

Policy Paper Series

THE ECONOMY THE NEXT GOVERNMENT INHERITS, AND THE CHOICES THAT WILL SHAPE WHAT COMES NEXT

Selim Raihan



Policy Paper Series

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February 2026

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Publication: February 2026

The study is funded by the Australian High Commission, Dhaka. The views and observations presented in this policy paper are those of the author and do not necessarily reflect the views of the Australian High Commission. The author is fully responsible for any errors/views/opinions contained in this research.

Suggested Citation

Raihan, S. (2026). *The Economy the Next Government Inherits, and the Choices That Will Shape What Comes Next*. SANEM & Australian High Commission Policy Paper Series. SANEM Publications, Dhaka, Bangladesh.

Published by

South Asian Network on Economic Modeling (SANEM)
Flat K-5, House 1/B, Road 35, Gulshan 2, Dhaka 1212, Bangladesh
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Abstract

This paper examines the economic conditions the next government in Bangladesh is likely to inherit and argues that stabilisation alone will not restore growth, confidence, and social cohesion. While recent improvements in foreign exchange reserves and import contraction may indicate a degree of short-term stability, underlying structural vulnerabilities are still in place. Growth is decelerating, inflation is sticky, the private sector is reluctant to invest, and chronic vulnerabilities in the financial system, public finances, and labour market are still weighing on performance. As the country prepares for graduation from the LDC status in 2026, these vulnerabilities take on a greater significance, reducing the room for policy slippage and exposing it to external shocks.

This paper develops a proactive policy agenda that goes beyond crisis control to promote purposeful growth. It emphasises the need for a more balanced macroeconomic strategy that controls inflation without choking investment, alongside realistic exchange rate management and stronger market governance. Reviving investment requires restoring predictability, improving law and order, and redesigning industrial policy to reward performance, diversification, and regional production ecosystems. The analysis highlights domestic resource mobilisation as a development priority and builds the case for solid tax reform and expenditure redeployment to finance health, education, and social protection.

Financial sector repair is recognised to be critical in opening the credit channels to productive firms, in particular SMEs, and job creation and skills development are articulated as explicit policy objectives rather than by-products of growth. The paper also emphasizes the need to maintain trade competitiveness post-LDC graduation, while actively reducing anti-export bias and integrating climate resilience and energy security into mainstream economic planning. It concludes that in broad terms the next government has a historic choice: between simply drifting along on stabilisation and implementing a rigorous, inclusive policy to unlock sustainable growth and shared prosperity.

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1. Introduction: Beyond Recovery, Towards Purposeful Growth

Bangladesh's economy is showing signs of stabilisation. Reserves have improved, import compression has eased immediate pressure, and the worst phase of panic in foreign exchange markets appears to have passed. Yet that surface calm hides a more uncomfortable reality. Growth has slowed in a way that feels structural, not temporary. Inflation remains strikingly stubborn, especially in the non-food basket that shapes daily urban life. Investor confidence is fragile, not only because of macro numbers, but because rules feel unpredictable and enforcement feels uneven. And beneath all this, long-standing weaknesses remain unresolved: a narrow export base, weak revenue capacity, a strained banking system, and an economy where too many workers remain informal, low-skilled, and underprotected.

Many of these pressures did not begin with the political upheaval of 2024. They were building earlier. Private investment had already been losing momentum. Productivity growth had started to decelerate. The export model was becoming more concentrated rather than more diversified. The shocks of recent years simply exposed what had been accumulating quietly: a development model that delivered growth for a long time, but did not build enough resilience into its institutions, its financial system, or its capacity to create good jobs outside a few headline sectors.

Now the timeline tightens. With the LDC graduation in November 2026 approaching, the transition is no longer a distant policy debate. It is a live economic constraint. Preferential market access will gradually erode. Compliance expectations will rise. Competition will sharpen. That does not mean collapse is inevitable. But it does mean the margin for policy mistakes becomes smaller. Small inefficiencies that were once absorbed through preferences will turn into lost orders, lost investment decisions, and lost jobs.

