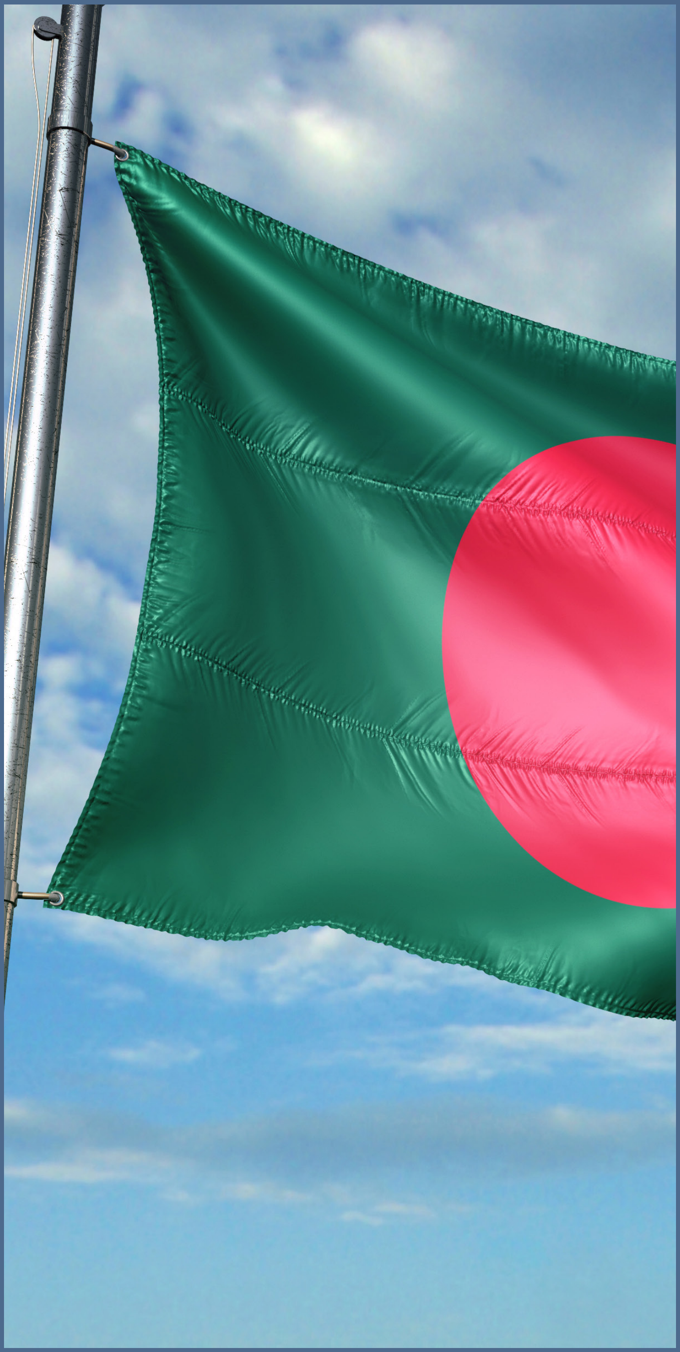

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PERSPECTIVES

Bangladesh in 2025: Political and Economic Landscape Analysis

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION

The current landscape of Bangladesh presents a complex picture of economic challenges amid political transition. The country stands at a critical juncture following significant political upheaval in 2024, with an interim government led by Nobel laureate Muhammad Yunus now attempting to navigate economic pressures, energy challenges, and shifting geopolitical alignments. This analysis examines the present situation across key sectors while providing a forward-looking assessment of Bangladesh's prospects and risks in the coming months.

CURRENT POLITICAL AND ECONOMIC SITUATION

Political Transition and Stability

Bangladesh is currently experiencing a period of significant political change following the removal of Sheikh Hasina's government in 2024. The country is now under the leadership of an interim government headed by Muhammad Yunus, marking the end of a political era and ushering in a period of redefinition of the nation's political framework.[1] This transition has created both opportunities and challenges as the interim administration attempts to balance diverse political forces while addressing complex security concerns that have emerged in the power vacuum.

The political situation remains fluid, with the interim government facing the delicate task of managing calls for elections while maintaining stability. The Awami League – one of the major political parties in Bangladesh – has seen its firm control drastically diminished, allowing previously suppressed political entities to reassert themselves, and creating a more complex and potentially volatile political environment.[2]

Although political parties are regularly engaging with the country's Consensus Commission to resolve disputes amid the current complex situation, historically political unanimity has been rare in Bangladesh. This chronic lack of unity has repeatedly plunged the country into deep crises and prevented agreement on critical national issues. The year 2025 has brought a significant shift in Bangladesh's political landscape, with potentially far-reaching implications both at home and abroad. Since the fall of the Awami League government, with its influence almost disappearing from the national stage – this political recalibration has significant implications for economic policy direction and investor confidence.

Economic Overview

The Bangladesh economy is currently grappling with significant headwinds, fueled by inflation left behind by the previous Awami League regime. Bangladesh Bank (BB) projects GDP growth between 4% and 5% for the 2024-25 fiscal year, a notable decrease from previous years but still described as "remarkable given the numerous challenges facing the economy".[3] This projected growth is less optimistic than earlier forecasts, reflecting ongoing difficulties in regaining economic momentum.

