

BANGLADESH NEEDS A TWO-YEAR ECONOMIC RECOVERY AGENDA

by Selim Raihan

Bangladesh stands at a crossroads - again. The economy, once the envy of the developing world for its steady growth and poverty reduction, is now caught in a slow, uncertain transition. Growth has weakened, private investment has stalled, the poverty situation has regressed, and job creation has lost momentum. Inflation has stayed stubbornly high for more than two years, eating into real incomes and eroding the fragile middle class that took decades to build. What is more worrying is that this economic illness coincides with an uncertain period of political and institutional transition.

The truth is plain. Bangladesh needs a short, sharp, and actionable two-year economic recovery agenda – a plan that stabilizes, restores, and prepares the economy for a more ambitious reform phase beyond 2027. In other words, the economy needs a landing pad before it can take off again.

A time of transition and drift

The political change of August 2024 raised hopes for renewal. The interim administration commissioned a White Paper Report to investigate what went wrong in the past, and a Task Force Report to chart a reform path. These documents diagnosed familiar ills—weak fiscal capacity, fragile banking governance, regulatory uncertainty, declining export competitiveness, and, above all, regressed economic and political institutions in the forms of acute corruption and deeply embedded cronyism in the system. All these analyses were sound; the problem, as always, is translation – turning knowledge into policy, and policy into action. Unfortunately, the interim government hasn't been able to launch any major reform momentum based on the suggestions of these two committee reports.

For too long, Bangladesh has relied on growth momentum generated by remittances and ready-made garments. Those engines are now losing steam. Private investment as a share of GDP has remained almost unchanged for a decade. New jobs are scarce, especially for the youth, whose frustration is visible in the social mood. The external sector, meanwhile, faces a double bind: limited diversification on the one hand, and growing vulnerability to global shocks on the other.

In short, the economy has lost its rhythm. What it needs is a focused, time-bound recovery plan anchored in a realistic political economy understanding of what can actually be implemented in the next two years.

The urgency of a two-year plan

Why two years? Because Bangladesh faces a compressed timeline. There is an expectation for a general election in February 2026, which means a newly elected government will take the driving seat. The country is set to graduate from the LDC group in 2026, losing several preferential trade and financing facilities. Global headwinds—tight-monetary conditions, geopolitical realignments, and volatile commodity prices—are adding to the pressure. Domestically, institutional inertia and public mistrust have deepened.

Therefore, the next 24 months for the new government from early 2026 must be treated as a bridge period – long enough to make meaningful progress, short enough to maintain urgency. The focus should be on implementing practical, high-impact measures that can restore confidence in the economy. In simple words, Bangladesh needs a compact recovery contract between the state, business, and citizens.

Stabilization comes first

Any recovery agenda must begin with macroeconomic stabilization. Persistent inflation—hovering near or above 9%—has been the single biggest drain on public trust. Price stability is not just a technical issue; it is a political and social necessity. Containing inflation requires both

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BANGLADESH CAN'T FIX EVERYTHING IN TWO YEARS, BUT STARTING SOMEWHERE IS PROGRESS. RESTORING STABILITY, UNLOCKING INVESTMENT, PROTECTING CITIZENS, AND SIGNALING REFORM – THESE FOUR PRIORITIES SHOULD ANCHOR A CREDIBLE RECOVERY AGENDA.

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discipline and coordination—tightening monetary policy, prudent fiscal policy, rationalizing subsidies, and improving supply chain management for essentials.

Fiscal policy needs a dose of realism. The tax-to-GDP ratio, stuck below 8%, severely limits public investment capacity. The two-year plan should focus on visible, implementable tax measures—expanding the VAT net through digital compliance, expanding income tax nets, reducing exemptions, and accelerating the automation drive at the NBR. This is the time for credible actions that can raise revenue by at least one percentage point of GDP within two years.

Equally, expenditure must be reprioritized. Projects with poor cost-benefit profiles should be paused, freeing resources for health, education, and social protection. The logic is clear – in times of fiscal stress, governments must spend not more, but smarter.

Unblocking the investment pipeline

If stabilization is the first pillar, investment revival is the second. Over the past decade, Bangladesh's private investment has hovered around 22–23% of GDP—far below what is needed to sustain 7 to 8% growth. The reasons are well known – cumbersome regulations, policy unpredictability, weak contract enforcement, and costly and unpredictable energy supplies.