Inflation is the most immediate burden for households. Even when headline figures soften, essential non-food costs continue to creep upward: housing, transport, healthcare, and education. Real incomes have been squeezed because wage adjustments have been slower than price increases. Inflation, in other words, has become a persistent tax on living standards, and that tax falls hardest on those who cannot hedge.

Policy responses have been incomplete. Monetary tightening came late, and it has been unevenly transmitted through a banking system carrying weak balance sheets. Liquidity support for troubled institutions has sometimes continued even as high interest rates raise borrowing costs for productive firms. The result can be a toxic mix: high rates and sticky inflation, where investment is discouraged but price stability does not arrive in full.

The financial sector remains under severe strain. Non-performing loans have climbed, asset quality has deteriorated, and capital buffers are thin. When banks are weak, they do two things that hurt growth. They ration credit to productive firms, especially smaller ones that do not have political connections. And they raise borrowing costs, because risk and uncertainty are priced in. This is one reason employment and production have struggled to regain momentum. Temporary solutions like mergers, ad hoc rescheduling, or periodic liquidity injections can reduce headline stress, but they do not address the governance failures that caused the problem.

Investment has also been weighed down by uncertainty and by the rising informal costs of doing business. Supply disruptions, inconsistent enforcement, growing law and order concerns, and a broader climate of unpredictability have heightened risks for firms. In this environment, even investors with capital hesitate to commit to long-term projects. They wait, and waiting becomes rational. That is why the political transition is economically decisive. A credible transition that restores predictability and enforcement can unlock investment without any miracle policy package. Without it, stagnation can deepen, regardless of how many stimulus measures are announced.

The next government will therefore have to do more than stabilise. It will need to describe a development strategy that is purposeful rather than reactive, one that creates jobs at scale, raises productivity, broadens inclusion, and prepares the economy to compete without special treatment. Achieving this requires sound policy, yes. But it also requires institutional credibility and political discipline. Without these, even good policies will fail in practice.

The sections that follow outline key economic priorities for the next government. They draw on recent reform debates and on the concerns voiced across business, policy, and research circles, but they are reorganised into a single integrated narrative focused on action. Diagnosis matters. But at this stage, what matters more is what to do differently, and how to do it in a way that actually delivers.

2. Restoring Macroeconomic Stability without Suffocating Growth

The first priority is to lock in macroeconomic stability, while avoiding the trap of prolonged stagnation. Stability achieved through collapsing investment, falling real incomes, and shrinking public services is neither socially sustainable nor politically durable. The goal should be a stable macro environment that is compatible with growth, not a narrow focus on a few headline indicators that look good on paper but feel harsh in daily life.

Inflation: a balanced strategy, not a single lever

Inflation remains the most visible concern for households. Food inflation has eased at times, but non-food inflation is still stubbornly high. That tells us something important. Inflation in Bangladesh today is not purely a demand-side phenomenon. It reflects supply bottlenecks, weak market supervision, energy price distortions, logistical inefficiency, and in some cases outright manipulation in critical commodity markets.

This is why relying almost entirely on tight monetary policy is both risky and insufficient. High rates drive up borrowing costs for producers. They discourage private investment. They squeeze working capital for SMEs, which are often already fragile. Yet high rates do not fix the structural causes of inflation. They cannot repair food supply disruptions, reduce transport costs, or eliminate market power that allows a few players to influence prices.

The next government will need a more balanced anti-inflation strategy. Monetary restraint is still necessary, particularly to prevent inflation from becoming entrenched.

But it must be accompanied by targeted supply-side interventions that reduce price volatility at its source. Better storage and cold chain capacity, improved logistics, and more reliable distribution networks matter. Strategic reserves for fertiliser, diesel, and key staples can dampen shocks. Faster and more predictable import approvals during shortages can reduce panic. Market monitoring must move from occasional raids to consistent oversight supported by data, clear rules, and credible enforcement.

There is also a political economy dimension here. When citizens believe markets are rigged, inflation becomes not only a macro issue but a legitimacy issue. That is why transparency in price data, stronger consumer protection, and credible action against collusion are not side issues. They are part of stabilisation.

