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Economic Fragility as a National Security Risk: Implications for Bangladesh's State Resilience

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Source: Dhaka Tribune

Bangladesh enters the second half of 2026 under a newly formed government that inherited an economy carrying several strains at once: a currency defended by thin reserves, a banking sector with negative capital, an export base concentrated in a single industry about to lose its trade preferences, and an energy supply chain exposed to geopolitical shocks. Bangladesh has faced many of these challenges before. What makes the current situation different is that they are unfolding simultaneously, leaving the economy far more vulnerable during a period of political transition. This is particularly important because economic instability today extends beyond fiscal

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and financial concerns; it directly affects governance, social cohesion, and the state's ability to respond to both domestic and external shocks[2]. For a country seeking to sustain its development gains while navigating an increasingly uncertain global environment, strengthening economic resilience has become as much a national security imperative as an economic priority[3]. Understanding the security implications of economic fragility is therefore essential for assessing Bangladesh's long-term state resilience and its capacity to withstand future crises.

Over the past three decades, the concept of national security has expanded beyond military threats to include economic resilience. Today, sustained economic weakness is increasingly recognized as a national security concern. The 1997 Asian Financial Crisis, the 2008 crash, and the economic fallout from COVID-19 all demonstrated how fast an economic shock can turn into a political one, with governments weakened and security risks rising in tandem. For a country like Bangladesh, where economic growth has contributed to reduce poverty and society stability, economic fragility isn't just about slower GDP or spooked investors. High inflation, rising unemployment, external debt pressures, foreign exchange shortages, supply chain disruptions, and climate-induced economic losses can increase public dissatisfaction, strain government institutions, and reduce the state's ability to provide essential services[4]. These conditions may also exacerbate existing vulnerabilities such as inequality, irregular migration, organized crime, and social polarization, all of which can undermine national resilience. For a state, resilience of this kind is less about the size of the economy than about how much room it has left to maneuver: how many months of import cover, how much fiscal space, how many alternative suppliers, before a shock stops being an economic event and becomes a governance one.

[2] World Bank Group, "Fragility, Conflict and Violence," World Bank, accessed July 11, 2026, https://www.worldbank.org/ext/en/topic/fragility-conflict-and-violence.
[3] World Economic Forum, *The Global Risks Report 2025*, 20th ed. (Geneva: World Economic Forum, January 2025), https://reports.weforum.org/docs/WEF_Global_Risks_Report_2025.pdf.
[4] World Economic Forum, *The Global Risks Report 2025*, 20th ed. (Geneva: World Economic Forum, January 2025), https://reports.weforum.org/docs/WEF_Global_Risks_Report_2025.pdf.

Economic Fragility and Bangladesh's National Security

Financial Vulnerability and the Erosion of State Autonomy

Bangladesh's foreign exchange reserves peaked at over $48 billion in August 2021 before falling to around $24 billion by May 2024 as imports rebounded after the pandemic and global commodity prices surged following Russia's invasion of Ukraine[5]. Although reserves recovered to about $35 billion gross (around $29.6 billion under the IMF's accounting method) by May 2026, much of this improvement was driven by record remittance inflows. Migrant workers sent home $32.8 billion in 2025[6], helping stabilize the economy but also increasing dependence on labor markets abroad. At the same time, the Asian Development Bank reports that Bangladesh's reserve buffer relative to external debt fell from over 75 percent in 2016 to just 21.5 percent in 2023[7], leaving the country less prepared to absorb external shocks.

These vulnerabilities are already affecting policy. In April 2026, the IMF withheld a $1.3 billion tranche of its existing program over delays in key economic reforms[8], forcing Bangladesh to negotiate a new program with revised conditions two months later. This highlights how weak financial buffers can limit policy autonomy by increasing reliance on external lenders. Moody's B2 rating with a negative outlook has also raised borrowing costs, adding further pressure to the country's economic recovery[9]. A downgrade does more than increase borrowing costs. It leaves the government with less money for priorities such as disaster response, social protection, and infrastructure, while increasing its reliance on external lenders and weakening the state's resilience to future crises.

