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Economic Reforms and Structural Transformation in Bangladesh: Progress, Constraints, and a Reform Agenda for Inclusive Growth

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Abstract

Bangladesh has undergone a substantial economic transformation since independence, moving from a highly state-controlled economic system toward a more market-oriented and export-led development model. This manuscript reviews the evolution, achievements, and unresolved challenges of economic reform in Bangladesh, with particular attention to fiscal policy, trade and investment, financial-sector governance, monetary and exchange-rate reform, state-owned enterprises, infrastructure, social protection, and institutional capacity. The analysis combines historical evidence with recent assessments from the World Bank and International Monetary Fund (IMF). Earlier reforms—including denationalization, deregulation, trade liberalization, exchange-rate reform, and greater private-sector participation—supported export expansion and structural transformation, especially through the ready-made garment industry. More recent macroeconomic pressures have exposed persistent weaknesses, including low domestic revenue mobilization, banking-sector vulnerabilities, elevated inflation, limited export diversification, weak investment, and regulatory constraints on firms. Recent IMF-supported reforms have emphasized exchange-rate flexibility, tax-base broadening, financial-sector restructuring, and climate resilience, while World Bank assessments have highlighted the need for stronger competition, trade modernization, business-environment reform, and improved public-sector capacity. The paper argues that the next phase of reform should move beyond stabilization toward productivity-enhancing structural transformation. Priority areas include strengthening tax administration, restoring financial-sector discipline, improving the investment climate, diversifying exports, reducing distortions from trade and tax exemptions, upgrading human capital and infrastructure, and protecting vulnerable households during adjustment. The experience of Bangladesh suggests that reform sequencing, institutional credibility, transparency, and broad-based participation are essential for translating macroeconomic stabilization into durable and inclusive growth.

Keywords: Bangladesh; economic reform; structural transformation; fiscal reform; banking-sector reform

1. Introduction

Bangladesh's economic transformation is one of the most significant development stories in South Asia. Following independence in 1971, the country initially relied heavily on state ownership, administered prices, trade controls, and public-sector management of major productive assets. From the late 1970s and particularly during the 1990s, reforms progressively expanded the role of markets and private enterprise. World Bank historical analysis describes the reform process as a movement from nationalization and extensive controls toward denationalization, deregulation, trade liberalization, and greater private participation in banking, infrastructure, telecommunications, and manufacturing [1].

These reforms coincided with a broader structural transformation. Export-oriented manufacturing, particularly ready-made garments (RMG), became a major source of foreign exchange and employment, while agriculture's relative contribution to output declined and services expanded. Trade openness, female employment, remittances, infrastructure development, and improvements in social indicators reinforced one another. Yet the same transformation created new vulnerabilities: dependence on a concentrated export base, limited domestic revenue mobilization, weaknesses in financial intermediation, and uneven productivity growth.

By 2024–2026, Bangladesh entered a new phase of reform. Growth slowed, inflation remained elevated, and fiscal and financial-sector vulnerabilities became more prominent. The IMF reported that GDP growth decelerated to 3.7% in FY2025 from 4.2% in FY2024 and 5.8% in FY2023, while tax revenue relative to GDP weakened and banking-sector vulnerabilities remained significant [2]. At the same time, the authorities continued reforms under the IMF's Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility arrangements, including measures concerning tax revenue, exchange-rate flexibility, financial-sector stability, and climate resilience [3].

The purpose of this paper is therefore not simply to catalogue reforms, but to examine how the reform process has shaped Bangladesh's development trajectory and what policy priorities are most relevant for the next stage of transformation. The paper addresses four questions: (i) What have been the principal phases of economic reform? (ii) What economic and social outcomes have accompanied these reforms? (iii) What structural constraints remain? and (iv) What reform architecture could support more inclusive, resilient, and productivity-driven growth?

2. Conceptual Framework and Method

The paper adopts a structural-transformation perspective in which economic reform is understood as a set of institutional and policy changes that alter incentives, resource allocation, market access, and the capacity of the state to provide public goods. Reform outcomes are assessed through four dimensions: macroeconomic stability, allocative efficiency, productive transformation, and distributional inclusion.