Exchange rate policy: realism, predictability, and fewer distortions

Exchange rate management is another sensitive area. Recent experience shows that artificially defending the taka is costly and unsustainable. It drains reserves, creates incentives for informal transfers, and produces a confusing multiple-rate environment that undermines trust. A more realistic, market-aligned regime, one that can move both ways rather than only depreciate in steps, can reduce speculative pressure and improve confidence.

The improvement in remittance inflows through formal channels in periods when incentives align with reality offers a hint of what is possible. When the gap between official and informal channels shrinks, formal inflows rise. This is not a moral lesson. It is an incentive lesson.

A credible exchange rate regime also helps exporters plan, importers price inputs, and investors assess returns. Uncertainty is a tax on decision-making. Predictability is a stimulus.

A “first 100 days” macro package: credibility before complexity

Stabilisation is not only about what policies are adopted. It is also about how quickly the government signals seriousness, coherence, and discipline. The early months matter because they set expectations. A practical approach is to announce a “first 100 days” macro and governance package focused on credibility: clearer monetary fiscal coordination, transparent exchange rate management, visible market monitoring reforms, and immediate steps to reduce policy arbitrariness.

This does not mean populist price controls. It means predictable rules, better enforcement, and targeted protection for vulnerable groups while inflation remains high. Early credibility can lower risk premiums, reduce panic behaviour, and create space for deeper reforms later.

Protecting growth while stabilising

Crucially, stability must not become an excuse for neglecting growth. Private investment must recover if GDP growth is to move beyond the current low trajectory. That recovery will depend less on macro numbers alone and more on confidence: confidence that

policies are predictable, contracts are enforceable, and informal costs will not spiral unexpectedly.

The government should also recognise that growth today is constrained by both demand and supply. When inflation squeezes households, consumption weakens. When banks are weak, credit weakens. When energy supply is unreliable, production weakens. Stabilisation, therefore, must be comprehensive. Otherwise, the economy drifts into a low-growth equilibrium that is stable on paper but stagnant in reality.

3. Reviving Investment and Production: From Narrow Engines to a Broader Base

Bangladesh's growth story over the last three decades was driven largely by a few engines: ready-made garments, remittances, and large-scale infrastructure investment. This model delivered early gains. But its limitations are now increasingly visible. The question is not whether those engines remain important. They do. The question is whether the economy can build new engines alongside them, and whether it can fix the bottlenecks that prevent investment from translating into productive expansion.

The investment climate: uncertainty, informal costs, and rule of law

Investment decisions depend on expected returns, but they also depend on predictability. When enforcement is inconsistent, when law and order concerns rise, and when informal costs become harder to anticipate, firms delay expansion. Even domestic firms behave like foreign investors in such a climate. They keep money liquid, they shorten planning horizons, and they avoid projects that require long payback periods.

This is why restoring the rule of law is an economic policy, not only a political one. A predictable environment reduces risk premiums. It lowers the cost of capital. It makes policy announcements credible.

The next government must treat business confidence as an asset. And like any asset, it can be built or destroyed quickly. Restoring confidence requires visible improvements in enforcement, dispute resolution, and the credibility of regulatory agencies.

Export concentration and the diversification imperative

Export concentration remains extreme. More than four-fifths of merchandise exports still come from garments. This leaves the economy exposed to shifts in global demand, changes in trade rules, labour and environmental compliance pressures, and technological automation. LDC graduation will intensify these risks as preferential market access gradually erodes.

Diversification, therefore, is not a slogan. It is economic insurance. The challenge is to do it in a disciplined way. Bangladesh should focus on sectors where it already has a foothold and where scale-up is plausible within a decade. Spreading incentives thinly across too many priorities creates noise, not momentum.

Promising areas include agro processing, light engineering, pharmaceuticals, ICT and IT-enabled services, electronics assembly, medical supplies, and renewable energy components. These sectors share a common constraint: entrepreneurs exist, but coordinated support is weak. Access to finance is limited. Quality infrastructure is uneven. Standards and certification capacity are inadequate. Skills pipelines are thin. Market intelligence is fragmented.

