

Bangladesh Heading for Economic Freefall? Political Upheaval Erases Years of Growth

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Bangladesh, once celebrated as an economic success story in the Indian subcontinent, is now navigating turbulent waters following a dramatic political crisis in August 2024. Prime Minister Sheikh Hasina's resignation, her subsequent flight to India, and the installation of an interim government with [US and Pakistan backing](#) have sent ripples of uncertainty through the nation and beyond.

In August 2024, Bangladesh faced a major political upheaval as student protests over government job quotas escalated into widespread violence, resulting in over 130 deaths and a coup, with Hasina forced to resign and flee to India preceding protesters storming her residence and government offices.

Even before the political crisis erupted, Bangladesh grappled with several economic challenges that threatened to undermine its progress, such as declining exports and dwindling foreign exchange reserves. The country's export-driven economy faced severe disruptions, particularly its crucial garment sector. Foreign exchange reserves had declined sharply, with gross reserves standing at \$21.8 billion in June 2024, 35% [lower](#) than in June 2022, covering just over three months of current account payments.

At the same time, inflation [hit](#) a decade-high of 9.7% year-on-year in April 2024, putting immense pressure on the cost of living for average Bangladeshis. The IMF reported the debt-to-GDP ratio as 41% for 2024, raising concerns among local economists, especially given the stagnant revenue growth. Two-fifths of Bangladesh's young population lacks reliable employment, contributing to social unrest. In the first quarter of 2024, unemployment increased by 3.51% compared to the last quarter of 2023, with the total unemployment count growing to 2.59 million. Stagnating between 8% and 9% over the past decade, the low revenue-to-GDP ratio is significantly lower than in neighbouring countries like India (20.2%), limiting the government's fiscal capacity.

These factors led to S&P Global Ratings on July 30 to downgrade Bangladesh's long-term foreign and local currency credit ratings to 'B+' from 'BB-'

The political upheaval has exacerbated existing economic issues and created new challenges that threaten to derail Bangladesh's economic progress and severely impact trade relations, which reached \$13 billion in the 2023-24 fiscal year. The political uncertainty has led to a slowdown in trade activities and investments, such as in the garment industry, which accounts for 85% of the country's exports. Garment factories have remained closed, leaving workers struggling with unpaid wages and unable to cover basic expenses.

Due to the declining economy, there are concerns about increased extremism and regional instability. The political vacuum created by Hasina's departure has raised fears about the potential resurgence of extremist groups within Bangladesh, with possible spillover effects on regional security.

Not only are there concerns about rising extremism, but the crisis has complicated Bangladesh's relationships with key allies, such as India, which can affect diplomatic and economic ties. One such concern is the creation of uncertainty surrounding foreign aid and investment. The taka, the national currency, has dropped sharply against the dollar, worsening economic instability and increasing import costs. This comes as the banking sector shows signs of stress, contributing to the overall fragility of the economic environment.

Despite the current turmoil, it's crucial to acknowledge the significant economic progress made under Sheikh Hasina's [leadership](#). Under her watch, Bangladesh experienced steady GDP growth ranging from 6% to 8% from the end of the global financial crisis to the start of the COVID-19 pandemic. This consistent growth helped elevate the country's economic status.

Bangladesh also undertook several emblematic megaprojects, boosting infrastructure and development. However, the loans associated with these projects are now falling, adding to the economic stress.

Hasina also helped oversee the reduction in the poverty rate from 44% in 1991 to 18.7% in 2022, marking a substantial improvement in the living standards of millions of Bangladeshis, while the country's economy quadrupled from \$102 billion in 2009 to \$437 billion in 2023, making it the second-largest economy in the region after India. This culminated in the highest per capita GDP in the Indian subcontinent, reaching \$2,529 in 2023, surpassing that of its neighbours, reflecting the country's economic progress.

It cannot be overlooked that the ongoing political turmoil in Bangladesh could also have significant implications for Indian businesses and investors with interests in the country. Indian companies, particularly those in the textile sector, may face challenges due to possible disruptions in trade and delayed payments. Given that Indian firms own approximately a quarter of textile manufacturing units in Bangladesh, the instability could prompt some to consider relocating their operations back to India.

Bangladesh stands at a critical crossroads, facing the dual challenge of political instability and economic uncertainty. The achievements made under Hasina's leadership, including sustained economic growth and poverty reduction, are now at risk. The interim government faces the daunting task of addressing immediate economic concerns while laying the groundwork for long-term stability and growth.

The country's heavy reliance on the garment industry, low tax-to-GDP ratio, and rising debt levels present significant vulnerabilities. Additionally, the potential loss of investor confidence and international support could further complicate economic recovery efforts. The projected decrease in GDP growth to below 6% for the next two years reflects the challenging road ahead.

With the interim government under Muhammad Yunus recently stating that attacks on Hindus were an "exaggeration" and that the attacks were not communal in nature, it is

unclear whether he was justifying the attacks and whether the violence will continue. If violence continues, stability in Bangladesh will turn into a distant dream. This will ultimately affect the economy and the people as a whole. It remains to be seen how the interim government tackles all the issues at hand.

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Featured image: The mother of an 18-year-old missing worker, Rina, waits for her lost daughter in front of a barricade in Savar, Dhaka, Bangladesh, 24 July 2013. (Credit: Taslima Akhter)

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