

**ECONOMIC
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Essential Reforms for Removing Investment Barriers

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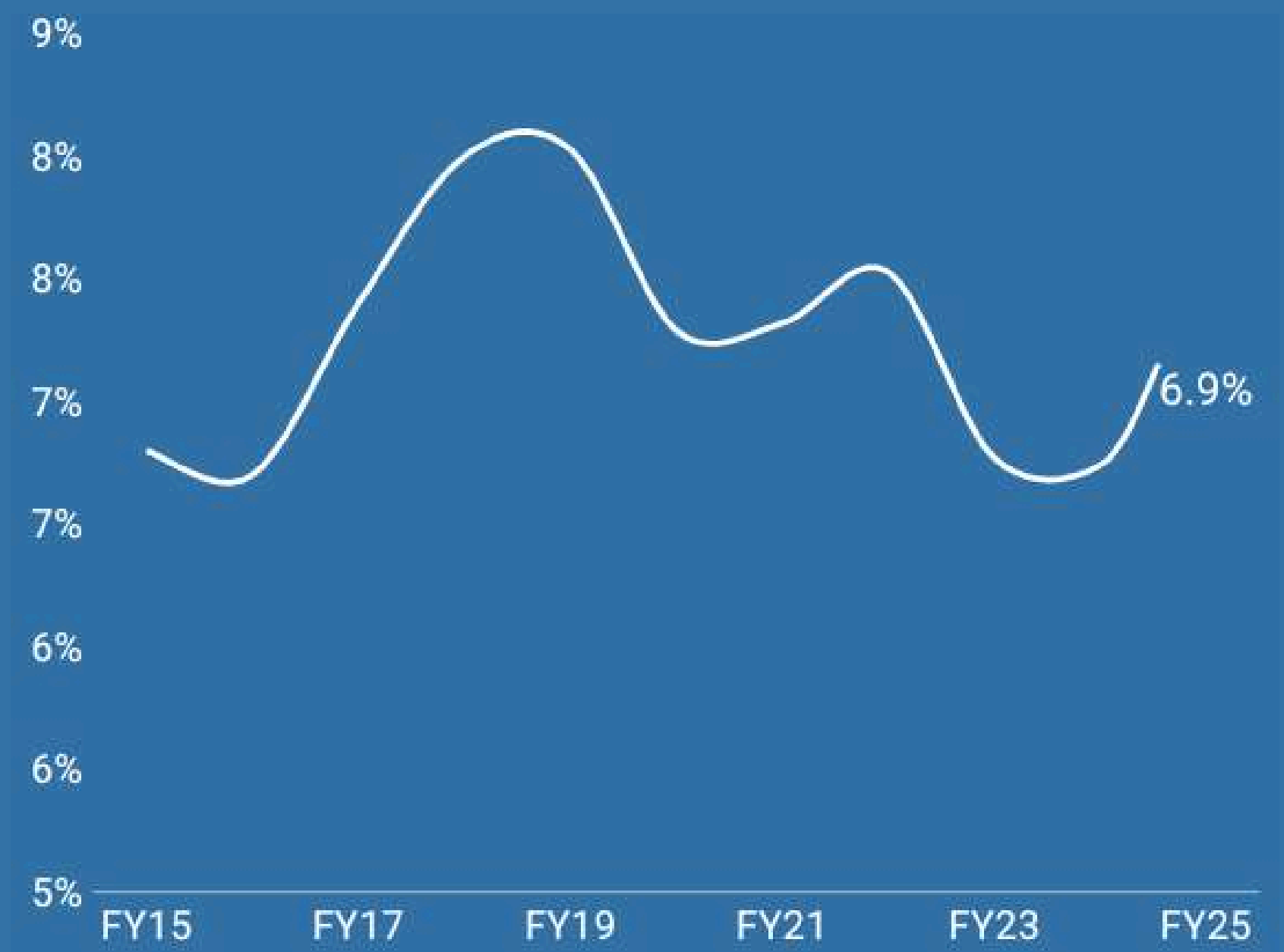
I. Current State of Investments