As a part of the two-year recovery plan, the government could launch a “One-Stop Fast-Track Investment Desk” within the Bangladesh Investment Development Authority (BIDA), mandated to process large and medium investments within a fixed timeline.

Equally critical is financial sector repair. The banking system's fragility—manifested in high non-performing loans, politically connected defaulters, and poor supervision—has choked credit to productive sectors. Restoring discipline will take time, but immediate steps like publishing a transparent NPL list, tightening loan rescheduling rules, and improving Bangladesh Bank's independence would send a powerful signal.

Building resilience and inclusion

Economic recovery cannot just be about aggregate numbers; it must address the lived realities of citizens. Over the past three years, real wages have stagnated, while the cost of living has soared. Social protection coverage remains patchy and fragmented. A recovery plan, therefore, must include a short-term “economic relief package” that strengthens safety nets and protects purchasing power.

Digitally targeting cash transfers, subsidizing basic food items through smart cards, and expanding employment programs in rural areas can ease the pressure on low-income households. Beyond safety nets, the agenda should focus on building the foundation for a “productive inclusion strategy” – linking vocational skills, MSME financing, and local infrastructure. In this sense, recovery and reform are not opposites; they are sequential steps of the same process.

A call for realism - and determination

The coming months will test Bangladesh's resilience. Political uncertainty is real; global shocks are beyond control. But paralysis is not an option. From this perspective, a two-year recovery agenda offers both a cushion and a compass – it cushions the economy from immediate shocks while steering it toward deeper reforms.

The country cannot fix everything in two years, but it can start fixing something – and that would be progress. Restoring economic stability, unlocking investment, protecting citizens, and signaling credible reform—these four priorities should define the recovery agenda.

Every crisis hides an opportunity. The question is no longer what needs to be done, but whether we have the determination to do it.

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FROM GROWTH TO STAGNATION: THE SHIFTING LANDSCAPE OF BANGLADESH'S MANUFACTURING

by Dipa Das

Bangladesh, once an agrarian economy, has undergone considerable structural changes over the past few decades. With a focus on industrialization, the country has transitioned from its reliance on agriculture to becoming one of the fastest-growing manufacturing hubs in South Asia. In the last decade, industry has become the one of the major contributors to the country's GDP mirroring trends in other developing nations. This industrial boom has been driven primarily by manufacturing sector, with the Ready-Made Garment (RMG) industry taking center stage.

However, despite manufacturing still contributing a large portion of country's GDP, around 24.97% in 2023-2024 (p), there are emerging concerns about its future sustainability. In recent years a new shift has occurred which is rise in the service sector. As per Bangladesh Economic Census 2024, the service sector now dominates economic activities, accounting for 91.23% of economic units, up from 88.46% in 2013. Meanwhile, the share of manufacturing units has decreased from 11.54% in 2013 to 8.77% in 2024.

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ONCE A HUB FOR FEMALE EMPLOYMENT, THE RMG SECTOR IS NOW UNDERGOING A PROCESS OF “DEFEMINIZATION,” RAISING CONCERNS ABOUT THE FUTURE OF FEMALE LABOUR FORCE PARTICIPATION IN BANGLADESH.

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In many developing countries, a large pool of unemployed workforces is often absorbed into manufacturing sector, boosting overall productivity compared to the traditional sectors like agriculture. Bangladesh has followed the same model, leveraging its abundant, cheap labour to attract foreign investment and expand manufacturing capacity. The RMG sector, which has been central to this growth, has created millions of jobs, making Bangladesh one of the largest garment exporters in the world.

According to the latest Labour Force Survey (LFS) of 2024, the manufacturing sector currently accommodates around 8.08 million of the totals employed population in Bangladesh. Of this, approximately 3.7 million workers are employed in the RMG sector, which accounts for around 5.36% of the total employed population. Yet overall employment in manufacturing has gradually fallen in recent years.

