

# Final Project

## **ECONOMIC CHALLENGES IN BANGLADESH AFTER AUGUST 2024: AN ANALYSIS OF INFLATION, UNEMPLOYMENT, AND FISCAL INSTABILITY**



**Submitted By:**

Naimul Alam

Student ID: 213-45-018

Department of Innovation & Entrepreneurship

Daffodil International University

# Final Project

## **ECONOMIC CHALLENGES IN BANGLADESH AFTER AUGUST 2024: AN ANALYSIS OF INFLATION, UNEMPLOYMENT, AND FISCAL INSTABILITY**



### **Submitted To:**

Md. Kamruzzaman Didar  
Head, Department of Innovation & Entrepreneurship  
Daffodil International University

### **Submitted By:**

Naimul Alam  
Student ID: 213-45-018  
Department of Innovation & Entrepreneurship  
Daffodil International University

### **Date of Submission:**

03 January 2025



# Letter of Transmittal

03 January 2025

**Md. Kamruzzaman Didar**

Head

Department of Innovation & Entrepreneurship

Daffodil International University

Birulia, Savar , Dhaka , Bangladesh .

Dear Sir,

**Subject: Submission of Project Report "Economic Challenges of Bangladesh Post-August 2024: Analysis and Policy Recommendations"**

With due respect, I am pleased to submit my project report titled "**Economic Challenges of Bangladesh Post-August 2024: Analysis and Policy Recommendations**" as part of the academic requirements for the Department of Innovation & Entrepreneurship.

The report provides an in-depth analysis of the recent economic challenges faced by Bangladesh, including inflation, unemployment, fiscal instability, and external debt pressures. It also proposes practical solutions to address these issues, aiming to contribute to policy discussions and academic knowledge. I have endeavored to ensure that the report meets the highest academic standards and aligns with the guidelines provided. I am grateful for your guidance and support throughout the preparation of this project.

I hope this report will meet your expectations and provide valuable insights. I am available for any clarifications or discussions regarding the content of the report.

Thank you for the opportunity to work on this meaningful project.

Sincerely,  
*Naimul Alam*  
**Naimul Alam**

ID: 213-45-018

Department of Innovation & Entrepreneurship

Daffodil International University

## Declaration of student

I, Naimul Alam, Student ID: 213-45-018, from the Department of Innovation & Entrepreneurship at Daffodil International University, hereby declare that the project report titled "Economic Challenges of Bangladesh Post-August 2024: Analysis and Policy Recommendations" is my original work.

This report has been prepared in partial fulfillment of the academic requirements under the supervision of the Department of Innovation & Entrepreneurship.

I confirm that the data, analysis, and content presented in this report are entirely based on secondary sources, which have been duly acknowledged wherever applicable. I affirm that this work has not been submitted elsewhere for academic or professional purposes.

I take full responsibility for the authenticity of the information and findings presented in this report.

*Naimul Alam*

**Naimul Alam**

Student ID: 213-45-018

Department of Innovation & Entrepreneurship

Daffodil International University

Date: 03 January 2025

# Certificate of Approval

This is to certify that the project report titled "**Economic Challenges of Bangladesh Post-August 2024 Analysis and Policy Recommendations**" has been prepared and submitted by **Naimul Alam**, Student ID: 213-45-018, from the Department of Innovation & Entrepreneurship, Daffodil International University, in partial fulfillment of the requirements for the completion of the academic program.

The project has been conducted under my supervision and guidance. I have reviewed the report and found it to be satisfactory in terms of its content, methodology, and academic integrity.

I hereby approve this project report for submission to the Department of Innovation & Entrepreneurship, Daffodil International University.



Supervisor's Name:

**Md. Kamruzzaman Didar**

Head

Department of Innovation & Entrepreneurship

Daffodil International University

Date: 03 January 2025

## Acknowledgement

I would like to express my sincere gratitude to my supervisor, Md. Kamruzzaman Didar, Head of the Department of Innovation & Entrepreneurship at Daffodil International University, for his invaluable guidance, encouragement, and continuous support throughout the completion of this project. His expertise and insightful feedback have been instrumental in shaping the depth and quality of this work.

I extend my appreciation to Daffodil International University for providing a nurturing academic environment and the necessary resources to conduct this research effectively.

Finally, I am deeply thankful to my family and friends for their unwavering support and motivation, which have been a constant source of strength throughout this academic journey.

# Abstract

This study explores the economic challenges faced by Bangladesh since August 2024, focusing on three critical areas: rising inflation, increasing unemployment, and fiscal instability. Bangladesh has experienced a significant surge in inflation, reaching a 12-year high, primarily driven by global commodity price shocks, currency depreciation, and domestic supply chain disruptions. The unemployment rate has also escalated, particularly among youth and rural populations, due to structural labor market inefficiencies, skill mismatches, and global economic slowdowns. Additionally, fiscal instability, characterized by widening budget deficits, growing public debt, and declining foreign reserves, has strained Bangladesh's public finances and hindered economic growth.

The study adopts a comprehensive analytical approach, examining the root causes, economic impacts, and policy responses associated with each challenge. For inflation control, recommendations include tighter monetary policies, import diversification, and targeted subsidies for vulnerable groups. Unemployment reduction strategies emphasize expanding vocational training, youth employment initiatives, and rural job creation programs. To address fiscal instability, the study recommends progressive tax reforms, improved public expenditure management, and debt restructuring measures.

Findings reveal that while Bangladesh has implemented several monetary and fiscal interventions, structural barriers such as weak institutional capacity, political resistance, and external economic shocks continue to limit their effectiveness. The study concludes that a balanced policy approach combining short-term relief with long-term structural reforms is essential for restoring economic stability, protecting vulnerable populations, and ensuring sustainable growth in Bangladesh.

