



Key Economic Reforms and LDC Graduation Priorities

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Key Economic Reforms and LDC Graduation Priorities

About this document

This document has been prepared by Research and Policy Integration for Development (RAPID) in response to a request from the British High Commission in Dhaka. Its objective is to suggest key economic reforms and LDC graduation priorities for Bangladesh that: (a) can be advanced or delivered before the upcoming election; and (b) can be pursued in the post-election period.

The interim government, led by Nobel laureate Professor Muhammad Yunus, has already initiated various measures aimed at stabilising the economy and addressing the poor governance of the banking sector in particular. Key initiatives also include the formation of the White Paper Committee to assess the economic landscape, and the Task Force on Re-strategizing the Economy, tasked with analysing thematic socio-economic development issues with the objective of generating strategic recommendations to improve the functioning of the economy. There is no denying that actual implementation of the suggested measures may prove to be a far more difficult task for a nation with a persistently weak record of executing well-drawn-out mid-term (five-yearly) development plans, and with limited institutional capacities that deteriorated further over the past decade. It is against this backdrop that the political transition provides a unique opportunity to push forward the reform agenda by implementing targeted measures that could pave the way for more systematic reforms. It is, therefore, imperative to prioritise reforms that can be effectively implemented within the immediate pre-election period of the next 8 to 14 months, as well as those that necessitate a longer-term, post-election focus. This dual approach can help ensure that urgent issues are addressed promptly to stabilise and invigorate the economy, while more complex structural reforms are undertaken with the legitimacy and continuity afforded by an elected government.

In this paper, the reform agenda is organised around two broad categories—general economic issues and those specifically related to LDC graduation—while acknowledging that this distinction is, to some extent, arbitrary, given the considerable overlap and interdependence among many of the relevant policy measures. It is also important to point out that the reform agenda is long and just only a few issues are picked here without trying to be exhaustive.

Nevertheless, the number of reform priorities outlined may appear somewhat extensive. This is largely because the underlying challenges are not confined to a single domain; rather, they span multiple sectors, each presenting its own distinct set of policy and institutional issues that warrant specific attention.

It is important to acknowledge that these reform measures have been drawn from a wide range of sources, including the White Paper Committee 2024 report titled “White Paper on the State of the Bangladesh Economy: Dissection of a Development Narrative”, the Task Force Committee 2025 report “Re-strategizing the Economy and Mobilising Resources for Equitable and Sustainable Development”, as well as several policy briefs prepared by RAPID with support from the International Growth Centre (IGC).

This set of recommendations is intended solely for discussion purposes and reflects RAPID’s independent assessment of priority issues, organised according to the two timeframes—pre- and post-election—as requested.

A. Economic Reforms

A1: Urgent Economic Reform Priorities (Pre-Election: Next 8–14 Months)

The current political transition provides an unprecedented opportunity to restore state responsiveness, rebuild trust in public institutions, and lay the foundation for long-delayed structural reforms. Recognising that macroeconomic stabilisation, while necessary, is not sufficient to catalyse the broader transformation that the country requires, these urgent reforms are organised into four thematic clusters reflecting Bangladesh’s most pressing priorities—spanning public protection and inclusion, institutional integrity, and the foundations for sustained economic renewal.

A1.1 Rebuilding State Responsibility, Social Protection and Inclusion

Tackling violence against women

Recently, concerns have grown over the rising incidence of gender-based violence, including domestic violence, which has exposed important gaps in institutional responsiveness and public accountability. Addressing this challenge through a coordinated and visible state response is not only a matter of upholding justice and human dignity, but also an opportunity to reaffirm the state’s commitment to citizen protection and the rule of law. A credible and well-resourced approach in this area could signal a broader renewal of institutional purpose and public trust.

- Respond urgently to the rising incidence of violence against women, including domestic violence, by launching a coordinated national response that includes strict legal enforcement, immediate sensitisation and training of law enforcement agencies, and intensive public awareness campaigns.
- Rapidly scale up financial and institutional support for NGOs and government bodies delivering prevention and survivor services.
- In parallel, develop a comprehensive, costed strategy to expand and institutionalise these interventions, with clear implementation roles assigned across relevant ministries and agencies.

