

# A leader who strengthened our struggle for democracy

## Khaleda Zia leaves behind an enduring legacy of service

The death of Khaleda Zia closes a definitive chapter in Bangladesh's history, one defined by the turbulent evolution of a young democracy. To understand the gravity of her passing on Tuesday, one must look beyond the polarised politics of recent years and recognise the extraordinary arc of a woman who seemed never destined to lead, yet went on to make enduring contributions to the nation's struggle for democracy.

Described early in her life as a “shy housewife” content in the shadow of her husband, President Ziaur Rahman, Khaleda began her transformation amid the blood and chaos of 1981. The assassination of her husband left the Bangladesh Nationalist Party (BNP) fractured and leaderless. Senior leaders doubted her political capability. Yet, when the party teetered on the brink of disintegration, she stepped into the void.

It was on the streets of Dhaka that her shyness disappeared and her “uncompromising” persona emerged. Facing the might of HM Ershad's military regime, she earned her moniker not through shrewd negotiation, but through a steadfast refusal to legitimise a dictator. She was detained repeatedly, yet her obduracy became her greatest political asset. While her street agitation is the stuff of history, her legacy is cemented by two hallmarks that fundamentally altered Bangladesh's state structure: the restoration of the parliamentary system and the institutionalisation of the caretaker government.

Following the fall of the military regime in 1990—achieved through a rare and strategic alliance with her arch-rival Sheikh Hasina—Khaleda led the BNP to a stunning victory in 1991. As Bangladesh's first female prime minister, she presided over a seminal shift: the transition from a presidential system, long prone to autocratic abuse, back to a parliamentary form of government. It was a move intended to anchor democracy in the legislature, and it remains the bedrock of Bangladesh.

In 1996, Khaleda's administration navigated a volatile political impasse to ensure a fair transfer of power. She formed a parliament that proved short-lived and passed the 13th Amendment to the Constitution amid violent protests. This amendment formally embedded the non-party caretaker government system into law. In a now-rare display of democratic adherence, she promptly dissolved parliament and resigned, submitting herself to the very neutral authority she had just empowered. Though she lost the subsequent election to Awami League, she retained a singular electoral distinction: she remains the only leader in the country's history to have won every parliamentary seat she ever contested.

Beyond that, her imprint reshaped the daily lives of millions. Guided by her finance minister, M Saifur Rahman, she introduced value-added tax (VAT) in 1991, a difficult reform that expanded the state's revenue base. But it was in the classroom where she altered the social fabric. Recognising that development was impossible without women, her government launched a nationwide stipend programme in 1994, making secondary education free for girls. This single policy has been among the most consequential of state initiatives in empowering rural women in our country.

Her legacy, however, is also marked by her bitter conflict with Sheikh Hasina. Violence and subsequent army-backed intervention in 2007 saw both leaders jailed, marking the beginning of a darker period in national politics.

The tragedy of Khaleda's final decade was profound. In January 2015, confined to her Gulshan office with sand-laden police trucks barricading the gates, she received news of the death of her younger son, Arafat Rahman. Cut off from the outside world, she was forced to grieve in isolation. The nadir came in 2018, when she was sentenced on corruption charges involving the Zia Orphanage Trust—charges her supporters consistently described as politically motivated. She became the sole inmate of the abandoned Old Dhaka Central Jail. For two years, Khaleda was forced to live in the solitude of a dilapidated colonial-era building, a period of profound loneliness that ravaged her health but failed to break her resolve.

After Muhammad Yunus assumed power as the interim leader, Khaleda was acquitted of all charges and convictions. This total exoneration was more than just a legal victory; it was a public vindication of her longstanding claim that her imprisonment had been a political construct of the Hasina regime.

History may come to view her final act—the years of silence and incarceration—as among her most politically significant. During the long and increasingly brutal rule of Hasina, Khaleda became a symbol of silent resistance. The wheel turned one last time in 2024 when a student-led uprising swept Hasina from power. Khaleda's rival fled the country and was later sentenced to death in absentia. Yet, in the aftermath of this dramatic reversal, Khaleda's most defining response was her calm. In her first public address after six years of silence, delivered from a hospital bed, she urged the nation to reject the “politics of vengeance”. It was a final lesson in leadership: choosing to heal a fractured nation rather than settle scores.

With her passing, the baton formally passes to her son, Tarique Rahman, who returned from exile in London just days before her death. The reunion was brief, but his responsibility for the party in her absence is bound to be long and heavy.

Khaleda Zia leaves behind a Bangladesh vastly different from the one she inherited in 1981. She was not a groomed politician, but a survivor who stepped out of the domestic sphere to topple a dictator and help build the pillars of a parliamentary democracy. In a country often ruled by the gun, she proved that the most formidable weapon could be the resolve of a single, steadfast woman.

## THIS DAY IN HISTORY

## The ball that started it all

The first ball was dropped at Times Square in New York City to celebrate New Year's Eve on this day in 1907. Made of iron and covered in lightbulbs, the ball was so heavy that it had to be wrangled by six men. It established a tradition that continues today.