**Keywords:** Inflation, unemployment, fiscal instability, Bangladesh, economic policy, monetary policy, public debt, structural reforms.

# Table of contents

Letter of Transmittal .....	i
Declaration of student .....	ii
Certificate of Approval .....	iii
Acknowledgement .....	iv
Abstract .....	v
Table of contents .....	vi
Chapter 01 .....	1
Chapter 1: Introduction .....	2
1.1 Background .....	2
1.2 Objectives of the Study .....	2
1.3 Research Questions.....	3
1.4 Scope of the Study .....	4
1.5 Methodology.....	4
1.6 Significance of the Study.....	5
1.7 Structure of the Study.....	6
Chapter 02.....	7
Chapter 2: Assessing the Root Causes and Impact of Inflation in Bangladesh .....	8
2.1 Definition and Overview of Inflation in Bangladesh .....	8
.....	8
2.2 Causes of Inflation in Bangladesh .....	8
2.3 Impact of Inflation on the Economy .....	9
2.4 Policy Responses to Inflation .....	10
2.5 Effectiveness and Challenges of Policy Measures.....	11
Chapter 03.....	12

Chapter 3: Analyzing the Rising Unemployment Crisis and Labor Market Instability in Bangladesh.....	13
3.1 Definition and Overview of Unemployment in Bangladesh .....	13
3.2 Causes of Rising Unemployment .....	13
3.3 Impact of Unemployment on the Economy and Society .....	14
3.4 Policy Responses to Unemployment .....	15
3.5 Effectiveness and Challenges in Policy Implementation.....	16
 Chapter 04.....	 18
Chapter 4: Examining Fiscal Instability and External Debt Pressures in Bangladesh.....	19
4.1 Definition and Overview of Fiscal Instability in Bangladesh .....	19
4.2 Causes of Fiscal Instability in Bangladesh .....	19
4.3 Impact of Fiscal Instability on the Economy .....	20
4.4 Policy Responses to Fiscal Instability .....	21
4.5 Challenges in Policy Implementation.....	22
 Chapter 05.....	 24
Chapter 5: Policy Recommendations and Conclusion .....	25
5.1 Introduction .....	25
5.2 Policy Recommendations for Controlling Inflation .....	25
5.3 Policy Recommendations for Reducing Unemployment .....	26
5.4 Policy Recommendations for Addressing Fiscal Instability .....	27
5.5 Policy Implementation Challenges.....	28
5.6 Conclusion .....	28
 References .....	 30

# Chapter 01

## Introduction

## Chapter 1: Introduction

### 1.1 Background

Bangladesh has experienced remarkable economic progress over the past two decades, evolving from a low-income nation to a lower-middle-income economy. This transformation has been driven by rapid industrialization, significant growth in the textile sector, increasing remittances, and improved infrastructure development. However, despite these achievements, Bangladesh's economic stability has faced significant strain since August 2024 due to multiple macroeconomic challenges. Rising inflation, escalating unemployment, and growing fiscal instability have emerged as critical concerns, disrupting the nation's economic progress.

Inflation reached a 12-year high in mid-2024, severely impacting household purchasing power and increasing the cost of essential goods and services (World Bank, 2024). At the same time, unemployment rates have surged, particularly among young people and rural workers, due to structural weaknesses in the labor market and skill mismatches (International Labour Organization [ILO], 2024). Fiscal instability has compounded these issues, with widening budget deficits, rising public debt, and declining foreign reserves adding pressure to the national economy (International Monetary Fund [IMF], 2024).

These interconnected challenges have strained Bangladesh's economic resilience and risk undermining the progress achieved over previous decades. Addressing these issues requires a comprehensive analysis of the underlying causes and a policy-focused approach to stabilize the economy and ensure inclusive growth. This study will focus on the most pressing economic challenges, emphasizing inflation, unemployment, and fiscal instability, while exploring policy interventions to restore stability.

### 1.2 Objectives of the Study

The primary objective of this study is to explore the critical economic challenges Bangladesh has faced since August 2024, focusing on three core areas that have had widespread implications for national economic performance. This study is structured around the following objectives:

To assess the root causes, contributing factors, and economic impacts of inflation in Bangladesh, particularly focusing on external economic shocks, domestic supply chain issues, and policy inefficiencies (World Bank, 2024).

To analyze the rise in unemployment and its broader socioeconomic effects, focusing on youth unemployment, skill mismatches, and rural job scarcity (ILO, 2024).

To examine fiscal instability, including rising public debt, budget deficits, and declining foreign reserves, while evaluating the effectiveness of current fiscal policies aimed at restoring macroeconomic balance (IMF, 2024).

These objectives will provide a comprehensive understanding of Bangladesh's economic difficulties and serve as the foundation for the policy recommendations discussed later in this report.

### 1.3 Research Questions

This study aims to address the following key research questions to provide a structured analysis of Bangladesh's economic challenges:

What are the primary causes of inflation in Bangladesh, and how have they affected household consumption and national economic stability (World Bank, 2024)?

What factors have contributed to rising unemployment, and how do they influence poverty levels, labor market conditions, and long-term economic performance (ILO, 2024)?

How has fiscal instability, characterized by budget deficits and public debt, impacted the overall economy, and what policy measures have been taken to manage it (IMF, 2024)?

What policy recommendations can be implemented to address inflation, unemployment, and fiscal instability effectively?

By addressing these questions, the study will develop a clearer understanding of the economic landscape and propose informed policy recommendations to address current challenges.