Social Protection and Inclusion

- Stop exaggerating social protection allocations by ensuring that only interventions aligned with ILO and NSSS definitions are classified as social protection spending. Programmes unrelated to poverty and vulnerability (e.g., pensions for civil servants, agricultural subsidies, infrastructure development, etc) should be reclassified under more appropriate public spending categories. Inflated social protection allocations obscure the limited political commitment to addressing poverty and vulnerability.
- Adjust benefit levels of major cash transfer programmes for inflation to protect real incomes of beneficiary households amidst rising costs.
- Expand Open Market Sale (OMS) programmes to support urban poor and vulnerable population groups most affected by inflationary pressures.
- Initiate preparation for the next decade of social protection reform by launching an evaluation of the current NSSS (2015–2026), and an institutional needs assessment for the Ministry of Social Welfare (MoSW), including staffing and infrastructure requirements. Strengthened budgetary allocation in the next fiscal year is essential.

- Prepare city corporations to lead urban primary health care (PHC) service delivery after the June 2025 phase-out of the UPHCSDP by mobilising resources and exploring PPPs and strategic purchasing models.
- Launch Behavioural Change Campaigns on Civic Norms: A targeted communications drive addressing everyday conduct (e.g., traffic compliance, noise pollution) can be rolled out quickly through low-cost initiatives led by youth volunteers.

A1.2 Stabilising the Economy, Restoring Fiscal Discipline, and Strengthening Domestic Resource Mobilisation

Restoring macroeconomic stability is a non-negotiable precondition for any meaningful reform effort. The credibility of the policy regime depends on curbing inflation, correcting misaligned incentives, and easing pressure on the balance of payments and fiscal accounts. Many of the most urgent steps require policy coherence and better administrative execution, perhaps without needing new legislation.

- Restore macroeconomic stability by controlling inflation and rebuilding foreign exchange reserves—these remain the most urgent priorities, though some important corrective measures are already in place.
- Enhance external competitiveness by addressing real exchange rate overvaluation. While the nominal rate has stabilised due to containment of capital flight, restricted imports, and reduced travel due to visa constraints, persistently high inflation—especially relative to competitors such as China, India, and Vietnam—is eroding competitiveness.
- Begin rationalisation of tax exemptions and discretionary incentives, targeting the most distortionary and least productive ones for immediate removal, thereby boosting domestic resource mobilisation.
- Accelerate digitalisation of tax filing and payment systems to improve compliance, transparency, and administrative efficiency.
- Simplify income tax return forms, particularly by eliminating burdensome income-expenditure reconciliation requirements that discourage voluntary compliance.
- Initiate expanded selective, risk-based tax audits, focusing on high-revenue potential cases to improve enforcement without overburdening small taxpayers.
- Allocate more resources to health, education, and social protection by finding fiscal space through reduced tax exemptions, improved efficiency of government ministries and agencies, and cutting back non-priority ADP projects.
- Find savings through enhanced efficiencies of ministries/agencies and review ADP projects further to reduce excessive government borrowing and rising interest payments, which are increasingly crowding out private investment.

A1.3 Repairing Financial Sector Governance

Decisive reforms in the banking sector are vital to reverse the erosion of confidence, strengthen market discipline, and stop the bleeding of public resources. Political will must be exercised to restore institutional mandates, depoliticise regulatory oversight, and address entrenched inefficiencies and malpractices.

- Establish full autonomy of the central bank to prevent future policy interference. Revoke the dual regulatory role of the Ministry of Finance’s Financial Institutions Division (FID),

in line with the 2003 Amendment to the Bangladesh Bank Order, and formally transfer oversight back to the central bank.

- Strengthen loan approval and risk management practices by enforcing the Central Bank's internal credit risk guidelines and requiring prior approval of all large loans above a set threshold by both bank boards and the Bangladesh Bank.
- Establish an independent Asset Management Company (AMC) to take over and resolve non-performing loans (NPLs) from troubled banks using either a bank-resolution or asset-purchase model, helping to clean up balance sheets and restore sector confidence.
- Mandate full and timely public disclosure of bank performance indicators, including compliance with BASEL III and other prudential norms, to enhance transparency and allow market-based accountability.
- Suspend the establishment of new commercial and digital banks, cancelling licences issued without sound economic justification, and return application fees to prevent further politicisation of banking sector entry.

