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WHY IS BANGLADESH'S PRIVATE SECTOR STILL WAITING?

by Selim Raihan

Private investment has been one of Bangladesh's persistent economic puzzles. For years, private investment remained stuck at around 23–24 percent of GDP despite repeated investment summits, ambitious plans for economic zones, generous tax concessions for foreign investment, and successive promises to improve the business environment. It has now fallen to around 22 percent of GDP, its lowest level in about a decade. As a result, the GDP growth rate has fallen to less than 4 percent. The deeper question is why businesses remain reluctant to commit investment after years of policies designed to encourage them.

Part of the explanation lies in the gap between announcements and implementation. The business environment has remained unfavourable for investment. Many economic zones have been painfully slow to become fully operational because land development, infrastructure, and reliable utility connections have lagged. The tax system remains fragmented and often distortionary. These have not necessarily produced investment, diversification, or technological upgrading that should justify their fiscal cost.

The current economic environment makes this weakness more serious. Growth has slowed sharply since the pandemic and, over the past couple of years, has fallen to levels Bangladesh has not experienced for many years. Inflation has remained high for around four years, eroding household purchasing power while raising production costs. Export performance in FY2025-26 was essentially stagnant, although different official series and revisions produce slightly different estimates. Remittances, however, grew 17.3 percent, supporting the external account and foreign exchange reserves. But remittances cannot substitute for a recovery in productive activity.

Private-sector credit growth has remained below 5 percent for several months, reaching historically low levels. Import demand, particularly for investment-related goods, has been weak. Fiscal space has narrowed. Fuel-price increases and gas shortages add further uncertainty.

It needs substantially more private investment to revive growth, create jobs, raise productivity and diversify exports. Yet firms must make long-term commitments amid weak demand, expensive finance, uncertain energy supply and a less predictable global economy.

Many constraints are not new. Businesses have complained

for years about unreliable energy, costly logistics, difficult taxation, regulatory uncertainty, weak contract enforcement, limited long-term finance and poor banking governance. What is different today is their interaction with persistent inflation, financial-sector stress, reduced fiscal space, political uncertainty and weaker demand. Old structural weaknesses have become more binding because the economy has less room to absorb them.

Investment involves committing resources today against returns expected several years ahead. Businesses care not only about today's costs, but whether policies will remain predictable, contracts enforced and assets secure.

Policy predictability matters equally. Businesses can adjust to difficult policies when rules are clear. However, when roadmaps for reforms in taxes, tariffs, energy prices or import regulations are obscure, business planning becomes harder.

The February 2026 election may have removed one source of uncertainty, but political transition does not automatically restore confidence. Businesses continue to watch law and order, political confrontation, institutional stability, and the state's capacity to enforce rules. Mob violence, insecurity and arbitrary exercises of power carry an economic cost because they affect perceptions of property and business security. Foreign investors compare Bangladesh with competing destinations. Domestic investors can simply postpone expansion.

High interest rates clearly matter, but lowering them is not a sufficient answer. Entrepreneurs will not borrow simply because credit becomes cheaper if they remain uncertain about law and order, political stability, demand, energy availability, taxation and policy direction. Nor can monetary easing provide an easy escape while inflation remains high. Businesses need affordable finance, but premature easing could reignite inflationary and exchange-rate pressures.

The banking system makes the problem considerably harder. Years of politically influenced lending, weak governance, repeated rescheduling and poor enforcement against powerful defaulters have distorted capital allocation. Non-performing loans are now around one-third of total loans. When connected borrowers receive large loans without adequate scrutiny while productive firms face normal commercial discipline, scarce capital is being allocated badly.

The losses eventually fall on depositors through weaker banks, taxpayers through recapitalisation, responsible borrowers through higher financing costs, or the wider economy through constrained credit. Banking reform is,

therefore, central to the investment agenda. Bangladesh Bank's recent proposals to curb family control of private banks and tighten eligibility requirements for directors and managing directors move in the right direction. Yet resistance from bank owners illustrates the political economy of reform. More importantly, broader institutional reforms are still needed to reduce political influence and strengthen banking sector independence.

Taxation presents a similar problem. Bangladesh's tax-to-GDP ratio remains below 7 percent, among the lowest internationally. Yet the burden cannot continue to fall disproportionately on firms and individuals already inside the tax net while exemptions, discretionary treatment and weak enforcement protect others. Businesses can face aggressive tax administration even while aggregate revenue mobilisation remains exceptionally weak.

