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THE ILLUSION OF RECOVERY: BANGLADESH'S ECONOMY ON THE EVE OF 2026

by Selim Raihan

Bangladesh's economy seems to be stabilizing at first blush. Reserve levels have climbed, imports have slowed, and officials are finding some signs of resilience in the aftermath of a tumultuous period. For a country accustomed to absorbing shocks, this narrative of cautious recovery sounds reassuring.

But this calm is deceptive. Below the surface, there is slow growth, stubbornly high inflation, fragile investor confidence, and deep cracks in the financial system. This slowdown did not start with the current political troubles. Growth was already losing momentum prior to the upheavals of 2024. Private investment had already stagnated, productivity gains were weakening, and the economy was becoming increasingly dependent on a narrow export base. The recent shock merely exposed vulnerabilities that had been accumulating quietly for years. With the country on course to graduate from LDC status in 2026, these weaknesses matter more. The result is an economy caught in a low-growth equilibrium. Consumption is constrained by high prices. Investment is held back by uncertainty and financial stress. Exports face headwinds from global demand, tariffs, and intensifying competition. Growth has not collapsed, but neither has it found a new engine.

Inflation and the Erosion of Everyday Life

Inflation remains the most visible pressure point. While headline figures have eased marginally at times, the lived experience tells a harsher story. Non-food inflation is high and persistent. Rents, transport costs, healthcare, and education expenses continue to rise, squeezing urban households in particular.

But wages, meanwhile, have not kept up. For many workers, particularly in informal and service jobs, real incomes have fallen. This erosion of purchasing power has turned inflation into a silent tax on the majority of households. It also explains why modest improvements in macro indicators have not translated into public relief.

The policy response has been conflicted. Tight monetary conditions were necessary, but their delayed application blunted their effectiveness. Meanwhile, liquidity provision to troubled banks has been diluting disinflationary pressure, keeping costs elevated. The result is an uncongenial equilibrium of high interest rates and high inflation, which suppresses investment but does not definitively restore price stability.

A Financial System Under Severe Stress

The most alarming fault line runs through the financial sector. Non-performing loans have risen to levels unmatched in the region. In banks and non-bank financial institutions alike, asset quality has deteriorated sharply, capital buffers have eroded, and confidence has weakened.

This is not merely a technical banking problem. It is a structural constraint on growth. When banks are burdened with bad loans, credit for productive firms dries up. Small and medium enterprises, which generate most employment, are the first to be squeezed out. High interest rates matter, but access to finance matters even more, and for many firms, that access has narrowed dramatically.

The proposed responses have been mixed. Bank mergers and liquidity injections may protect depositors in the short term, but they do little to address the deeper governance failures that produced the crisis. Without transparency, credible enforcement, and a clear break from the culture of repeated rescheduling and implicit bailouts, the system risks recycling the same problems under new institutional labels.

Political Uncertainty, Law and Order, and the Investment Freeze

There is also a factor that economists sometimes understate because it is difficult to quantify, yet investors treat it as decisive: political uncertainty and the resulting deterioration in the everyday governance environment. Investment does not only respond to interest rates, exchange rates, or tax policies. It responds to predictability. And in recent years, predictability has been in short supply.

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When businesses see frequent disruptions on the streets, rising informal "costs" in supply chains, or a weakening of ordinary law and order, they behave rationally. They postpone expansion, delay hiring, hold cash, and reduce exposure. This is how uncertainty turns into an investment freeze. It also helps explain why, even when some macro indicators look slightly better, the private sector still appears reluctant to move fast.

The broader drift toward mobocracy, or the perception that rule enforcement is uneven and sometimes replaced by informal power, has real economic consequences. It raises transaction costs, weakens contract enforcement, increases risk premiums, and undermines the credibility of regulatory decisions. In simple words, it makes long-term planning feel unsafe.

Why the February 2026 Election Matters Economically

This is why the general election scheduled for February 2026 is not just a political milestone. It is an economic inflection point. A credible transition can restore a baseline of legitimacy that helps public institutions function more predictably. That, in turn, can rebuild confidence, improve the law-and-order environment, and reduce the uncertainty that has pushed investors into a defensive posture.