The study is a qualitative policy review based primarily on secondary evidence from the World Bank, IMF, and established development literature. Historical interpretation draws on documented descriptions of Bangladesh's trade and deregulation reforms [1]. Recent macroeconomic and policy developments are drawn from IMF country reports and official assessments [2–5], while trade and competitiveness issues are informed by World Bank analysis [6]. The manuscript does not claim causal identification; rather, it synthesizes documented reform episodes and observed outcomes to develop a policy-oriented analytical framework.

3. Evolution of Economic Reforms in Bangladesh

3.1 State-led development and early controls

In the first years after independence, Bangladesh adopted an interventionist development strategy characterized by extensive nationalization, state trading, price controls, and heavy regulation of imports and foreign exchange. The policy framework reflected the institutional and economic conditions of a newly independent, war-affected economy. However, extensive state ownership also generated managerial, fiscal, and allocative challenges.

3.2 Deregulation and denationalization, 1976–1990

From the mid-1970s, policy gradually shifted toward denationalization and deregulation. Private participation increased in selected sectors, controls on agricultural markets were reduced, and the state began to retreat from direct management of some commercial activities. World Bank historical evidence identifies this period as the beginning of a broader movement toward deregulation and denationalization, although reforms were gradual and uneven [1].

3.3 Trade liberalization and private-sector expansion after 1990

The 1990s marked a stronger commitment to market orientation. Tariff and non-tariff barriers were reduced, private investment expanded, and the exchange-rate regime became more flexible. Reforms also supported export-oriented manufacturing through mechanisms such as bonded warehouses and duty-free access to imported inputs for exporters [1].

The RMG sector became a central beneficiary of this environment. Export-oriented production created large numbers of jobs, including for women, and helped integrate Bangladesh into global value chains. The broader lesson is that trade reform can have large development effects when complemented by sector-specific institutions, infrastructure, labor availability, and access to imported inputs.

4. Major Reform Areas

4.1 Fiscal and tax reform

Domestic revenue mobilization is among Bangladesh's most persistent reform challenges. Low tax collection constrains the state's ability to finance infrastructure, health, education, social protection, and climate adaptation. Recent IMF assessments have emphasized broadening the tax base, reducing exemptions, improving compliance, modernizing administration, and strengthening the separation between tax policy and tax administration [3].

Recent measures have included changes to VAT thresholds and exemptions, adjustments to supplementary duties, greater use of electronic filing, risk-based audits, and efforts to rationalize tax expenditures [3]. The central challenge is to improve revenue without creating excessive compliance costs or disproportionately burdening households and smaller firms.

4.2 Monetary and exchange-rate reform

Exchange-rate management has become a critical part of the recent reform agenda. In 2025, Bangladesh advanced toward a more flexible exchange-rate framework as part of efforts to reduce external imbalances and rebuild reserves [3,4]. Greater exchange-rate flexibility can improve the economy's capacity to absorb external shocks, although transitional effects on import prices and inflation require careful monetary and fiscal coordination.

4.3 Financial-sector reform

Banking-sector weaknesses represent one of the most consequential structural constraints. Recent IMF assessments identify financial-sector vulnerabilities and undercapitalization as important risks to macroeconomic stability [2,4]. Reform therefore requires credible asset-quality reviews, stronger supervision, improved governance, effective resolution mechanisms for non-viable institutions, better disclosure, and enforcement of prudential standards.

Financial reform should also preserve access to credit for productive firms. The objective is not simply to reduce banking-sector risk but to redirect financial intermediation toward productive investment, export diversification, technology adoption, and small and medium-sized enterprises (SMEs).

4.4 Trade and investment reform

Trade has been central to Bangladesh's growth, but the export structure remains concentrated. World Bank analysis identifies high import taxes, non-tariff barriers, and limited diversification as constraints on competitiveness, especially as Bangladesh approaches graduation from least-developed-country preferences [6].

Future trade reform should therefore focus on tariff modernization, reducing para-tariff distortions, improving customs administration, strengthening trade logistics, expanding regional integration, and supporting firms that can enter new value chains. Investment reform should reduce unnecessary regulatory costs while strengthening predictable competition and contract enforcement.

