready-made garments (RMG) sector and overseas remittances. While these remain important, the government attempts to encourage new growth engines through industrial diversification, export promotion, and human capital development as part of implementing smooth transition strategies for LDC graduation.

The government successfully negotiated with the US government to bring down the reciprocal tariff to 20% from 35%, which is almost at par with our global competitors. An investment summit was organized in April this year to attract FDI and inform foreign investors of the facilities and potential.

Challenges Ahead

While the interim government has made significant strides, challenges remain. Youth unemployment, urban-rural inequality, higher multi-dimensional poverty, and climate vulnerability continue to pose risks to long-term stability. Moreover, the success of many reforms depends on the political will and institutional capacity of the next elected government to carry them forward. However, the interim government has at least provided a blueprint that future administrations can build upon.

Conclusion: A Nation stands at a Pivotal Moment

Bangladesh stands at a pivotal moment. The past year under the interim government has been a test of resilience and an experiment in governance under extraordinary circumstances. It may be noted that with clarity of purpose, political neutrality, and institutional focus, even a transitional authority can lay the foundation for meaningful change.

Recovery is not yet complete, and transformation is only beginning. But by charting a new course based on reforms, economic diversification, and inclusive governance, Bangladesh has taken vital steps toward a more stable, prosperous, and just future.

Progress towards SDGs

Social and economic progress and SDG goals were severely hampered due to the weakening of institutions and malfunctioning of overall governance under the authoritarian government:

Professor Wahiduddin Mahmud, Hon'ble Adviser, Ministry of Planning

Despite considerable progress, Bangladesh has experienced significant slippages from its roadmap towards achieving the Sustainable Development Goals. There are several reasons for such slippages. With an extremely high density of population, and comprising almost entirely of the Ganges delta region with shifting rivers and vast stretches of floodplains, Bangladesh has one of the most ecologically and environmentally vulnerable landscapes in the world. Increasing urbanization and industrialization in such a landscape necessarily impinge on scarce environmental resources and make sustainable economic progress a challenging task.

During about two decades since the beginning of the 1990s, which coincided with a transition to democracy, Bangladesh has had achieved rapid and remarkable progress in many social development indicators, such as reducing poverty along with rapid decline in the fertility rate and child mortality, and increasing school enrolment, specially of female children. These achievements were all the more remarkable because the progress was made despite very low public social spending and poor governance of the public service delivery systems. These seemingly surprising achievements were possible because of the widespread adoption of low-cost solutions by the poor, like the oral saline treatment for diarrhoea that greatly contributed to reducing child mortality, and because of successful social campaigns such as for child immunization or for getting the girls to school. A vigorous presence of the non-government organizations played a crucial role in reaching these campaigns from door to door.

But, as the gains from the low-cost solutions were mostly reaped, further progress was difficult, such as requiring more costly medical interventions for reducing maternal and child mortality, or better quality education to prevent school dropouts. Predictably, most of the social development indicators either stagnated or even worsened during the last one and a half decades or so.

The most important underlying impediment in making further social and economic progress and achieving the SDG goals, however, was the nature of the ruling regime that became increasingly authoritarian and repressive. Under such a regime, the grassroots organizations and local government bodies became severely weakened in an environment of malfunctioning of the overall governance system. It is noteworthy that the earlier gains in the social development indicators were made possible by targeting the interventions at the individual family level, especially by using the agency of the female members of the households. Achieving the SDGs, in contrast, requires leveraging community-based organizations that can sustainably manage local commons like forests or water bodies, create awareness about protecting the environment, and sanction or demand access to public services.

It is in this context that there are reasons to be optimistic about SDGs in the aftermath of the mass upsurge in July 2024 that overthrew the previous authoritarian regime. The current Interim Government is mandated to undertake deep reforms towards transition to a well-governed democratic system. Reforming state institutions along with strengthening local governance are part of this reform agenda. There is thus a commitment to regain the lost ground and make rapid progress towards achieving the SDGs.

[Excerpts from the Message of the Hon'ble Adviser to the Planning Ministry, published in the Voluntary National Review, 2025]

Rebounding Economic Activities

Rebounding economic activities are reflected in some indicators.

