Why does the taka remain weak despite record remittances?

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In 2025, Bangladesh achieved an unprecedented milestone in its economic history: remittance inflows surpassed $32.8 billion for the calendar year—the highest ever recorded, marking a roughly 22 percent increase from the previous year. This surge was driven by expatriate Bangladeshis sending more money home, often through formal banking channels, and government policies which encouraged legal remittance transfers while cracking down on informal hundi networks.

Despite this historic record, many ordinary citizens are feeling the weight of a weak taka in their everyday life: prices for fuel, edible oil, medicine, and imported essentials remain high; foreign goods seem relentlessly expensive; and the cost of living hasn't eased in any palpable way. This disconnect between the remittance increase and people's lived experience points to deeper structural challenges: remittances are cushioning the economy, not curing its vulnerabilities.

Remittances do more than simply pad foreign exchange reserves; they are a lifeline for millions of Bangladeshi families. For households, remittance income helps pay for food, education, healthcare, and investment in small businesses. At the macroeconomic level, these dollar flows have played a critical role in shoring up Bangladesh's external balance and providing much-needed liquidity in foreign currency markets. While remittances arrive continuously, they are swiftly absorbed by the economy's overwhelming demand for foreign exchange, which explains why rising remittance inflows have not translated into a visibly stronger taka.

Bangladesh's reliance on imports remains deeply entrenched. Fuel, industrial raw materials, capital machinery, pharmaceuticals, fertilisers, and even many processed foods are sourced from abroad. A significant portion of remittances is quickly spent on these imports. In simple terms, remittances enter through the front door and exit via import bills—a cycle that weakens the currency's upward momentum. Although they reduce the pressure on reserves, they do not automatically cut import demand. As imports rebound with economic activity, the expenditure of remittance dollars on necessary imports continues to constrain the overall net foreign exchange position. Consequently, the taka's exchange rate reflects the tension between these inflows and even larger outflows: the continued necessity of paying for foreign goods. As a result, even increased remittance inflows does little to make the taka substantially stronger.

The surge in remittances has led to a notable rebound in Bangladesh's foreign exchange reserves. Gross reserves in early January crossed $33 billion, the highest in three years since FY2021-2022, buoyed by strong remittances and continued dollar purchases by the central bank. But once again, the headline number masks underlying fragilities. Reserves measured under the International Monetary Fund's BPM6 methodology, which excludes certain illiquid or encumbered assets, stand at $28.51 billion, illustrating that usable reserves are not as large as the gross figure suggests. Moreover, these reserves must cover months of import payments, leaving limited slack for unforeseen shocks. So, while reserves are steadying, they are doing so largely because remittances are financing imports in real time instead of strengthening reserves sufficiently to support broad currency appreciation.

There's an intuitive expectation that if the taka stabilises, consumer prices should ease. But the mechanics of exchange rate pass-through (how well and how fast changes in the exchange rate show up in domestic prices) are often asymmetric. When the taka depreciates, increased import costs quickly push up domestic prices. Yet, when the pressure of depreciation eases, even significantly, prices rarely fall with similar speed or magnitude. There are several reasons for this asymmetry. Many import contracts are tied months in advance at previous exchange rates. Even if the taka stabilises, goods already priced at higher dollar rates will continue to contribute to inflation. Besides, higher costs of transport, financing, and energy persist even after exchange rate stabilisation, sustaining price pressures. Moreover, firms often adopt cautious pricing strategies in uncertain environments, preferring to maintain margins rather than lower prices. Thus, the "feel" of a weak taka persists even when official metrics indicate stability, because those metrics do not translate directly or immediately into lower consumer prices.

FILE VISUAL: **FATEMA JAHAN ENA**

Exchange rates are not just about numbers, they are also about confidence and expectations. The level of foreign reserves signals to markets how much buffer an economy has against external shocks. When reserves are under pressure or perceived to be so, traders and importers hedge by demanding higher premiums for dollars, driving up the effective exchange rate. While remittances have helped arrest reserve decline and even deliver gains, the broader confidence in the taka has not fully recovered. Ongoing external obligations and heavy import needs mean markets are still cautious. The result is that even with rising remittances, the taka remains sensitive to fluctuations in import and debt-servicing demands.