While this sector remains a crucial contributor to Bangladesh's economic output, its ability to generate employment has become a point of concern and raises several

critical questions. This increase in sectoral output without increasing corresponding employment has been termed as “jobless growth” in the manufacturing sector. In fact, this could signal the early onset of what is known as premature deindustrialization, where a country’s manufacturing sector begins to lose its share of jobs before it reaches the income levels seen in developed countries that have successfully transitioned to services.

The key driver of this “jobless growth” could be the rise of automation and the introduction of labour-saving technologies, particularly in the context of the Fourth Industrial Revolution (4IR). While automation boosts production efficiency, it also reduces the need for labour, particularly in low-skilled positions.

But who bears the toll of this shift toward automation and labour-saving technologies? Data from various years of the LFS indicate that, female employment in the manufacturing sector has remarkably reduced. Female participation in this sector increased from 12.44% in 2010 to 22.5% in 2013, but it has sharply declined since then, falling to just 8.52% in 2024. In contrast, male

machines that once required 4-5 operators can now be managed by a single individual handling multiple machines. While automation increases productivity, it also displaces a significant portion of the workforce, particularly those in low-skilled jobs

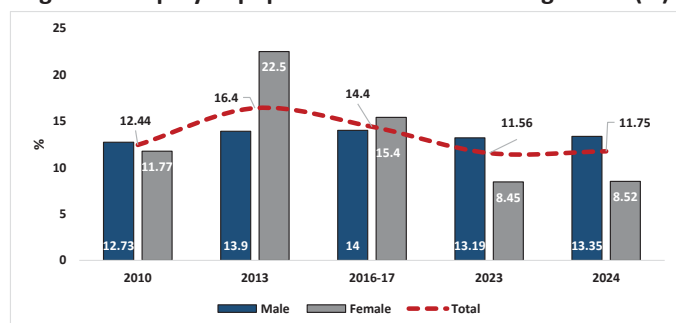
This sector is also facing uncertainty due to Bangladesh’s upcoming graduation from LDC status in 2026. This transition will result in the loss of various export benefits, making it more difficult for Bangladesh to maintain its competitive advantage in global markets. The country will also no longer be able to rely on its low-labour-cost model, which has been an impactful factor in attracting foreign investment. As a result, firms in Bangladesh will likely be forced to adopt more labour-saving technologies to remain competitive, further reducing the number of available jobs in manufacturing.

Moreover, ongoing trade turbulence, such as the US-imposed tariff rates on Bangladeshi goods, has put Bangladesh’s export status at risk. Additionally, fluctuating raw material costs, political instability, labour unrest, and restrictions on land port exports via India have led to increased operational and logistics costs, and potential delays for exporters relying on these routes.

To secure a sustainable and inclusive future for Bangladesh’s manufacturing sector, urgent actions must be taken. This includes investing in workforce skills, promoting gender equality, adopting advanced technologies, strengthening labour protections, and facilitating the transition from LDC status. Additionally, the country must diversify its industrial base, foster an inclusive economy, and address global trade challenges. By embracing these changes, Bangladesh must ensure that its manufacturing sector remains competitive, while also ensuring that the benefits of economic growth are shared more equitably across its society.

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Figure 1: Employed population in manufacturing sector (%)



Source: Various years of LFS, BBS

employment remained relatively stagnant, contributing to a growing gender disparity within the sector.

Once a hub for female employment, the RMG sector is now undergoing a process of “defeminization,” raising concerns about the future of female labour force participation in Bangladesh. Female workers in the sector face multiple challenges, including high work pressure due to automation, lack of maternity leave and benefits, delayed salary payments, and informal leave policies etc. Furthermore, incidents like the 2013 Rana Plaza collapse, the 2012 Tazreen Fashions fire, and the recent 2025 Mirpur fire have underscored the persistent safety risks faced by workers, particularly women, in the garment industry. These tragedies have raised important questions about the security and welfare of workers in Bangladesh’s manufacturing sectors.