Private investment to GDP has declined in recent years



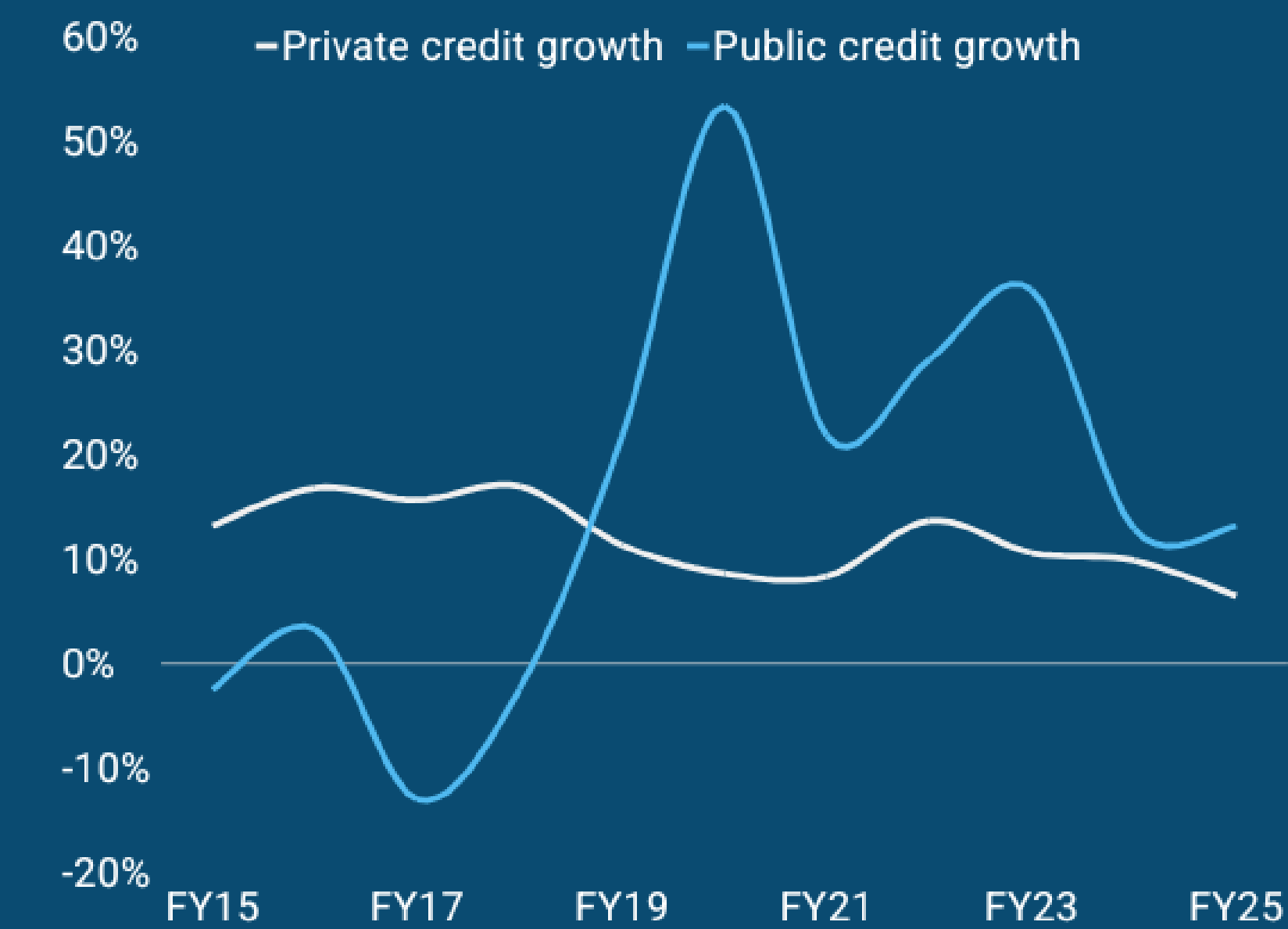
Bangladesh Bureau of Statistics

Public investment to GDP has softened after pre-Covid highs



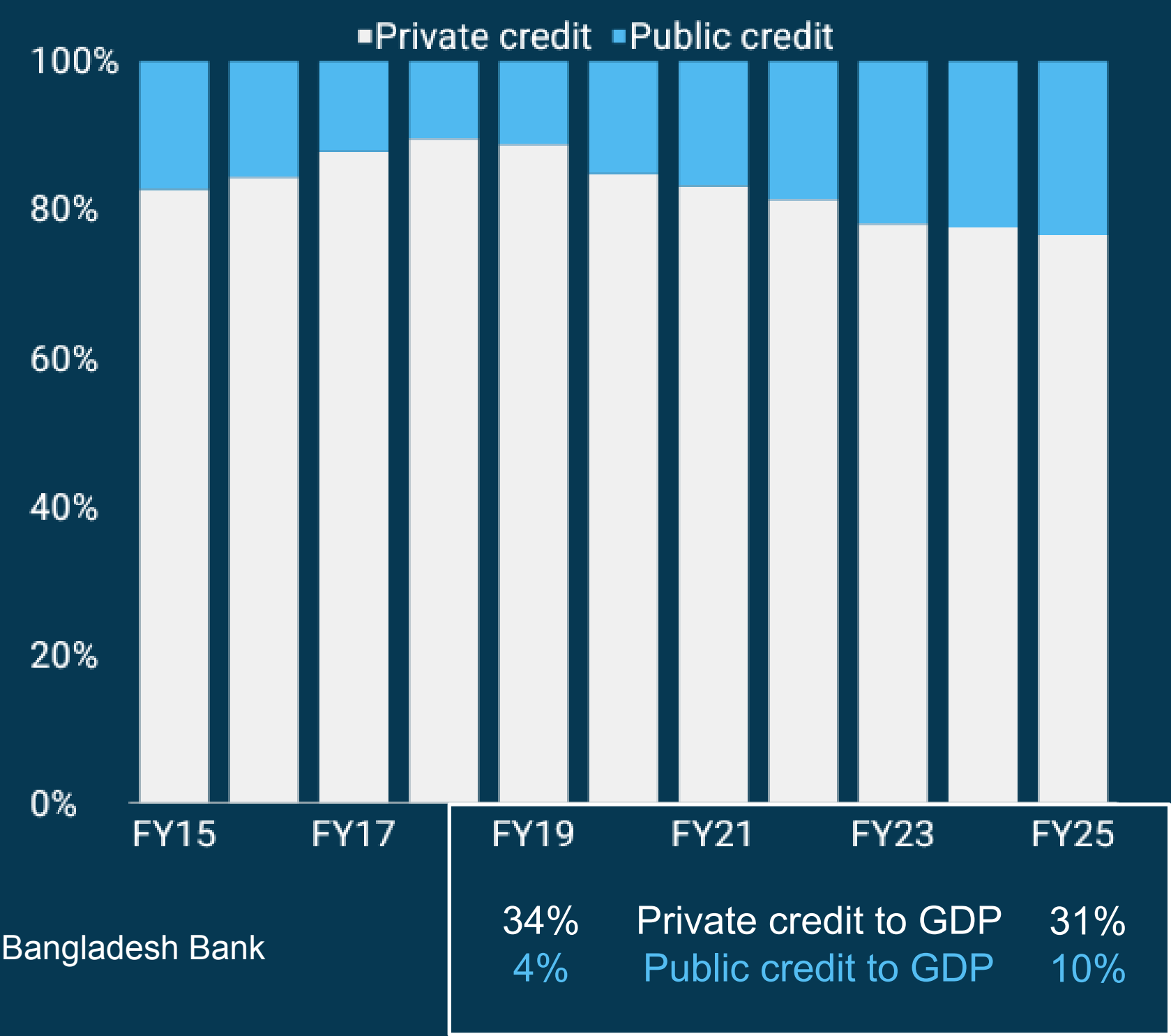
Bangladesh Bureau of Statistics