# What economy are we leaving behind in 2025?



MACRO MIRROR

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When the interim government formed following the July 2024 uprising, macroeconomic stability was weak, with several major economic indicators performing poorly. The accumulated costs of governance failures, corruption, and prolonged financial mismanagement had undermined the economy's potential. Since then, the free fall of the economy has been halted, and some negative trends have been reversed. However, the economy now experiences slower growth, elevated inflation, weakened investment sentiment, and rising vulnerabilities in the financial sector.

The macroeconomic environment in Bangladesh in the fiscal year (FY) 2025 (July 2024 - June 2025) and early FY2026 reflects a fragile and uneven recovery. Real growth of Gross Domestic Product (GDP) moderated sharply, registering only 3.97 percent in FY2025. While this represents a partial rebound from the disruptions caused by political unrest, it remains significantly below the country's historical average and far from the levels required to generate adequate employment for a rapidly growing labour force. Industrial production trends suggest that the recovery is underway. However, the pace is slow and insufficient to compensate for earlier losses or to drive a broad-based industrial resurgence.

Inflation remains one of the most persistent macroeconomic challenges. However, headline inflation eased to 8.29 percent in November 2025, largely driven by a deceleration in food prices rather than a comprehensive easing of price pressures across the economy. Although food inflation fell to 7.36 percent during this period offering some relief to households, it is still not at comfort levels as wage growth has failed to keep pace with rising living costs. The wage rate index was 8.04 in November 2025, slightly increased from 8.01 in October 2025. This implies stagnant real wages and eroding purchasing power for large segments of the population, rising vulnerability among low-income groups, and subdued consumer demand.

Weak private investment is another defining feature of the current macroeconomic landscape. Private sector credit growth fell to 6.23

percent in October 2025, reflecting subdued credit demand and tighter lending conditions in the banking system. This contraction signals investor uncertainty, driven by political instability, policy unpredictability, and longstanding governance failures in the financial sector. By contrast, public sector credit growth surged to 24.11 percent over the same period, indicating a growing reliance by the government on domestic borrowing to finance its operations. While such borrowing may be necessary



VISUAL: ANWAR SOHEL

in the short term to maintain fiscal stability, it risks crowding out private investment and exacerbating pressures on the banking system if not carefully managed.

In the banking sector, several banks have struggled to mobilise deposits amid declining public confidence, while non-performing loans (NPLs) have continued to rise. The NPL was 35.73 percent of total disbursed loans as of September 2025, mostly due to the recent scrutiny of several banks' health by the Bangladesh Bank. Earlier, several non-compliant commercial banks would hide the actual amount of NPLs. This alarming figure is not merely a cyclical phenomenon but the result of years of weak regulation, political interference, and repeated loan rescheduling that masked underlying insolvency. The persistence of such vulnerabilities threatens

financial stability and undermines the transmission of monetary policy.

Fiscal performance has also weakened. With a tax-to-GDP ratio of only 6.8 percent in FY2025, Bangladesh continues to lag behind its regional peers, limiting the government's capacity to finance development spending without resorting to borrowing. At the same time, growth in public expenditure, particularly development expenditure, declined sharply throughout FY2025, raising concerns about the sustainability of infrastructure investment, human capital formation, and long-term growth potential. The combination of weak revenue mobilisation and constrained development expenditure poses a serious challenge to fiscal sustainability.

External sector indicators present a mixed picture. Export growth was 8.6 percent in FY2025. However, during July–November FY2026, export growth remained sluggish, registering only a

compound economic pressure. Private investment fell to 22.48 per cent of GDP in FY2025, its lowest level in five years, raising concerns about future growth and job creation. The energy sector continues to impose heavy fiscal burdens due to high generation costs, unplanned capacity expansion, and excessive capacity payments. Most critically, Bangladesh is set to graduate from Least Developed Country (LDC) status in November 2026, which entails the gradual withdrawal of trade preferences, currently covering approximately 70 percent of global exports. Without adequate preparation, this transition could erode export competitiveness and expose structural weaknesses.

Looking ahead, the outlook for FY2026 indicates a modest recovery, although some risks remain. The Medium Term Macroeconomic Policy Statement of June 2025 by the Ministry of Finance projects GDP growth to be 5.5 percent and inflation 6.5 percent in FY2026. On the other hand, the Bangladesh Bank forecasts real GDP growth to be 5.38 percent and average inflation to come down to 7.26 percent in FY2026.

Clearly, in the short term, stabilising the macroeconomic environment must be the top priority. Inflation control will require a careful balance between monetary tightening and supportive fiscal measures to protect vulnerable groups. Addressing NPLs and strengthening bank governance are critical to restoring confidence in the financial system and reviving private investment. Policy consistency, regulatory transparency, and political stability will be essential to improve the investment climate.