Mobile Financial Services Transaction Statistics: Mobile financial services transaction demonstrates remarkable growth momentum, representing significant year-over-year growth. Figure 1 reveals that the digital payment ecosystem shows robust expansion across all categories, particularly merchant payments, salary disbursements, etc. March 2025 consistently emerges as the peak transaction month, with transaction volumes ranging from Tk. 1537579.8 to Tk. 1781279.2 million, alongside June, driven by festival spending. This sustained growth trajectory indicates strong consumer demand.

e-Commerce Transaction Statistics:

Bangladesh Bank's e-commerce transaction data reveals significant growth between FY24 and FY25. FY24 transactions remained relatively stable, ranging from 14266.8 to 16,888.3 million Taka with modest fluctuations. In contrast, FY25 showed substantial growth, starting at 14487.9 million Taka in July and reaching 23654.2 million Taka by May - nearly a 64% increase. Figure 2 illustrates this upward trajectory in FY25, with particularly notable growth from September onwards, peaking around 23000+ million Taka in the later months. This represents a strong expansion in digital commerce activity year-over-year.

Agricultural Credit: Based on the agricultural credit data, in FY25, disbursements peaked at Tk. 3654.74 crore in May, while recovery fluctuated significantly, which is associated with the harvesting period. Disbursements of agricultural credit were relatively higher in FY25 compared to FY24, demonstrating better performance with both disbursements and recovery (Figure 3).

Industrial Production: The industrial production data shows mixed results in FY25. From July to December, it peaked compared to the same period last year; however, industrial output for the rest of the period was somewhat unstable (Figure 4).

Year-over-year percentage changes were volatile, starting at 3.44% in July 2024, dipping to -1.13% in August, then rebounding strongly to reach 11.39% in October 2024. The growth rate stayed positive throughout but fluctuated significantly, with the highest growth of 11.39% in October 2024. Overall, industrial production demonstrated resilience despite periodic volatility.

Macroeconomic Scenario

Inflation edges slightly higher in July after seven months of continued decline

Headline inflation went slightly up to 8.55 percent in July from the previous month of 8.48 percent, after seven months of continued slowdown. This should not be an issue of major concern. In August 2024, when the interim government started its journey, with over double-digit inflation, it was hard to be optimistic enough to end the fiscal year with around 8.50 percent of inflation (Figures 5-8). There were many macroeconomic challenges that had loomed in the first half of the fiscal year, which have now been addressed in a balanced manner. It is the second consecutive month since February 2023 that inflation registered under 9 percent and food inflation under 8 percent. Of course, supply-side issue still persists, but there are coordinated efforts from both the fiscal and monetary sides. Bangladesh Bank announced the monetary policy statement, aiming to lower inflation below 7 percent by December 2025 while maintaining macroeconomic stability. The next step will be to continuously monitor the domestic market situation and management, and provide necessary agricultural input at the proper time.

Non-food inflation remained stable throughout the last fiscal year. On the broad category of food, the contribution of vegetables and root crops recorded a significant 6.48 percent and 10.34 percent drop, aiding in lowering inflation. At the disaggregated level, other items, including hilsa, brinjal, tomato, soyabean oil, and pangas, contributed in a high to moderate manner, whereas potato and onion registered 15.71 percent and 7.93 percent fall in contribution to food inflation [Figure 7/8].

Rice prices continue to be sticky

Rice prices continue to be a major concern for food inflation as well as overall inflation. Figure 6 shows that rice's contribution to food inflation jumped from 40 percent in May to 51.55 percent in July (Figure 8). Medium rice and coarse rice contributed 24 percent and 18.39 percent, respectively, to food inflation in July. Both categories of rice hit double-digit inflation since December 2024, whereas fine rice's inflation has remained double-digit in the last twelve months. In July, all three categories of rice have inflation of around 15 percent. It was expected that the yield of Boro paddy would suppress the price of rice since June.

According to the estimates of the Bangladesh Bureau of Statistics (BBS), the production of both Aus and Aman paddy dropped 0.85 percent and 6.04 percent, respectively, for the fiscal year 2024-25. The major cause of the fall in yield was primarily due to frequent floods and unfavorable weather conditions. On the other hand, for Aus, the land for production fell by 7.32 percent from the previous year. In April, the government decided to procure Boro rice by 1.4 million metric tons from 24 April to 31 August 2025. The distribution of rice in July 2025 amounted to 62,889 metric tons, 36 percent lower than the same month of the previous year. On 23 July 2025, the Ministry of Food issued a notice for the application for imports from the private sector. The deadline for submission of the application ended on 07 August 2025. These efforts may take a few more months to have an impact on the prices of rice in the market. Further, there is also a possibility of an erratic pattern of weather in the next couple of months. Given this backdrop, the government may resort to accelerating the import of food grain and the procurement process and scaling up food grain distribution through OMS in the short term.