Industrial policy that rewards performance, not connections

Industrial incentives must be redesigned to reward performance rather than connections. Assistance should be time-bound, transparent, and linked to measurable outcomes: export expansion, productivity increases, technology adoption, compliance improvement, or job creation. Support should be reviewed regularly and withdrawn if targets are not met.

This discipline matters for two reasons. First, it prevents public resources from entrenching inefficiency. Second, it signals to investors that the rules are credible. When incentives are opaque, investors assume rent seeking will dominate. When incentives are transparent and rule-based, investors plan for performance.

Regional industrial ecosystems: reducing congestion and imbalance

Geography matters. Industrial activity is concentrated around Dhaka and a few other hubs, creating congestion, high living costs, and regional imbalance. This concentration also increases vulnerability. When a city faces disruption, the entire production network suffers.

The next government should prioritise regional industrial ecosystems. That means combining infrastructure, skills institutions, and SME clusters in selected districts, rather than scattering projects across the country without coordination. Well-functioning economic zones can support this strategy, but only if delays, land issues, and utility constraints are addressed decisively.

Economic zones should not be treated as real estate ventures. They should be treated as productivity platforms. If utilities are unreliable, if customs procedures remain slow, and if governance is weak, zones will not deliver industrial transformation.

Investment administration: from obstacle course to service delivery

Even after years of rhetoric about one-stop services, investors still face an obstacle course of approvals and unpredictable delays. This is not only a bureaucratic problem. It is a competitiveness problem.

The next government should push hard on practical reforms: transparent deadlines, digital tracking, silent approval processes, and credible appeals mechanisms. Agencies must be evaluated on service delivery outcomes, not on how many meetings they hold. A single digital platform can help, but only if it is backed by accountability across agencies. Otherwise, digitisation becomes a new layer on top of old delays.

SMEs and vendor networks: the missing middle

Bangladesh's production ecosystem is weakened by the fragility of SMEs. Large firms depend on vendor networks for inputs, services, and innovation. When SMEs cannot access credit, cannot get predictable utilities, and cannot operate in a secure environment, supply chains remain shallow, and import dependence remains high.

Supporting SMEs is not charity. It is an industrial strategy. Credit guarantee schemes, transparent refinancing windows, and simplified compliance procedures can help. But the deeper need is governance: fair lending, predictable regulation, and reduced harassment.

Innovation, research, and economic sophistication

Bangladesh's competitiveness problem is increasingly about sophistication. Competing only on low wages is not a sustainable strategy in a world of automation, compliance requirements, and fast-moving supply chains. Productivity growth will depend on innovation, adoption of technology, and investment in research and development.

The next government should treat innovation policy as part of industrial policy. That means incentives for firms to invest in technology upgrading, stronger linkages between universities and industry, and support for applied research in sectors where Bangladesh can build an advantage. Without this, diversification will remain shallow, and value chains will remain low.

4. Fixing Public Finances: Revenue Mobilisation as a Development Imperative

Few issues are as central to Bangladesh's economic future as public finance. The tax-to-GDP ratio is among the lowest globally, leaving the state with dangerously limited fiscal space. At the same time, fixed expenditures such as salaries, pensions, and interest payments consume a large share of revenue, crowding out spending on development and social services.

The result is visible. Public investment has been compressed. Spending on education, health, water, and social protection remains far below what is needed for inclusive growth. The state is asked to do more every year, but its revenue capacity remains weak. This is not sustainable.

Why revenue reform is about trust, not only enforcement

Domestic resource mobilisation must be at the heart of the next government's economic strategy. But this is not simply about raising taxes. It is about building a fair, predictable, and credible revenue system that citizens and businesses can trust.

Broadening the tax base is essential. Too much of the burden falls on a narrow segment of formal firms, while many high-income individuals and large informal businesses remain outside the net. Reducing discretionary exemptions, simplifying laws, and

digitising filing and payment systems can improve compliance while lowering harassment and arbitrariness.

Predictability matters as much as enforcement. When rules are clear and consistently applied, voluntary compliance improves. When enforcement is selective, negotiation-based, or punitive, evasion becomes rational.