#### 1.4 Scope of the Study

This study focuses on Bangladesh's economic landscape from August 2024 onward, examining inflation, unemployment, and fiscal instability as central themes influencing national economic stability. The scope of the study is defined as follows:

**Geographical Scope:** The analysis will cover the entire country while highlighting rural-urban disparities, particularly in labor market trends and fiscal resource allocation.

**Thematic Scope:** The primary focus will be inflation, unemployment, and fiscal instability, while acknowledging their interconnectedness with broader macroeconomic trends.

**Time Scope:** The study will concentrate on data and trends emerging from August 2024 to the present to ensure the findings remain relevant to the current economic situation.

The defined scope ensures a focused analysis of recent challenges while maintaining a comprehensive approach to policymaking insights.

#### 1.5 Methodology

Bangladesh's economic challenges. The methodology involves secondary data analysis sourced from reliable institutions such as the World Bank, IMF, Bangladesh Bank, and Bangladesh Bureau of Statistics. This study uses a combination of qualitative and quantitative research methods to examine

**Data Collection:** Data will be drawn from published reports, national statistics, and policy briefs to ensure accuracy and objectivity (Bangladesh Bureau of Statistics [BBS], 2024).

**Data Analysis:** The study will use both descriptive and comparative analysis techniques to interpret macroeconomic indicators such as inflation rates, unemployment figures, and debt ratios (IMF, 2024).

**Comparative Approach:** Case studies from other developing economies facing similar economic challenges will be reviewed to offer insights and policy parallels for Bangladesh (Asian Development Bank [ADB], 2024).

**Limitations:** The study relies on secondary data sources, which may limit real-time insights into rapidly evolving economic trends (BBS, 2024).

This methodological approach ensures a comprehensive and balanced analysis while aligning with international economic reporting standards.

## 1.6 Significance of the Study

The significance of this study lies in its potential to inform policymakers, development agencies, and researchers about Bangladesh's current economic challenges and pathways to recovery. This research contributes valuable insights in the following ways:

**Policy Guidance:** By examining the root causes of inflation, unemployment, and fiscal instability, the study will support evidence-based policymaking and targeted interventions (World Bank, 2024).

**Academic Contribution:** The findings will expand the academic understanding of economic crises in developing countries, particularly in South Asia (ADB, 2024).

**Social Impact:** The study will explore the direct impact of economic instability on vulnerable populations, emphasizing the importance of equitable policy interventions (ILO, 2024).

**National Development:** By proposing actionable policy recommendations, the study aims to promote long-term economic resilience and sustainable development in Bangladesh (IMF, 2024).

## 1.7 Structure of the Study

This research is divided into five comprehensive chapters to ensure clarity and logical progression:

Chapter 1 introduces the study by outlining the background, objectives, research questions, scope, methodology, and significance.

Chapter 2 explores inflation in Bangladesh, focusing on its causes, effects, and the policy responses implemented to control rising prices.

Chapter 3 examines the unemployment crisis, analyzing its key drivers and the social consequences of job losses on national development.

Chapter 4 investigates fiscal instability, emphasizing public debt, budget deficits, and policy measures aimed at improving fiscal health.

Chapter 5 provides policy recommendations and a comprehensive conclusion summarizing the findings of the entire study.

## Chapter 2

### Assessing the Root Causes and Impact of Inflation in Bangladesh

## Chapter 2: Assessing the Root Causes and Impact of Inflation in Bangladesh

### 2.1 Definition and Overview of Inflation in Bangladesh

Inflation refers to the sustained increase in the general price level of goods and services in an economy over a period of time. Since August 2024, Bangladesh has faced significant inflationary pressures, with the inflation rate peaking at 11.66%—the highest in over a decade (World Bank, 2024). This sharp rise has eroded household purchasing power, raised production costs, and slowed economic growth.

Inflation in Bangladesh has been driven by both domestic and global factors, creating a complex economic challenge. Global commodity price shocks, supply chain disruptions, and currency depreciation have combined with local policy challenges to accelerate inflation. This chapter explores these factors while assessing the economic consequences and evaluating policy responses implemented to stabilize price levels.

### 2.2 Causes of Inflation in Bangladesh

Several factors have contributed to the sharp rise in inflation in Bangladesh, ranging from global economic events to domestic policy mismanagement.

Global supply chain disruptions have been a primary driver of inflation in Bangladesh. The lingering effects of the COVID-19 pandemic, combined with geopolitical tensions such as the Russia-Ukraine conflict, have created bottlenecks in the movement of essential commodities. Rising fuel prices and shortages in essential imports like wheat and edible oil have directly increased the cost of living for Bangladeshi consumers (IMF, 2024).

Currency depreciation has further aggravated inflationary pressures. The Bangladeshi Taka depreciated by nearly 18% against the US Dollar in 2024 due to declining foreign exchange reserves and global market volatility (Bangladesh Bank, 2024). A weaker currency has increased the cost of imported goods, particularly essential raw materials required for the garment and textile sectors, causing a ripple effect on domestic prices.

Policy-induced demand inflation has also contributed to rising prices. The government's expansionary fiscal policies, including increased public spending on infrastructure projects and cash transfer programs, have boosted demand without proportional increases in domestic production capacity. Consequently, higher demand coupled with supply constraints has driven up prices (Asian Development Bank [ADB], 2024).

Structural inefficiencies within Bangladesh's agricultural and industrial sectors have compounded inflation. The agricultural sector has faced lower-than-expected crop yields due to climate-related challenges, while manufacturing sectors have struggled with supply chain bottlenecks and limited capacity to scale production in response to increased demand (BBS, 2024).

### 2.3 Impact of Inflation on the Economy

Inflation has far-reaching effects on Bangladesh's economic stability, influencing multiple aspects of the economy, from household consumption to macroeconomic performance.