Private credit growth is notably weak amidst monetary tightening and political uncertainty



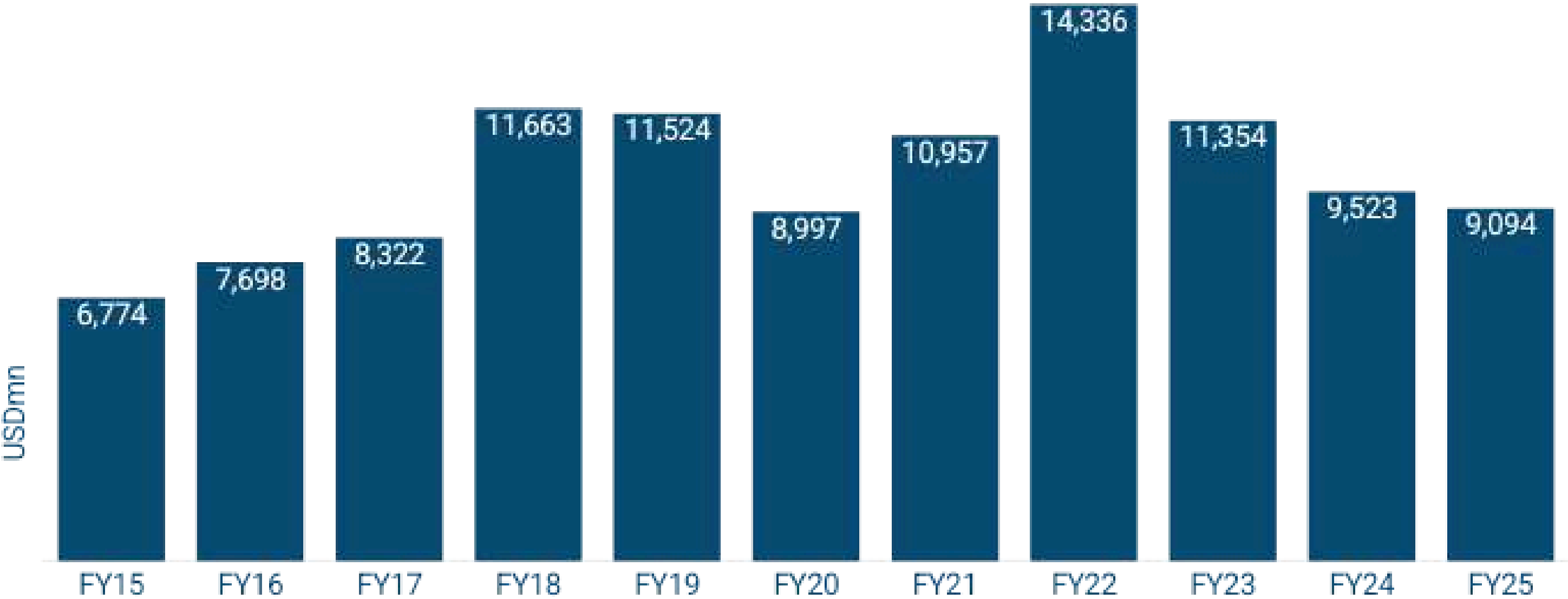
Bangladesh Bank

Share of public credit has risen visibly over the years and this “crowds out” private borrowers