Reforming tax administration: reducing arbitrariness and harassment

Institutional reform of tax administration is critical. Businesses often complain not only about rates but also about the uncertainty, the discretionary power of officials, and the transaction costs involved in compliance. When compliance feels like bargaining, the system becomes unfair and inefficient. The reform of the tax administration needs to be effective and stable.

Digitisation can reduce discretion, but only if it is paired with governance reforms: clear risk-based auditing, transparent procedures, stronger internal accountability, and better taxpayer services. A modern tax system should feel like a predictable contract, not like a negotiation every year.

Property taxation and local government finance

Property taxation is a largely untapped source of revenue, particularly in urban areas where land values have risen sharply. Properly designed, it can also improve urban planning and local service delivery. But property tax reform requires political courage, because it touches influential interests. Still, without stronger local revenue, urban services will continue to lag behind urban growth.

Subsidies, reprioritisation, and spending quality

Fiscal prudence must be accompanied by reprioritisation. Subsidies on energy, exports, and remittances, alongside inefficient transfers, need to be re-examined in the context of a more market-aligned exchange rate regime. Blanket subsidies distort incentives and often benefit those who need them least. Over time, targeted support is both cheaper and fairer.

Savings should be redirected to health, education, water, and targeted social protection. These are not “soft” sectors. They are productivity sectors. A healthier, better-educated workforce is the foundation of long-term growth.

Spending quality also matters. Too often, public investment focuses on visible infrastructure while neglecting maintenance, staffing, supervision, and accountability. The next government should shift from a project-count mentality to a results mentality. This includes improving procurement, reducing leakages, and strengthening monitoring.

Public investment as a catalyst, not a routine

Public investment has a role in stimulating economic activity and crowding in private investment, especially during periods of weak demand. But this is effective only when

projects are well chosen and well implemented. Big initiatives should be grounded in evidence, with clear economic rationale, realistic timelines, and credible implementation frameworks. Otherwise, they become symbolic, expensive, and disappointing.

5. Repairing the Financial Sector: Restoring Trust and Credit Flow

A weak financial system cannot support a growth strategy. Bangladesh has lived with banking stress for years, but the crisis became more visible after 2024: distressed loans, weak governance, and battered public trust. Efficient firms struggled to access affordable credit, while well-connected borrowers defaulted without consequence. This distorted investment incentives and damaged the credibility of the entire system.

Banking reforms: progress, but still fragile

Bangladesh's banking sector is now undergoing the most serious reform effort in decades, supported by international partners and grounded in the recognition that business as usual is no longer viable. Reinforcing the legal and regulatory framework to resolve ailing banks has been a cornerstone. Resolution mechanisms have expanded the central bank's ability to intervene early, appoint administrators, and pursue orderly restructuring. Deposit protection has also been strengthened to stabilise confidence and reduce panic risk.

Supervision is being overhauled through asset quality reviews and a shift toward risk-based supervision. Governance reforms, including changes in some bank boards, aim to reduce political pressure and improve accountability.

These reforms are meaningful. But they remain fragile. Entrenched non-performing loans, pressure on regulatory independence, and resistance within the system continue to pose risks. Much depends on whether interference in regulatory decisions can be credibly reduced and whether reforms are sustained beyond the immediate crisis moment.

Non-performing loans: enforcement, transparency, and consequences

Non-performing loans remain the hardest issue. Tightened definitions and stricter rules against cosmetic rescheduling are necessary to improve transparency. But transparency alone does not recover money. Recovery requires enforcement, stronger legal processes, and coordination across institutions. Without consequences for wilful default, bad behaviour persists, and honest borrowers pay the price through higher interest rates.

A key principle should guide policy: resolution mechanisms must protect depositors, not shareholders who benefited from misgovernance. If the costs of failure are repeatedly socialised while gains are privatised, the system will never become disciplined.

Interest rates and the investment squeeze

High interest rates are not only a monetary policy issue. They reflect banking sector risk, NPL burdens, and weak competition. If inflation remains high and NPLs keep rising, rates

stay elevated. This can create a vicious cycle: high rates weaken firms, defaults rise, banks become weaker, and rates remain high.