Declining household purchasing power has been one of the most immediate consequences of inflation. Rising prices of essential goods such as rice, wheat, fuel, and cooking oil have disproportionately impacted lower and middle-income households, reducing their ability to afford basic necessities (World Bank, 2024). This decline has worsened poverty rates, with rural populations experiencing heightened financial strain.

Business sector instability has also intensified due to inflation. Small and medium enterprises (SMEs), which form the backbone of Bangladesh's economy, have faced rising input costs due to higher prices for raw materials and energy. This has led to reduced profitability and, in many cases, layoffs as businesses struggle to maintain operations (ADB, 2024).

Export competitiveness has been affected despite the currency depreciation. While a weaker Taka should theoretically boost exports by making Bangladeshi goods more affordable in international markets, rising production costs have neutralized this advantage. Exporters, particularly in the ready-made garment sector, have faced shrinking profit margins despite the favorable exchange rate (Bangladesh Bank, 2024).

Increased poverty and income inequality have emerged as critical social consequences of inflation. With essential goods becoming unaffordable, many lower-income families have been pushed below the poverty line, while wealthier segments of society remain less affected. This growing disparity poses long-term risks to social stability and economic mobility (ILO, 2024).

## 2.4 Policy Responses to Inflation

The government of Bangladesh has implemented several monetary and fiscal measures to control inflation.

Monetary policy adjustments have been central to Bangladesh Bank's response. Interest rates have been increased gradually to curb excessive money supply growth and reduce demand-driven inflation. While this approach has helped stabilize price growth temporarily, it has also made borrowing more expensive, slowing business expansion and private sector investment (IMF, 2024).

Fiscal interventions have included expanded subsidies on essential goods such as fuel and food to mitigate the impact of rising prices on low-income households. However, these subsidies have added strain to public finances, contributing to the widening fiscal deficit (BBS, 2024).

Price controls have been introduced on staple goods to prevent price gouging and stabilize markets. However, the long-term effectiveness of such controls remains limited, as they may lead to supply shortages and distort market behavior (ADB, 2024).

Efforts to strengthen domestic production have been launched, including agricultural support programs and incentives for local manufacturers. However, the impact of these measures has been limited due to structural constraints in productivity and resource allocation (World Bank, 2024).

## 2.5 Effectiveness and Challenges of Policy Measures

While the policy responses have provided temporary relief, several challenges have limited their long-term effectiveness.

Inconsistent monetary policy adjustments have created uncertainty for businesses. While interest rate hikes have controlled inflation to some extent, they have simultaneously restricted credit access for SMEs, slowing investment in critical sectors (Bangladesh Bank, 2024).

The heavy reliance on subsidies has strained fiscal capacity, increasing budget deficits without addressing the root causes of inflation. As a result, inflationary pressures have persisted despite short-term relief (IMF, 2024).

Supply chain disruptions remain unresolved, particularly in the agricultural and industrial sectors, leading to continued inflationary pressures despite policy interventions (BBS, 2024).

Inflation in Bangladesh since August 2024 has been driven by a complex mix of global supply chain disruptions, currency depreciation, policy-induced demand pressures, and structural inefficiencies in key sectors. Its effects have been widespread, affecting household purchasing power, business profitability, export performance, and social equality.

While the government has implemented monetary tightening, fiscal subsidies, and price controls, these measures have only provided partial relief. Long-term inflation control will require structural reforms, including supply-side improvements, productivity enhancements, and fiscal discipline. Addressing these challenges is crucial for ensuring long-term economic stability and protecting vulnerable populations from further economic strain.

## Chapter 03

### Analyzing the Rising Unemployment Crisis and Labor Market Instability in Bangladesh

## Chapter 3: Analyzing the Rising Unemployment Crisis and Labor Market Instability in Bangladesh

### 3.1 Definition and Overview of Unemployment in Bangladesh

Unemployment refers to the condition in which individuals capable of working, and actively seeking employment, are unable to secure jobs. Rising unemployment has become a significant economic issue in Bangladesh since August 2024, with national unemployment rates rising by 14% (International Labour Organization [ILO], 2024). This increase has particularly affected youth and rural populations, leading to socioeconomic challenges such as poverty, underemployment, and economic stagnation.

Unemployment is not merely a shortage of jobs but also reflects deeper structural issues, including skill mismatches, limited industrial diversification, and regional disparities. Bangladesh's labor market struggles have been worsened by both external economic factors and internal policy inefficiencies, which together have strained the nation's economic resilience. This chapter explores the primary causes of unemployment, its social and economic impacts, and the policy responses aimed at addressing labor market challenges in Bangladesh.

### 3.2 Causes of Rising Unemployment

The increase in unemployment in Bangladesh can be attributed to a combination of domestic labor market weaknesses and global economic conditions.

Global economic slowdowns have significantly impacted Bangladesh's export-driven industries, particularly the ready-made garments (RMG) sector, which accounts for over 80% of the country's export earnings. The contraction in global demand following geopolitical conflicts and supply chain disruptions led to reduced orders, factory closures, and mass layoffs (World Bank, 2024).

Structural mismatches in the labor market have worsened unemployment. Despite a growing workforce, the skills possessed by job seekers often fail to align with the needs of key industries such as ICT, logistics, and advanced manufacturing (ADB, 2024). The education system, while expanding, has yet to fully integrate vocational and technical skills development, leaving many graduates ill-prepared for the job market.

Rural-urban employment disparities remain a significant driver of unemployment. Employment opportunities are concentrated in urban centers like Dhaka and Chattogram, while rural regions continue to suffer from limited formal job availability. Rural workers often face seasonal employment in agriculture with few alternative livelihood options during non-harvest periods (Bangladesh Bureau of Statistics [BBS], 2024).

