



External support, reforms key to helping Bangladesh escape stagflation

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The downward revisions of Bangladesh's growth projections by the development partners are not surprising. The Policy Research Institute of Bangladesh (PRI) warned of the stagflationary risks facing Bangladesh 11 months ago. Bangladesh is confronting more than a temporary slowdown: banking distress, energy shortages and weak fiscal capacity are constraining investment and production, while persistent inflation continues to erode household purchasing power. The World Bank's latest assessment reinforces this diagnosis.

For FY2026-27, GDP growth of around 3-4 percent and average inflation of approximately

9-11 percent would be considered a cautious working range under current conditions.

These are judgement-based estimates, not precise model forecasts. There is little basis for expecting growth to reach the government's 6.5 percent target without a substantial improvement in investment and productive capacity. The inflation outlook remains particularly uncertain because of energy costs and supply pressures; further external shocks would weaken growth while raising prices.

The weaker growth outlook reflects several interconnected constraints. Financial-sector weaknesses are impairing credit intermediation and investor confidence. Energy shortages and elevated production costs are discouraging investment, while inflation is squeezing consumption.

At the same time, inadequate revenue mobilisation limits the government's ability to support productive public investment. Global uncertainty is aggravating these problems, but it is not their sole cause.

The central difficulty is that the banking sector needs financial support that the fiscal arm of the state is not currently equipped to provide at the scale required. Restoring bank capital, protecting small depositors and restructuring distressed institutions require resources, yet the government already faces severe competing demands on a narrow revenue base.

Financing the banking-sector clean-up entirely from domestic public resources would risk undermining other essential spending.

Nor can Bangladesh Bank solve this problem simply by supplying more liquidity. Emergency lending can help manage immediate funding pressures, but it cannot replace capital lost through bad loans.

Prolonged central-bank support to weak banks risks adding to inflation and exchange-rate instability. Bangladesh must therefore distinguish between keeping banks temporarily liquid and restoring their long-term financial viability.

This is why Bangladesh needs stronger, coordinated support from the International Monetary

Fund, World Bank, Asian Development Bank and bilateral partners. The country should seek concessional budget and balance-of-payments financing, alongside technical assistance for bank restructuring.

Such support should create room to repair the financial sector while preserving essential public investment and targeted assistance to vulnerable households, not finance an unconditional bailout of bank owners.

However, external assistance must accompany credible domestic reforms. In banking, the sector needs transparent recognition of losses, loss-bearing by existing shareholders before taxpayer support, stronger asset recovery, recapitalisation of viable institutions under improved governance, and orderly resolution of non-viable banks with depositor safeguards.

On the fiscal side, Bangladesh must broaden the tax base, remove unjustified exemptions, strengthen tax administration and reduce wasteful spending. Reliable energy supply and simpler business regulations must complement these measures to revive private investment.

Without strong development-partner support and decisive fiscal and financial-sector reforms, there is no credible route out of the stagflationary trap. External financing can give the economy the resources and time to manage the adjustment; reforms must ensure that Bangladesh does not return to the same crisis.

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