Star BUSINESS

Bangladesh is facing moderate stagflation

Says former WB lead economist

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Bangladesh is facing a moderate form of stagflation, said Zahid Hussain, a former lead economist at the World Bank's Dhaka office, as economic growth remains weak, inflation stays high, and job creation has been limited in recent years.

In developing economies, he said, stagflation does not necessarily mean negative growth. Instead, it occurs when growth remains below its potential or target while inflation continues to rise.

Hussain made the remarks at an event jointly organised by Voice for Reform and the Bangladesh Research Analysis and Information Network in Dhaka yesterday.

Since the Covid-19 pandemic, inflation has surged sharply, while economic growth has shown a persistent decline. Although gross domestic product growth remains positive at around 3.5 to 4 percent, inflation in the high single digits points to clear stagflationary pressure, he said.

Sustained economic growth, he added, depends fundamentally on political and macroeconomic stability. Without a stable political environment, progress cannot take root.

According to the economist, three elements are essential for macroeconomic stability. Those are controlling inflation, maintaining balance of payments stability, and restoring the health of the financial sector.

Under the current institutional framework, Bangladesh's potential growth is capped at roughly 6.5 percent. Achieving growth closer to 8 percent would require deep structural reforms, Hussain said.

He also noted that the financial sector remains fragile, particularly because of high levels of non-performing loans. However, it appears to have reached its lowest point and is beginning to stabilise.

Reaching a trillion-dollar economy by 2035 will require inclusive growth driven by labour market reforms that ensure economic gains reach the wider population rather than relying on trickle-down mechanisms, he added.

Fahmida Khatun, executive director of the Centre for Policy Dialogue (CPD), said Bangladesh risks falling into a low-level economic equilibrium if constraints on productivity, investment, and human capital are not addressed urgently.

Aspirations for a trillion-dollar economy require more than ambitious targets. They require sustained improvements in investment, inflation management, and inequality reduction, she said.

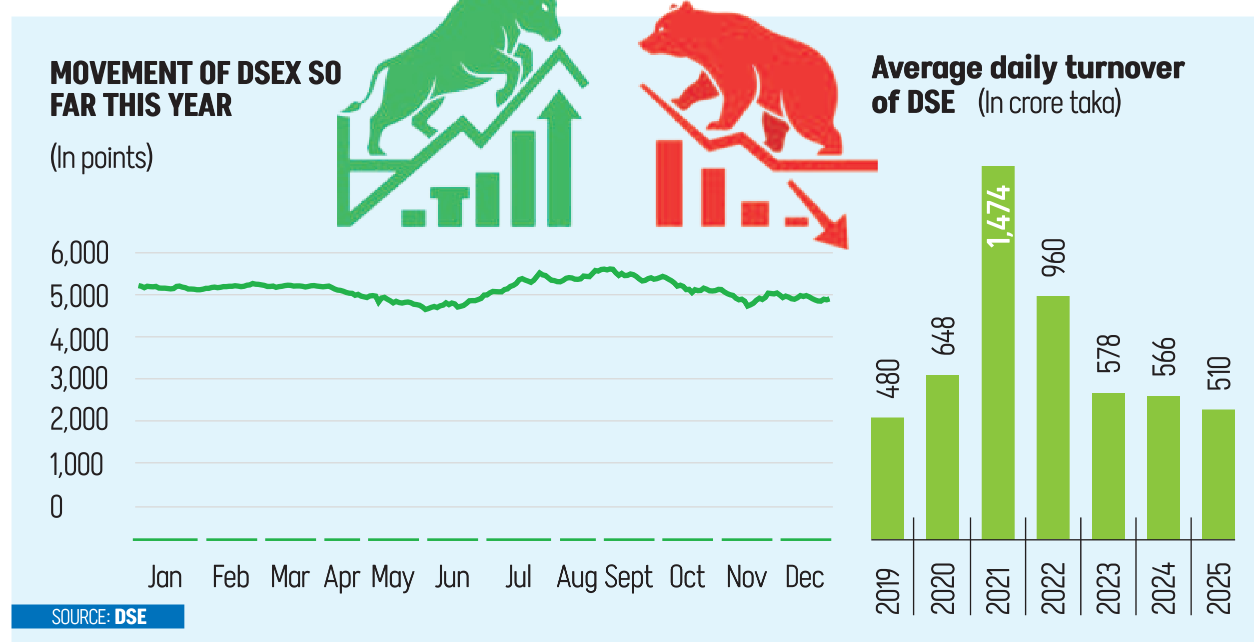
Inflation has remained elevated for nearly three years, fuelled by successive shocks from the pandemic, global conflicts, and domestic instability, she added.

Fahmida highlighted a great skills mismatch in the labour market. Unemployment is highest among the educated, while employers report shortages of skilled workers.

The private sector, which accounts for 80 percent of the economy, has not expanded sufficiently, placing increased pressure on government employment, she said.

An unhappy year as stock investors bear the cost of market reforms

AHSAN HABIB



The capital market opened 2025 with a tentative sense of hope.