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[5] "Reserves Cross $29b under IMF Method," *The Daily Star*, February 10, 2026, https://www.thedailystar.net/business/economy/news/reserves-cross-29b-under-imf-method-4102381.

[6] International Organization for Migration (IOM), *Bangladesh—Remittance Inflows to Bangladesh (2024–2025)* (Geneva: IOM Displacement Tracking Matrix, April 2, 2026), https://dtm.iom.int/reports/bangladesh-remittance-inflows-bangladesh-2024-2025.

[7] Asian Development Bank, "Bangladesh: Economy," accessed July 11, 2026, https://www.adb.org/where-we-work/bangladesh/economy.

[8] Abul Kashem, "IMF Blocks Pending Loan Tranches for Now, Citing Reform Failure," *The Business Standard*, April 17, 2026, https://www.tbsnews.net/economy/imf-blocks-pending-loan-tranches-now-citing-reform-failure-1413446.

[9] Trading Economics, "Bangladesh – Credit Rating," accessed July 11, 2026, https://tradingeconomics.com/bangladesh/rating.

Weak Institutions and Declining Economic Credibility

Economic resilience depends not only on financial resources but also on credible institutions. Confidence in economic management has weakened after a committee appointed by the interim government concluded that Bangladesh's pre-pandemic GDP growth had likely been overstated for several years. The committee estimated actual growth at around 3 percent compared to the officially reported 7 percent, suggesting that the economy may have been substantially smaller than previously believed.

Reliable economic data form the basis of sound policymaking. Governments need accurate information to plan budgets, assess fiscal risks, and respond effectively during crises. International

Source: The Business Standard

lenders also rely on these figures when evaluating a country's financial stability. When the credibility of official statistics is questioned, investor confidence declines and access to external financing becomes more difficult. In this sense, weak data governance becomes more than a technical issue; it undermines the state's ability to anticipate risks and respond before they become crises.

Banking Sector Fragility and Internal Stability

Bangladesh's banking sector remains one of the country's most serious structural weaknesses. Officially, non-performing loans fell to 30.6 percent by the end of 2025, but much of the decline resulted from loan rescheduling rather than actual recovery[10]. The World Bank estimated the real non-performing loan ratio at 32.6 percent in March 2026 and reported that the banking sector's capital adequacy had fallen to negative 2.6 percent[11], indicating that many banks have little capacity to absorb further losses.

The banking system is also under far greater strain than those of neighboring countries, with Bangladesh's bad loan ratio exceeding those of Pakistan, India, Sri Lanka, and even wartime Ukraine[12]. Such weakness goes beyond financial stability. A banking crisis could force the government to divert scarce public resources to rescue the sector, limiting spending on development and other national priorities. At the same time, reports that politically connected borrowers received large loans that later defaulted have undermined public confidence in both the banking system and state institutions. Over time, this erodes public trust in financial institutions and weakens confidence in state governance itself. That kind of trust, once lost, is slow to rebuild, and a government that cannot count on public confidence in its financial system has less room to ask anything of its citizens, whether that is taxes, savings, or cooperation during a crisis.

Export Dependence and Economic Security

Bangladesh's export economy remains heavily dependent on the ready-made garment sector, which generates more than 80 percent of export earnings and employs around four million workers,

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[10] Sakhawat Prince and ASM Saad, "NPLs in Banks Drop to Tk87,298cr in Q4 on Aggressive Rescheduling," *The Business Standard*, March 2, 2026, https://www.tbsnews.net/economy/banking/npls-banks-drop-tk87298cr-q4-aggressive-rescheduling-1375486.

[11] World Bank, "World Bank Helps Bangladesh Strengthen Its Banking Sector," press release, June 24, 2026, https://www.worldbank.org/en/news/press-release/2026/06/24/world-bank-helps-bangladesh-strengthen-its-banking-sector.

