SANEM Thinking Aloud
VOLUME 13 | ISSUE 3 | AUGUST 1, 2026

BANGLADESH'S INVESTMENT PUZZLE: AMBITION NEEDS ASSURANCE

by Selim Raihan

Bangladesh government now speaks confidently of becoming a $1 trillion economy by 2034. The ambition is welcome. Yet the policy puzzle is difficult to avoid: how will the economy double in size when domestic private investment has weakened, foreign direct investment remains modest, and many existing businesses are reluctant to expand? Private investment fell to 22.48 percent of GDP in FY2024–25, its lowest level in five years. Net FDI recovered to $1.77 billion in 2025, but this was less than 0.4 percent of an economy estimated at around $510 billion. Even the recovery deserves caution, since it was driven mainly by reinvested earnings and intra-company loans, while new equity investment increased only marginally.

The real concern is not a shortage of investment conferences, policy declarations or promotional agencies. Bangladesh has had all three. Successive governments have announced economic zones, one-stop services, tax incentives and sectoral priorities. The new government has invited investors to become long-term partners and promised stronger legal protection, simpler taxation, easier profit repatriation, better infrastructure and a rules-based business environment. These are the right commitments. But investors make decisions on the basis of what government agencies do, not what political speeches promise.

Domestic and foreign investment must be viewed as part of the same institutional problem. A country is unlikely to attract foreign investors if its own entrepreneurs lack confidence to undertake long-term investment. Local firms face high borrowing costs, weak demand, uncertain access to foreign exchange, unreliable energy, customs delays, and arbitrary regulatory interpretation. Many are maintaining existing capacity rather than investing in new factories or product lines. Foreign investors observe the same signals. Both groups require predictable rules and confidence that the state will not change the terms after capital has been committed.

Recent assessments by the Foreign Investors' Chamber of Commerce and Industry identify an interconnected set of barriers: weak competitiveness, policy uncertainty, logistics bottlenecks, infrastructure deficits, financial-sector fragility, institutional fragmentation, skills shortages, tax complexity and reputational concerns. Some investors reportedly wait up to a year for basic approvals and must deal with 23 government agencies. Port waiting times remain substantially higher than those of regional competitors. These are not minor inconveniences. They affect production schedules, financing costs, inventory management and Bangladesh's credibility within global supply chains.

Energy insecurity has become particularly damaging. A factory cannot plan output, meet an export deadline or calculate its unit cost when gas and electricity supply remain unreliable. The problem is worsened when tariffs rise without a corresponding improvement in service quality. Bangladesh has often treated energy shortages as temporary. They are now a structural investment constraint. The government must develop a credible medium-term energy plan, disclose supply projections, improve fuel procurement and transmission, and create transparent rules for industrial connections. Investors can manage high costs better than uncertain costs. What they cannot manage is unpredictability.

The financial sector creates a second constraint. Years of politically influenced lending, weak supervision, and repeated concessions to defaulters have damaged the allocation of credit. Productive firms face high interest rates

> "BANGLADESH'S INVESTMENT TEST HINGES ON CREATING PREDICTABLE RULES AND RELIABLE INSTITUTIONS SO FIRMS STAY, EXPAND, AND TAKE RISKS; AMBITION MATTERS, BUT ONLY SUSTAINED CONFIDENCE WILL ATTRACT LASTING INVESTMENT."

and limited access to long-term finance, while influential borrowers have often received repeated rescheduling. This changes the structure of investment by favouring connections over productive capability. Banking reform must, therefore, be treated as investment reform. Without credible asset-quality recognition, stronger governance, effective resolution of weak banks and action against wilful default, new refinancing schemes may provide liquidity but will not restore confidence.

Taxation and regulation require an equally fundamental change. Investors do not necessarily demand the lowest tax rate. They demand certainty about what they owe, how rules will be interpreted, how disputes will be settled and how long the process will take. Bangladesh's system too often combines a narrow tax base with high effective burdens on compliant firms. Repeated audits, discretionary assessments, delayed refunds and prolonged disputes create incentives for negotiation rather than compliance. Reform should reduce discretion, publish binding interpretations, introduce time limits for audits and appeals, and ensure that major policy changes are preceded by consultation and reasonable transition periods.

The creation of Invest Bangladesh through the merger of BIDA, BEZA and the Public-Private Partnership Authority may improve the institutional entry point. An integrated platform, statutory approval deadlines and a genuine single window could reduce duplication. But another merger will not solve the problem unless the new authority can compel action from the NBR, customs, environmental regulators, land offices and utility agencies. Bangladesh's investment problem is not located within one organisation. It is spread across the state. Invest Bangladesh, therefore, needs legal authority, publicly reported service standards and an escalation mechanism for unresolved cases.