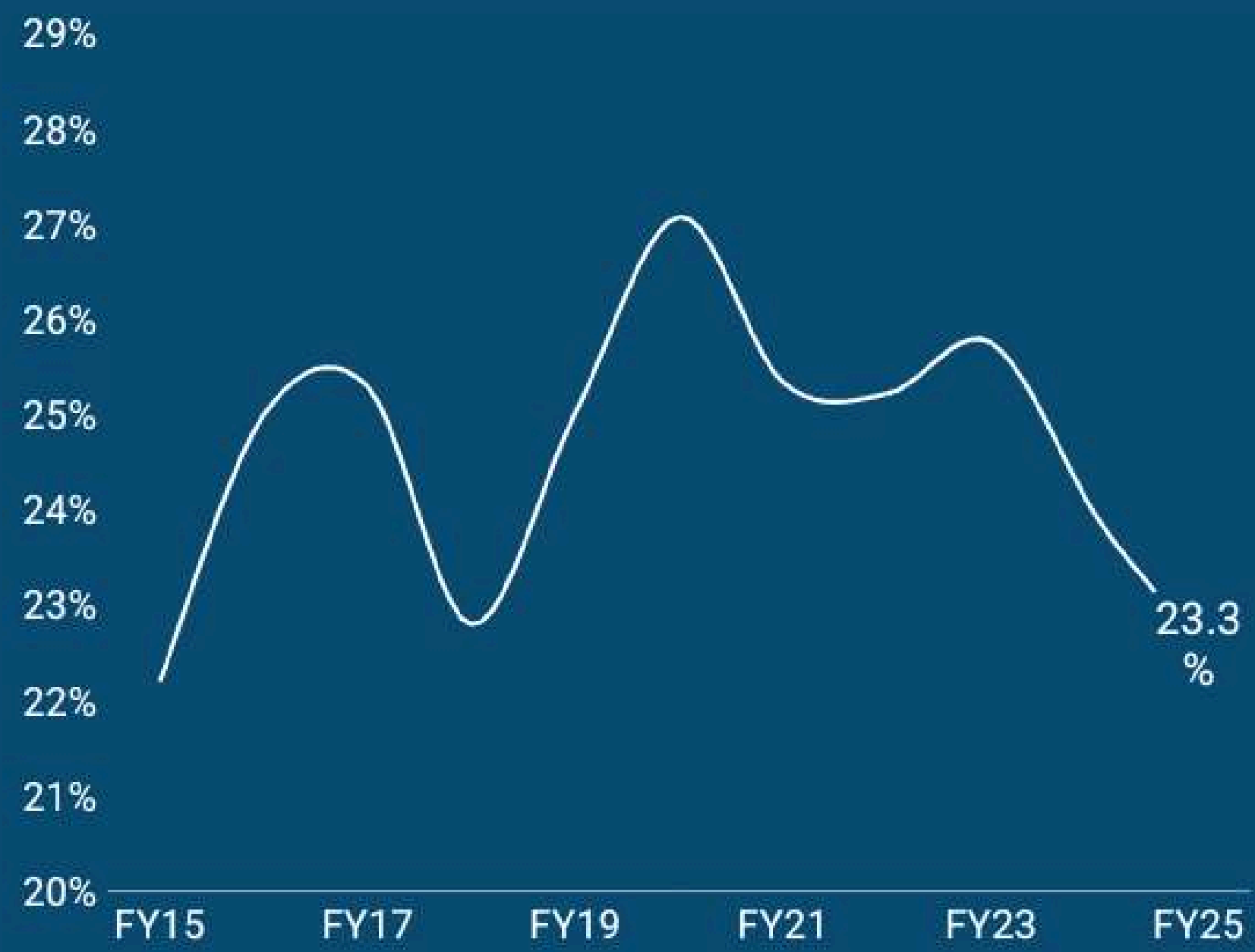


Bangladesh Bank

Capital machinery imports have remained soft, primarily due to pre-election uncertainties. This is a key driver of weak private credit growth.