A deeper structural challenge lies in the fact that remittances are not the same as export earnings. Export growth, especially in diversified, high-value sectors, is far superior for sustainable currency strength. Export revenues represent returns from productive economic activity, tied to global competitiveness, technology adoption and industrial capability. Remittances, by contrast, are income transfers. They boost consumption and savings but do not necessarily enhance productive capacity, diversify the export basket, or reduce import dependence. As Bangladesh nears graduation from the least developed country status—a transition that will gradually strip away preferential trade benefits—reliance on remittances will be even less adequate as a long-term shield.

If remittances cushion the economy but do not cure its structural weaknesses, what would real strengthening look like? First, export diversification must become more than a slogan. Beyond ready-made garments, Bangladesh needs to promote new manufactured goods, digital services, pharmaceuticals, and creative industries. Second, import efficiency must improve. Investing in energy independence, local supply chains, and improved logistics can reduce foreign exchange outflows without throttling growth. Third, policymakers must enhance transparency and credibility in reserves management, communicating clearly and resisting ad-hoc measures that create mixed signals in markets. Finally, remittances themselves could be better leveraged, not just spent on consumption, but channelled into productive investments and diaspora-linked enterprise development.

While record remittances are a welcome headline and a lifeline for many families, the cushioning they provide is not a cure for the economy. Without addressing structural weaknesses in export capacity, import dependence, and foreign exchange management, the taka will continue to feel weak, and ordinary citizens will feel the pinch of prices that never truly ease. The economic equation is simple: remittances can support stability, but only broader, deeper reforms can sustain strength. Bangladesh should celebrate its remittance inflow milestone, but it must also treat it as a window of opportunity to fix the vulnerabilities which have held its currency and economy captive for far too long.

MERGER OF ISLAMIC BANKS

Depositors deserve transparency in Shariah decisions

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Views expressed in this article are the author's own.

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On January 14, a Bangladesh Bank (BB) letter announcing a "haircut" on deposit profits (no profit on deposits) for the five merged Islamic banks for 2024 and 2025 took depositors by surprise. Following widespread reactions, the decision was revised. The profit rate for individual term and scheme deposits has now been set at four percent for those two years, with a provision to adjust any excess profit already distributed against future profit distributions.

In support of the previous decision, on January 15, the governor of the central bank had cited the BB's Shariah Advisory Board (SAB) opinion that no profit can be paid in the event of a loss. He further explained that, as the concerned banks incurred losses during these years, the cancellation of profit is in accordance with Shariah principles and based on the SAB's recommendations. Later on January 29, he mentioned that, although depositors do not have any entitlement to the profit, it will be provided as *ihsan* (benevolence) by the government. In addition, he announced that, from January 2026, the profit rate will be fixed at 9.5 percent for deposits with a tenure of more than one year, while deposits with a tenure of less than one year will earn nine percent.