The reform agenda should begin with a limited number of measurable commitments. Approvals should be listed, digitised and time-bound. Silence after a statutory deadline should, where legally possible, amount to deemed approval. Tax and customs disputes should be resolved through specialised, independent mechanisms. Industrial land records must be digitised. Utility agencies should publish connection timelines and service reliability indicators. Commercial courts and arbitration need faster enforcement. The government should establish an investor aftercare system, because retaining and expanding existing investors is often more credible than announcing large pipelines of prospective investment.

Bangladesh also needs to be more selective about the investment it seeks. FDI should support technology transfer, export diversification, productivity and better jobs, rather than merely serving a protected domestic market. Priority sectors such as pharmaceuticals, electronics, agro-processing, advanced textiles, renewable energy, logistics and digital services make sense, but incentives should be conditional on performance. Domestic firms must be linked to foreign investors through supplier development, skills programmes and technology partnerships. Otherwise, foreign investment may remain an enclave with limited spillovers.

The question is not only whether Bangladesh can attract more investment. It is whether the state can create a predictable environment in which productive firms, local or foreign, are willing to remain, expand and take risks. A trillion-dollar ambition may inspire confidence. But confidence will not be sustained by ambition alone. It will depend on whether the government can turn administrative promises into enforceable rules, institutional coordination and reliable public services. That is where Bangladesh's investment test will be decided.

Dr Selim Raihan, Professor of Economics, University of Dhaka and Executive Director, SANEM. Email: selim.raihan@gmail.com

FERTILISER, FUEL, AND WHY BANGLADESH'S FOOD SECURITY BECAME A NATIONAL-SECURITY QUESTION IN 2026

by Md Al-Hasan

Bangladesh grows almost all the rice it eats. Most years, that counts as good news. The 2026 war in the Gulf showed how fragile that self-sufficiency really is. Growing rice depends on two imported inputs: nitrogen fertiliser to feed the plant, and diesel to pump the water. Both travel through the same narrow, contested waterway on the far side of the Arabian Sea. When the Strait of Hormuz closed after 28 February, the war never touched a single paddy field. But it hit the two things that make a paddy field productive, at the same time, in the same season. That is the moment food security stopped being a development statistic and started acting like a national-security problem.

Why food is a security question in Bangladesh?

In Bangladesh, rice is the staple food. It is the biggest expense in a poor household's budget, and the number that decides whether a government looks like it is doing its job. When the rice price moves, inflation moves with it. That turns into a political problem fast. Every government here, including the interim administration formed after the 2024 upheaval and the elected government that succeeded it after February 2026's elections, treats the rice price as a matter of stability, not just economics. That is why the state runs a public food distribution system, strategic grain reserves, and open-market sales.

> **WHEN HORMUZ CLOSED AND TOOK OUT BANGLADESH'S FERTILISER AND DIESEL SUPPLY AT ONCE, FOOD SECURITY STOPPED BEING A DEVELOPMENT STATISTIC AND BECAME A NATIONAL-SECURITY PROBLEM.**

But "self-sufficient" rests on a thin margin. In FY2024-25, rice imports hit a seven-year high of about 1.4 million tonnes. That happened even though official numbers showed a surplus against annual demand of roughly 38 million tonnes. Analysts suspect those statistics overstate the real cushion. Either way, Bangladesh sits close to the line between a small surplus and real import dependence. Buffer stocks are thin, and reserves are under strain. A shock does not need to be huge to push the country over that line.

The first input: How the War Disrupted Bangladesh's Fertiliser Supply

Bangladesh needs about 2.6 million tonnes of urea a year. It makes only around a million tonnes at home. The rest is imported, mostly from Saudi Arabia, Qatar, and the United Arab Emirates, shipped through Hormuz. The war knocked out both sources at once. Imported cargoes were disrupted at the strait. At the same time, domestic production was choked off, because gas was rationed and diverted, and five of the country's six urea plants shut down. Imports and home production fell together, with no domestic fallback, because both losses traced back to the same conflict.

The price tells the story. Urea cost about $472 a tonne before the war. It rose to $725 in March, then over $850 by April, the highest since late 2022. Nitrogen is especially dangerous because it is the one nutrient a farmer cannot skip. And because plants respond to nitrogen nonlinearly, a small cut in how much a farmer applies can cause a much larger drop in the harvest.