A1.4 Unlocking Jobs, Human Capital, and Long-Term Competitiveness

Bangladesh's most immediate socio-economic risks lie in the stagnation of job creation, particularly for youth, and persistent mismatches between skills supply and market demand. Rapidly implementable programmes targeting internships, entrepreneurship, and employment-linked training can deliver fast results and rebuild confidence in the state's capacity to generate opportunity.

- Introduce a Nationwide Internship Scheme to provide structured, work-based learning opportunities for tertiary and vocational graduates, with targeted incentives for private sector participation and immediate involvement of public universities and training institutes.
- Launch Youth-Targeted Entrepreneurship Loans and Support Schemes, including flexible microloan or seed fund mechanisms for start-ups, delivered through banks and university-linked incubators.

A2: Strategic Structural Reforms (Post-Election Agenda)

While urgent reforms can signal immediate progress, Bangladesh's longer-term prosperity will hinge on deeper structural reforms that cannot be meaningfully undertaken in the constrained pre-election period. These post-election reforms should be pursued with the legitimacy and continuity afforded by an elected government. They are grouped below into four thematic clusters to align with the overarching reform strategy.

A2.1 Rebuilding State Responsibility and Inclusion

To ensure inclusive development and restore trust in public institutions, the state must broaden access to quality services, address vulnerabilities, and institutionalise social accountability mechanisms. Social protection, urban service delivery, and civic engagement must be expanded and modernised to respond to Bangladesh's changing demographic and spatial realities.

- Introduce poverty- and vulnerability-targeted programmes with simplified eligibility and scalable delivery models to address the absence of targeted anti-poverty schemes.

- Consolidate fragmented and overlapping programmes—especially food-based and public works schemes—to improve efficiency, reduce leakage, and streamline administration.
- Expand urban social protection by increasing allocation to lifecycle-based schemes and food security programmes in urban slums.
- Integrate social protection into disaster response systems by formalising shock-responsive mechanisms within existing programmes and improving MoDMR–MoSW coordination.
- Strengthen social protection beneficiary targeting systems by blending community-based methods with digital tools such as Proxy Means Testing (PMT), supported by regular training and oversight.
- Formalise grievance redressal mechanisms and citizen feedback channels in all major programmes to enhance accountability.
- Make progress on the National Social Insurance Scheme (NSIS) by advancing pilots for employment injury and unemployment insurance, with a roadmap for informal sector coverage.
- Expand social protection support to all primary and secondary students through school meal programmes and targeted scholarships.
- Promote civic engagement via digital platforms, particularly youth-focused civic education and digital content campaigns.

A2.2 Stabilising the Economy, Restoring Fiscal Discipline, and Strengthening Domestic Resource Mobilisation

Bangladesh’s growth prospects will increasingly depend on the credibility and resilience of its macroeconomic institutions. Strengthening monetary, fiscal, and tax systems will be essential to navigate global shocks, sustain public investment, and manage development transitions.

- Make the exchange rate more market-friendly to promote export competitiveness and insulate the economy from external shocks.
- Design and initiate groundwork for a modern property tax system, replacing ad hoc wealth taxes with structured, equitable asset-based frameworks. Consider adopting inheritance to effectively tackle structural inequality.
- Expand the tax base, improve VAT administration, and increase efforts for greater formalisation of economic activities.
- Take proactive initiatives to enhance the relative significance of direct taxation in total revenue collection.
- Continue expanding selective, risk-based tax audits to improve enforcement while avoiding undue burdens on small taxpayers.

A2.3 Repairing Financial Sector Governance

A credible financial system requires transparent, accountable, and rules-based governance. Post-election reforms must aim to restore the legal infrastructure and internal discipline needed to contain banking risks, ensure better lending practices, and reinforce regulatory independence.

- Strengthen the legal and judicial framework for loan recovery by expanding financial courts, fast-tracking default and bankruptcy cases, and closing procedural loopholes.
- Revitalise internal audit, compliance, and risk management units in banks to reduce fraud, improve due diligence, and restore governance standards.

A2.4 Unlocking Jobs, Human Capital, and Long-Term Competitiveness

Bangladesh's structural transformation will require strategic investments in employment, education, logistics, and climate resilience. A post-election government should focus on employment-rich sectors, unify education streams, and position the economy for green and inclusive growth.