International financial institutions offer even more conservative outlooks. In its latest economic update report, the World Bank further lowered the country's economic growth projection to 3.3% for FY25 ending in June, down from its previous forecast of 4.1%, citing "subdued investment and industrial activity amid heightened political uncertainty." Meanwhile the International Monetary Fund predicts 3.8% growth, pointing to "output losses caused by the July uprising, floods, and tighter policies".[4] These assessments highlight the multifaceted challenges confronting Bangladesh's economy.

Inflation remains a pressing concern, with projections exceeding 10% in 2025, threatening to further increase the cost of living and potentially destabilize both macroeconomic and sociopolitical stability. In a survey of economists conducted by Economic Intelligence Bangladesh, 40% identified inflation as the primary economic challenge facing the country.[5] The central bank's measures to control inflation have been rated only moderately effective, indicating skepticism about their impact.

Following the regime change, the interim government and Bangladesh Bank (BB) initiated comprehensive reforms to address the banking sector's fragility. Key measures included dissolving the boards and appointing new directors for 11 banks affected by related-party transactions and political influence. Asset Quality Reviews (AQRs) have begun for six banks, with plans to extend to more institutions. BB issued circulars on Ultimate Beneficiary Ownership and asset classification, aligning with international standards. The Prompt Corrective Action framework to deal with financially struggling or mismanaged banks will be enforced from April 2025, and new ordinances will expand BB's resolution powers.

The banking system faces tight liquidity conditions, with rising market rates and increased reliance on BB's liquidity support. Private sector credit growth has declined, while public sector credit growth has increased due to higher government borrowing. The financial sector's vulnerabilities have prompted new policy reforms, including the implementation of a risk-based supervision model and efforts to recover stolen assets.

SECTOR-SPECIFIC ANALYSIS

Renewable Energy Landscape

Bangladesh's renewable energy sector presents a study in contrast between ambitious targets and operational reality. The draft Renewable Energy Policy (REP) 2025, published in February 2025, promises generation of 20% (6,145 MW) of electricity from renewables by 2030 and 30% (17,470 MW) by 2041. These targets appear ambitious considering the country's track record. Despite setting a goal of 10% renewable energy generation by 2020, Bangladesh barely achieved around 5% capacity by 2025.[6]

A critical weakness in the draft policy is the absence of a strategy to phase out fossil fuel. While countries like the United Kingdom and Germany have established clear timelines for coal phase-outs (2024 and 2038 respectively), Bangladesh continues to promote conventional fossil fuel sources without a clear transition plan.[7] This raises questions about the feasibility of achieving the stated renewable energy targets.

The policy's projections also appear to be based on potentially overstated electricity demand forecasts from the Integrated Energy and Power Master Plan (IEPMP). Alternative projections from the Centre for Policy Dialogue suggest more modest but potentially more realistic targets: 5,600 MW (20%) by 2030 and 10,500 MW (30%) by 2041.[8]

Electric Power Generation

Bangladesh's power generation sector is pursuing cross-border solutions to address domestic shortfalls. Under a tripartite agreement signed with Nepal and India in October 2024, Bangladesh is set to receive 40 megawatts of electricity from Nepal via India for five months, from June to November 2025.[9] This agreement represents an important step in regional energy cooperation and could set the stage for increased electricity imports in the future.

During discussions between Nepal's Ambassador to Bangladesh, Ghanshyam Bhandari, and Bangladesh's Commerce Adviser, Sk Bashir Uddin, the Nepalese representative expressed optimism about increasing the volume of electricity exports to Bangladesh beyond the initial agreement.[10] Such regional energy cooperation could help mitigate Bangladesh's power generation challenges in the medium term.

To meet the soaring electricity demand during the ongoing summer season, when consumption is expected to rise by approximately 18,000 MW, the interim government is now heavily relying on independent oil-fired power plants with a generation capacity of about 5,000 MW. Consequently, the country may potentially experience load-shedding this summer season.

Healthcare Sector Growth

The healthcare sector stands as a potential bright spot in Bangladesh's economic landscape. Experts project that the market volume of the country's health sector will reach an impressive $23 billion by 2033, driven by increasing demand for medical consumables, advanced diagnostic tools, and expanding healthcare infrastructure. Within this broader trend, the medical equipment and devices market alone is expected to grow to USD3 billion by 2030.[11]

Bangladesh's healthcare system is struggling to keep up with growing demand, with just one hospital bed for every thousand people and fewer skilled healthcare workers than recommended by the World Health Organization. Currently, only about 1% of the population has health insurance, indicating a significant untapped market in the sector. Meanwhile, the digital health market is expanding rapidly, growing at around 10% annually, and is expected to reach approximately USD400 million in the coming years.

A significant characteristic of this sector is its heavy reliance on imports, which presents both a challenge and an opportunity. The dependence on imported medical devices creates a substantial opportunity for local manufacturing, particularly for essential medical consumables such as in vitro diagnostic test kits and low-risk health monitoring devices.[12] This potential for domestic production could create new investment opportunities while reducing import dependence.