[12] Md Main Uddin, "The Banking Sector's Dangerous Free Fall While Defaulters Thrive," *The Daily Star*, May 13, 2026, https://www.thedailystar.net/opinion/views/news/the-banking-sectors-dangerous-free-fall-while-defaulters-thrive-4174361.

most of them women[13]. While this has driven decades of growth, it also leaves the economy highly exposed to external shocks.

Source: The Financial Express

The biggest challenge is Bangladesh's scheduled graduation from Least Developed Country status on 24 November 2026. As trade preferences are gradually phased out, maintaining preferential access to key markets will depend on governance and labor reforms that are yet to be fully implemented[14]. Although the government has requested a deferral and the UN Committee for Development Policy has indicated that an extension remains possible if meaningful reforms are

[13] Reuters, "US and Bangladesh Set Trade Deal with Tariffs at 19 Percent," *Al Jazeera*, February 9, 2026, https://www.aljazeera.com/economy/2026/2/9/us-and-bangladesh-set-trade-deal-with-tariffs-at-19-percent.

[14] Kauser Bhuiyan, "Bangladesh's LDC Graduation—Key Risks & Recommended Actions," *Stein & Partners*, December 6, 2025, https://www.steinandpartners.com/investment-finance/bangladeshs-ldc-graduation-key-risks-recommended-actions/.

undertaken[15], uncertainty persists. At the same time, the pharmaceutical industry will lose WTO TRIPS exemptions after graduation, creating additional pressure on a key export sector[16].

From a national security perspective, heavy reliance on a single export industry makes Bangladesh's foreign exchange earnings vulnerable to external policy changes. Any significant decline in export income would weaken reserves, reduce employment and government revenue, and ultimately limit the state's ability to respond to future economic and security challenges.

Energy Dependence and Supply Chain Security

Bangladesh's growing reliance on imported energy has become a major economic and national security concern. The country now imports around 60–65 percent of its primary energy, while domestic gas production has declined sharply and meets less than half of daily demand[17] [18].

The risks became clear during the US-Iran conflict in early 2026, when disruptions in the Strait of Hormuz forced major LNG suppliers to suspend shipments to Bangladesh and global LNG prices surged. The shock quickly spread across the economy. State-owned fertilizer plants halted production during the Boro cultivation season, electricity generation was disrupted, and the International Growth Centre estimated that about 1.2 million people fell into poverty as a result of the energy crisis[19]. Officials also warned of widespread load shedding during the summer[20].

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[15] United Nations, "Bangladesh Graduation Status," *LDC Portal: International Support Measures for Least Developed Countries*, accessed July 11, 2026, https://www.un.org/ldcportal/content/bangladesh-graduation-status.

[16] Refayet Ullah Mirdha, "LDC Graduation: An Economic Cliff?" *The Daily Star*, September 4, 2025, https://www.thedailystar.net/top-news/news/ldc-graduation-economic-cliff-3978086.

[17] "Import Dependence and Energy Crisis: Experts, Industry Leaders Call for Urgent Reforms amid Rising Energy Costs," *Dhaka Tribune*, April 19, 2026, https://www.dhakatribune.com/bangladesh/power-energy/408095/import-dependence-and-energy-crisis-experts.

[18] Sajibur Rahman, "Reliance on LNG Sparks Bangladesh's Energy Crisis, Hitting Factories, Exports," *Energy Tracker Asia*, May 4, 2026, https://energytracker.asia/reliance-on-lng-sparks-bangladeshs-energy-crisis/.

[19] Shadlee Rahman, "How Shockwaves from the Gulf Are Reshaping Bangladesh's Economic Stability," *International Growth Centre*, April 23, 2026, https://www.theigc.org/blogs/energy-crisis-bangladesh-economy.

[20] Asifur Rahman, "Nation Braces for Power Cuts in Hot Summer," *The Daily Star*, April 5, 2026, https://www.thedailystar.net/news/bangladesh/news/nation-braces-power-cuts-hot-summer-4143736.