A genuine transition also matters because it can create space for reforms that are economically necessary but politically difficult. Banking sector cleanup, stronger enforcement against loan default, rationalisation of tax policy, and the rebuilding of regulatory independence require political backing. Without that backing, reforms remain half-hearted, and half-hearted steps rarely convince markets.

If the election produces a peaceful and widely accepted outcome, it could unlock deferred investment decisions. Domestic businesses may restart stalled expansion plans. Foreign investors may revisit a market they have been watching from the sidelines. Credit conditions could improve, not only through policy signals but through renewed confidence in institutions. None of this is automatic, but it becomes possible.

But if the election only heightens uncertainty or does nothing to re-establish public order and restore institutional credibility, the economy may remain mired in stagnation for some time. In that case, even a strong-holding improvement in reserves would evidence compression and not strength, and lower readings of inflation would not result in true relief.

Prospects for 2026: Recovery or Prolonged Fragility?

Looking ahead to 2026, the outlook remains finely balanced. Recovery is possible. Reserves have improved. Remittances remain resilient. Certain infrastructure investments could generate momentum. A clearer political settlement after February 2026 could revive confidence and restore the basic predictability that markets need.

But none of this is guaranteed. Persistent inflation, a weakened financial system, limited fiscal space, and global uncertainty form a tight constraint. Graduation from LDC status will raise the stakes further, exposing unresolved weaknesses rather than masking them. The central question, then, is not whether the economy is collapsing. It is whether Bangladesh can break out of stagnation and rebuild a growth model that is more diversified, more transparent, and more inclusive, under a governance environment where rules matter, and public authority is credible. For now, the evidence suggests an economy that is surviving, not thriving. Whether 2026 becomes a turning point will depend heavily on whether the political transition restores order, reduces uncertainty, and persuades investors that the future is brighter.

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BANGLADESH'S POVERTY REVERSAL: CAUSES AND POLICY PRIORITIES

by Mahtab Uddin

Bangladesh's poverty rate fell from about half the population in the 1990s to one-fifth by 2019. However, this progress proved fragile. COVID-19 and related measures disrupted jobs, enterprises, remittance flows, and supply chains. Estimates show sharp, temporary poverty increases during 2020–21. Recovery brought poverty down again, but recent signs of stress persist during high inflation and economic tightening. Surveys suggest poverty may now be higher than in 2019, with extreme poverty also rising. While numbers vary, the trend is clear: poverty reduction has slowed, and reversals are becoming more common.

Such recent reversals in Bangladesh's poverty rates question the country's celebrated success. There are several reasons why Bangladesh was unable to reduce poverty rates as effectively as it intended, and some of these causes are interconnected. Without addressing one, it is impossible to resolve the other. In other words, the recent rise in poverty rates in Bangladesh failed because the country lacked a comprehensive approach focused on the poor.

A durable poverty-reduction strategy rests on four interconnected pillars. The first is an accurate, credible identification of poor households. Targeted policy is only as good as its ability to locate the intended beneficiaries. Even after decades of policy prescriptions, Bangladesh has failed to establish a fully operational, regularly updated household registry that is usable across programmes. The National Social Security Strategy (NSSS) 2015 envisioned a national household database and systematic tools, including proxy means testing, to support eligibility decisions and reduce arbitrary inclusion and exclusion. Without this foundation, fragmentation persists, and accountability is weak.

> **BANGLADESH'S POVERTY GAINS WERE FRAGILE. WITHOUT ACCURATE TARGETING, STRONGER HUMAN CAPITAL INVESTMENTS, DIVERSIFIED JOB CREATION, AND CREDIBLE GOVERNANCE, SHOCKS WILL KEEP PUSHING VULNERABLE HOUSEHOLDS BACK INTO POVERTY.**

Secondly, it must ensure that the poor receive the same education and skills as the non-poor. This might require more schools and infrastructure in pro-poor regions. Additionally, these households need social security support. This is because the poor often face several preconditions – such as having fewer resources to spend after education, healthcare, and other essentials. The marginal utility of money is much higher for the poor than for the non-poor: i.e., the same $1 would mean much more to the poor than to the non-poor. It also means that, compared to non-poor people, the poor would value present consumption more than future consumption, a phenomenon in economics known as the time value of money. Therefore, poor households tend to invest less in human capital (such as education or healthcare) than non-poor households. This is why social security transfers are so valuable for sustainably reducing poverty rates. Bangladesh's public policy has not consistently matched these realities. Regions with entrenched poverty face gaps in school quality, teacher availability, healthcare access, and basic infrastructure. Social protection programmes often fall short in both coverage and adequacy. Studies and administrative reviews repeatedly point to significant targeting errors, where benefits leak to non-poor households while eligible poor households remain excluded. At the same time, benefit levels have frequently been too small or too irregular to offer meaningful protection against rising living costs.

