



PREPARING BANGLADESH FOR LDC GRADUATION AND ITS IMPACT ON GLOBAL TRADE

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ABSTRACT

Bangladesh's anticipated graduation from Least Developed Country (LDC) status in November 2026 represents a critical juncture for its economy, with profound implications for the banking sector and its integration into global trade networks. This paper investigates the financial and trade-related challenges posed by this transition, evaluates strategies to prepare the banking industry, and analyses the broader effects on international trade dynamics. Utilizing a mixed-method approach, the study draws on secondary data from authoritative sources such as the Bangladesh Bank, the World Trade Organization (WTO), and the United Nations Conference on Trade and Development (UNCTAD).

Key findings highlight significant challenges such as the imposition of 10-12% tariffs post-graduation threatens a \$6-9 billion decline in export revenue, primarily from the \$45 billion ready-made garments sector. The shift from concessional loans at 1-2% to commercial rates of 5-7% increases annual debt servicing costs by \$500 million, straining fiscal and banking liquidity. Non-performing loans could rise from 16.9% to even higher, jeopardizing \$10 billion in RMG loans and \$40 billion in trade finance operations. Globally, Bangladesh's about 7% share of the \$450 billion apparel market faces a 1-2% erosion, redirecting \$4-9 billion in trade to competitors like Vietnam and India.

To address these risks, the paper proposes strategic interventions, for example \$6.5 billion in enhanced export credit schemes, \$5 billion in innovative financing mechanisms like green bonds and Islamic Sukuk, and synergistic government-bank efforts to secure trade agreements and infrastructure upgrades. These measures aim to preserve Bangladesh's contracting \$17 billion trade deficit and \$26 billion reserves, ensuring economic stability. This study underscores the banking sector's critical role as a linchpin in this transition, offering actionable insights for financial institutions, policymakers, and trade stakeholders to reinforce Bangladesh's competitive edge and sustain its global trade relevance through 2030 and beyond.

1. INTRODUCTION

1.1 Bangladesh's Economic Odyssey towards LDC Graduation

Bangladesh's has transformed into a global player, driven largely by its export-oriented ready-made garments sector, which accounts for over 80% of its export earnings. Bangladesh's GDP growth has consistently hovered around 6-7% annually. This progress has positioned the country to meet the United Nations criteria for graduation from Least Developed Country status—namely, surpassing thresholds in Gross National Income (GNI) per capita, Human Assets Index (HAI), and Economic Vulnerability Index (EVI). The UN's Committee for Development Policy confirmed Bangladesh's eligibility in 2018, with graduation scheduled for November 2026.

Bangladesh's GNI per capita has exceeded above the LDC graduation threshold of \$1,306, while its HAI score reflects improvements in education and health. However, the banking sector, a critical enabler of this growth, now faces the dual challenge of sustaining momentum while adapting to the loss of LDC-specific benefits, such as duty-free access to key markets and concessional financing. The journey to 2026 thus demands a

recalibration of financial strategies to maintain Bangladesh's upward trajectory.

1.2 Why LDC Graduation Matters for Finance and Trade

The impending LDC graduation is a transformative event with profound implications for Bangladesh's banking industry and its role in global trade. LDC status has granted Bangladesh preferential access to markets like the European Union under the Everything But Arms (EBA) initiative, enabling tariff-free exports. In 2024 alone, exports to the EU reached nearly \$20 billion. Post-graduation, the introduction of tariffs on apparel threatens to erode this competitive edge, compelling banks to rethink trade financing models.

Concessional loans from multilateral institutions, often at rates below 2%, have supported infrastructure and industrial growth. Post-2026, Bangladesh will face market-based borrowing costs, projected to rise by 3-5%. For the banking industry, this transition amplifies risks such as higher non-performing loans (NPLs) and currency volatility. It also presents opportunities: a chance to deepen financial innovation and strengthen risk management.



