

Kamran T Rahman

JAGARAN CHAKMA

Business confidence in Bangladesh is at a low point as the country navigates economic challenges and political uncertainty, according to Kamran T Rahman, president of the Metropolitan Chamber of Commerce and Industry (MCCI).

Speaking to The Daily Star in an exclusive interview about the hurdles Bangladeshi businesses are currently facing, Rahman pointed to high borrowing costs, stress in the banking sector and a widening disconnect between policymakers and industry as key factors weighing on confidence.

"Without stability, reform, and regular dialogue between the government and business leaders, it will be very difficult for the economy to regain momentum," he warned.

He said the interim government's primary responsibility is to hold elections and ensure a peaceful transition to a democratic administration. In the meantime, however, industry leaders say meaningful engagement with decision-makers has been limited, despite repeated attempts at dialogue.

This gap, Rahman noted, has contributed to a slowdown in investment. "Investors are in a wait-and-see mode. They want to see a stable, elected government in place before making long-term commitments."

Inflation, though down from its peak, continues to affect both consumers and producers, Rahman said, adding that businesses are under additional pressure from high interest rates, which currently hover between 13 percent and 14 percent.

"Such rates make access to affordable credit extremely difficult. As a result, many mills and factories are struggling to survive," he said. "Some have already shut down, and more could follow if rates remain this high."

According to Rahman, a sustainable path forward would involve bringing inflation down to around 5-6 percent, which would create room for interest rate cuts and encourage borrowing and expansion.

He also pointed to the depreciation of the taka against the US dollar. Volatility in the currency market, he said, makes it difficult to plan imports, set prices, and make long-term investment decisions.

Rahman, during the interview, especially emphasised the crises in the banking sector.

Highlighting the sharp rise in non-performing loans, which has crossed 35 percent of total outstanding loans, he

to bureaucratic delays and corrupt practices," he said. "If we want both local and foreign investors to come forward, these issues must be addressed head on."

Turning to the labour market, Rahman highlighted the growing gap between the supply of graduates and the availability of formal jobs. With around 20-25 lakh new workers entering the workforce annually, job creation is not keeping pace.

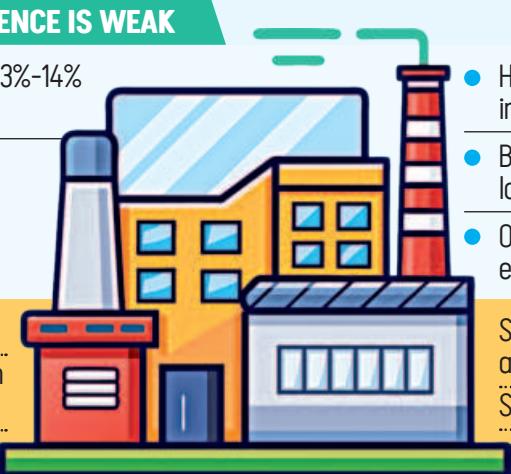
economy."

Rahman mentioned that many factories are running under capacity due to gas shortages or unreliable electricity. "When you invest in a large industrial setup, energy availability is a basic expectation."

He urged the government to focus on both exploration and extraction of energy resources to ensure future supply, warning that overdependence

WHY BUSINESS CONFIDENCE IS WEAK

- High borrowing costs of 13%-14% squeezing businesses
- Structural weakness in banking sector persists



- High inflation limiting room for expansion, investment
- Banks restricting fresh lending amid high loan defaults
- Overreliance on RMG, energy constraints expose economy to shocks

WHAT IS NEEDED

- Stable elected govt
- Reform, and dialogue between govt and businesses
- Lower inflation rate

- Strong financial institutions and capital market
- Reduced corruption
- Stable fiscal, monetary policies
- Improvements in ease of doing business

said this has made banks increasingly risk-averse and less willing to issue new credit.

He also criticised the use of short-term deposits to finance long-term industrial projects, calling it unsustainable. "We need dedicated long term financial institutions and a stronger capital market to support industrial financing," he argued.

Rahman also commented on recent bank mergers, particularly those involving shariah-based banks, where depositors initially faced restrictions on withdrawing funds. He said restoring confidence in the financial sector would require stable fiscal and monetary policies, stronger enforcement of the rule of law, reduced corruption and improvements in the ease of doing business.

"The cost of doing business has gone up significantly, in part due

He noted that many graduates are either unemployed or underemployed, mostly due to a mismatch between education and industry needs. "We need to revise our education curriculum and invest in skills training that prepares young people for the real job market."

He also drew attention to the earnings gap among migrant workers from South Asia. While Bangladeshis often go abroad as unskilled workers, Indian or Sri Lankan migrants tend to earn more due to better skills and certifications. "Certification matters. We must invest in both education and skill development if we want to compete globally."