The third pillar is the labour market, specifically the creation of decent, productive jobs at scale, which Bangladesh failed to achieve. Bangladesh's large labour force is still dominated by informal employment. Of the 70 million employed workforce in 2022, only 15% were in the formal sector. Unlike the East Asian comparators, Bangladesh's industrial employment growth was far slower. Garments have powered Bangladesh's growth story, but the same concentration has left the economy less diversified than it needs to be. When industrial growth is narrow, the demand for semi-skilled labour is weaker, rural-to-urban mobility yields smaller productivity gains, and many migrants end up in low-paid services and manual work with limited chances for occupational mobility.

The final pillar that Bangladesh missed was effective governance and coherent policies. Due to corruption, low moral standards, and bureaucratic complexity, poor people had limited access to quality education and healthcare, as well as to migration, social security, and other services. For example, international migration channels were controlled by political elites who charged high fees, artificially barring poor households. The elites also captured the banking sector, leading to an increase in non-performing loans. It was more expensive for the poor to access loans. Bangladesh also failed to take timely actions to reduce inflation and implement effective education and training policies aligned with global trends.

These weaknesses explain why Bangladesh lifted many out of poverty but didn't build a thick buffer. A large, vulnerable group, living within about 1.25 times the poverty line, remains exposed to shocks. Urgency to address this is rising. While Bangladesh benefits from a demographic dividend, ageing population will increase demand for healthcare and support. Environmental stress, pollution, food safety issues, and antimicrobial resistance will add to health burdens. Acting now is cheaper than later.

To address these challenges, Bangladesh needs coherent and timely policy action. It requires an integrated household registry with transparent eligibility criteria, regular updates, and credible grievance mechanisms, which should be utilised across programmes. The focus should be on improving quality in schools and healthcare in lagging regions, not only through infrastructure but also through staffing, learning outcomes, and accountability. Modernising the curriculum and expanding credible technical and vocational pathways are essential. Social protection must be consolidated, better targeted, and funded at levels that effectively safeguard living standards during shocks. In terms of employment, the priority is diversifying beyond garments, creating a more predictable business environment, reducing trade and regulatory hurdles, improving logistics, and aligning skills policies with market demand. Governance reforms that reinforce the rule of law and financial discipline, and that expand fair access to services such as credit and safe migration channels, should also be prioritised.

International experience, including China's scale of poverty reduction, points to a simple lesson. Durable progress comes from combining targeted support with structural change and consistent implementation. If Bangladesh acts with urgency and focus, it can protect past gains and restore steady poverty reduction. If it does not, reversals will become more frequent, vulnerability will deepen, and the risk of a prolonged middle-income trap will rise.

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A NEW SOCIAL CONTRACT FOR WORKERS IN BANGLADESH

by Zubayer Hossen

At dawn in Gazipur, when garment factory lights flicker on, and the streets begin to stir, thousands of workers make their way through narrow lanes with lunch boxes in hand and hope that today will be kinder than yesterday. The workers' lives are built on effort, resilience, and the quiet expectation that tomorrow might offer something better. Yet for many workers, that promise remains fragile. The question before the country is no longer whether workers deserve more, but whether Bangladesh is prepared to redefine the relationship between labour, business, and the state through a new social contract.

A social contract is not a law alone. It is the shared belief that if workers commit their skills and their time, society will protect their dignity, security, and future. In Bangladesh, that understanding has been stretched thin. Despite decades of industrial expansion and integration into global markets, many workers still face accidents, illnesses, or job loss. Wages rarely keep pace with living costs. Informal work remains the norm. Safety improvements, while real, remain uneven. This is not simply a labour issue but a question of national values.

The importance of a new social contract becomes clearer when we see through the lens of Environmental, Social, and Governance (ESG) responsibility. While environmental concerns often dominate headlines and governance occupies boardrooms, the "social" pillar rests directly on the lived experience of workers. Global investors, international brands, and development partners increasingly recognise that labour standards are not peripheral issues but central indicators of sustainable development. For Bangladesh, the global supply chains heavily depend on human labour. Thus, the social dimension of ESG is not abstract; it is deeply personal.