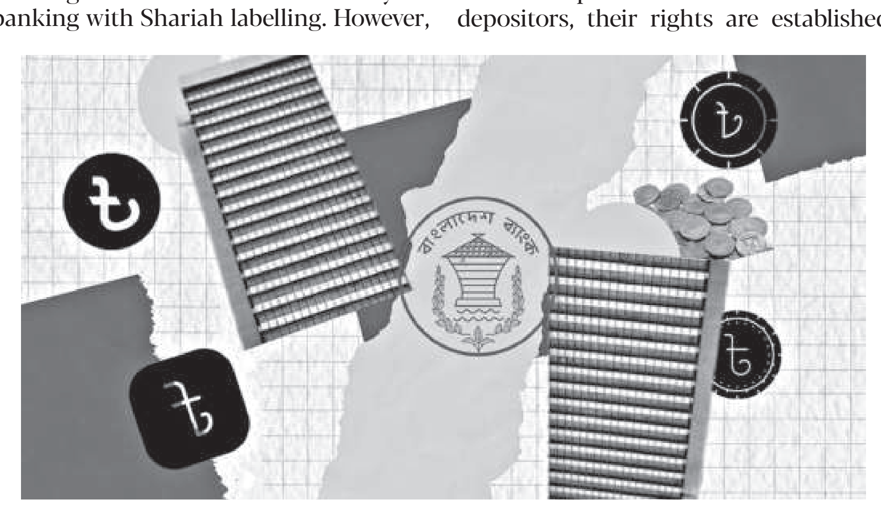
Since Shariah compliance is the foundation of Islamic banking, an unclear articulation of this claim and a lack of disclosure regarding Shariah decisions may raise concerns. For instance, the cancellation of already distributed profits and the fixing of profits in mudarabah contracts are contentious issues. Without clearly outlining the narrative and parameters of these measures, such decisions may lead to unintended consequences, including setting a precedent for Islamic banks to retrospectively revise their profits based on claims of Shariah compliance, thereby increasing depositors' risks.

At the outset, it is worth noting that the Islamic banking system in Bangladesh has accumulated various weaknesses over time. Alongside forced takeovers and large-scale irregularities across several banks, persistent deficiencies in product structuring, governance, Shariah compliance mechanisms, and disclosure practices have been evident in many instances. Significant gaps are also apparent in the regulatory and supervisory framework, and laws and regulations generally do not distinguish between interest-based and Islamic banking. The cumulative effect of these shortcomings has created deep structural vulnerabilities in the sector.

Furthermore, gaps in education and public awareness have contributed to widespread misconceptions, leading to the perception that Islamic banking is no different from interest-based banking. Some even view it merely as banking with Shariah labelling. However, Islamic banking is fundamentally distinct in principle. It is grounded in a coherent Shariah-based contractual and governance framework that emphasises the clear identification of ownership, risks, and liabilities of the contracting parties, along with equitable profit-and-loss sharing, proper accounting, transparency, and disclosure.

The primary source of funds for Islamic banks is mudarabah deposits. From the Shariah perspective, the fundamental principle is that these deposits are made on the basis that profits from investments made using the deposited amount shall be shared according to an agreed ratio and mechanism. In contrast, any investment loss results in no profit being paid and a reduction in the deposit amount. In other words, there should be a direct link between the investments made from the deposited amount and the profits distributed to the depositors. At the same time, Shariah principles also establish that if a loss arises from the bank's negligence, misconduct, or breach of contractual terms, it cannot be transferred to depositors. Instead, it must be borne by the bank in its capacity as the investment manager (*mudarib*). The five merged banks are accused of the latter failures.

Additionally, there is a common practice among Islamic banks in Bangladesh of allocating additional profit beyond the amount accrued (based on the ratio in the contract) to maintain market competitiveness. It has also been common in Bangladesh for income from certain non-funded services (fees to issue letters of credit or bank guarantees) to be shared with mudarabah depositors. From a general Shariah perspective, once the profit is distributed to the depositors, their rights are established, and reclaiming those profits would mean the bank unilaterally cancelling the depositors' rights without their consent. Furthermore, in certain mudarabah deposits, the profit distributed at the end of one period becomes the capital for the next. In such cases, revising profits from prior periods may directly affect capital in subsequent periods.



FILE VISUAL: **ALIZA RAHMAN**

Another point merits particular emphasis. Mudarabah depositors do not share in a bank's net profit or loss, nor in its operating profit. Instead, they participate in the profits generated from investments made using their funds, that is, the investment income reflected at the top line of the income statement. The operating expenses, provisioning, and taxes are borne by the bank's profit portion. Furthermore, Bangladesh Bank's 2009 Islamic banking guidelines permit Islamic banks to establish an Investment Loss Offsetting Reserve (ILOR) by allocating a portion of depositors' profits. As participatory accountholders, mudarabah depositors have the right to receive detailed information on the utilisation and performance of their funds, as well as the underlying calculations.