4.5 State-owned enterprises and public-sector governance

State-owned enterprises (SOEs) remain important in selected strategic and infrastructure-related activities. Reform does not necessarily require uniform privatization. Instead, priorities include transparent financial reporting, competitive neutrality, professional management, performance contracts, explicit public-service obligations, and disciplined treatment of government guarantees.

4.6 Infrastructure, energy, and human capital

Physical and human infrastructure are complementary to market reform. Reliable electricity, transport connectivity, ports, digital services, urban infrastructure, and skills are necessary for firms to respond to liberalization. Reform of energy subsidies and public investment management is particularly important because fiscal resources are limited and infrastructure choices have long-term productivity effects [4,5].

4.7 Social protection and inclusion

Economic adjustment can create short-run distributional costs through changes in food prices, energy prices, employment, and access to subsidized services. A credible reform strategy therefore requires targeted and fiscally sustainable social protection. Recent development assessments also point to labor-force participation challenges, with women disproportionately represented among people leaving the labor force [5].

5. Recent Reform Context, 2024–2026

Bangladesh's reform agenda has been shaped by the macroeconomic and institutional disruptions surrounding 2024 and the subsequent stabilization period. The IMF's 2025 program review noted persistent political uncertainty, elevated inflation, trade barriers, and stress in the banking sector, while also reporting progress on exchange-rate and revenue reforms [3].

In January 2026, the IMF's Article IV assessment reported that FY2025 growth had slowed to 3.7%, with inflation still elevated and tax revenue relative to GDP weakened. The IMF projected gradual recovery,

contingent on tax mobilization and financial-sector reforms [2]. The World Bank similarly emphasized domestic revenue mobilization, banking-sector vulnerabilities, energy subsidies, urbanization, investment climate, competition, and trade modernization as important reform priorities [5].

Table 1. Major phases of economic reform in Bangladesh

Period	Dominant policy orientation	Key reforms	Development implications
1972–1975	State-led and controlled	Nationalization, trade controls, administered prices	Strong state role; limited market allocation
1976–1990	Deregulation and denationalization	Private-sector expansion, agricultural market reforms, gradual trade opening	Greater role for private activity
1991–2000s	Market orientation and trade liberalization	Tariff reduction, export incentives, privatization, private banking and infrastructure	Rapid export and private-sector expansion
2010s	Consolidation and infrastructure-led development	Digitalization, infrastructure investment, social programs, financial inclusion	Higher connectivity and broader access
2020s	Stabilization and structural reform	Tax reform, exchange-rate flexibility, banking reform, trade modernization, climate resilience	Restoring stability while raising productivity

6. Reform Outcomes and Remaining Constraints

Bangladesh's reform process has produced substantial gains, but outcomes have been uneven across sectors and time. Export manufacturing and remittances have strengthened external earning capacity; private enterprise has expanded; and social indicators have improved substantially. The IMF notes that Bangladesh nearly halved poverty since 1990 and achieved significant improvements in life expectancy, child mortality, and access to basic services [2].

At the same time, recent evidence points to a more difficult macroeconomic environment. Weak tax collection reduces fiscal space; financial-sector weaknesses constrain efficient credit allocation; inflation reduces household purchasing power; and export concentration leaves the economy exposed to sector-specific and external shocks. These constraints suggest that the next generation of reforms must focus more strongly on productivity, institutional quality, and diversification rather than relying primarily on low-cost labor and preferential market access.

Table 2. Reform challenges and policy responses

Challenge	Economic consequence	Priority reform	Expected channel
Low tax-to-GDP ratio	Limited fiscal space	Broaden base; rationalize exemptions;	Higher revenue and better public services

		digitize administration	
Banking vulnerabilities	Misallocation of credit; financial risk	Asset-quality reviews; recapitalization where justified; governance and resolution reform	Stronger financial intermediation
Export concentration	Exposure to external and sectoral shocks	Diversify products, markets, and services	More resilient export earnings
Trade distortions	Higher input costs and weaker competitiveness	Tariff modernization; reduce para-tariffs and NTBs	Lower costs and stronger productivity
Weak investment climate	Lower private investment	Regulatory simplification; competition; contract enforcement	Higher investment and firm entry
Energy and infrastructure constraints	Higher production costs	Improve reliability and public-investment efficiency	Productivity gains
Adjustment costs	Risk of increased vulnerability	Targeted social protection and labor-market policies	More inclusive reform