The tax base must widen, compliance needs to become simpler, discretionary privileges should be reduced, and enforcement made more consistent. Investment incentives, where justified, should be transparent, time-bound and linked to clear objectives. Reforms so far have too often been hesitant and inconsistent, without a credible roadmap for changing the system.

External conditions are tougher. Protectionism is rising, US trade policy has become less predictable, geopolitical tensions remain significant, and energy and shipping costs remain vulnerable to external shocks. Bangladesh also faces LDC graduation, while environmental requirements, labour standards and supply-chain due diligence are becoming more demanding. Competitors with better logistics, reliable energy and stronger institutions will not wait for Bangladesh to resolve its domestic weaknesses.

The private sector is not homogeneous. Bangladesh has competitive exporters, SMEs and entrepreneurs taking genuine commercial risks. It also has businesses whose profitability has depended on high protection, preferential finance, tax exemptions, regulatory access or political connections. Policies presented as private-sector support can, therefore, strengthen rent-seeking firms at the expense of productive ones.

That distinction also explains reform resistance. Banking reform threatens borrowers who benefited from weak governance. Tariff rationalisation affects industries accustomed to protection. Tax reform challenges groups enjoying exemptions. Competitive procurement threat ens firms dependent on privileged access. The beneficiaries are concentrated and influential, while the costs are dispersed among consumers, taxpayers and productive businesses.

The government's task is not simply to become more "business friendly", but more friendly to productive investment. That requires restoring law and order, improving policy predictability, repairing banking governance, ensuring reliable energy, reforming taxation, and reducing the anti-export bias in trade policy. Economic zones need

functioning infrastructure and utilities, not further announcements.

Bangladesh does not lack reform proposals. The harder task is implementing them when they confront powerful interests. The practical test is whether an entrepreneur without political connections can expect predictable rules, commercial access to finance, reliable energy, fair tax treatment, and protection of contracts and property. Improving those conditions, rather than adding another layer of incentives, offers the more credible route to reviving private investment.

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THE ECONOMIC FEASIBILITY OF LNG EXPANSION IN BANGLADESH

by Md. Tuhin Ahmed

Bangladesh's energy sector stands at a critical crossroads. As domestic gas production continues to decline and factories experience low pressure, the government is moving forward with plans to expand the country's liquefied natural gas (LNG) import infrastructure. The cabinet committee has approved a new floating storage and regasification unit (FSRU) with a capacity of approximately 550-600 million cubic feet per day (mmcf) at Moheshkhali, which is expected to supply gas from 2028, followed by a land-based terminal at Matarbari by December 2030. One estimate suggests that if the proposed terminals run at about 65 per cent utilisation, the annual LNG bill could reach \$8.5 billion by 2030 at \$12 per MMBtu, and exceed \$14 billion at \$20. The question is not whether Bangladesh needs more gas. It clearly does. The question is whether building more LNG import terminals is the right way to meet that need.

Gas continues to serve as the foundation of power generation, fertiliser production, and export-oriented manufacturing sectors. Domestic gas production fell by 22.1 per cent over five years to 19.60 billion cubic metres in FY2024-25. In mid-August, when an FSRU ran out of LNG, total supply dropped to about 1,930 mmcf against demand of nearly 3,800 mmcf. For garment, textile, ceramics and steel factories, unreliable gas means idle machines, missed shipments, lower export earnings, and lost jobs.

However, acknowledging the necessity for gas is not the same as endorsing the construction of new terminals. The two existing FSRUs already provide a combined regasification capacity of approximately 1,100 mmcf. The crisis of 2026 was attributable not to a lack of regasification capacity but to a shortage of affordable cargoes. Another terminal would not have solved this problem. Expanding capacity would only increase exposure to the same volatile market, while committing limited foreign exchange to infrastructure reliant on cargoes that may not be reliably available or affordable.

The fiscal implications are serious. Bangladesh's LNG import bill increased from Tk 16,505 crore in FY2020-21 to around Tk 59,000 crore in FY2025-26. Imported LNG costs roughly Tk 65 per cubic metre, whereas industrial consumers pay Tk 30 per cubic metre. This gap is bridged through a subsidy. The energy ministry's preliminary estimate puts this year's LNG subsidy at Tk 40,000 crore, roughly three times last year's final payout of Tk 14,500 crore. For a country with one of the lowest tax-GDP ratios in the world, such sums inevitably crowd out spending on health, education and social protection.