Rahman also called for urgent diversification of the export base. Currently, Bangladesh remains heavily reliant on the ready-made garments sector. "This overdependence is risky. Any disruption in global demand or trade policy could severely impact our

on imports could drive up costs significantly.

Rahman also called for better infrastructure and public services, which ties back to the issue of revenue generation.

One of the more structural challenges Rahman pointed out is Bangladesh's low tax-to-GDP ratio, which is among the lowest in the region. "With such a limited revenue base, how can the government provide essential services or invest in infrastructure?"

Despite these challenges, Rahman believes that once a stable, elected government is in place and a clear policy direction is established, confidence will gradually return. However, he warned that the recovery won't be instant.

"It may take three months, six months, or even a year, depending on the policy environment and political stability," he said.

Europe, India seek closer ties with 'mother of all deals'

AFP, Brussels

India and Europe hope to strike the "mother of all deals" when EU chiefs meet Prime Minister Narendra Modi in New Delhi next week, as the two economic behemoths seek to forge closer ties.

Facing challenges from China and the United States, India and the European Union have been negotiating a massive free trade pact -- and talks, first launched about two decades ago, are nearing the finishing line.

"We are on the cusp of a historic trade agreement," European Commission President Ursula von der Leyen said this week.

Von der Leyen and European Council president Antonio Costa will attend Republic Day celebrations Monday before an EU-India summit Tuesday, where they hope to shake hands on the accord.

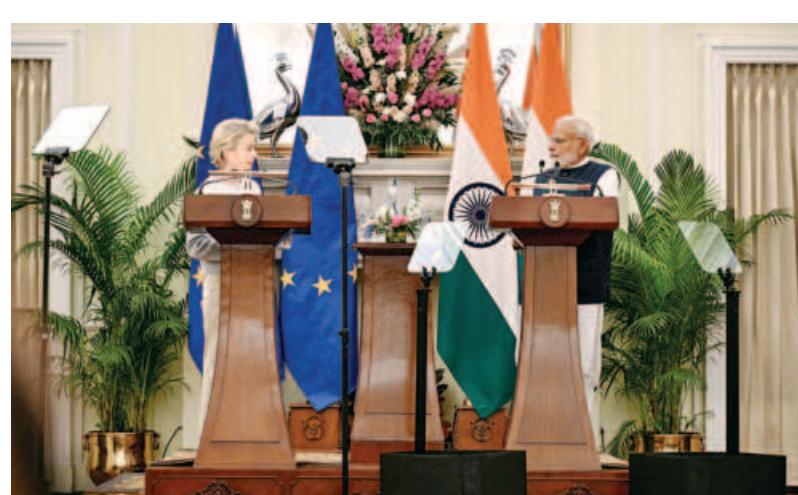
Securing a pact described by India's Commerce Minister Piyush Goyal as "the mother of all deals," would be a major win for Brussels and New Delhi as both seek to open up new markets in the face of US tariffs and Chinese export controls.

But officials have been eager to stress there is more to it than commerce.

"The EU and India are moving closer together at the time when the rules-based international order is under unprecedented pressure through wars, coercion and economic fragmentation," the EU's top diplomat, Kaja Kallas said Wednesday.

Russia's invasion of Ukraine and US President Donald Trump's punitive tariffs have brought momentum to the relationship between India and the EU, said Praveen Donthi, of the International Crisis Group think tank.

"The EU eyes the Indian market and aims to steer a rising power like India away from Russia, while India seeks to diversify its partnerships, doubling down on its strategy of multi-alignment at a time when its



In this file photo, European Commission President Ursula von der Leyen (left) addresses a joint press briefing as India's Prime Minister Narendra Modi listens, after their meeting at the Hyderabad House in New Delhi on February 28, 2025.

PHOTO: AFP/FILE

relations with the US have taken a downward turn," he said.

The summit will offer Brussels the chance to turn the page after a bruising transatlantic crisis over Greenland -- now seemingly defused. Together the EU and India account for about a quarter of the world's population and GDP.

Bilateral trade in goods reached 120 billion euros (\$139 billion) in 2024, an increase of nearly 90 percent over the past decade, according to EU figures, with a further 60 billion euros (\$69 billion) in trade in services. But both parties are eager to do more.

"India still accounts for around only around 2.5 percent of total EU trade in goods, compared with close to 15 percent for China," an EU official said, adding the figure gave a sense of the "untapped potential" an agreement could unlock.

EU makers of cars, machinery and chemicals have much to gain from India lowering entry barriers, said Ignacio Garcia Bercero, an analyst at Brussels think tank Bruegel, who led EU trade talks with New Delhi over a

decade ago.

"India is one of the most heavily protected economies in the world, with very, very high tariffs, including on many products where the European Union has a competitive advantage," he told AFP.

