Restructuring the energy sector for sustained progress

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The problems in the energy sector now extend far beyond the sector itself. They have become a threat to macroeconomic stability and can no longer be treated as matters for the Ministry of Power, Energy and Mineral Resources alone. The Ministry of Finance and the

Bangladesh Bank must integrate energy sector concerns into the broader macroeconomic framework and coordinate policymaking accordingly.

The spillover effects of the energy crisis on the wider economy are evident from several facts.

First, the energy import bill has risen over the past five years, increasing from $4.3 billion in FY2021 to $11.2 billion in FY2026 because of growing shortages in domestic energy supplies and higher global prices. This pace of growth is unsustainable and could trigger a balance of payments (BoP) crisis.

Second, the energy subsidy bill surged from Tk 142 billion, or 0.4 percent of GDP, in FY2021 to Tk 837 billion, or 1.5 percent of GDP, in FY2025. By comparison, the tax-to-GDP ratio stood at only 6.8 percent in FY2025, meaning energy subsidies alone absorbed around 22 percent of total tax revenue. Such a subsidy burden is clearly unsustainable. Although recent price adjustments have reduced subsidy requirements, rising global energy prices threaten to offset those gains.

Third, energy shortages and higher prices have weakened export competitiveness, disrupted manufacturing and transport services, and contributed to slower GDP growth, weaker export performance and lower private investment. The resulting economic slowdown has also been a major factor behind rising non-performing loans (NPLs) in the banking sector.

The factors behind the current state of the energy sector are numerous and long-standing. They include the dominant role of the public sector in energy production and distribution, poorly managed state-owned energy entities, weak pricing policies, the absence of a credible primary energy strategy, the lack of hard budget constraints, political interference and corruption in energy investment and procurement, particularly in awarding contracts to independent power producers (IPPs), and weak accountability.

Continuing with the crisis management and muddling-through approach of the past is not a sustainable policy option. Instead, the new government has an opportunity to undertake bold reforms that can restructure the energy sector for sustained progress. The challenge is to overhaul the sector rather than make marginal adjustments.

The core reforms should include: (i) deregulating the energy sector to encourage greater private sector participation across the value chain; (ii) corporatising all public energy entities; (iii) renegotiating IPP contracts; (iv) depoliticising energy pricing; (v) imposing hard budget constraints on all public enterprises, including energy entities; and (vi) developing a comprehensive and credible primary energy strategy.

Deregulate the energy sector

Since independence, the energy sector has remained heavily regulated, with the public sector dominating most stages of energy production and distribution. Although private participation has gradually expanded, particularly in electricity generation, the sector continues to be dominated by state-owned enterprises.

While this model may have served the country’s needs in the early years after independence, today’s economy is very different. Bangladesh now has a much stronger private sector operating in an increasingly sophisticated global economy. There is therefore an urgent need to open every stage of the energy value chain to private investment, from oil and gas exploration to imports, refining, distribution, electricity generation and power distribution.

Public sector dominance has reduced efficiency, raised costs, constrained investment and created opportunities for corruption. A vibrant private energy sector operating within a sound regulatory framework, as seen in many upper-middle-income and high-income countries, would improve efficiency, lower costs, attract investment and significantly reduce the need for energy subsidies. The government’s primary role should be to establish an effective regulatory framework while using taxation and subsidies to protect the public interest.

This is the single most important reform needed to put the energy sector on a sustainable footing.

Reform corporate governance in public energy entities

The transition from a state-dominated energy sector to one led mainly by private suppliers will take time. In the meantime, public energy enterprises need urgent governance reforms to improve accountability, efficiency and financial performance.

These reforms should include full corporatisation under professional management, operational independence from government, greater autonomy over procurement, investment, production, sales and employment decisions, and the introduction of hard budget constraints supported by a transparent subsidy policy based on clearly defined social objectives.

Separating government from day-to-day management and investment decisions is essential if corruption is to be reduced.

Renegotiate IPP contracts

Independent power producers have played a vital role in easing electricity shortages and supporting GDP and export growth. However, a combination of overly optimistic demand projections and political interference in contract awards has created severe financial pressures because of excess generation capacity and generous take-or-pay agreements.

The financial position of the power sector is no longer sustainable. IPP contracts should therefore be renegotiated on commercial terms, free from political influence.

Depoliticise energy pricing

Government control over energy pricing has contributed significantly to the weak financial position of energy entities, especially in the power sector, because prices have often been determined by political rather than commercial considerations.

Although Bangladesh has established regulatory commissions for electricity and primary energy, government influence over pricing remains substantial in practice.

A genuinely competitive private energy market will emerge only when pricing decisions are made by an independent regulator applying commercial principles, including production costs and a reasonable return on investment. Such reforms would also strengthen the finances of public energy enterprises. The government could still pursue social or political objectives through taxation and targeted subsidies.

Develop a comprehensive primary energy strategy

The absence of a coherent primary energy strategy has been a major weakness of the sector. In an increasingly interconnected global energy market, where Bangladesh depends heavily on imports, a flexible and forward-looking strategy is essential.

The current approach has been undermined by unreliable estimates of domestic gas reserves, weak policies to develop domestic energy sources, including renewables, inadequate trade policies for imported energy, and limited private investment in energy exploration. The result has been excessive dependence on expensive imported fossil fuels and growing vulnerability to disruptions in LNG supplies.

One of the government's highest priorities should be to establish an expert group to prepare a comprehensive primary energy strategy. This should explore all potential domestic energy sources and the policies needed to develop them, formulate a trade strategy for energy imports built around strategic partnerships with exporting countries, examine opportunities for regional energy cooperation with a particular focus on hydropower, and identify ways to attract private investment, including joint ventures with foreign investors, in primary energy exploration.

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