The impact of automation and technological change has also played a role in unemployment trends. The introduction of automated machinery in Bangladesh's textile and manufacturing industries has led to job displacement in low-skilled positions, particularly in labor-intensive roles (ILO, 2024).

Political instability since August 2024 has further strained the labor market. Political tensions have discouraged both foreign direct investment (FDI) and domestic business expansion, leading to reduced job creation and investment in new industries (IMF, 2024).

### 3.3 Impact of Unemployment on the Economy and Society

Rising unemployment has had widespread consequences for Bangladesh's economic stability and social welfare, affecting both individual livelihoods and national productivity.

Increased poverty and income inequality have been direct results of rising unemployment. As job losses accumulate, household incomes have declined, particularly among lower and middle-income groups, increasing poverty rates in both rural and urban areas (World Bank, 2024). This trend has further widened the wealth gap, limiting access to education, healthcare, and essential services.

Youth unemployment has emerged as a critical concern, with unemployment rates among individuals aged 18-30 reaching 18% by late 2024 (ILO, 2024). This has contributed to rising

social unrest, as young job seekers face prolonged periods of economic inactivity, leading to frustration, protest movements, and reduced social cohesion.

Labor market instability has further affected business performance. Unemployment and underemployment have weakened consumer demand, reducing purchasing power and slowing domestic market activity (ADB, 2024). As a result, businesses have reduced production output, creating a negative feedback loop of declining demand and further job losses.

Underemployment and informal sector expansion have also become prominent issues. Many workers, particularly in rural regions, have shifted towards low-paying, insecure informal jobs lacking benefits or job security (BBS, 2024). This trend has limited economic mobility and left millions vulnerable to financial instability.

Emigration pressure has intensified as local job opportunities diminish. A growing number of skilled and semi-skilled workers have sought employment abroad, leading to a talent drain and further limiting Bangladesh's domestic labor pool (ILO, 2024).

### 3.4 Policy Responses to Unemployment

The Bangladeshi government has introduced various policy measures aimed at reducing unemployment and improving labor market conditions.

Vocational education and skills development programs have been expanded, particularly through the Technical and Vocational Education and Training (TVET) initiative. This program focuses on aligning educational curricula with industry needs by providing specialized training in fields such as ICT, garment manufacturing, and construction (ADB, 2024).

Public sector job creation initiatives have included the Employment Generation Program for the Poorest (EGPP), which offers short-term employment opportunities in public works projects like infrastructure maintenance and rural development (BBS, 2024). However, the program has been criticized for offering temporary relief rather than long-term employment sustainability.

Private sector incentives, such as tax breaks for businesses hiring local workers and subsidies for SMEs, have been introduced to encourage job creation in labor-intensive industries. However,

implementation challenges and regulatory bottlenecks have limited the effectiveness of these measures (Bangladesh Bank, 2024).

Entrepreneurship support programs, including microfinance schemes and startup incubators, have targeted youth and rural entrepreneurs, providing low-interest loans and mentorship to promote self-employment (IMF, 2024).

Expansion of rural employment programs, including cash-for-work schemes and agricultural support subsidies, have aimed to reduce rural joblessness and seasonal underemployment. However, these programs have been criticized for lacking long-term sustainability and innovation (World Bank, 2024).

### 3.5 Effectiveness and Challenges in Policy Implementation

Despite the introduction of various policy measures, several systemic challenges continue to hinder the effective reduction of unemployment in Bangladesh.

The limited reach of vocational training programs has been a significant barrier. Many initiatives remain concentrated in urban centers, leaving rural populations with limited access to skill development opportunities (ADB, 2024).

Political resistance and bureaucratic inefficiencies have slowed the rollout of employment initiatives, with delays in funding allocations and inconsistent policy enforcement limiting program effectiveness (BBS, 2024).

Private sector participation in job creation programs has been relatively low due to complex regulatory frameworks and limited incentives for long-term partnerships (Bangladesh Bank, 2024).

A lack of consistent labor market data has made it difficult to accurately assess employment trends and target policy interventions effectively (ILO, 2024).

The rising unemployment crisis in Bangladesh since August 2024 has resulted from a combination

of global economic conditions, structural labor market weaknesses, and domestic policy inefficiencies. The impact has been profound, contributing to increased poverty, income inequality, and economic stagnation.

While the government has introduced several policies aimed at reducing unemployment, including vocational training, rural employment programs, and private sector incentives, these measures have faced significant implementation challenges. Addressing Bangladesh's unemployment crisis will require long-term structural reforms, including educational reforms, enhanced rural job creation strategies, and stronger collaboration with the private sector.

A balanced policy approach that addresses both short-term relief and long-term labor market development will be crucial for ensuring sustainable economic growth and social stability in Bangladesh.

## Chapter 04

### Examining Fiscal Instability and External Debt Pressures in Bangladesh

## Chapter 4: Examining Fiscal Instability and External Debt Pressures in Bangladesh

### 4.1 Definition and Overview of Fiscal Instability in Bangladesh

Fiscal instability refers to a condition where a country's public finances become unbalanced due to excessive budget deficits, rising public debt, and ineffective revenue collection. Since August 2024, Bangladesh has faced growing fiscal instability characterized by increasing budget deficits, mounting external debt, and declining foreign exchange reserves. These challenges have strained the government's capacity to finance essential public services and long-term development projects (International Monetary Fund [IMF], 2024).