The mass uprising in August last year had left the country in a mood for change, and investors expected that long-promised reforms would bring accountability, stronger financial institutions, and a fairer, more transparent market.

Some of those reforms finally arrived. New rules for mutual funds and margin loans were introduced, cash dividend processes were streamlined, and authorities reduced annual BO account fees.

Several figures, once considered untouchable, faced punishment for market violations.

Yet, as with any major surgery, the early days appeared to be painful and uncomfortable. Forced sales, portfolio losses, and falling share prices left investors nursing the wounds.

The market, in effect, entered a post-operative room, waiting to see whether recovery would take hold.

THE REWIND

The DSEX, the benchmark index of the Dhaka Stock Exchange (DSE), began January above 5,200 points. Then it fell sharply within months, recovered to 5,636 in September, and slipped again below 5,000 after announcements of bank mergers and liquidation of non-bank financial institutions.

These movements reflected more than routine volatility. They revealed a market and its participants struggling to adjust to a new reality.

For investors, reform delivered mixed signals. Many agreed that long-standing weaknesses had to be addressed, but uncertainty over the pace of change and who would bear the cost created hesitation.

This hesitation was most visible in the financial sector. Five banks entered into the merger process, while eight listed non-banks among nine institutions moved towards liquidation.

Based on face value, the loss for shareholders of these banks and NBFIs amounted to around Tk 5,500 crore.

Apart from the financial losses, trust itself was hurt by the merger and liquidation move.

Investors had been relying on audit reports and credit ratings of the banks and non-banks. Those did not detect any misdeeds over the years.

"People invested seeing that auditors certified them as healthy and credit rating agencies gave them good ratings," said Richard D' Rozario, a director of DSE. "But overnight, their financial condition fell apart."

The problems were not confined to the financial sector. Over the past decade, many companies have been listed with high expectations.

But by 2025, a large number of them became low-performing or were widely seen as poor-quality stocks. This gradual decline continued to weigh on sentiment.

The situation was compounded by the absence of new listings.

Not a single initial public offering came to the market during 2025. Investors holding weak stocks had few alternatives, leaving portfolios stuck and fresh interest low.

Regulatory activity was high throughout the year. Mutual fund regulations were gazetted, introducing changes that asset managers welcomed. However, they are advocating for some more changes that could have long-term effects.

Margin loan rules were revised, dividend distribution was streamlined, and annual BO account fees were reduced from Tk 450 to Tk 150.

Punitive actions were also taken against individuals and firms accused of market manipulation, including former BSEC chairman Shibli Rubayat Ul Islam and former private sector adviser to the previous prime minister Salman F Rahman.

For investors, this marked a break from periods when enforcement had been questioned.

However, those reforms carried immediate costs. "The immediate impact of reform is always painful while it benefits in the long run, and we are crossing the painful episode," said Saiful Islam, president of the DSE Brokers Association of Bangladesh (DBA).

For instance, changes to margin loans triggered forced sales and added pressure on prices.

In the mutual fund sector, the regulator stopped approving new closed-end funds, a move Islam described as necessary. Expectations for open-ended funds were not fully met.

Another disappointment was the failure to bring state-owned enterprises to the market.

"We have missed a big opportunity to bring well-performing state-run companies despite clear direction from the chief adviser," Islam said.

Demand for new IPOs was strong, but no company was listed in 2025. For a market short of quality stocks, the absence of these listings reinforced concerns that reform was not matched with measures to deepen the market.

"A cumulative failure was that we all failed to bring confidence back," commented Islam. "The market did not grow, and the ecosystem became unsustainable."

Trading activity reflected this lack of confidence.

Average daily turnover at DSE fell to Tk 510 crore in 2025 from Tk 566 crore the previous year.

The legacy of the floor price regime also weighed on liquidity. "The floor price left suffering for the whole market," said D' Rozario.

He said institutional investors were forced into low-performing but liquid stocks simply to continue operations.

"After August last year, the market began moving again, particularly in fundamentally strong stocks, but many investors remained locked in weak shares, limiting recovery," he added.

By year-end, the bourse responded less to earnings and more to uncertainty. That uncertainty included the pace of reform, treatment of shareholders during restructuring and timing of quality listings.

Banks open on Saturday for election payments

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The Bangladesh Bank (BB) has instructed banks to keep their branches open on Saturday to facilitate election-related financial transactions ahead of the 13th national parliamentary election.

The central bank issued a circular yesterday, saying the decision was taken to ensure the smooth deposit of nomination fees and the purchase of voter lists by candidates.

According to the circular, candidates will be able to make payments through bank drafts, pay orders or treasury challans at any branch of scheduled banks across the country.

The move followed a request from the Election Commission, which sought uninterrupted banking services during the nomination process.

In a letter sent to the BB yesterday, the commission said December 29 is the last date for submitting nomination papers. However, banks would otherwise remain closed for three consecutive days – December 25 for Christmas, followed by weekly holidays on December 26 and 27.