The second input: diesel, and the season that runs on it

The second input is water. And in the dry season, water means fuel. Boro rice is transplanted from December and harvested from April. It makes up more than half of Bangladesh's rice output, and it depends entirely on irrigation. That means it grows in exactly the months the war disrupted. Shallow tube wells irrigate roughly two-thirds of the irrigated area, and they run about eighty percent on diesel, priced off the same crude oil benchmark the Gulf war sent soaring.

The effect on the ground was immediate. Fuel rationing across Rangpur and Rajshahi left irrigation pumps idle at the peak of the growing season. Diesel sold for Tk 50 to Tk 80 above the official price. The irrigation cost per bigha rose from around Tk 3,500 to well over Tk 5,000. A farmer facing that had two bad options: pay the higher cost and shrink the margin that makes growing rice worthwhile, or irrigate less and accept a lower yield.

The convergence: two shocks, one crop, one season

This rises to the level of national security because the two shocks were not independent. They landed together. Normally a country hopes its fertiliser risk and its fuel risk are separate bets, so a bad outcome on one can be offset by a good outcome on the other. The Gulf war made them move together. One event raised the price and cut the supply of both fertiliser and water, for the same crop, in the same season, through the same chokepoint. Then the weather made it worse. Pre-monsoon flooding in the haor basin damaged standing Boro rice at harvest time. One agricultural economist put the possible loss at up to twenty percent in the haor regions and around ten percent nationally, though that figure bundles the war together with the weather.

Treating food inputs as strategic Resources

The real policy question here is not about agriculture. It is about strategic dependency. Bangladesh's ability to feed itself now runs through a foreign waterway it does not control, for two inputs it cannot quickly replace. The fallback plan is no better off: the same shock damages that too. That is a national-security vulnerability, and it calls for the tools of one:

- Hold buffer stocks of fertiliser, the way a state holds strategic petroleum reserves
- Set aside protected fuel for agriculture during the Boro season
- Diversify where inputs come from, even at extra cost
- Over the longer run, electrify irrigation, so a spike in crude oil prices no longer flows straight into the water supply for the country's main crop

None of this is cheap. All of it is cheaper than a rice shortage, in a country where rice and political stability are basically the same conversation.

There's also good reason to treat 2026 as a preview, not an isolated event. This war followed a twelve-day Iran-Israel conflict just the year before, and Gulf tensions have flared repeatedly over the past two decades without ever really resolving. Whatever ends this particular war, it won't close the strait for good, and it won't stop the next flashpoint from running through the same chokepoint. Bangladesh's exposure is structural, not incidental to this one conflict: it runs through the same waterway, the same two inputs, and the same Boro season every year, regardless of what sets off the next disruption. Building resilience now, while the shock is fresh and the political appetite exists.

Md Al-Hasan, Deputy Director, SANEM.
Email: al.hasan@sanemnet.org

NON-PERFORMING LOANS: A CRISIS TOO LONG IGNORED

by Sudeepto Roy

For years, Bangladesh's approach to bad loans, repeated rescheduling, periodic circulars, rarely hard enforcement treated the problem as containable. That approach has now visibly failed. The numbers now tell a different story: one of a banking system that let its rot accumulate for so long that the reckoning, when it finally came, arrived all at once.

At the end of March 2026, gross non-performing loan (NPL) ratio in Bangladesh's banking sector stood at 32.26%. That means nearly one in every three taka lent by a bank in Bangladesh has soured. The trajectory is also telling: escalating from 20.20% in December 2024 to 24.6% in March 2025, before peaking at a sharp 36.73% in September 2025. Although the ratio briefly moderated to 31.2% by December 2025, it deteriorated once again. Much of that spike was not new lending going bad in real time, it was old rot finally being counted.

The scale of the crisis did not emerge from bad luck or a single economic shock; it is the product of a specific, well-documented set of institutional failures. Governance breakdowns, political interference, fabricated financial statements, and policy leniency toward willful defaulters have been the primary drivers of the crisis, with its roots being fundamentally psycho-political rather than purely economic. State-owned commercial banks have consistently posted among the worst asset quality in the sector, with their NPL ratio holding above 41% through the past year, rising from 41.4% in March 2025 to 41.9% in December 2025 and 42.0% by March 2026. This is a pattern tied to directed, politically motivated lending insulated from market discipline. More alarming still is the trajectory at Full-Fledged Islamic Banks, where the NPL ratio has more than doubled in a single year, surging from 29.2% in March 2025 to 56.5% by December 2025 and 58.4% by March 2026.