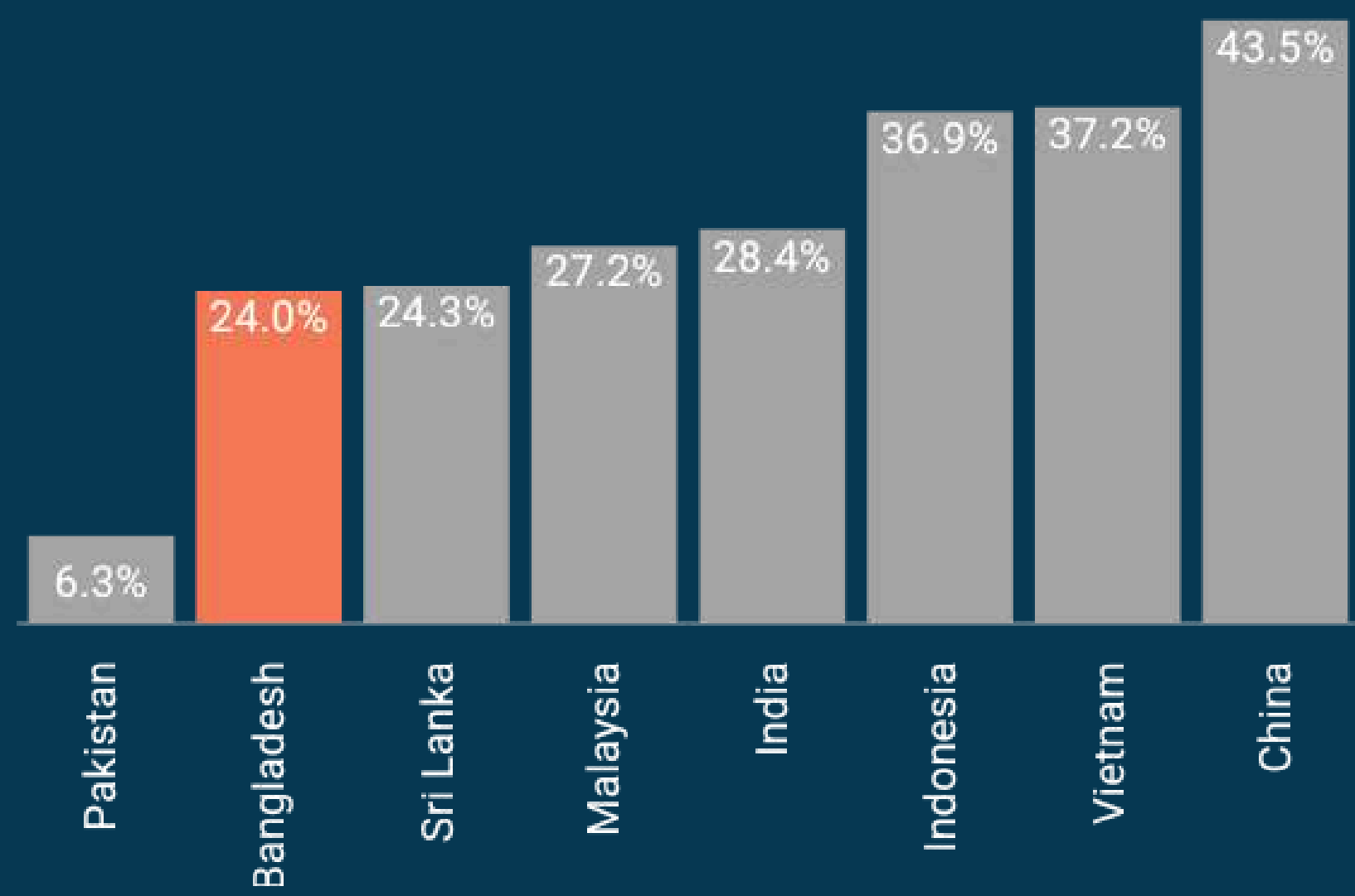


Gross Domestic Savings to GDP has dipped driven, at least partially, by elevated inflation