- Initiate public investment in health, education, and care services to generate jobs in automation-resilient sectors.
- Implement migration-linked skill and language training for youth by expanding vocational training with embedded foreign language modules.
- Fast-track Active Labour Market Policy (ALMP) coordination by establishing a national taskforce to streamline job placement, skills training, and employment services.
- Standardise education systems across national, madrasa, and English-medium streams to initiate alignment with the National Education Policy.
- Reform pedagogy and classroom practices by embedding life skills, co-curricular activities, and holistic assessments.
- Expand access to digital infrastructure in schools by scaling smart classrooms and improving rural connectivity.
- Develop and execute a plan to reduce outbound medical tourism through domestic service quality improvements and targeted capacity investment.
- Revise and approve the National List of Essential Medicines, including coverage of drugs for NCDs and underserved populations.
- Ensure free distribution of essential medicines to below-poverty-line populations through government health facilities.
- Initiate the process of establishing Inland Container Depots (ICDs) at SEZs and EPZs to reduce logistics costs and urban congestion.
- Begin consolidation of urban bus routes under a Bus Route Franchise (BRF) system by creating a unified transit authority under city mayors.
- Launch a flagship river restoration pilot, starting with the Buriganga River.
- Ban single-use plastics and intensify enforcement, supported by national awareness campaigns.
- Fast-track renewable energy projects with SREDA as the lead agency, and link these to green finance opportunities.
- Integrate carbon accounting systems across key emitting sectors (energy, agriculture, industry, waste).
- Develop a digital green finance portal for SMEs and industries to apply for eco-friendly funding and guidance.
- Renegotiate Independent Power Producer (IPP) contracts to eliminate costly capacity payments.
- Launch independent audits and ensure mandatory public disclosure of energy procurement and project data.

B. LDC Graduation–Related Reform Priorities

B1: Urgent Priorities Before the Upcoming Election

Bangladesh’s forthcoming graduation from LDC status, scheduled for 24 November 2026, represents a major turning point. While this transition signals commendable development gains, it also poses significant challenges rising from the loss of LDC-specific international support measures, particularly preferential market access, special treatment under WTO provisions, and flexibilities in intellectual property rights. For an economy that remains heavily reliant on a narrow export base, the withdrawal of tariff preferences in key markets such as the EU, Japan, Canada, and India, coupled with loss of policy space, e.g., forgone ability to provide export subsidies, and the tightening of compliance requirements related to labour standards and environmental sustainability, presents substantial adjustment pressures. The transition will also require Bangladesh to reposition itself within a more competitive and rules-based global trade environment, demanding stronger institutional capabilities, strategic trade diplomacy, and enhanced domestic policy coherence. Against this backdrop, the following reform actions are organised into urgent measures that can be initiated before the upcoming election and a set of structural reforms that should be pursued in the post-election period to ensure a smooth, secure, and opportunity-enhancing LDC graduation process.

B1.1 Operationalise the Smooth Transition Strategy (STS)

- Having adopted the Smooth Transition Strategy (STS) for LDC graduation, it is now of utmost priority to start implementing the Action Plan as included in the STS. Immediately activate the High-Level implementation management under the direct supervision of the Chief Advisor’s Office. Strengthen M&E activities and the high-level expert committee to push for implementation of the action programme.

B1.2 Secure Preferential Market Access

- Immediately amend labour act and take decisive measures to promote labour rights compliance to support GSP+ eligibility. Launch a targeted programme to demonstrate visible improvements in workplace safety, wage policies, and labour law enforcement and in all other areas related to international conventions required for GSP+ qualifications. Productive engagement with the EU will require demonstrating tangible improvements in labour standards and compliance with international regulations, as these issues remain central to the EU’s trade policies.
- Launch Immediate Engagement with the European Union on GSP+ and Safeguards: Initiate formal consultations with the EU to assess and seek support for improving compliance for GSP+ requirements and removal or relaxation of safeguard provisions under Article 29 of EU GSP provisions, which currently disqualify Bangladesh’s apparel from duty-free access post-graduation. The current EU GSP regime is to continue until the end of 2027, therefore, this window—prior to 2027—is critical for advancing negotiations and securing transition-friendly terms.
- If Bangladesh can secure favourable post-LDC trade terms in the EU, which accounts for nearly half of its total exports, the most immediate and significant challenges stemming

from graduation would largely be mitigated. Factoring in the UK's DCTS tariff preferences and Australia's granting continued duty-free market access, the share of exports benefiting from the almost the similar LDC type preferences would rise to more than 60 per cent, substantially easing the transition.