The episode showed how external geopolitical events can directly disrupt Bangladesh's food production, industrial activity, employment, and social stability. Energy security is therefore no longer just an economic issue, it is a core element of national security.

Social Pressures that Deepen Economic Insecurity

Bangladesh's economic vulnerabilities are further intensified by demographic and humanitarian pressures. Nearly one in five young people aged 15–29 are not in employment, education, or training, with the rate even higher among young women[21]. A large cohort of young people with no job, no school, and no clear path forward is not only a labor-market indicator. It is also the population that recruiters for organized crime, trafficking networks, and armed groups tend to target first. At the same time, the country continues to host more than one million Rohingya refugees while international humanitarian funding continues to decline. The 2026 UN appeal was 26 percent smaller than the previous year's request and was only about 60 percent funded by June[22].

Limited education and employment opportunities have left around half a million young Rohingya with few prospects, contributing to a rise in dangerous sea journeys towards Malaysia and Indonesia, where nearly 900 people were reported dead or missing in 2025[23] [24]. Climate change is expected to intensify these pressures, with an estimated 13.3 million Bangladeshis at risk of becoming internal climate migrants and severe flooding potentially reducing annual GDP by up to 9 percent[25].

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[21] TBS Report, "1.94 Million Youth Unemployed: BBS Survey," *The Business Standard*, December 22, 2024, https://www.tbsnews.net/bangladesh/194-million-youth-unemployed-bbs-survey-1025001.

[22] United Nations High Commissioner for Refugees (UNHCR), "UNHCR, Humanitarian Partners Ask the World Not to Forget Rohingya Refugees in Bangladesh," June 2, 2026, https://www.unrefugees.org/news/2026/6/unhcr-humanitarian-partners-ask-the-world-not-to-forget-rohingya-refugees-in-bangladesh/.

[23] International Rescue Committee, "IRC: Nine Years of Emergency Response Falls Short for Rohingya Refugees and Bangladeshi Host Communities," April 15, 2026, https://www.rescue.org/press-release/irc-nine-years-emergency-response-falls-short-rohingya-refugees-and-bangladeshi-host.

[24] United Nations High Commissioner for Refugees (UNHCR), "UNHCR, Humanitarian Partners Ask the World Not to Forget Rohingya Refugees in Bangladesh," June 2, 2026, https://www.unrefugees.org/news/2026/6/unhcr-humanitarian-partners-ask-the-world-not-to-forget-rohingya-refugees-in-bangladesh/.

[25] Mohammad Tarikul Islam, "Disaster and Climate-Induced Migration in Bangladesh: A Potential Threat to Human Security," *Harvard Humanitarian Initiative*, September 22, 2025, https://hhi.harvard.edu/news/2025/09/disaster-and-climate-induced-migration-bangladesh-potential-threat-human-security.

Together, youth unemployment, the protracted refugee crisis, and climate-induced displacement place growing pressure on public resources, labor markets, and social stability, making economic resilience increasingly difficult to sustain. Left unaddressed, this is not simply a drag on development. It is a test of whether the state can keep order and deliver basic services under sustained pressure, rather than a single sharp shock.

Economic Fragility as a Force Multiplier of National Security Risks

Bangladesh faces multiple economic challenges simultaneously. What makes the situation more critical is that that these vulnerabilities interact in ways that amplify one another. Security planners often distinguish between isolated risks and systemic risks. Bangladesh has drifted into the second category. Declining foreign exchange reserves squeeze energy imports. Energy shortages cut industrial output and export earnings. Weaker exports put more pressure on reserves. Fiscal constraints delay recapitalizing the banks. And a shaky banking system chokes off the investment needed for recovery. A macroeconomic problem turns into a loop that erodes the state's capacity to govern.

This matters for national security in three ways. First, an economically weak state has less capacity to respond to a crisis. Natural disasters, external conflicts, public health emergencies, refugee inflows all of these require financial and institutional flexibility to handle quickly. Bangladesh keeps entering each new crisis with thinner buffers than the last. So shocks that should pass in a few months turn into governance problems that drag on for years. The threats aren't necessarily getting bigger; the state's capacity to absorb them is shrinking.