A stable fiscal environment is essential for economic growth, as it ensures the government can invest in infrastructure, education, healthcare, and social programs without compromising financial sustainability. However, fiscal instability disrupts these objectives by limiting public resources, increasing borrowing costs, and reducing investor confidence. In Bangladesh, this situation has been compounded by inflationary pressures, global market volatility, and structural inefficiencies in revenue generation.

This chapter examines the root causes of fiscal instability in Bangladesh, its economic implications, and the policy responses implemented by the government to address the crisis.

### 4.2 Causes of Fiscal Instability in Bangladesh

Several interconnected factors have contributed to Bangladesh's fiscal instability, combining global economic challenges with domestic financial mismanagement.

Budget deficits have widened significantly in Bangladesh since mid-2024, with the fiscal deficit reaching 5.7% of GDP, up from 4.1% the previous year (Bangladesh Bureau of Statistics [BBS], 2024). This surge has been driven by increased public spending on infrastructure megaprojects, subsidies on fuel and food, and higher public sector wages. While these expenditures aimed to protect vulnerable populations from inflationary pressures, they lacked sufficient revenue generation to balance spending.

Declining revenue collection has further strained public finances. Bangladesh's tax-to-GDP ratio remains below 10%, one of the lowest in South Asia (IMF, 2024). The tax base has remained narrow due to weak enforcement mechanisms, excessive exemptions for influential sectors, and significant tax evasion in the informal economy. Limited direct tax collection has forced the government to rely heavily on indirect taxes, which disproportionately affect low- and middle-income groups.

Rising public debt has become a significant driver of fiscal instability. Bangladesh's total public debt increased to 42% of GDP in 2024, with external debt accounting for nearly 60% of the total borrowing (World Bank, 2024). Much of this debt was acquired through concessional loans from multilateral organizations like the Asian Development Bank and bilateral agreements with China and Japan for infrastructure development. However, rising global interest rates and currency depreciation have made debt servicing increasingly expensive.

Currency depreciation has exacerbated fiscal challenges. The Bangladeshi Taka depreciated by nearly 18% against the US Dollar in 2024, raising the cost of imported goods and external debt repayments (Bangladesh Bank, 2024). As foreign reserves continued to decline, the cost of financing public projects with external loans increased, further straining the fiscal position.

Inefficient public expenditure management has worsened the fiscal deficit. A significant portion of the national budget has been allocated toward non-developmental expenses, such as administrative overheads and recurrent subsidies, while essential sectors like healthcare and education have faced budget cuts (ADB, 2024). Weak budget oversight mechanisms have led to inefficient resource allocation and project delays.

#### 4.3 Impact of Fiscal Instability on the Economy

The consequences of fiscal instability in Bangladesh have been profound, affecting economic growth, public welfare, and investor confidence.

Reduced economic growth has been one of the most visible impacts. The diversion of resources toward debt servicing and subsidy management has limited the government's ability to invest in

productive sectors such as infrastructure and technology. GDP growth slowed to 5.2% in 2024, down from 6.8% the previous year (World Bank, 2024).

Public service delivery has suffered as fiscal pressures have forced the government to reduce funding for essential services, including education, healthcare, and rural development programs (BBS, 2024). As a result, social inequalities have widened, particularly in rural regions where access to public services was already limited.

Rising debt servicing costs have diverted resources from productive investments. Debt repayments accounted for nearly 30% of the national budget in 2024, limiting funds available for new development initiatives (IMF, 2024). This trend has created a vicious cycle where high debt servicing costs limit fiscal flexibility and necessitate further borrowing.

Investor confidence has declined amid fiscal instability. Foreign direct investment (FDI) dropped by 12% in 2024 due to concerns over the government's ability to maintain fiscal discipline and manage external debt responsibly (ADB, 2024). Reduced FDI inflows have further constrained the private sector's ability to expand and create jobs.

Inflationary pressures have also been reinforced by fiscal instability. The government's heavy reliance on borrowing and money supply expansion to finance deficits has contributed to rising inflationary trends, pushing consumer prices higher (Bangladesh Bank, 2024).

#### 4.4 Policy Responses to Fiscal Instability

The government of Bangladesh has implemented several policy measures aimed at stabilizing public finances and managing external debt more effectively.

Tax reform measures have been introduced to expand the tax base and improve revenue collection. Efforts have included digitizing the tax filing system, introducing stricter enforcement for high-income earners, and reducing exemptions for luxury goods (BBS, 2024). However, enforcement challenges and public resistance have limited the full impact of these reforms.

Debt restructuring and external loan management have been prioritized to ease repayment pressures. The government has renegotiated several loan agreements with international creditors to extend repayment periods and secure lower interest rates, particularly with the IMF and World Bank (IMF, 2024). Despite these efforts, the overall debt burden remains high, requiring sustained fiscal reforms.

Expenditure rationalization has focused on reducing non-essential subsidies and cutting administrative costs. Targeted cash transfers for vulnerable populations have replaced blanket subsidies, ensuring more efficient resource allocation (ADB, 2024). However, the effectiveness of these measures has been limited due to political pressures.

Monetary policy adjustments, including moderate interest rate hikes, have aimed to control inflation while reducing excessive government borrowing from central reserves (Bangladesh Bank, 2024).

#### 4.5 Challenges in Policy Implementation

Despite these policy responses, significant barriers remain to achieving long-term fiscal stability in Bangladesh.

Weak institutional capacity has hindered the effective enforcement of tax reforms and budget oversight measures. Corruption and limited transparency in public financial management have further exacerbated resource misallocation (ADB, 2024).

Political resistance to subsidy cuts and tax expansions has delayed the full implementation of fiscal reforms, particularly in sectors with strong political influence (BBS, 2024).

Overreliance on external borrowing continues to strain public finances, with limited progress in developing alternative domestic revenue sources (World Bank, 2024).