SIX-MONTH OUTLOOK

Economy

The economic outlook for Bangladesh over the next six months suggests continued challenges with potential for gradual improvement. Bangladesh Bank has indicated that "the growth outlook for the second half of FY25 for Bangladesh does not appear optimistic due to the existing challenges," though it expects the economy to "bounce back" to 6% or above "the following year as the political situation stabilises, uncertainty decreases, and policies become more proactive."[13]

In FY26, international trade disruptions, a global economic slowdown, and rising inflation are expected to reduce Bangladesh's export growth and real GDP growth by 1.7 and 0.5 percentage points, respectively, compared to earlier forecasts. Consequently, exports and real GDP are projected to grow by 4.2% and 4.9%, respectively, in FY26. However, lower import payments for fuels, driven by declining international energy prices, are expected to partially mitigate the negative impact on the current account deficit (CAD).

Remittances from workers abroad, strong growth in readymade garment exports, increasing agricultural productivity, rebounding service sector and increased domestic demand from the upcoming religious festivals are expected to provide support to the economy in the short term.[14] However, regaining growth momentum will be challenging as the government focuses on addressing immediate economic pressures rather than expansion.

Energy Sector

The energy sector faces a critical six-month period as the implementation of the new Renewable Energy Policy begins to take shape. Without substantial revisions to address the policy's shortcomings, particularly regarding fossil fuel phase-out and realistic target-setting, progress toward renewable energy goals may remain limited.[15]

The cross-border electricity agreement with Nepal will come into effect in June 2025, providing a temporary boost of 40MW to Bangladesh's electricity supply until November.[16] This period will be crucial for evaluating the effectiveness of such regional energy cooperation and potentially expanding similar arrangements.

Healthcare Sector

The healthcare sector is likely to continue its growth trajectory over the next six months, with increasing interest from both domestic and international investors. Government officials and sector experts are actively encouraging investment in the sector, highlighting opportunities in local manufacturing of medical equipment and devices.[17]

The business-to-consumer (B2C) model in healthcare delivery is expected to expand to meet growing consumer demand, potentially creating new market opportunities in the short term.[18] However, the sector's growth will be somewhat constrained by the broader economic challenges facing the country.

RISK FACTORS

Internal Political Risks

The political vacuum created by the transition to an interim government has emboldened various political factions, including militant groups that were previously suppressed under the Awami League government. Smaller Islamist parties in particular are leveraging the current turmoil to increase their presence and influence, creating potential security risks.

External Political Risks

The deteriorating situation in neighboring Myanmar poses a significant external risk for Bangladesh. The conflict is increasingly spilling over the border, exacerbating instability in Bangladesh's border regions. The Cox's Bazar refugee camps, already housing displaced Rohingya communities, are reportedly being targeted by recruitment efforts from Burmese armed groups.[19] This situation is compounded by increases in drug smuggling and cross-border violence.

Bangladesh's impending graduation from Least Developed Country (LDC) status in 2026 presents another set of external challenges. This transition will bring risks including the loss of duty-free market access and increased compliance costs, potentially affecting the country's export competitiveness.[20] Economists have emphasized the urgent need for strategic planning to address these challenges.

The shifting geopolitical alignments, particularly Bangladesh's warming relations with China and Pakistan, could create tension with traditional partners like India, potentially affecting regional stability and economic cooperation.[21]

CONCLUSION

Bangladesh in 2025 stands at a pivotal crossroads, facing significant economic challenges amid political transition and shifting international alignments. While the economy is projected to grow modestly at 3% to 5% in FY25, inflation exceeding 10% remains a pressing concern that threatens both economic stability and social cohesion. The ambitious targets set for renewable energy appear difficult to achieve without more comprehensive policy reforms, particularly regarding fossil fuel phase-out.

The healthcare sector offers one of the most promising prospects for growth and investment, with projections indicating substantial expansion opportunities, particularly in local manufacturing of medical equipment. Cross-border energy cooperation, exemplified by the electricity import agreement with Nepal, represents another potential bright spot that could be expanded. However, both internal and external risk factors cast shadows over these opportunities. Political instability, regional conflicts spilling over from Myanmar, and the implications of LDC graduation all present significant challenges.

The next six months will be critical in determining whether Bangladesh can navigate these complex challenges while laying the groundwork for more sustainable growth and stability in the years ahead. The recent global trade disruptions and policy uncertainty are anticipated to affect Bangladesh's exports and economy in FY26. While these disruptions are expected to have a limited impact in FY25, as they occurred near the end of the fiscal year, their effects are projected to be more significant in FY26. The extent of the impact remains uncertain due to ongoing policy changes.

The outlook remains uncertain due to the rapidly changing nature of trade policy discussions. The current government of Bangladesh has indicated its intention to negotiate and reduce its trade surplus with the US by increasing imports. The decisions made by the interim government during this period will have far-reaching implications for Bangladesh's economic trajectory, energy security, and position within the evolving regional order.

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