

## PROGRESS with macroeconomic adjustment



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Since the advent of Covid19 in March 2020, Bangladesh has faced a series of external shocks. Combined with macroeconomic mismanagement and corrupt practices, the Bangladesh economy nose-dived reflected in rising inflation, plummeting external reserves, sharp depreciation of the exchange rate, falling tax to GDP ratio, falling investment rate and declining GDP growth rate.

The downturn in the economy along with growing unhappiness with an autocratic political regime led to a mass movement, which caused the downfall of the ruling Awami League government. An interim government was established with the task of stabilising the macroeconomy and conducting national election for smooth transfer of power to a democratically elected government.

The national election is now scheduled for early February 2026. A key policy debate is the state of the economy that will be inherited by the

new national government and the challenges ahead. The objective of this write up is to provide an assessment of the macroeconomy and identify the key policy challenges in the post-election period. The assessment seeks to be evidence based, using the available macroeconomic database from government sources.

Significant progress has been made in stabilising the macroeconomy (Table 1). The current account of the balance of payments has turned around from a large negative number to positive, reserve run down has been arrested and a modest recovery of reserves is now underway. The upward trend in inflation has been contained with a modest slowdown in inflation. On the other side, the quality of the macroeconomic adjustment has been weak. Private investment rate has fallen significantly. Public ADP spending has been cut sharply. GDP growth has continued to slide, falling to a low of 4 per cent in FY2025.

On the socio-economic front,

### SNAPSHOT

**External shocks and mismanagement triggered a sharp macroeconomic downturn after 2020.**

1. Recent adjustment has stabilised inflation, reserves, and the balance of payments, but growth has slowed.
2. Weak fiscal reform has cut public investment and social protection, worsening jobs and poverty outcomes.
3. Investment remains subdued due to policy gaps, banking stress, and energy constraints.
4. Post-election recovery depends on restoring rule of law and accelerating structural reforms.



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unemployment rate, especially for the educated youth, has increased. Underemployment is pervasive. There is also evidence of a rise in poverty owing to slowdown in GDP growth, high inflation, falling real wages and slowdown in public spending on social protection.

The weak quality of the adjustment effort is explained by the inability to implement most of the required policies. On the positive side, the two most fundamental reforms have been the establishment of a market-based exchange rate and ending the interest rate controls. Interest rates

are now primarily market based with the Bangladesh Bank (BB) using its various policy tools to lower credit and monetary growth that is consistent with lowering inflation. Both policies have helped to improve the balance of payments and reduce inflation.

SEE PAGE 38



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