1.3 Objectives

This paper aims to analyze the financial and trade-related challenges that will emerge as LDC privileges fade, focusing on the banking sector's exposure to export declines and rising borrowing costs. It evaluates preparedness strategies, identifying how financial institutions can adapt to support exporters and manage risks in a post-LDC landscape. It also assesses the broader impact on global trade dynamics, exploring how Bangladesh's graduation might reshape supply chains and trade flows, particularly in apparel and emerging sectors like pharmaceuticals.

2. LITERATURE REVIEW

2.1 Understanding the LDC Graduation Framework

The pathway to Least Developed Country graduation hinges on three measurable pillars: Gross National Income (GNI) per capita, the Human Assets Index (HAI), and the Economic Vulnerability Index (EVI). GNI per capita must exceed the threshold level for two consecutive triennial reviews. Research from the UN Conference on Trade and Development (UNCTAD) highlights that graduation typically triggers a three-year preparatory phase (extended to five years due to COVID-19) followed by the loss of LDC-specific privileges. This framework, while a badge of economic maturity, poses immediate challenges for trade-dependent economies, a theme central to this paper's banking perspective.

2.2 Economic Implications of Losing LDC Status

The transition out of LDC status has been extensively studied for its economic repercussions, particularly the erosion of trade preferences and concessional financing. Literature on previous graduates, reveals a pattern of export market adjustments. For Bangladesh, the EU's Everything But Arms (EBA) initiative, which offers duty-free access, has been a linchpin for its ready-made garments (RMG) sector. Post-graduation, tariffs could rise by 10-12%, potentially shaving export revenues. Additionally, the shift from concessional loans, often below 2% interest, to market rates averaging 5-7%, a concern echoed in International Monetary Fund (IMF) analyses. These shifts ripple through the banking sector, amplifying liquidity risks and challenging trade finance models, yet few studies connect these dots explicitly to Bangladesh's context.

2.3 Financial Sector Adaptation in Post-LDC Transitions

Studies on Vietnam's post-WTO integration highlight how banks retooled trade credit facilities to offset tariff hikes. Research from the Asian Development Bank (ADB) suggests that graduation could strain bank balance sheets as non-performing loans rise amid exporter distress, a risk compounded by currency volatility post-2026. Conversely, some scholars argue that digital banking innovations could offset these pressures. This duality of risk and opportunity frames the banking sector as a linchpin in the graduation process, warranting deeper scrutiny.

2.4 Bangladesh's Position and Prospects

Bangladesh's ascent in global trade has been driven by RMG

exports. The country ranks as the world's second-largest apparel exporter. Graduation threatens to disrupt this edge. Comparative analyses of post-LDC economies reveal mixed outcomes: export diversification mitigated losses, while tariff shocks hit single-sector economies harder. For Bangladesh, emerging sectors like pharmaceuticals and leather goods offer potential buffers. The banking sector's role in financing these shifts via credit lines or foreign exchange support emerges as a critical variable, yet studies rarely integrate this financial lens with trade outcomes.

2.5 Where Research Falls Short

Few studies focus on Bangladesh-specific banking responses to LDC graduation, despite the sector's centrality to trade and economic stability. The interplay between tariff losses and trade finance costs lacks granular analysis, particularly for RMG-heavy economies. The potential of regional trade agreements like the Comprehensive Economic Partnership Agreement (CEPA) with India to offset graduation shocks is underexplored. The long-term implications for global supply chains, where Bangladesh is a key node, remain speculative without real-time data post-2026. This paper addresses these voids by anchoring its analysis in banking realities and trade finance dynamics.

3. METHODOLOGY

3.1 Analytical Approach

This study adopts a mixed-method approach, combining qualitative and quantitative techniques. The qualitative component draws on policy documents, industry reports, and expert analyses to frame the banking sector's role and strategic responses. The quantitative aspect leverages statistical data to assess economic trends, trade flows, and banking metrics.