Breaking this cycle requires banking reform and inflation control together. It also requires better credit allocation, so productive firms are not crowded out by connected borrowers.

SMEs and credit access: targeted instruments, better governance

The financial crunch hits SMEs hardest. They often have viable businesses but limited collateral, weak documentation, and low bargaining power. Without credit, they cannot invest, hire, or upgrade technology.

The next government should expand well-governed development finance instruments: credit guarantees, refinancing windows tied to performance, and digital credit assessment tools that reduce reliance on connections. But governance is the core. If these instruments become new channels for rent seeking, they will fail.

Capital markets and long-term finance

Bangladesh's capital market remains underdeveloped and suffers from low investor trust, partly due to governance weaknesses. Yet long-term finance is essential for infrastructure, green investment, innovation, and SME scaling. A stronger bond market, including SME oriented bond instruments, could mobilise savings into productive investment. But this requires better regulation, transparency, and enforcement to rebuild trust.

A diversified financial system, where firms can access both bank credit and market-based finance, is more resilient. Bangladesh needs that resilience.

6. Employment, Skills, and the Youth Challenge

Bangladesh's demographic profile is both an opportunity and a risk. A large working-age population can power growth, but only if jobs are created at scale and skills keep pace with economic change.

The labour market today tells a troubling story. Employment growth has slowed. Underemployment is widespread. Educated youth face bleak prospects, feeding frustration and social tension. Informality remains the norm, limiting security and productivity. A large share of workers operate outside effective labour protections and outside stable career paths.

Employment as an explicit policy objective

The next government must put employment at the centre of economic policy, not as a by-product of growth but as an explicit objective. This means prioritising labour-intensive sectors, supporting micro and small enterprises, and ensuring that public investment choices also consider job creation.

Industrial policy should be evaluated not only by export earnings but also by employment intensity and skill upgrading potential. If growth becomes increasingly jobless, social tension rises, and political stability weakens. That feedback loop is real.

Skills: the binding constraint

Training systems remain a glaring weakness. Very few workers receive formal training. This is not a minor gap. It is a structural failure. Fixing it requires partnerships between government, industry, and training providers, with curricula aligned to labour market demand and global trends.

Curriculum reform is essential. Too often, education produces credentials rather than capabilities. Quality matters more than expansion alone. The government should support competency-based training, stronger apprenticeship programs, and industry-linked certification.

Financing human capital: skills loans and mobility support

One overlooked area is financing for skills development and labour mobility. Banks rarely lend for education, training, or overseas employment preparation. Yet these investments can yield high returns through higher wages and remittances.

A structured system of education and skills loans, combined with better safeguards and repayment mechanisms, can expand opportunities. It can also reduce inequality, because access to training should not depend only on family wealth.

Overseas employment: moving from volume to value

Overseas migration remains a crucial employment channel. But the goal should shift from exporting low-skilled labour to exporting skilled labour. That requires better pre-departure training, lower migration costs, and stronger regulation of intermediaries who exploit workers.

Higher skills translate into higher wages abroad. They also translate into more stable remittance inflows. In a period where external demand is uncertain, skilled migration becomes a form of resilience.

Youth engagement and social stability

Youth engagement must go beyond employment alone. Young people want dignity, voice, and fairness. Platforms for participation, service, and civic engagement can channel energy into constructive pathways. Ignoring youth aspirations carries economic risks because social tension disrupts investment and weakens productivity.

7. Social Protection and Inequality: Investing in Resilience

Economic growth that bypasses large sections of society cannot be sustained. In Bangladesh, the weaknesses of the social protection system are no longer marginal. They are a central economic constraint. Programs remain fragmented, funding is inadequate, coordination is weak, and coverage is uneven. Urban vulnerability is rising quickly, yet many safety nets are still rural in design. When shocks hit, households fall through cracks, amplifying poverty and insecurity.