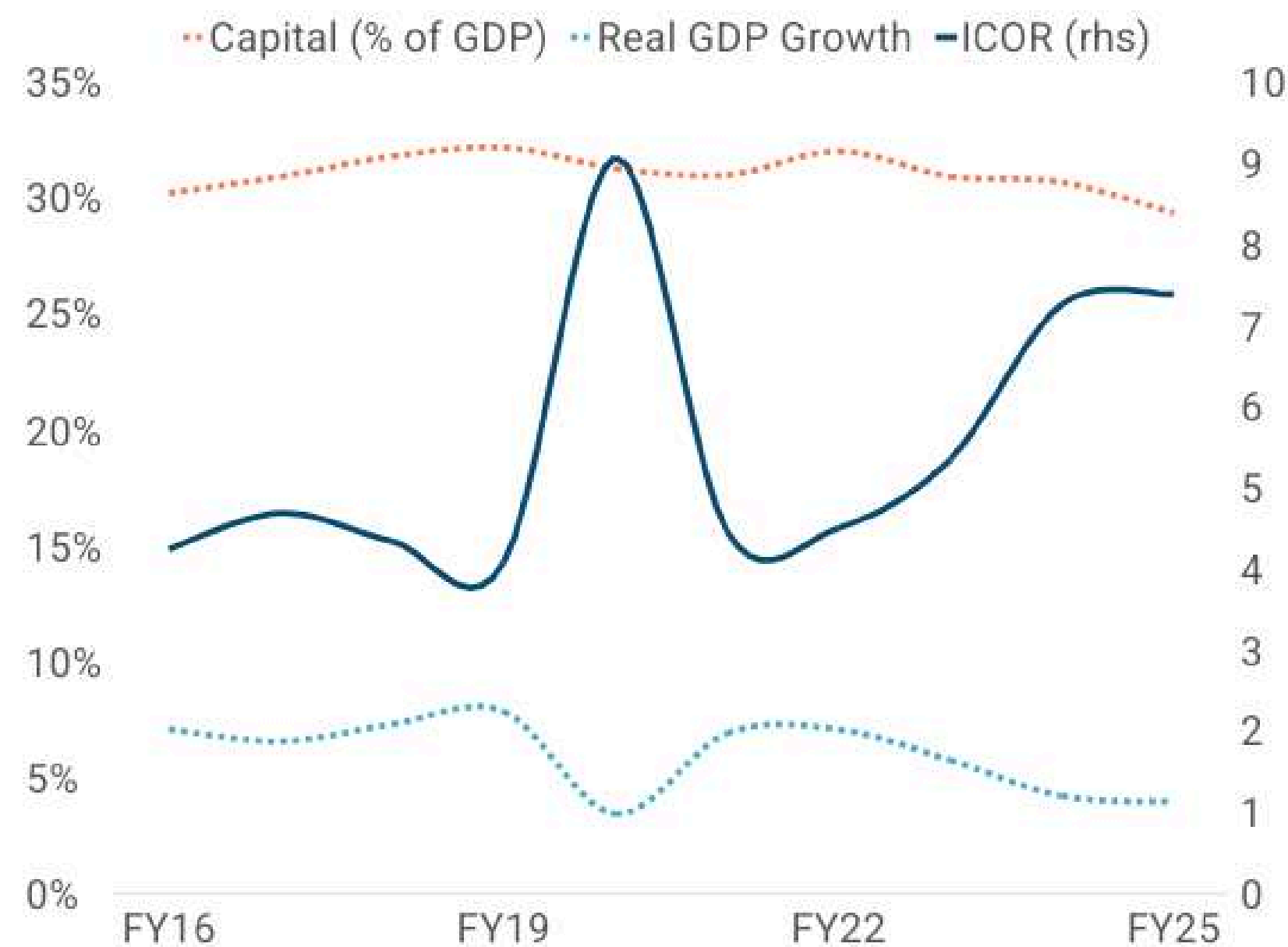
Bangladesh Bureau of Statistics

Bangladesh has lower Savings to GDP than regional leaders; this increases reliance on foreign debt