3.2 Data Sources

The analysis relies exclusively on secondary data, sourced from credible institutions. Key datasets include economic indicators from Bangladesh Bank, reflecting the banking sector's health through 2024. Trade statistics—export values, tariff projections, and market shares—are drawn from the Ministry of Commerce and international bodies like the World Trade Organization (WTO) and UN Conference on Trade and Development (UNCTAD). Additional insights come from World Bank reports and Asian Development Bank (ADB) studies. Industry publications from the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) provide sector-specific context.

3.3 Analytical Framework

A financial impact assessment quantifies the effects of losing concessional loans and trade preferences on banking liquidity and credit portfolios, using metrics like interest rate spreads. A trade flow analysis examines shifts in Bangladesh's export competitiveness post-2026, projecting tariff impacts via comparative benchmarks from other post-LDC economies. Scenario-based projections model best- and worst-case outcomes, factoring in banking sector resilience and policy interventions.



3.4 Limitations

This methodology faces inherent limitations. Reliance on secondary data restricts real-time validation, as Bangladesh's graduation effects will unfold post-2026. Data gaps, such as incomplete banking exposure to SME exporters, may skew risk assessments. Evolving geopolitical factors such as regional agreements like CEPA with India—could also alter projections. Findings remain indicative rather than definitive.

4. BANGLADESH'S ECONOMIC CONTEXT PRE-GRADUATION

4.1 Pulse of Progress

As Bangladesh approaches its LDC graduation in November 2026, its economic profile reflects resilience. By 2024, the country's GDP growth has stabilized at 6.5-7%. The ready-made garments sector remains the economic engine, contributing to \$50 billion in export revenue—over 80% of total exports. Remittances overseas workers contribute \$22 billion annually, bolstering foreign exchange reserves. Foreign direct investment (FDI) inflows have risen to \$3.5 billion, while the banking sector, with assets exceeding \$200 billion, underpins this growth. Inflation, however, hovers around 10%, signaling pressures on the cost of living and borrowing.

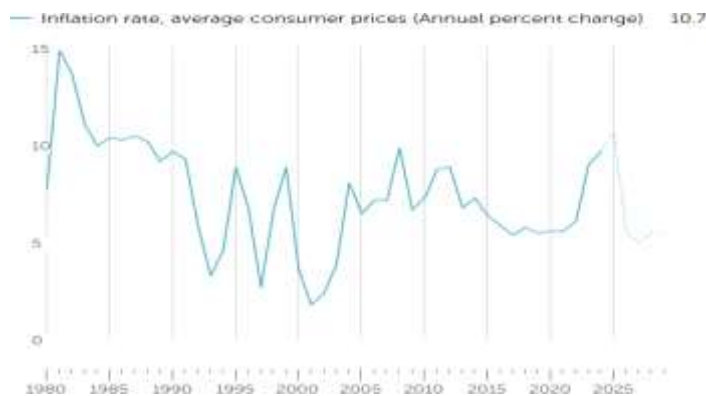


Figure: Bangladesh's Inflation Rate (Source: IMF)

The banking industry plays a pivotal role. Private banks dominate trade finance, while state-owned banks manage public debt and infrastructure loans. Non-performing loans have risen to 20% of total portfolios by the end of 2024, reflecting risks in SME lending and export credit.

grants duty- free, quota-free access to its apparel market, a lifeline for RMG exporters facing global competition. Similar preferences under the Generalized System of Preferences (GSP) extend to markets like Canada and Japan, boosting exports to \$55 billion in FY2023. These benefits have shrunk Bangladesh's trade deficit despite rising import costs.

4.2 Leveraging Trade and Finance Advantages

The European Union's Everything But Arms (EBA) initiative

Year	Billions of US \$	% of GDP
2023	\$-20.42B	-4.67%
2022	\$-36.88B	-8.02%
2021	\$-26.63B	-6.40%
2020	\$-20.14B	-5.39%

Figure: Bangladesh's Trade Balance (source: macrotrends)



On the financing front, multilateral institutions like the World Bank and Asian Development Bank (ADB) offer loans at rates below 2%, funding around \$15 billion. These concessional terms, compared to market rates of 5-7%, ease debt servicing, with Bangladesh's external debt-to-GDP ratio at a manageable 20%. For banks, this translates to lower risk on government-backed loans.