Under electoral rules, candidates must submit security deposits and fees for purchasing voter list CDs through bank drafts, pay orders or treasury challans along with their nomination papers.

Govt approves Tk 7.88 lakh crore revised budget

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The government has approved a revised budget of Tk 7.88 lakh crore for the current fiscal year 2025-26.

The decision was taken at a meeting of the Advisory Council, chaired by Chief Adviser Muhammad Yunus, at the Chief Adviser's Office in Dhaka yesterday.

The revised budget trims Tk 2,000 crore from the original outlay of Tk 7.90 lakh crore. The annual development programme (ADP) has been cut by Tk 30,000 crore to Tk 2 lakh crore.

"This revised budget will be effective from February 1 next year," said Shafiqul Alam, press secretary to the chief adviser, while briefing reporters at the Foreign Service Academy.

Alam said revenue collection has picked up in the current fiscal year. Revenue collection growth during the July-October period stands at 26.4 percent, up from 24.1 percent in the same period last year.

In this context, the revised budget sets the revenue collection target at Tk 5.88 lakh crore for FY26, a 5 percent increase, or Tk 24,000 crore, over the original budget target of Tk 5.64 lakh crore.

Non-NBR tax targets have been raised to Tk 20,000 crore from Tk 19,000 crore, while non-tax revenue has been increased to Tk 65,000 crore from Tk 46,000 crore.

The NBR has raised its target to Tk 5.03 lakh crore from Tk 4.99 lakh crore. The revised budget also reduces the deficit to 3.3 percent of GDP, according to the press secretary.

He said the chief adviser has instructed that the budget should enhance national self-reliance. "The chief adviser said that many projects are being implemented with foreign loans. We have to gradually move away from them."

He added that the chief adviser emphasised funding projects from domestic resources.

Chief Adviser Yunus also highlighted the importance of quality education, rural development, women's empowerment, youth initiatives, and the health sector in the budget. Alam said inflation is expected to fall to 7 percent and GDP growth could reach 5 percent in the current fiscal year.

Housing slowdown temporary, recovery ahead

Rajuk chairman says as REHAB fair begins

Employees of a real estate firm wait to welcome visitors at a stall of the four-day housing fair that began yesterday.
PHOTO: STAR

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The ongoing downturn in the country's housing sector is not permanent, and the industry will recover once market confidence returns, said Md Reazul Islam, chairman of Rajdhani Unnayan Kartripakkha (Rajuk), amid concerns over falling sales, rising costs, and regulatory hurdles.

"The housing sector has gone through many cycles of ups and downs. Although the market is facing a slowdown now, it is not permanent. Better days will surely return," he said yesterday while inaugurating a four-day housing fair organised by the Real Estate and Housing Association of Bangladesh (REHAB) at the Bangladesh-China Friendship Conference Centre in Dhaka.

Islam also said real estate developers play a vital role in urban development, job creation, and overall economic activity.

The sector, which has strong backward linkages with industries such as cement, steel, ceramics, electrical goods, and fittings, is currently under pressure due to high interest rates, lower private investment, rising construction costs and stricter enforcement of planning rules.

The Rajuk chairman stressed the importance of following planning rules, particularly under the newly gazetted Detailed Area Plan (DAP), and urged a gradual shift towards environmentally friendly, or green buildings.

He also warned against unplanned construction that limits access for emergency services, saying such practices benefit only a few people while harming the city as a whole.

"Any development where fire service vehicles or ambulances cannot enter has no real economic or social value," he said, adding that unplanned construction increases urban risks and raises public costs.

Regarding the DAP, Islam acknowledged that its implementation has faced resistance and challenges but thanked developers for eventually accepting it.

He said the gazette is not final and will be updated by a technical committee to identify errors and suggest necessary corrections.

At the event, Ferdousi Begum, chairman of the National Housing Authority, urged developers to honour their commitments to help restore buyer confidence, especially among expatriates and middle-income families who invest remittance income in housing.

"Housing is deeply linked to employment, remittance utilisation, and government revenue," she said.

REHAB President Md Wahiduzzaman chaired the opening ceremony.

VAT waiver on metro rail extended

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The government has extended the value-added tax (VAT) exemption on metro rail services until June 30, 2026, aiming to keep fares affordable and encourage wider use of the mass transit system.

The existing VAT waiver was set to expire on December 31, 2025.

The National Board of Revenue (NBR) said yesterday that the extension was approved through a gazette notification issued on Tuesday, following a recommendation from the Ministry of Road Transport and Bridges.

Govt cuts duty on date imports

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The government has reduced customs duty on date imports by 10 percent ahead of the fasting month of Ramadan to keep prices stable.

The National Board of Revenue (NBR) issued a notification yesterday stating that customs duty on date imports has been reduced from 25 percent to 15 percent.

The reduced rate will remain in force until March 31, 2026.

In addition, advance income tax on the import of dates and other fruits has been lowered from 10 percent to 5 percent.