This year has highlighted the risk of volatility in the most pronounced way. Following the conflict involving Iran, which disrupted shipping through the Strait of Hormuz, QatarEnergy halved its scheduled 2026 deliveries to Bangladesh, and the country imported 35 spot cargoes between March and early July. In March, one spot cargo was bought at \$28.28 per MMBtu, almost three times the benchmark Japan-Korea Marker (JKM) price, whereas a December 2025 cargo had cost just \$9.99 per MMBtu. Long-term contracts, it turned out, offered far less protection than we had assumed.

A terminal represents a long-term commitment rather than simply an asset. Once constructed, it obligates the country to capacity payments and cargo purchases for many years, all denominated in dollars during a period of fragile reserves and



A MORE COST-EFFECTIVE AND SECURE PATH IS AVAILABLE DOMESTICALLY, THROUGH SOLAR, WIND, AND INDIGENOUS GAS RESOURCES.



a vulnerable taka. Moreover, reliance on imported primary energy rose from 47.7 per cent in FY2020-21 to 62.5 per cent in FY2024-25, while average power generation costs went up by 83 per cent. Further expansion would intensify this dependence and increase the risk of stranded assets.

There is also a significant political economy dimension. Historically, several energy projects have been awarded through unsolicited proposals under the special provisions law, resulting in limited competition and transparency. Decisions made hastily, often under pressure from vested interest groups, risk repeating the capacity payment challenges previously observed in the power sector.

How, then, should the gas supply gap be addressed? Three alternatives warrant priority. The first is renewable energy. According to IEEFA, electricity generated from LNG in Bangladesh is three to four times as expensive as solar or wind power, and 1 GW of solar capacity could save nearly \$3 billion in LNG import costs over 25 years. This approach is essential for reconciling energy security with reduced LNG dependence. Each unit of solar-generated power frees gas for factories and fertiliser plants that lack immediate substitutes. Renewables represent not only a climate commitment but also an economic strategy for decreasing gas demand.

The second is domestic exploration. The government intends

to drill 150 wells by 2030-31 and has offered 26 offshore blocks in an international bidding round. While these initiatives are positive, execution has historically been a significant challenge, with previous drilling programmes experiencing delays. Investment in exploration provides substantially greater value than equivalent spending on spot cargoes.

The third is improving efficiency. Gas system loss stood at around 7 per cent in FY2024-25, against a regulatory ceiling of 2 per cent, with Titas alone reporting 9.47 per cent. Every unit lost to theft and leakage must be replaced by costly imports. Likewise, IEEFA finds that efficiency improvements in industrial captive power generation could cut LNG import bills by \$460 million a year.

What actions should be taken? LNG should play a role, but only within the capacity that currently exists, serving as a transitional solution that diminishes over time. The government should suspend the proposed new FSRU and the Matarbari terminal until an independent, transparent review of demand and costs is conducted. Existing terminals and contracts should be leveraged to support the industry during the transition, with a focus on diversifying suppliers and strengthening force majeure protections. Simultaneously, the government should implement binding renewable energy targets, conduct competitive solar and wind auctions, provide incentives for rooftop solar installations on factories, and invest in grid and storage infrastructure. Exploration and efficiency initiatives must also receive budgetary priority comparable to current expenditures on imported fuel.

Bangladesh's growth ambitions are contingent upon access to affordable and reliable energy. Increasing reliance on imported LNG, without addressing underlying institutional weaknesses, would transform the pursuit of energy security into a persistent fiscal and macroeconomic vulnerability. A more cost-effective and secure path is available domestically, through solar, wind, and indigenous gas resources. The decisions made at present will determine the country's competitiveness for decades to come.

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THE COST OF RISING OIL PRICES FOR BANGLADESH'S FARMERS

by Sudepto Roy

For a farmer in Bangladesh, rising oil prices are not simply an energy issue. Getting a field ready, pumping water, harvesting crops and transporting produce to market all become more expensive when fuel prices rise. A farmer may have to spend more for growing the same amount of rice or vegetables for a higher oil price. Whether they can recover that additional cost depends largely on the prices they receive at harvest.

The concern is particularly pressing because farmers have

limited control over the prices of fuel, fertiliser and machinery services. In September 2026, the retail price of diesel rose 17.4 percent, from Tk 115 to Tk 135 per litre. Compared with the Tk 100 per litre price in February 2026, diesel had become 35 percent more expensive. The increase follows a sharp rise in global oil prices since the war involving Iran began in March. For an economy that relies heavily on diesel-powered agricultural machinery and irrigation, the increase has consequences well beyond the transport sector.