7. Proposed Reform Framework

A coherent reform program should be sequenced rather than implemented as a collection of isolated measures. First, macroeconomic stabilization should establish credible monetary, fiscal, and exchange-rate frameworks. Second, institutional reforms should strengthen tax administration, financial supervision, procurement, competition, and public-sector accountability. Third, productivity reforms should improve trade logistics, energy reliability, infrastructure, skills, digitalization, and access to finance. Finally, social policy should ensure that vulnerable groups can participate in and withstand the transition.

8. Discussion

The Bangladesh experience illustrates that economic reform is most effective when institutional changes complement market incentives. Trade liberalization alone cannot generate sustained diversification if firms face unreliable infrastructure, expensive finance, weak customs processes, or uncertain regulation. Similarly, fiscal reform cannot be judged only by revenue collection; it must also improve the efficiency and legitimacy of public expenditure.

The reform agenda should therefore distinguish between stabilization reforms and structural reforms. Stabilization addresses inflation, external pressures, fiscal imbalances, and financial fragility. Structural reform addresses the deeper determinants of productivity and competitiveness. Bangladesh requires both, but their sequencing matters: stabilization creates the conditions for investment, while structural reform creates the conditions for durable growth.

Another important lesson concerns policy credibility. Investors and households respond not only to the content of reforms but also to their predictability, enforcement, and institutional consistency. Transparent rules, credible regulatory agencies, reliable statistics, and clear communication can reduce uncertainty and increase the effectiveness of reform.

9. Policy Recommendations

1. Strengthen domestic revenue mobilization by broadening the tax base, reducing poorly targeted exemptions, improving compliance, and expanding digital tax administration.
2. Complete financial-sector diagnostics and strengthen bank governance, supervision, resolution, and disclosure while protecting productive credit channels.
3. Maintain a credible and flexible exchange-rate framework supported by coherent monetary and fiscal policy.
4. Modernize trade policy by reducing tariff and para-tariff distortions, simplifying customs procedures, and strengthening regional and global market integration.
5. Promote export diversification beyond ready-made garments through skills, standards, logistics, technology adoption, and targeted facilitation that does not create permanent distortions.
6. Improve the investment climate through regulatory simplification, predictable licensing, competition policy, contract enforcement, and competitive neutrality between state-owned and private firms.
7. Reform energy subsidies and strengthen electricity reliability while protecting vulnerable households through targeted support.
8. Raise the quality of public investment in transport, ports, urban systems, digital infrastructure, education, and climate resilience.
9. Strengthen labor-market inclusion, particularly for women and young workers, through skills development, safe workplaces, childcare-related support, and improved job matching.
10. Use transparent monitoring indicators and independent evaluation to assess whether reforms improve productivity, investment, employment, revenue, and household welfare.

10. Conclusion

Bangladesh's economic reforms have played an important role in its transition from a highly state-controlled post-independence economy toward a more market-oriented, export-led development model. The gradual expansion of private enterprise, trade liberalization, export facilitation, and macroeconomic reforms helped create the conditions for rapid structural transformation and major social gains.

However, the reform model now faces a different set of constraints. Low domestic revenue, financial-sector vulnerabilities, elevated inflation, limited export diversification, weak private investment, and infrastructure and regulatory bottlenecks threaten to reduce the pace and inclusiveness of future growth. Recent IMF and World Bank assessments converge on the importance of stronger fiscal institutions, financial-sector reform, exchange-rate flexibility, trade modernization, and a better investment climate [2–5].

The central policy challenge is therefore to transform stabilization into productivity-led and inclusive growth. Bangladesh's next reform phase should combine macroeconomic credibility with institutional strengthening, private-sector development, export diversification, human-capital investment, and effective social protection. Such a strategy would help the country move from a development model based heavily on cost advantages and preferential access toward one increasingly based on productivity, innovation, resilience, and institutional quality.

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