Bangladesh's external sector rebounds with a surplus in overall and current account balances in FY25

Bangladesh's external sector indicators reveal a promising turnaround in FY25, marking a shift toward greater macroeconomic stability.

After several years of deficits, the current account balance posted a surplus of \$1 billion in FY25—its first positive figure in five years—driven by a narrowing trade deficit (from \$33.25 billion in FY22 to \$20.5 billion in FY25) and likely strong remittance and service sector inflows (Figure 9). The financial account, though gradually declining, remains positive, indicating continued net capital inflows and foreign investment interest. Most notably, the overall balance recorded a surplus of \$3.3 billion in FY25, reversing the deficits seen since FY22. This improvement reflects stronger external sector fundamentals, better trade management, and prudent macroeconomic policies. Together, these trends suggest renewed confidence in Bangladesh's external position and a more resilient economic outlook.

Export growth gathers momentum, signaling stronger trade prospects for Bangladesh

Bangladesh's export performance shows a clear upward trend in recent months, indicating renewed dynamism in the country's external trade sector. Comparing monthly export figures year-on-year, there is a consistent improvement over FY23-24 and FY24-25. Notably, exports in July 2025 reached \$4,770.59 million, a substantial increase from \$3,819.51 million in July 2024—reflecting a robust **point-to-point growth of nearly 25%**. This encouraging trend continues in most months, with significant gains observed in August, September, October, and December, underscoring growing demand for Bangladeshi products in international markets.

The strong rebound in May 2025 (\$4,737.85 million) and December 2025 (\$4,627.49 million) also highlights seasonal competitiveness and improved capacity utilization. These gains likely stem from favorable global market conditions, improved logistics, and policy support for exporters. Overall, the data reflect a positive outlook for export-led growth, enhancing foreign exchange earnings and supporting economic resilience.

Rising imports and stable capital goods inflows reflect strengthening economic activity

Bangladesh's import trends in FY25 indicate a moderate yet meaningful rebound in economic activity, particularly in the latter half of the fiscal year. Overall imports remain strong, surpassing last year's levels in several key months—especially in December 2024 (\$6,453.77 million vs. \$5,232.5 million) and January 2025 (\$6,367.21 million vs. \$5,865 million)—signaling increased demand for industrial inputs, consumer goods, and energy. While total imports show healthy growth, capital goods imports—an important indicator of future productive capacity—remain relatively stable and resilient (Figure 10). Notably, capital goods imports in May 2025 rose to \$868.91 million, higher than the previous year's \$841.5 million, suggesting a rebound in investment appetite. The moderation in capital goods imports compared to FY2023–24 also reflects more efficient and targeted investments, possibly driven by import substitution efforts and improved domestic capacity. Overall, the import data reflects a recovering domestic economy, increased investor confidence, and a balanced approach to external trade management.

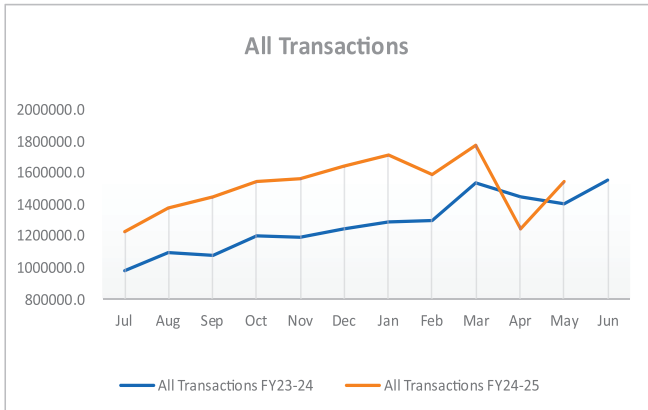
Remittance inflows surge, boosting external stability and household incomes

Bangladesh has experienced a remarkable surge in remittance inflows during FY2024–25, signaling stronger engagement from the diaspora community and improved transfer channels. Monthly remittance figures consistently outperformed the previous fiscal year, with notable spikes in March (\$3,295.63 million), May (\$2,969.56 million), and December (\$2,638.78 million), reflecting seasonal peaks and likely policy incentives such as higher exchange rates and smoother remittance systems. The total remittance inflow over the year shows robust growth, which not only strengthens the country's foreign exchange reserves but also supports household consumption and rural livelihoods. On a point-to-point basis, remittances in July 2025 reached \$2,470 million—an impressive 29.5% increase compared to \$1,913.77 million in July 2024. This upward trajectory is a positive signal of confidence in the formal financial system and highlights the critical role of remittances in sustaining Bangladesh's macroeconomic stability.