Social protection as economic infrastructure

The next government should treat social protection as an economic investment, not a residual welfare obligation. The aim should be coherence: programs organised around a lifecycle framework, predictable support for children, working-age people facing shocks, persons with disabilities, and older people.

Better targeting is vital, but targeting must be credible and updated. Integrated household data systems, frequently refreshed, can reduce exclusion and leakage. Yet inclusion must remain a guiding principle. If digital delivery systems are used, they must be accessible to those with low digital literacy, and safeguards must prevent arbitrary exclusion.

Urban food security and inflation resilience

Urban food security deserves special attention. Rising food prices, irregular incomes, and high housing costs have made many urban households vulnerable even when they sit above official poverty lines. Bringing them into targeted food distribution or cash support mechanisms can stabilise consumption and reduce distress. In periods of inflation, such measures also support macro stability by dampening panic and protecting demand.

Inequality in public services

Tackling inequality also hinges on access to good-quality public services. Education and health outcomes are shaped not only by budget allocations but by planning failures, staffing gaps, and weak accountability. Too often, spending favours on buildings and equipment rather than teachers, health workers, supervision, and performance systems.

A stronger social protection system must therefore be accompanied by sustained investment in education and health systems. Households that feel protected from shocks and have access to dependable services are more likely to invest in skills, take productive risks, and participate in the economy. That is how resilience supports growth.

8. Trade, LDC Graduation, and Global Positioning

As Bangladesh approaches LDC graduation in November 2026, trade policy is no longer a technical afterthought. It is becoming a central arena where the future growth path will be determined. Graduation is an achievement, but it removes a protective layer that supported export success for decades. Preferential access will fade. Compliance demands

will tighten. Competition will become sharper, often in ways that are not immediately visible but deeply consequential.

Competing without cushions: the new discipline

Bangladesh must learn to compete without special treatment, without losing jobs or export earnings during the transition. That requires moving away from a trade regime built on preferences and protection, toward one built on competitiveness, predictability, and integration.

Exports remain heavily concentrated. Preferential access has masked weaknesses in logistics, customs, standards, and trade facilitation. Graduation will slowly remove that cushion. Exports may not collapse overnight, but the margin for error will narrow sharply. Delays at ports, erratic customs practices, abrupt tariff changes, or weak enforcement of standards will increasingly translate into lost contracts.

Competitiveness is system-wide. Exchange rate policy matters, but so do speed, reliability, standards infrastructure, and firm capabilities. In a post LDC environment, success depends not only on price but on consistency and the ability to upgrade.

Reducing anti-export bias: tariff rationalisation and input costs

A central weakness in Bangladesh's trade regime is a strong anti-export bias. High tariffs and para-tariffs push firms toward protected domestic markets. As preferences erode, this structure becomes costly. Exporters face higher input prices and weaker incentives to diversify.

The next government should pursue phased tariff rationalisation. The objective is not sudden liberalisation, but simpler, more transparent systems that allow exporters to access inputs at world prices. Policy stability is essential. Frequent discretionary changes discourage investment and undermine confidence.

Trade facilitation: where competitiveness is won or lost

For many exporters, domestic inefficiencies matter more than foreign tariffs. Port congestion, slow clearance, poor coordination among border agencies, and excessive documentation create uncertainty. In modern supply chains, even small delays can shift orders elsewhere.

Measures such as single window systems, risk-based controls, electronic documentation, and better logistics connectivity can produce large competitiveness gains. These reforms are less glamorous than mega projects, but they often deliver higher returns.

Diversification through value chain deepening

Diversification does not mean abandoning garments. It means broadening the export base and deepening domestic value chains. Backward linkages deserve priority to reduce import dependence, improve resilience, and raise domestic value addition. Sector

support should be focused on a limited set of promising areas and linked to performance, not entitlements.

Global economic strategy: pragmatic partnerships

Bangladesh's global positioning must be pragmatic. Trade and investment partnerships should be diversified across regions. The aim is not to choose sides, but to secure markets, technology, investment, and energy sources while protecting national interests. In a more fragmented global economy, diversification of partnerships becomes a risk management strategy.