- Prioritise the early conclusion of the Economic Partnership Agreement (EPA) with Japan, as it would not only secure preferential market access in a key developed economy post-LDC graduation but also attract Japanese investment, enhance technology transfer, and signal Bangladesh's readiness for deeper trade integration with advanced economies.

B1.3 Lay the Groundwork for Trade Readiness and Negotiation Capacity

- Immediately establish a Chief Trade Negotiator's Office to lead complex FTA negotiations, ensure policy coherence, and build institutional capacity for managing Bangladesh's post-LDC trade relationships in an increasingly competitive global environment.
- Begin Tariff Rationalisation in Line with the National Tariff Policy (NTP) 2023: Introduce an initial round of tariff reform targeting para-tariffs and high customs duties that create anti-export bias outlining a roadmap of how the NTP will be implemented progressively within a rationale time frame.

B2: Strategic Reforms for a Post-LDC Economy (Post-Election Agenda)

B2.1 Deepen Trade and Investment Integration

- Ensure continuous and coordinated implementation of the Smooth Transition Strategy (STS) through a dedicated oversight mechanism, regular monitoring, and stakeholder engagement to maintain momentum on critical reforms and safeguard competitiveness throughout the LDC graduation process and beyond.
- Initiate targeted FTA engagement with key trade partners to secure long-term, preference-based market access, prioritising those with high export potential and scope for investment flows.
- Roll Out a Campaign to Attract FDI into MMF-based Textiles: As backward linkage in man-made fibre production is essential to export diversification, a government-led FDI promotion campaign—paired with quick administrative streamlining in SEZs—can be launched within months to attract global textile investors.

B2.2 Strengthen Export Competitiveness and Compliance

- Accelerate the adoption of sustainability practices, strengthen product standards, and improve labour and environmental compliance, as meeting evolving global requirements—such as the EU's CBAM and CS3D—is essential for retaining market access, enhancing export competitiveness, and positioning Bangladesh as a responsible and resilient trading partner in the post-LDC era.

- Design WTO-compliant export support measures to boost export competitiveness in the post-LDC period while adhering to global trade rules and avoiding disputes under WTO disciplines.
- Pursue Relaxation of Rules of Origin (RoO) with the EU and the UK: Engaging with policymakers in Brussels and London for simplified RoO requirements, especially double-stage processing for apparel, which can be detrimental to Bangladesh's compliance capacity. Engaging with policymakers in Brussels and London over the coming months can help secure concessions that lower market entry barriers.

B2.3 Enhance Institutional and Negotiation Capacity

- Developing trade negotiation capacity by allocating dedicated resources for training, expert recruitment, and institutional strengthening to ensure Bangladesh can effectively engage in complex FTA negotiations and safeguard national interests post-LDC graduation.
- Expedite the implementation of the 12 sector-specific time-bound action plans as included in the Updated Diagnostic Trade Integration Study (DTIS) and as referred to the STS for promoting export diversification.

B2.4 Align Domestic Policies with External Trade Requirements

- Modernise Trade Facilitation through Customs Digitisation and Port Efficiency Gains: Introduce a package of customs reforms—including risk-based inspections, document simplification, and digital clearance systems—to lower transaction costs. These reforms can yield rapid efficiency dividends and are implementable within one year.
- Strengthen domestic resource mobilisation as a strategic priority to reduce dependence on import-based taxation, thereby enabling rationalisation of high tariff rates that currently reinforce anti-export bias. Enhancing the tax-to-GDP ratio through broadening the tax base and improving compliance will create the fiscal space necessary to pursue more flexible, pro-export trade policies essential for competitiveness in the post-LDC context.
- Enhance Macroeconomic Stability Through Exchange Rate and Inflation Management: Implement targeted macroprudential policies aimed at curbing inflation and aligning the real effective exchange rate (also mentioned under general economic reforms).