Workers in Bangladesh have already paid a high price for progress. Tragedies such as Rana Plaza forced the country and the world to confront uncomfortable truths about working conditions, accountability, and the human cost of production. Since then, improvements in building safety, inspections, and compliance have been substantial, especially in the Ready-Made Garments (RMG) sector. Yet safety alone does not constitute dignity. True social responsibility requires wages that sustain families, working hours that respect health, contracts that provide security, and voices that are heard rather than managed.

A new social contract would require a shift in mindset. Instead of viewing labour merely as a cost to be minimised, it must be understood as a partner in value creation. When workers feel protected and valued, everyone benefits. Productivity rises, loyalty deepens, and innovation follows. But this does not happen by accident. Employers must go beyond basic compliance and invest in their workers' wellbeing. Governments must act before crises hit - not after workers have already paid the price.

A NEW SOCIAL CONTRACT WOULD REQUIRE A SHIFT IN MINDSET. INSTEAD OF VIEWING LABOUR MERELY AS A COST TO BE MINIMISED, IT MUST BE UNDERSTOOD AS A PARTNER IN VALUE CREATION.

Fair pay is a prerequisite for the new social contract. Many workers are squeezed between rising living costs and stagnant pay. Minimum wage adjustments often happen late and rarely reflect actual living expenses. A new social contract would acknowledge that a living wage is not a privilege but a foundation of social stability. This does not imply ignoring business realities, but it demands collaborative wage-setting mechanisms that reflect both productivity and human need.

Employment guarantee is equally critical. The economy is vastly dominated by informal work, leaving millions without contracts, health coverage, or pensions. These workers power transport systems, farms, households, and small enterprises, yet remain invisible in policy frameworks. Integrating informal workers into social protection systems is one of the greatest challenges as well as one of the greatest opportunities for Bangladesh's development. Without it, inequality will continue to widen, undermining social cohesion.

Workplace safety, though improved in export-oriented industries, remains dangerously uneven in many other sectors. On construction sites, in shipbreaking yards, brick kilns, and on the roads, workers still face serious risks every single day. Too often, injuries that could have been prevented are brushed aside as accidents when in reality they reflect failures of management, weak oversight, and a lack of care. A real social contract would not treat safety rules as paperwork or an inconvenience, but as a basic moral duty owed to every person who shows up for work.

Education and skills development are also part of this new agreement. A society that invests in lifelong learning strengthens its economy. Workers who can upgrade their skills are not merely employable but are empowered. Therefore, workers need continuous opportunities to adapt as automation and digitalisation reshape industries.

Business leaders have a major role to play in making this new social contract real. Bangladeshi companies are now more connected to global markets than ever, working with international buyers and investors who are paying close attention to labour standards and transparency. This pressure, if handled well, can become a powerful force for positive change. Companies that invest in worker training, fair wages, safe conditions, and employee representation do not merely meet standards but build resilience. Such companies are better positioned to attract responsible investment, retain skilled labour, and navigate global market shifts.

Besides, regulatory enforcement must be consistent and insulated from political influence to ensure credible governance and make ESG functional. Labour laws should be clear, accessible, and enforceable. Workers must have safe avenues to organise, negotiate, and seek redress.

The greatest challenge, however, for the new social contract is trust. Years of broken promises and unmet expectations have left workers deeply sceptical of institutions. Rebuilding trust requires transparency, participation, and shared responsibility. Workers must have a seat at the table when decisions affect their livelihoods. Social dialogue between government, employers, and workers should not be a procedural formality. It should be the heartbeat of a functioning social contract.

Global markets are shifting. Consumers are more conscious. Investors are more demanding. Young workers are more informed. The country can either hold to an outdated model that extracts value from labour without fully honouring it. Or it can embrace a transformation aligned with the social core of ESG and the promise of fairness, sustainability, and shared prosperity.

In the early mornings and long evenings, as workers move through the rhythms of their days, they are not asking for miracles. They are asking for a fair chance. The readiness of Bangladesh to offer that chance will define not only the wellbeing of its workers, but the character of its development for generations to come.

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