The dependence on diesel is most apparent in irrigation. During the 2023–24 Rabi season, 71 percent of Bangladesh's shallow tube wells and 89 percent of its low-lift pumps ran on diesel. Shallow tube wells irrigated approximately 3.09 million hectares, accounting for 53.49 percent of the country's irrigated area. Dry-season agriculture therefore remains highly exposed to diesel-price changes.

Boro (53%) and Aman (41%) together dominate Bangladesh's total rice production. Boro's reliance on dry-season irrigation makes it particularly exposed to higher fuel costs. Farmers cannot easily reduce water use without risking yields, while those hiring pumps and machinery have little control over service charges.

A typical diesel irrigation pump burns about 1,200 litres of fuel a year. With 1,228,194 diesel pumps in operation, that implies roughly 1.47 billion litres a year. A Tk 20-per-litre increase would add about Tk 24,000 to the annual fuel bill of a pump consuming 1,200 litres, or nearly Tk 3,000 crore across the estimated number of pumps. This is an illustrative calculation, not a measure of actual additional expenditure.

Fuel is only one component of agricultural production costs, but its effects extend across several stages of cultivation. 333,928 of the country's 335,747 power tillers run on diesel, as do all 21,989 tractors. Rising charges for these services place additional pressure on small farmers who rely on seasonal loans to finance cultivation.

The effect on profitability ultimately depends on what happens to the price of paddy, and so far little offsets the higher costs. The government kept the Boro procurement price at Tk 36 a kilogram this year, the same as last year, and it buys only a small share of the crop. Prices also fall when the harvest arrives. In 2025, wholesale coarse Boro paddy dropped from about Tk 33.5 a kilogram in March to Tk 27.1 in May, a fall of about a fifth. Farmers who need to sell quickly to repay loans bear that fall in full.

Rising oil prices can also put pressure on the cost of agricultural inputs through transportation, shipping and energy-intensive production. Fertiliser adds another layer of pressure. Bangladesh imports a substantial share of its fertiliser requirements, about 4.478 million tonnes in FY2024–25, making domestic agriculture vulnerable to changes in international prices and import costs. Higher international prices can increase the cost of maintaining affordable fertiliser supplies. Subsidies help shield farmers from immediate price increases, but they do not remove the underlying economic cost. Instead, part of the burden shifts to the public

budget. Bangladesh Petroleum Corporation lost Tk 22,875 crore between March and August and still loses about Tk 70 on every litre of diesel sold at current international prices, so the room for further support is limited.

Higher agricultural costs can squeeze farmers' incomes while adding pressure to consumer prices through transport and distribution. The extent of this pass-through depends on harvest volumes, weather, imports, exchange rates and market competition. Intermediaries, storage constraints and limited bargaining power can also prevent farmers from receiving a fair share of retail prices. Those who sell fuel-dependent services can pass their costs on: a farmer in Faridpur told that pump owners had raised their charges by Tk 500 to Tk 800 a bigha. Protecting food affordability requires attention to farmers' input costs, the prices they receive and the efficiency of the supply chain.

In the short term, the window is narrow. Boro cultivation begins during the winter months, with land preparation and irrigation needs varying by region and planting schedule. Targeted, time-bound assistance for small and marginal farmers should be in place before then, based on verified cultivation records so that it reaches those who need it while keeping fiscal costs manageable. The government should also publish and monitor irrigation charges in the main Boro districts and make sure diesel is actually available at rural depots during the critical weeks. Reliable access



HIGHER OUTPUT DOES NOT NECESSARILY MAKE FARMING MORE PROFITABLE WHEN INPUT COSTS CONTINUE TO RISE.



to fuel and electricity is essential because disruptions at critical stages of cultivation can reduce production even when farmers are willing to pay higher prices.

Over the longer term, Bangladesh needs to reduce its dependence on diesel-powered irrigation. Solar-powered pumps offer one alternative, but high initial investment costs, maintenance requirements and limited access to finance remain significant barriers. Investment in agricultural storage and transportation would help limit post-harvest losses and reduce avoidable costs along the supply chain. Affordable seasonal credit is equally important, allowing farmers to purchase inputs when needed without relying excessively on costly borrowing.

Ultimately, agricultural policy must look beyond production targets to the returns farmers actually receive. Higher output does not necessarily make farming more profitable when input costs continue to rise. Farmers need reliable access to fuel, fertiliser and machinery, but they also need reasonable selling prices and stronger bargaining power in agricultural markets. Reducing agriculture's exposure to energy-price shocks will require both immediate support for vulnerable farmers and longer-term investment in a more efficient, less fuel-dependent production system.

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