Acknowledgments: The data used in this report were provided by the Bangladesh Bureau of Statistics (BBS), Bangladesh Bank, and the Finance Division.

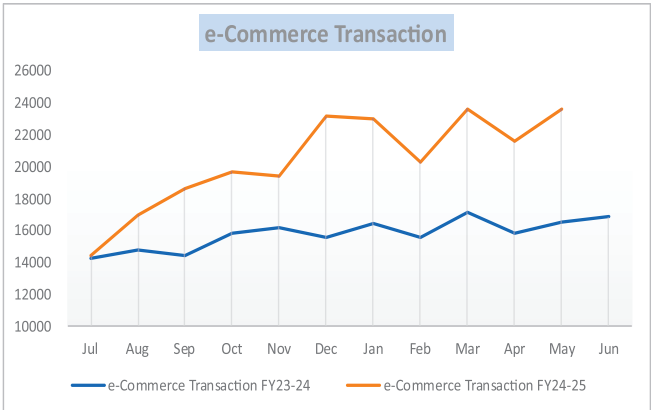
Annex: Tables and Figures

Figure 1: MFS Transactions (in million Taka)



Source: Bangladesh Bank

Figure 2: e-Commerce Transactions (million Taka)



Source: Bangladesh Bank

Figure 3: Agricultural credit disbursements and recovery, FY25 (Crore Tk.)