Fiscal instability in Bangladesh since August 2024 has been driven by a combination of rising budget deficits, increased public debt, and declining revenue collection. These challenges have

weakened public service delivery, slowed economic growth, and undermined investor confidence. While the government has introduced policy measures such as tax reforms, debt restructuring, and expenditure rationalization, structural challenges like institutional inefficiencies and political resistance continue to limit progress.

Addressing fiscal instability requires a holistic approach focusing on sustainable revenue generation, efficient public spending, and stronger debt management strategies. Without comprehensive reforms, Bangladesh's economic stability could remain fragile, affecting long-term development goals.

## Chapter 05

### **Policy Recommendations and Conclusion**

## Chapter 5: Policy Recommendations and Conclusion

### 5.1 Introduction

The economic challenges Bangladesh has faced since August 2024, including rising inflation, increasing unemployment, and fiscal instability, have had widespread effects on the nation's economic performance and social welfare. Addressing these complex issues requires a comprehensive set of policy interventions that focus on both short-term relief and long-term structural reforms. This chapter outlines detailed policy recommendations tailored to each core issue—inflation control, unemployment reduction, and fiscal stability—followed by a comprehensive conclusion summarizing key findings and strategic priorities for Bangladesh's economic recovery.

### 5.2 Policy Recommendations for Controlling Inflation

Bangladesh has faced inflation rates exceeding 11% in 2024, driven by global price shocks, currency depreciation, and supply chain disruptions (World Bank, 2024). The following policy recommendations aim to reduce inflation while ensuring price stability and protecting vulnerable groups.

Strengthening monetary policy by gradually increasing interest rates while maintaining sufficient credit availability for small and medium enterprises (SMEs) is essential. The Bangladesh Bank should implement a dual interest rate system where lower rates apply to priority sectors such as agriculture and manufacturing to balance inflation control with economic growth (Bangladesh Bank, 2024).

Enhancing foreign exchange management is critical to control import-driven inflation. The central bank should stabilize the Bangladeshi Taka by diversifying foreign currency reserves and establishing bilateral currency swap agreements with regional partners (IMF, 2024).

Targeted price control measures should be adopted selectively for essential commodities like rice, edible oil, and fuel. However, these price controls should be temporary and monitored closely to avoid market distortions and supply shortages (Asian Development Bank [ADB], 2024).

Implementing strategic import diversification by reducing dependency on single-source imports for essential goods is vital. Bangladesh should expand trade partnerships with multiple nations and consider regional trade agreements to secure better pricing for essential imports (World Bank, 2024).

Rationalizing subsidies and cash transfer programs should focus on replacing universal fuel and food subsidies with direct cash transfers targeting low-income households. This ensures financial support for vulnerable groups while reducing fiscal strain (BBS, 2024).

### 5.3 Policy Recommendations for Reducing Unemployment

Unemployment in Bangladesh has risen significantly since August 2024, particularly among youth and rural populations. Addressing this issue requires a multi-faceted approach that combines labor market reforms, education policy adjustments, and targeted job creation strategies.

Expanding technical and vocational education and training (TVET) programs across rural and urban areas is essential. The government should collaborate with industries to create standardized vocational curricula aligned with labor market demands, particularly in sectors such as ICT, logistics, and green energy (ILO, 2024).

Developing targeted youth employment initiatives is necessary to reduce youth unemployment rates. These could include tax incentives for companies hiring young workers and offering apprenticeship programs that provide on-the-job training (ADB, 2024).

Encouraging entrepreneurship and self-employment through microfinance support and business incubation centers should be prioritized. Expanding access to affordable credit for startups, particularly in rural areas, can stimulate job creation and reduce dependence on the formal labor market (Bangladesh Bank, 2024).

Strengthening rural job creation through public works programs such as infrastructure development and agricultural support projects can offer employment in less developed regions. These initiatives should include seasonal employment programs to reduce rural-urban migration (World Bank, 2024).

Improving labor market data collection and dissemination will help policymakers better align job creation strategies with labor demand. A centralized labor market database should be developed to monitor employment trends and adjust policies accordingly (BBS, 2024).

#### 5.4 Policy Recommendations for Addressing Fiscal Instability

Fiscal instability has been marked by rising public debt, expanding budget deficits, and declining revenue generation. The following policies aim to restore fiscal balance while supporting sustainable economic growth.

Broadening the tax base is critical to improving revenue generation. This includes increasing the inclusion of previously untaxed sectors and strengthening enforcement against tax evasion. Introducing a simplified digital tax filing system can encourage compliance among SMEs and informal businesses (BBS, 2024).

Implementing progressive taxation reforms can ensure equitable revenue generation. Adjusting income tax brackets to require higher contributions from wealthier individuals and luxury goods while reducing indirect taxes on essential goods can balance fairness with revenue efficiency (IMF, 2024).

Enhancing public expenditure management by adopting zero-based budgeting, where every expense must be justified annually, can help reduce unnecessary spending. The government should prioritize development projects that yield long-term economic benefits, such as healthcare, education, and infrastructure (ADB, 2024).

Debt restructuring and prudent external borrowing strategies are essential for reducing fiscal pressure. Bangladesh should renegotiate existing high-interest external loans for longer repayment terms while prioritizing concessional borrowing from development banks (IMF, 2024).

Transparency and accountability in public finance management should be strengthened by establishing an independent fiscal oversight body responsible for budget auditing and expenditure monitoring. Public access to budget documents and expenditure reports can enhance trust and ensure responsible fiscal management (World Bank, 2024).

## 5.5 Policy Implementation Challenges

Despite the effectiveness of the proposed policy measures, several challenges could hinder successful implementation.