Legal enforcement has been just as weak. Until May 2026, 74,679 recovery cases and nearly Tk4 lakh crore remain tied up in the country's Money Loan Courts, with a disposal rate of less than 10% over the last couple of years, turning legal recourse into a further delay tactic rather than a deterrent. Since early 2021, over 2,150 writ petitions contesting bank seizures and auctions of mortgaged properties in default cases have been stalled in the High Court, tying up more than Tk 8,500 crore.

The consequences have moved well beyond the balance sheets of individual banks. With capital buffers eroded by mounting provisioning requirements, banks have grown reluctant to extend fresh credit, a squeeze that is slowing private investment, dampening job creation, and weighing on the broader economic recovery. Compounding this is a second, less discussed dynamic: heavy government borrowing is now crowding out private credit. The International Monetary Fund (IMF) warns that over-relying on local banks to fund the government's budget deficit risks starving the private sector of credit and pushing the banking system past its lending capacity. Government securities' share of domestic debt rose to 62.3% in FY25 from 53.6% in FY24. The root cause is fiscal: tax collection fell sharply from 7.4% of GDP in FY24 to just 6.8% in FY25, forcing the government to rely on domestic bank borrowing to cover the shortfall, borrowing that then displaces private-sector access to the same pool of credit. The result shows up starkly in the data: private sector credit growth stood at 6.10% in December 2025, 6.03% in January 2026, and 6.03% in February 2026, before falling further still to 4.72% by March 2026.

“
BANGLADESH BANK HAS, FOR ONCE, PRODUCED A PLAN THAT TREATS THE DISEASE RATHER THAN THE SYMPTOMS. WHETHER THE POLITICAL SYSTEM LETS IT WORK IS THE HARDER QUESTION.
”

Facing this compounding crisis, Bangladesh Bank has set an ambitious target of reducing non-performing loans within the next 18 months, with a seven-point structural roadmap. This combines tighter supervision and asset quality reviews, recovery-linked capital and provisioning rules, restructuring reserved only for viable borrowers, faster legal action against large defaulters, liquidity support kept separate from bank capital restructuring, new resolution and deposit-protection laws, and a shift to forward-looking loss provisioning under IFRS 9 by 2027. Alongside it, the central bank has rolled out a one-time "Golden Exit" settlement scheme, a shorter write-off timeline, mandatory dispute resolution targets, and explicit NPL-reduction goals, 10% for state-owned banks, under 5% for private ones.

The honest answer sits between the two extremes: meaningful progress, but not a quick fix, and not a complete one. The roadmap is among the most structurally serious efforts Bangladesh Bank has produced. It moves away from the perpetual-rescheduling model that let the crisis fester, toward genuine legal consequences, better data, and international-standard provisioning. But several structural constraints limit how far it can go within the announced timeline. Legal bottlenecks are the load-bearing constraint: no supervisory framework can recover assets faster than the courts can process them. Fast-tracking proceedings is necessary but will take years to clear the huge backlog. Political will remains untested. Every diagnosis of the crisis identifies political interference and connected lending as root causes. While the roadmap addresses supervision and legal process, whether Bangladesh Bank will be allowed genuine operational independence to act against powerful, politically connected defaulters is still an open question.

The crowding-out problem sits largely outside the roadmap altogether. None of the seven points address the government's own borrowing. Without fiscal reform, banks will keep finding government bonds more attractive than the harder, riskier work of private lending, blunting the impact of NPL cleanup on actual credit flow to the real economy. The Expected Credit Loss (ECL) transition is itself a multi-year project, with full IFRS 9 implementation not expected until 2027, meaning the more rigorous, forward-looking loss-recognition framework that could catch emerging problem loans earlier will not be fully operational within the initial push. Bangladesh has announced NPL-reduction schemes before, many undermined by loopholes that let defaulters delay indefinitely. The credibility of this round rests on whether the Golden Exit and legal fast-tracking are genuinely one-time and enforced, or become yet another avenue for preferential treatment.

Rebuilding genuine confidence in Bangladesh's banking system will likely take five to ten years of sustained reform, not eighteen months. Bangladesh Bank has, for once, produced a plan that treats the disease rather than the symptoms. Whether the political system lets it work is the harder question and, on the evidence of the last twenty years, the one still unanswered.

Sudeepto Roy, Research Associate, SANEM.
Email: sudeeptoroy232@gmail.com

EDITOR: SELIM RAIHAN ***Associate Editor:*** Sudeepto Roy ***Coordinator:*** Sk. Ashibur Rahman

SANEM Publications: Flat K-5, House 1/B, Road 35, Gulshan-2, Dhaka-1212, Bangladesh, Phone: +88-02-58813075
E-versions: www.sanemnet.org/thinking-aloud/