4.3 RMG Dominance and Emerging Players

The RMG sector's dominance, accounting for 11% of GDP and positioning Bangladesh as the world's second-largest apparel exporter, with an 8.2% global market share. Its heavy weighting—84% of export earnings—exposes Bangladesh to tariff shocks post-graduation. Banks, financing 90% of RMG trade hold \$10 billion in exposure, making sectoral stability a financial priority.

Pharmaceuticals, with exports of \$200 million, benefit from lax intellectual property rules under LDC status. Leather goods and shipbuilding add \$1.5 billion combined. These industries rely on SME loans, which constitute 25% of bank portfolios but carry higher NPL risks. Scaling these sectors demands credit expansion and export incentives as LDC benefits wane.

4.4 Financing Trade and Growth

Trade finance dominates banking activity, with around \$50 billion in annual transactions—90% tied to RMG exports. Banks manage dollar inflows, maintaining a Taka-to-USD rate of around 120:1. SME lending, at almost \$25 billion, supports diversification but strains liquidity, with deposit growth trails credit expansion.

Foreign exchange management faces volatility from remittance dips and import spikes. Banks tend to hedge in forward contracts to mitigate risks, while digital banking processes 10% of trade payments, hinting at efficiency gains. With \$15 billion in government securities on their books, banks support fiscal stability, as Bangladesh steps into middle-income status.

5. FINANCIAL CHALLENGES OF LDC GRADUATION

5.1 Tariff Turbulence

Bangladesh's graduation from LDC status in November 2026 will strip away trade preferences that have fueled its export-driven economy, posing a challenge for the banking sector. The EU's Everything But Arms (EBA) initiative, which grants duty-free access for over \$20 billion in apparel exports, will lapse, exposing ready-made garments (RMG)—84% of Bangladesh's \$55 billion export base—to tariffs of 10-12%. World Trade Organization (WTO) estimates suggest this could slash RMG export revenues by \$6-9 billion annually. For banks, this translates to a direct hit on trade finance portfolios, which channel more than \$40 billion yearly, with 90% tied to RMG letters of credit and guarantees.

Exporters facing thinner margins may delay repayments, pushing non-performing loans (NPLs)—already at over 16%—higher.

Small and medium enterprises (SMEs) in the RMG supply chain, reliant on \$5 billion in bank credit, could falter, amplifying liquidity risks. Reduced export earnings further threaten Bangladesh's trade deficit, pressuring the Taka, which has depreciated to more than 120:1 against the USD. Banks, holding approximately \$5 billion in forex hedges, face heightened volatility risks, underscoring the urgency of recalibrating trade finance strategies.

5.2 The Shift from Concessional to Commercial Financing

The end of LDC status heralds a costly transition in financing, as Bangladesh loses access to concessional loans from multilateral lenders like the World Bank and Asian Development Bank (ADB). In 2023, these loans, averaging 1-2% interest, funded \$15 billion in infrastructure and industrial projects. Post-graduation, Bangladesh will face market-based rates of 5-7%, projected to increase annual debt servicing costs by \$500 million. With external debt of over \$100 billion (about 21% of GDP), this shift strains fiscal space, squeezing public investment.

For the banking sector, the implications are twofold. Higher government borrowing costs crowd out private sector credit, as banks hold \$15 billion in government securities. Private firms, particularly RMG exporters, will seek costlier commercial loans averaging 10-12% domestically, testing bank liquidity. Deposit growth, lagging at 6% against 8% credit expansion, signals a funding crunch. State-owned banks may see NPLs spike if projects falter under higher rates, while private banks brace for tighter margins.