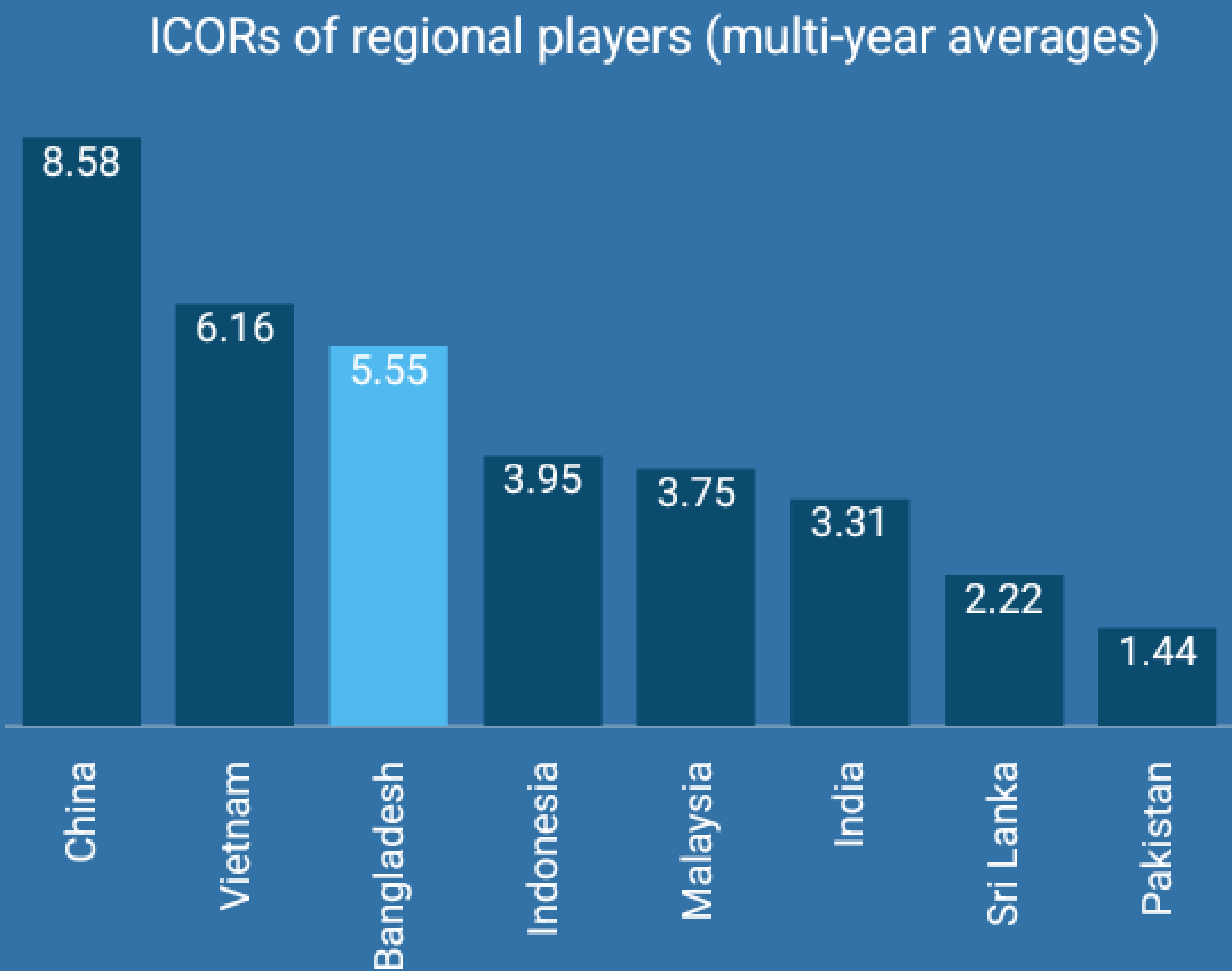
World Bank

Rising Incremental Capital Output Ratio (ICOR) points to suboptimal capital allocation



Bangladesh Bureau of Statistics

Bangladesh has a fairly high ICOR compared to prominent Asian economies



World Bank

Capital misallocation is a major pain point



Over-investment in multiple sectors, leading to spare capacity and tight margins, steel and sugar sectors are salient examples

- SME is on the other hand credit starved



Public investment in wasteful projects increases ICOR

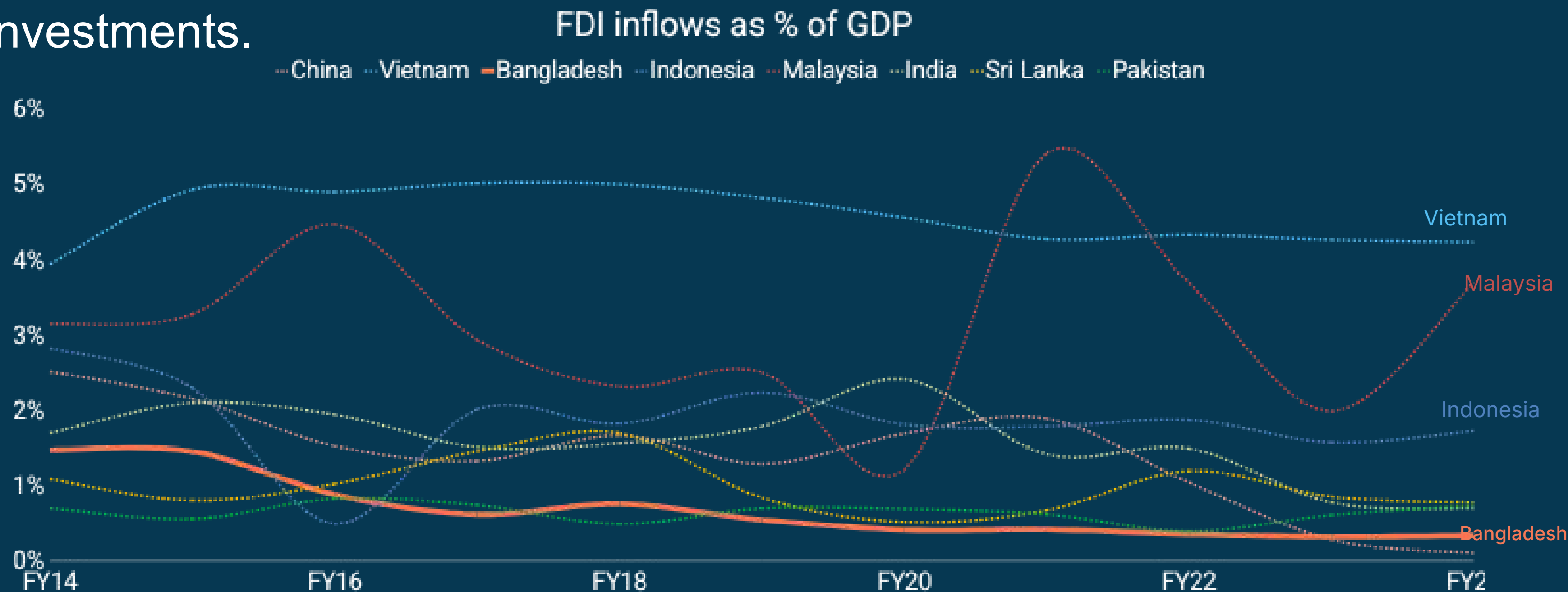
- White elephant projects have various negative implications for the economy
- When financed with costly debt, the negative impact is magnified



Excessive investments in real estate feeds bubble and starves the real economy

Scope to park black money in real estate has lead to overvaluation and capital misallocation

Bangladesh visibly lags regional players in terms of FDI inflows. This is a reflection of multi-faceted, structural issues that complicate investments.



II. Causes of Low Investment

Key Causes

1. Access to Capital

Limited availability of financial resources hinders growth.