Depositors of the five merged banks entered into contracts separately with their respective banks, based on specific product terms. None of them entered into contracts with the newly formed Sommilito Islami Bank. The contractual terms for profit distribution across different products at the five banks may vary significantly, although all may be classified as mudarabah products. Moreover, two of the five banks reportedly have lower non-performing assets than the other three. Therefore, a uniform revision of profits raises concerns about whether the rights established under individual mudarabah contracts are being properly upheld.

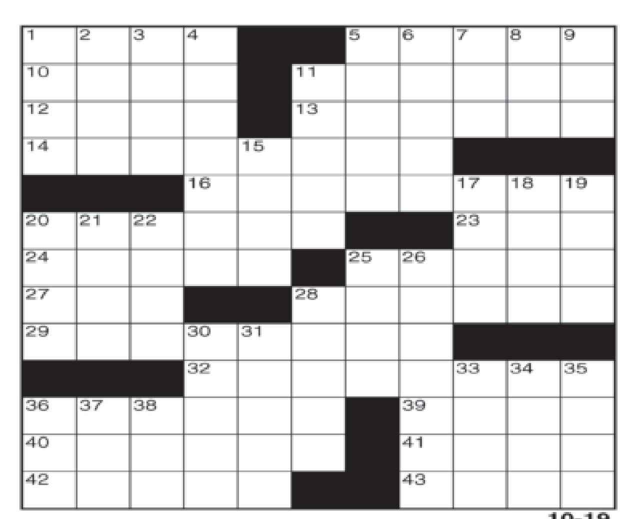
Islamic banks primarily invest through deferred sale and lease contracts. Under Shariah, a sale establishes the seller's right to the sale price, and a lease entitles the owner to rental income. This raises the question of whether the income recognised by the banks in those two years constituted established profit from a Shariah perspective and, if so, on what Shariah basis that entitlement could be withdrawn since the actual payment has not been received yet. The distinction between the right to profit and the availability of cash for withdrawal warrants careful consideration.

There is no dispute that Bangladesh Bank may take decisions in the public interest under its legal mandate. However, when such decisions concern Islamic banks, transparent disclosure on the Shariah approval becomes necessary to protect public confidence. The Shariah decisions must reflect a rigorous methodological process supported by clear evidence and justification. Accordingly, it is hoped that Bangladesh Bank will publish a detailed explanation of its SAB's opinion, including the information presented to the SAB, the issues they considered, how the "loss" is calculated, the treatment of reserves, the mechanism for adjusting past profits with future profits, the specific Shariah principles applied in different contexts, and the basis for allowing a fixed profit rate for mudarabah depositors. Clarification is also needed on whether the decisions taken for the five merged banks are exceptional or may extend to other Islamic banks. Similar levels of disclosure should also be ensured throughout the merger process.

CROSSWORD BY THOMAS JOSEPH

ACROSS
1 Courts
5 Emmy category
10 Different
11 Like some garages
12 Big Ben, for one
13 Show mercy
14 Old West cemetery
16 Outfit of the late 1930s
20 Fixate
23 Gene messenger
24 Sculptor Henry
25 Brick worker
27 Maximum amount
28 Praline nuts
29 Fizzy quaff
32 Nocturnal noisemakers
36 Old gold coin
39 Money for release
40 Almost never
41 "Diana" singer
42 Story meanies
43 Swarm

DOWN
1 "Dragnet" star
2 Toast topper
3 Norway capital
4 Fizzy quaff
5 Resided
6 Bakery buys
7 Perfect serve
8 Fellow
9 Gallery fill
11 Small singing groups
15 Radiator part
17 Bear in the air
18 Privy to
19 Earth tones
20 Poet Khayyam
21 String tie
22 Concert highlight
25 Come together
26 Circus performer
28 Fragrant flower
30 Low card
31 Seethes
33 Diminish
34 Prefer
35 Close with a bang
36 To's counterpart
37 Fall behind
38 Hockey's Bobby



10-19

YESTERDAY'S ANSWERS

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