Second, prolonged economic strain weakens political legitimacy and social cohesion. Persistent inflation, unemployment, falling purchasing power, unreliable electricity, financial uncertainty: people notice these things and judge their government by them, whether the causes are domestic or global. That dissatisfaction shows up as protests, labor unrest, and political polarization, pulling state resources toward keeping order instead of building for the future. Bangladesh has weathered plenty of crises with real social resilience, but resilience has a ceiling, and chronic hardship tests it differently than a one-off shock does. Macroeconomic instability becomes, in effect, an internal security problem: it raises the risks of unrest and reduces public trust in institutions.

Third, economic vulnerability limits strategic autonomy in foreign policy. Countries with solid reserves, diverse exports, and healthy banks can negotiate with outside partners on their own terms. Countries under financial strain usually can't; their choices get shaped by creditors, donors, and regional powers instead. Bangladesh's reliance on IMF financing, imported energy, preferential market access, remittances, and regional transit deals shows exactly this pattern. None of these relationships is a problem by itself. Together, though, they narrow how much room the government has to make its own calls which means a conflict in the Middle East or a policy shift in a major trading partner can end up steering decisions made in Dhaka.

Viewed from this broader perspective, Bangladesh's biggest security challenge is not any single economic problem but the fact that the country has limited capacity to absorb multiple shocks at the same time. When one sector comes under pressure, whether from an external conflict, a financial crisis, or a climate disaster, the effects quickly spread to other parts of the economy and the state. This is because many of the country's economic vulnerabilities are closely interconnected. National resilience, therefore, depends on much more than military strength. It also requires a stable banking system, adequate foreign exchange reserves, a diversified export base, reliable energy supplies, credible economic data, and effective institutions. Strengthening these foundations is not simply an economic policy objective; it has become essential for protecting Bangladesh's long-term national security.

Building State Resilience

Bangladesh's economic challenges are no longer confined to questions of growth, inflation, or fiscal management. The National Budget for FY2026–27 reflects an acknowledgement of many of these challenges. Measures aimed at improving revenue collection, strengthening banking sector oversight, supporting export diversification, investing in energy infrastructure, and expanding social protection indicate that the government recognizes the need for structural reform rather than relying solely on short-term stabilization. The budget also aligns with several commitments made under ongoing economic reform programs and seeks to restore investor confidence while maintaining macroeconomic stability. These are important and necessary steps, but budgetary allocations alone cannot resolve deep-rooted structural weaknesses. Their success will depend on effective implementation, institutional accountability, and sustained political commitment.

Going forward, Bangladesh should treat economic resilience as a core pillar of national security planning. Reforming the banking sector must remain a priority through stronger regulatory oversight, improved governance, and decisive action against loan defaults. At the same time, reducing dependence on a single export sector by promoting higher-value manufacturing, technology, pharmaceuticals, and service exports will be critical as the country prepares for LDC graduation. Energy security should be strengthened through greater investment in renewable energy, domestic resource development, energy efficiency, and diversified import sources to reduce vulnerability to external disruptions. Equally important is rebuilding confidence in public institutions by improving the credibility of economic statistics, enhancing fiscal transparency, and strengthening evidence-based policymaking. Investments in education, skills development, employment generation, and climate adaptation should also be viewed as long-term security investments rather than purely social expenditures. None of these are new ideas in Bangladesh's policy conversation. What would be new is treating them as security priorities, with the planning, monitoring, and cross-agency coordination usually reserved for defense, rather than leaving them solely to finance ministries and central banks.

Ultimately, Bangladesh's future resilience will depend not only on how rapidly its economy grows, but also on how effectively it can withstand and recover from shocks. In an era where financial crises, geopolitical conflicts, supply chain disruptions, and climate change increasingly intersect, national security can no longer be separated from economic resilience.