In addition, there exists gender wage gap and skill gap, further complicating the employment dynamics for women. Most women are employed in low-skilled positions, with few in managerial or decision-making roles. The rise in automation only exacerbates this, as

ANALYZING THE GENDER WAGE GAP IN BANGLADESH’S LARGEST EXPORTING SECTOR

by Sheikh Tausif Ahmed

The Ready-made Garments (RMG) sector is one of the largest employers in Bangladesh, with over 3.4 million workers as of the 2022-23 financial year. It also accounts for more than 82% of the country’s export earnings. Despite the sector’s importance, the issue of wages has been a topic of much debate. The most recent revision of the minimum wage in the sector, after lengthy negotiations between owners, laborers, and the government, set the wage at 12,500 BDT per month. The actual average wage, however, stands at around 14,000 BDT. Studies have shown that a decent standard of living in Bangla-

desh requires a wage range of approximately 22,000 to 27,000 BDT.

Despite these contested wages, there are significant concerns within the sector, especially regarding the gender wage gap. Although the RMG sector is often celebrated for its large female workforce, women are consistently paid less than their male counterparts. An analysis of the 2022 Quarterly Labour Force Survey data revealed that, on average, men in the RMG sector earn 43% more than women. It is important to recognize that the wage difference is not solely due to gender. Many factors can contribute to these wage gaps, such as education, experience, and the type of work being performed. However, even after accounting for these factors, gender remains a significant driver of wage inequality in the sector.

Education plays a critical role in determining wages, and it is one of the key factors influencing salary differences. Workers with lower levels of education tend to earn less than those with higher educational qualifications. In the RMG sector, a significant portion of female workers have lower educational attainment, often with many having only primary or lower level of education. On the other hand, male workers tend to have higher levels of education, with more men achieving secondary and tertiary



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qualifications, compared to women. Along with education, work experience, location, and the type of work also contribute to variations in wages.

To understand the gender wage gap better, we can use advanced economic models that account for these differences in education, age, training, and occupation. After adjusting for these factors, we can isolate the portion of the wage gap that is caused specifically by gender differences. The results show that even after accounting for all these observable factors, there is still a significant portion of the wage gap that remains unexplained.

To get a clearer understanding of the wage gap, we analyzed the data based on different income levels, age groups, and localities. This approach goes beyond the average wage difference to examine how the wage gap varies across different income, age, and geographical categories. The findings were revealing.

When looking at the wage gap based on income quintiles, we see that the total wage difference between men and women increases as income levels rise. At the lowest income level (10th percentile), the wage gap is around 17%. However, at around 90th percentile of income, the

wage gap grows significantly to 61.3%. This indicates that as wages rise, the gender wage gap widens. Interestingly, the wage discrimination — that is, the portion of the wage gap that is caused specifically by gender differences — is lowest at the middle-income levels, but it peaks at the highest income level. This suggests that factors like education, experience, and training have a more significant impact on wages at lower income levels, while gender discrimination becomes more pronounced at higher income levels.

The reasons behind this variation are complex. Analysis of the data reveals that, above the 90th percentile of income, men tend to have higher levels of education, experience, and training compared to women and the opposite occurs at lower quintiles. But even after accounting for these differences, women still earn less than men at higher income levels. This can likely be attributed to scale; as income levels increase, it becomes more costly for companies to pay higher salaries consistently across genders.

In addition to income levels, we also analyzed the wage gap across different age cohorts. The findings suggest total wage difference between men and women increases with age and experience. For the youngest workers (ages 15-24), the wage gap is relatively modest at 13.4%, but it escalates significantly with age, reaching nearly 90.8% for the oldest workers (55+ years). When we look at wage discrimination- we find that it is lowest in the younger age groups, particularly among workers just starting their careers. However, wage discrimination peaks in the older age cohorts, particularly in the 44-54 age group.

Finally, we examined the wage gap across different localities and found some interesting trends. In urban areas, particularly in city-corporations, the wage gap is smaller compared to rural areas. However, wage discrimination due to gender is actually higher in city-corporation areas than in rural areas. Surprisingly, peri-urban or municipal areas show both the highest wage differentials and the highest levels of gender-based wage discrimination, even higher than in rural areas.

These findings reveal that wage differences are far more complex and nuanced than the simple averages suggest. The system isn't always on point about equality in the society, because we do not have clear information about the severity and extents of inequality. Understanding how wage inequality evolves across different income levels, age groups, and localities is crucial for creating more targeted and effective policies. It can help address the root causes of inequality and ensure that future wage policies are fairer and more inclusive for all workers, particularly women, in the RMG sector.

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