Over the medium to long term, deeper structural reforms are unavoidable. Strengthening the institutional independence and capacity of the central bank is crucial for effective monetary management. Industrial policy must focus on productivity, skills development, and technological upgrading to diversify exports beyond garments. Social safety nets need to be expanded and better targeted to protect those left behind by structural change. Skills development programmes must be aligned with market needs, particularly for youth and women. Broadening the tax base and reducing reliance on indirect taxation are essential for fiscal sustainability. Investment in climate resilience and disaster preparedness is increasingly urgent in a climate-vulnerable economy. Above all, transparent and accountable governance must be restored to rebuild trust and unlock long-term growth potential.

# What a cashless turn means for our economy



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With mobile banking, QR payments, digital wallets, and instant transfers becoming common, Bangladesh is moving steadily towards a cashless economy. Bangladesh Bank has accelerated this shift by launching initiatives for interoperable digital payments and advocating universal adoption. While much of the public debate focuses on convenience, transparency, and financial inclusion, one critical question has received far less attention: how will cashless transactions affect the money multiplier—the banking system's capacity to create credit?

Economic theory around fractional-reserve banking offers a clear mechanism. In a cash-based system, a significant portion of money remains outside the banking system, limiting banks' ability to lend. This “currency leakage” reduces the effective money multiplier, which depends on the proportion of deposits relative to the total money supply. In a cashless economy, people hold less physical cash and more deposits, giving banks a larger base for lending. Lower currency holdings, combined with faster electronic circulation of money, can theoretically raise the multiplier, allowing each unit of base money to generate more broad money in the economy.

Empirical evidence from other countries supports the argument.

In Kenya, the introduction of M-Pesa sharply reduced currency in circulation relative to GDP, while the ratio of broad money to base money rose from under five to above 10 within a few years. Similar patterns have been observed in countries adopting widespread digital payment systems, where mobile money and interoperable platforms expand deposit bases and enable banks to create more credit.

In Bangladesh too, between 2018 and 2021, mobile financial services (MFS) transactions contributed approximately 10.88 percent of narrow money (M1) and 11.29 percent of broad money (M2). In absolute terms, roughly Tk 22,219 crore of previously informal cash flowed into the formal banking system through MFS. Through successive rounds of lending and deposit creation, this expanded to Tk 35,723 crore in M1 and Tk 166,218 crore in M2. These figures demonstrate that cashless transactions are not simply a substitute for cash but actively increase the money available for lending, effectively raising the money multiplier.

Moreover, the rapid adoption of mobile banking during Covid-19 accelerated access to formal financial services, particularly in urban and semi-urban areas. QR-based merchant payments, salaries paid directly into

digital accounts, and agent-mediated transactions in rural communities are all contributing to a broader deposit base. This suggests that the multiplier effect may grow further as cashless penetration deepens.

However, a higher money multiplier is a double-edged sword. While it can expand credit availability and stimulate economic activity, the benefits depend on how banks deploy these funds. If banks hoard excess reserves due to risk aversion, regulatory constraints, or high levels of non-performing loans, the theoretical gains may not translate into real lending. Similarly, if digital money circulates largely in non-bank wallets rather than formal deposits, the multiplier effect remains limited. Rapid credit expansion without corresponding productive investment can also create inflationary pressures.

Moreover, gaps in digital literacy, mistrust of digital systems, and connectivity problems in rural areas can slow adoption, leaving large segments of the population excluded from the benefits of a higher multiplier.

International experience shows that poorly managed digital money adoption can exacerbate inequality, concentrate financial power, and create systemic vulnerabilities. In Kenya, while M-Pesa boosted deposits and access to credit, it also created regulatory challenges and increased reliance on a few dominant platforms. Bangladesh could face similar risks if integration, oversight, and inclusion are not prioritised.

In sum, Bangladesh's move towards a cashless economy has the potential to increase the money multiplier, supporting greater credit creation, financial inclusion, and economic dynamism. The evidence—more than a 10 percent contribution to both M1

and M2 by mobile financial services—shows that digital finance is already reshaping the banking system.

Yet, whether this outcome is beneficial depends on careful management. A higher multiplier is desirable if it leads to productive lending, inclusive access, and financial stability. It can be harmful if it fuels credit bubbles, reinforces digital inequality, or concentrates economic power in a handful of private platforms. Bangladesh is at a pivotal moment. Cashless payments offer a structural opportunity to enhance credit creation, formalise informal money flows, and strengthen the financial system. But policymakers must ensure that infrastructure, trust, financial literacy, and regulation keep pace.

To manage potential risks and make the cashless transition effective, policymakers need a balanced strategy. Strong digital regulation is essential to ensure transparency, consumer protection, and fair competition among banks and fintech platforms. Bangladesh Bank should closely monitor digital transaction flows and adjust reserve requirements when necessary to keep the money multiplier stable. Expanding digital literacy programmes, improving network reliability, and setting clear rules on data privacy will help build trust, particularly in rural and low-income communities. Creating a unified, low-cost digital payment infrastructure and encouraging banks to link digital deposits with productive lending can ensure that the growth of electronic money genuinely supports economic development. With coordinated action, Bangladesh can enjoy the benefits of a higher multiplier while keeping inflation, financial exclusion, and systemic risks under control.