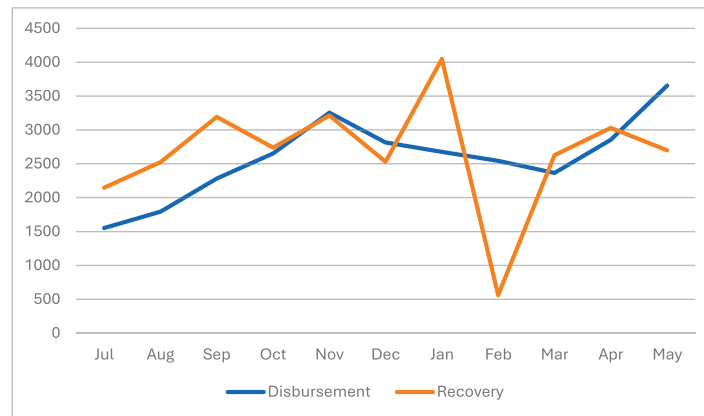


Figure 4: Industrial Production Index and Year-on-year growth, FY25

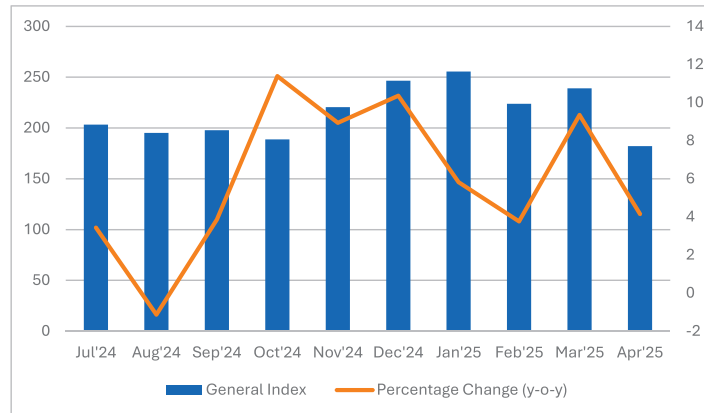


Figure 5: Inflation trend since July 2024

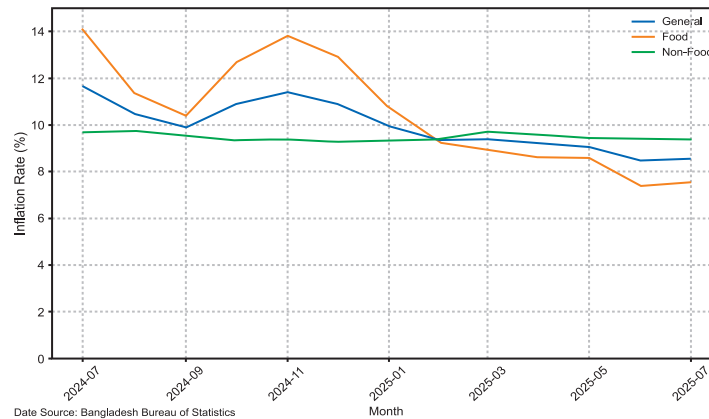


Figure 6: Change in CPI for a variety of rice in the last 13 months

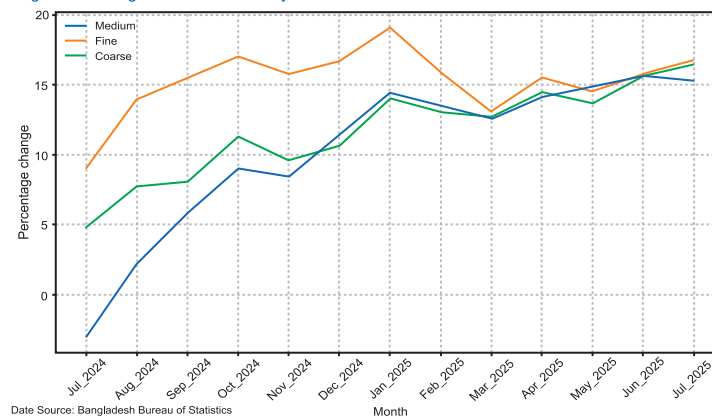


Figure 7: Contribution of food items (broad) to food inflation in July 2025

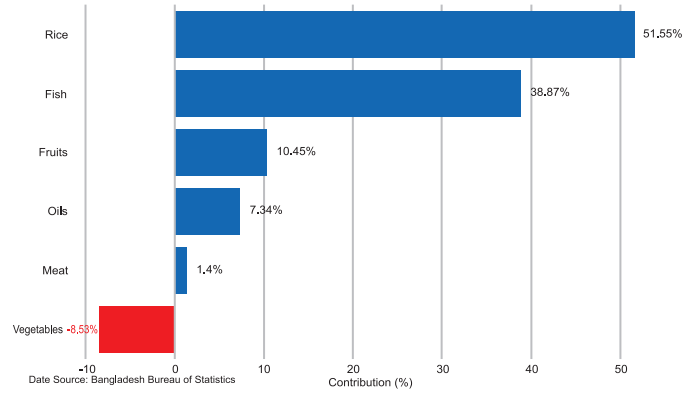


Figure 8: Contribution of food items (disaggregated) to food inflation in July 2025

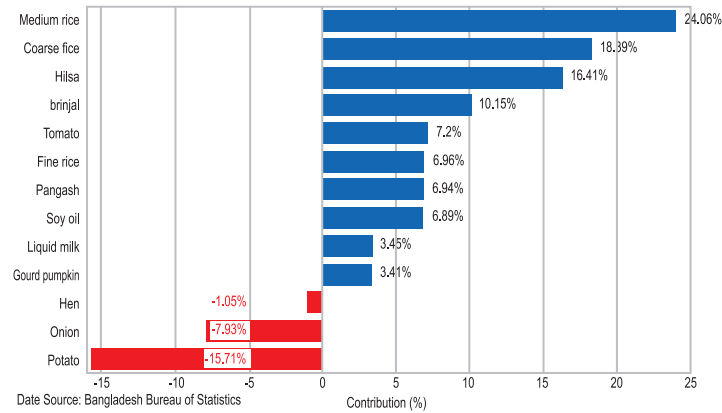


Figure 9: External Balance (in billion USD)

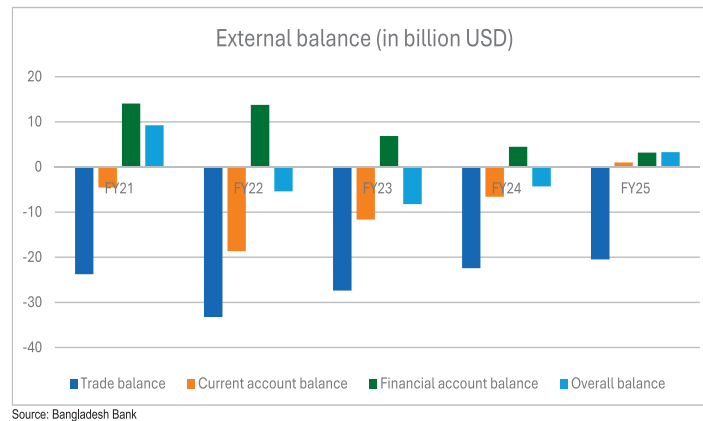


Figure 10: Contribution of capital machinery to total import