Political resistance to subsidy reductions and tax reforms remains a significant barrier, especially when public sentiment opposes austerity measures during economic hardship (BBS, 2024).

Institutional capacity constraints, including weak enforcement of fiscal policies and limited technical expertise, can slow reform progress (ADB, 2024).

Corruption and governance issues continue to affect public financial management, making transparent policy enforcement difficult (IMF, 2024).

Global economic volatility, including fluctuating commodity prices and currency exchange rates, poses external risks to policy stability (World Bank, 2024).

## 5.6 Conclusion

Bangladesh's economic challenges since August 2024, including persistent inflation, rising unemployment, and worsening fiscal instability, have created substantial barriers to sustainable development and economic resilience. These issues have strained household welfare, disrupted business operations, and limited public service delivery, emphasizing the need for targeted policy interventions.

The policy recommendations presented in this chapter provide a comprehensive framework for addressing Bangladesh's core economic challenges. Controlling inflation requires tighter monetary policy, better exchange rate management, and targeted subsidies. Reducing unemployment demands expanded vocational education, rural job creation programs, and youth employment initiatives. Fiscal stability can be restored through progressive tax reforms, improved debt management, and greater transparency in public financial management.

Moving forward, the success of these policies will depend on coordinated implementation, institutional reforms, and strong political will. A balanced approach that considers both short-term relief and long-term structural reforms will be essential for Bangladesh to regain economic stability and ensure sustainable growth for all segments of society.

## References

Asian Development Bank. (2024a). *Bangladesh economic outlook*. Retrieved from <https://www.adb.org>

Asian Development Bank. (2024b). *Bangladesh labor market trends*. Retrieved from <https://www.adb.org>

Bangladesh Bank. (2024a). *Monetary policy and fiscal stability report*. Retrieved from <https://www.bb.org.bd>

Bangladesh Bank. (2024b). *Monetary policy and employment report*. Retrieved from <https://www.bb.org.bd>

Bangladesh Bureau of Statistics. (2024a). *Public debt and revenue trends in Bangladesh*. Retrieved from <https://www.bbs.gov.bd>

Bangladesh Bureau of Statistics. (2024b). *Unemployment and job trends in Bangladesh*. Retrieved from <https://www.bbs.gov.bd>

International Labour Organization. (2024a). *Labour market trends and employment challenges in Bangladesh*. Retrieved from <https://www.ilo.org>

International Labour Organization. (2024b). *Youth employment trends in Bangladesh*. Retrieved from <https://www.ilo.org>

International Monetary Fund. (2024a). *Bangladesh fiscal outlook and debt sustainability*. Retrieved from <https://www.imf.org>

International Monetary Fund. (2024b). *Labor market challenges in South Asia*. Retrieved from <https://www.imf.org>

ORIGINALITY REPORT

10%

SIMILARITY INDEX

9%

INTERNET SOURCES

3%

PUBLICATIONS

6%

STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Daffodil International University Student Paper	3%
2	<a href="https://dspace.daffodilvarsity.edu.bd:8080">dspace.daffodilvarsity.edu.bd:8080</a> Internet Source	2%
3	Submitted to North South University Student Paper	<1%
4	<a href="https://etd.aau.edu.et">etd.aau.edu.et</a> Internet Source	<1%
5	<a href="https://doc.edu.vn">doc.edu.vn</a> Internet Source	<1%
6	<a href="https://www.researchbank.ac.nz">www.researchbank.ac.nz</a> Internet Source	<1%
7	Submitted to Regent Independent School and Sixth Form College Student Paper	<1%
8	<a href="https://ebin.pub">ebin.pub</a> Internet Source	<1%
9	<a href="https://journals.hh-publisher.com">journals.hh-publisher.com</a> Internet Source	<1%

10	Submitted to Webster University Student Paper	<1 %
11	Abdurhman Kedir Ali, Dagmawe Menelek Asfaw. "Nexus between inflation, income inequality, and economic growth in Ethiopia", PLOS ONE, 2023 Publication	<1 %
12	Submitted to Chester College of Higher Education Student Paper	<1 %
13	Submitted to International University of Malaya-Wales Student Paper	<1 %
14	<a href="http://www.easychair.org">www.easychair.org</a> Internet Source	<1 %
15	Submitted to Coastline Community College Student Paper	<1 %
16	<a href="http://jittery.com">jittery.com</a> Internet Source	<1 %
17	<a href="http://www.jdsupra.com">www.jdsupra.com</a> Internet Source	<1 %
18	Submitted to Edge Hill University Student Paper	<1 %
19	Submitted to University of Pecs Student Paper	<1 %

20	<a href="http://dr.ur.ac.rw">dr.ur.ac.rw</a> Internet Source	<1 %
21	<a href="http://epub.lib.aalto.fi">epub.lib.aalto.fi</a> Internet Source	<1 %
22	<a href="http://www.psc.gov.za">www.psc.gov.za</a> Internet Source	<1 %
23	<a href="http://archive.saulibrary.edu.bd:8080">archive.saulibrary.edu.bd:8080</a> Internet Source	<1 %
24	Dr. Kanbiro Orkaido Deyganto. "Answer to Ph.D. Viva Voice Questions by Doctoral Candidates: In the Case of the Ph.D. Thesis Entitled "Determinants of Entrepreneurship Sustainable Development in Africa": Short Communication", Qeios, 2023 Publication	<1 %
25	<a href="http://publishing.globalcsrc.org">publishing.globalcsrc.org</a> Internet Source	<1 %
26	Nuri, Mst Reshma Parvin. "Needs of Families of Children with Cerebral Palsy in Bangladesh", Queen's University (Canada), 2024 Publication	<1 %