Its economy in the doldrums, the 27-member EU is also pushing to ease exports of spirits and wines and strengthen intellectual property rules. India -- the fastest-growing major economy in the world -- wants easier market access for products such as textiles and pharmaceuticals.

EU officials were tight-lipped about the deal's contents as negotiations are ongoing.

But agriculture, a sensitive topic in both India and Europe, is likely to play a limited role, with New Delhi eager to protect its dairy and grain sectors.

Talks are focusing on a few sticking points, including the impact of the EU's carbon border tax on steel exports and safety and quality standards in the pharmaceutical and automotive sectors, according to people familiar with the discussions.

Gold nears \$5,000, silver shines

AFP, New York

Global stocks were subdued and precious metals hit new highs Friday as US President Donald Trump followed up conciliatory comments on Greenland with a fresh warning on Iran.

Trump, who on Wednesday backed away from threatened tariffs on Europe over Greenland, told reporters the United States was sending a "massive fleet" toward Iran "just in case."

Gold -- a safe-haven asset -- pushed closer to a record \$5,000 an ounce, while fellow safe haven silver also kept rising, blasting through \$102 an ounce amid worries over what Trump may say next, or actually do.

The dollar retreated, falling to a four-month low against the euro.

Sentiment had calmed over the past two days after the US president pulled back from his threat to hit several European nations with levies because of their opposition to Washington taking over the Danish autonomous territory of Greenland.

Trump has repeatedly left open the option of new military action against Iran after Washington backed and joined Israel's 12-day war in June aimed at degrading Iran's nuclear and ballistic missile programs.

Why approve another bank

MAMUN RASHID

One of the deepest wounds in the economy today lies in the banking sector. The number of banks is disproportionately high relative to the size of the economy. At the same time, most banks are burdened with multiple problems, most notably the steadily rising volume of non-performing loans, capital shortfalls, limited product offerings and a severe deficit of good governance. Against this backdrop, initiatives are once again underway to approve new banks. The draft "Microcredit Bank Ordinance, 2025", prepared by the Ministry of Finance as part of this initiative, therefore warrants careful review.

Bangladesh now has 62 scheduled banks, of which 43 are under private ownership. A significant expansion occurred when the previous government repeatedly approved new banks on political grounds. Changes were also made at various levels, including bank boards, in line with the preferences of those in power. While the number of banks increased, there was no corresponding improvement in customer service. Branch networks expanded nationwide, pushing up operating costs. To offset these costs, banks pursued aggressive lending, from which politically connected individuals benefited most. A large portion of these loans has since turned non-performing. As a result, the banking sector became heavily politicised, governance weakened, and the capital structure of most banks deteriorated.

After the formation of the interim government, discussions emerged on reforming the banking sector, with particular emphasis on reducing the number of banks. As part of this process, an initiative was taken to merge five shariah-based banks into a single entity. Except for Sonali Bank, all state-owned banks face capital shortfalls exceeding Tk 100,000 crore. Yet instead of prioritising reform and restructuring of state-owned banks, the government is moving towards approving new banks through public initiatives, an approach that is entirely unacceptable. Rather than increasing the number of banks, the focus should be on strengthening governance and capacity across the sector.

I have personal experience of banking sector reforms in China, which offer valuable lessons on the importance of banking stability for economic development. After 1978, China gradually transitioned from a mono-bank system to a modern, bank-based financial system through phased reforms. At one point, non-performing loans in state-owned banks rose sharply. Structural reforms, including an overhaul of central bank operations, new commercial banking laws, adoption of international standards for loan classification, transfer of bad assets through asset management companies and gradual listing on capital markets, helped place the sector on a strong footing. Each bank now has a clearly defined mandate, and none lends outside its designated sector. In contrast, in Bangladesh, most state-owned banks appear to perform the same functions. There are even allegations that the agricultural bank fails to provide loans to farmers.

In comparable economies, the number of banks has been kept limited. In Thailand, Singapore and Malaysia, domestic bank numbers have not risen in line with economic size. Thailand, with a GDP exceeding \$500 billion, has six state-owned and 12 private banks. Singapore has only five local banks, while Malaysia has eight locally established banks. Even in neighbouring India, the number of banks is lower than in Bangladesh. These examples send a clear message: the priority should be to enhance the capacity and diversity of products offered by existing banks, not to add more.

Financial inclusion, entrepreneurship development and social business are often cited as reasons for approving new banks. Yet financial inclusion cannot be achieved simply by increasing bank numbers. It is more effectively advanced through technology-driven services and targeted lending programmes.

Rather than approving more banks, the government should focus on reducing the excess burden created by too many institutions and improving the quality of banking services. The same advice applies to the post-election government as well.

The writer is an economic analyst

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