2. Institutional Weaknesses

Inefficient regulatory frameworks impede investment opportunities.

3. Infrastructural Bottlenecks

Weak infrastructure significantly delays project implementation.

4. Other Challenges

Political instability creates a risky investment climate.

1. Access to Capital



Banking sector is hamstrung by capital shortfall

- A large number of banks are plagued by towering NPLs and significant capital shortfalls. They have little or no capacity to make fresh loans.



SME lending models are impaired by previous policy mistakes

- High cost of credit dries up funding in the SME space



Lack of capital market depth limits equity funding

- Levered or capital-intensive businesses do not have many options beyond bank



High interest rates deter incremental borrowing

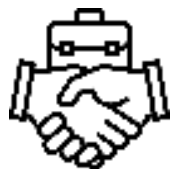
- Reduced borrowing appetite, in turn, impedes fresh investments

2. Institutional Weaknesses



Policy volatility hinders long term investment appetite

- Policy continuity has historically been elusive and investors, wary of sudden and consequential policy shifts, are hesitant to commit to long-term projects



Regulations are hardly conducive to a business-friendly environment

- Bangladesh ranks 29/50 in World Bank's B-Ready index, behind regional players such as Vietnam, Nepal, and Indonesia. Lengthy permit and dispute settlement



Judicial system is weak and ineffective

- Weak judicial system characterized by long resolution processes, inadequate property right protection, weak contract enforcement, and undue political influence in court



NBR issues

- NBR is marked by a multi-faceted issue, with frequent policy changes, ad-hoc tax treatment for certain companies or sectors, and sometimes non-compliance with its own

3. Infrastructural Bottlenecks



Shortfalls in the energy sector are hampering industrial activity

- Bangladesh's demand for natural gas is higher than existing supply, even with imported LNG. This has impeded activity in gas-reliant manufacturing centers



There is considerable room for efficiency improvements in the

Logistics sector Logistics costs in Bangladesh are fairly high and this stems from inefficiencies. Port operations have been in the spotlight lately and talks are ongoing to appoint a



The transport network remains unoptimized

- Several work hours are lost daily owing to traffic congestion
- Projects that de-couple Dhaka from the national transport network are crucial to

4. Other Challenges



Political uncertainty increases business risk

- Political unrest every 5 years in the past Lack of clarity surrounding political succession is stifling business expansion projects



Skilled labor shortages are compounded by brain drain

- There is a dearth of high-skill labor and this is aggravated by the brain drain phenomenon



Law and order

- Industrial activity was impacted by security concerns last year

III. Policy Recommendations

Access to Capital - Banking

Short-Term

1. Address the banks with massive capital shortfalls.
2. Work on recapitalization of banking sector via injections, foreign investment and supportive policies.

Medium-Term

1. Strengthen Bangladesh Bank and make it a world class regulator
2. Work towards building long lasting trust on the banking sector

Access to Capital – Capital Markets

Short-Term

1. Improve access to treasury securities market
2. Introduce more corporate bonds
3. Publish the 'public issue rules' with market-based price discovery

Medium-Term

1. Strengthening of BSEC and DSE
2. Work on the demand side – mutual funds, pension fund reforms, sovereign wealth fund, family offices etc

Addressing Institutional Weaknesses

Actions

1. Embark on a Vietnam style reform program
2. Digitize government services
3. Reduce the number of ministries and agencies to reduce redundancy

Case Study - Vietnam

Resolution 68-NQ/TW

Establish private sector as the “most important driving force” of the national economy.

Key reforms

- *Simplify business procedures and reduce administrative burdens by at least 30% by the end of 2025*
- *Strengthen legal and property rights*
- *Revising land law to improve private sectors access*
- *Targeted tax incentives*
- *Land access*
- *SOE Equitization*

Resolving Infrastructural Bottlenecks

Transport & Logistics

1. Traffic management and enforcement
2. Mass transit expansion
3. Port modernization
4. Connection of major transport means
5. Railway modernization

Energy

1. Operational efficiency of existing plants
2. Energy conservation measures
3. Grid management and transmission network upgradation
4. Power sector master plan

Changing public investment mindset

- Move away from Mega projects (allow private sector PPP investment for mega projects)
- Invest in soft infrastructure (e.g. Digital Public Infrastructure - DPI, Interoperability, automation) than hard infrastructure. No more School building in needed in the country (already lot of school buildings are unutilized).
- Respond urgently to food security and energy security issues. Invest in storage (food, LNG, LPG etc.)
- Allow private sector to invest in unutilized govt assets (e.g. solar in govt owned lands)

IV. Conclusion

Conclusion

- **Capital Misallocation:** Bangladesh cannot waste money on low ROI projects in both private and public sector.
- **Multifaceted approach needed:** There are multiple barriers to investments. All needs attention to be able to boost investments.
- **Vietnam case study:** Next government needs to really 'own' and implement a Vietnam style initiative to make 'doing business' simpler.
- **Rethinking public investing:** Government needs to shift its priorities while investing

Thank You!

For further inquiries, please contact us at research@edreamc.com