9. Climate, Rural Development, and Long-term Sustainability

Climate vulnerability is not a distant prospect. It is shaping livelihoods, migration, and public spending now. The next government must embed climate adaptation and mitigation into mainstream economic planning, not treat them as separate projects.

Energy security: the overlooked growth constraint

Energy insecurity has become a serious constraint. When power supply is unreliable, and fuel costs are high, production becomes uncertain, and inflation pressures rise. A credible energy strategy must balance short-term supply needs with long term transition goals.

This means improving procurement and planning for imported fuels while accelerating the shift toward renewables. Solar expansion has real potential, especially where land can be utilised creatively. But renewables need grid upgrades, storage planning, and regulatory clarity. Without these, targets remain paper goals.

Energy pricing reform also matters. Blanket subsidies distort incentives and drain fiscal space. Moving toward targeted support for vulnerable consumers and strategic sectors, while allowing more market-consistent pricing, can reduce distortions and improve investment signals.

Rural development: livelihoods, services, and climate resilience

Rural development deserves renewed focus. Growth driven purely by mega projects and urban sprawl will not solve waterlogging, rural unemployment, or climate stress. Local development models that integrate infrastructure, livelihoods, services, and environmental management can produce more balanced outcomes.

Climate-resilient agriculture, better water management, and rural non-farm employment are crucial. They reduce distress migration and strengthen food security. They also support political stability by ensuring rural regions do not feel left behind.

Green opportunities: jobs and competitiveness

Green investment is not only an environmental priority. It is an economic opportunity. Renewable energy components, energy-efficient manufacturing, climate-resilient

infrastructure, and green financing can generate jobs and attract investment, especially as global buyers increasingly demand low-carbon production.

Embedding sustainability into industrial policy can therefore strengthen competitiveness in a post-LDC world, where compliance and environmental standards will matter more.

10. Conclusion: Choosing Direction, not Drifting

The next government will inherit an economy that appears to be more stable than it was two years ago, but also more fragile in its foundations. Stabilisation has bought time. It has not solved deeper problems: weak investment, limited job creation, fiscal stress, banking fragility, and inequality.

The priorities outlined here point to a clear direction. Restore confidence through predictability and the rule of law. Broaden the production base through disciplined industrial policy and regional ecosystems. Mobilise domestic resources through fair, credible tax reform and better spending quality. Repair the financial system in a way that restores trust and reopens credit flow for productive firms. Put jobs, skills, and youth aspirations at the centre of policy. Strengthen social protection as resilience infrastructure. Prepare seriously for a post-LDC trade regime by improving competitiveness, reducing anti-export bias, and investing in trade facilitation. And embed climate resilience and energy security into the core of development planning.

None of this will be easy. Vested interests will resist. Administrative inertia will slow progress. Mistakes will happen. But the alternative, drifting back into business as usual, carries greater risks. It risks locking the country into a low-growth equilibrium where inflation remains painful, investment remains hesitant, and opportunities remain scarce. Bangladesh has reached a moment where choices matter more than promises. If the next government can act with clarity, discipline, and inclusiveness, it can move beyond crisis management and build purposeful growth that creates jobs and widens opportunity. If it cannot, the cost will not only show up in indicators. It will show up in the everyday lives of millions whose aspirations remain unmet.

The South Asian Network on Economic Modeling (SANEM), established in 2007, is a Dhaka-based non-profit research organization. Over the past nearly two decades, it has grown into an international platform for economists, researchers, policymakers, and institutions committed to promoting high-quality, evidence-based economic analysis and informed policy advocacy in Bangladesh, South Asia, and beyond. SANEM conducts both quantitative and qualitative research on a broad range of development issues, including macroeconomics, international trade, poverty, inequality, labor markets, climate change, political economy, renewable energy, human capital, agriculture, social protection, and sustainability, and translates its findings into policy briefs, technical papers, and public discussions aimed at supporting effective decision-making. Through collaborative projects, training programs, conferences, publications, and initiatives for young economists, SANEM plays a key role in strengthening research capacity, fostering policy engagement, and contributing to inclusive and sustainable economic development in the region.