5.3 Banking Sector Vulnerabilities Post-Graduation

The financial landscape post-2026 amplifies banking sector risks, with NPLs, liquidity, and currency volatility at the forefront. The RMG sector's potential \$6-9 billion revenue drop could push NPLs from 16.9% to even higher, as exporters and SMEs struggle with tariff hikes and costlier credit. SME loans, totaling \$29.8 billion, already carry a 12% NPL rate. Banks, with \$10 billion in RMG exposure, face a stress test: a 20% default rate could erode \$2 billion in capital.

Liquidity pressures compound the challenge. Higher borrowing costs and export declines shrink deposit inflows, while demand for trade credit persists. The loan-to-deposit ratio crossed 80%, nearing regulatory limits. Currency risks loom larger as export earnings dip, weakening reserves and the Taka. Banks' approximately \$5 billion in forex hedges may cushion initial volatility, but sustained depreciation could inflate import costs and erode margins on dollar-denominated loans.

5.4 Intellectual Property Compliance Costs

Graduation triggers compliance with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, a financial hurdle. As an LDC, Bangladesh's pharmaceutical sector—exporting \$200 million in generics to 50 countries—has thrived under relaxed patent rules. TRIPS mandates royalty payments and restricts generic production, potentially halving export volumes.



This shift hits banks with \$1 billion in pharma loans, as firms face revenue losses and higher R&D costs.

The broader impact spans SMEs in allied industries relying on \$500 million in credit. Increased compliance costs, estimated at \$100-150 million annually, strain cash flows, raising default risks. For banks, this exposure tests diversification efforts, as pharma's growth was a hedge against RMG reliance. Navigating TRIPS requires targeted financing when liquidity is already stretched.

6. PREPARING THE BANKING SECTOR FOR GRADUATION

6.1 Adapting to Higher Transaction Costs

The loss of LDC trade preferences post-2026, particularly the EU's Everything But Arms (EBA) benefits, will elevate transaction costs for Bangladesh's export sector, with RMG bearing the brunt. Tariffs of 10-12% could erode \$6-9 billion in annual revenue, straining the \$40 billion trade finance ecosystem dominated by banks. To adapt, financial institutions must retool credit offerings. Expanding export credit guarantees could offset tariff impacts, ensuring RMG exporters maintain cash flow. Banks can introduce flexible repayment terms tied to export cycles, reducing default risks.

Subsidizing transaction fees through partnerships with the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) could lower costs for SMEs. In 2024, trade finance margins averaged 2-3%; absorbing a portion of tariff costs could preserve exporter viability while sustaining bank revenue. Lessons from Vietnam suggest a 15% rise in export volumes within two years—a model Bangladesh can emulate. This refinancing, shields trade flows and bank portfolios from graduation shocks.

6.2 Fortifying Defenses

The post-LDC landscape amplifies banking risks—non-performing loans (NPLs), liquidity squeezes, and currency volatility, demanding robust risk management. With NPLs at 16.9% in 2024 and projected to rise post-2026, banks must bolster provisioning. Raising loan loss reserves could absorb a default wave, per Bangladesh Bank stress tests. Targeted monitoring of RMG and SME loans can preempt distress, using early warning systems based on cash flow and export data.

Currency volatility requires expanded hedging. Banks' \$5 billion in forward contracts cover just 20% of reserves; doubling this could stabilize forex risks as export earnings dip. Interest rate risks demand dynamic pricing models—floating rates tied to LIBOR successors like SOFR can balance profitability and borrower affordability. These defenses position banks to weather graduation turbulence.

6.3 Digital Leap Forward

Digital transformation offers relief from post-LDC cost pressures.

In 2024, digital platforms process less than 10% of Bangladesh's trade payments. Scaling fintech adoption, could cut transaction costs by 20% million annually. Platforms like bKash, can extend to cross-border payments, streamlining export financing. Private banks lead this shift, but broader uptake hinges on infrastructure.

For SMEs, fintech lending platforms can unlock \$5 billion in untapped credit, bypassing traditional collateral hurdles. Cybersecurity investments must accompany this leap. A digitized banking sector could lower operational costs, offsetting tariff and borrowing pressures while enhancing global competitiveness.

6.4 Advocacy for a Smooth Transition

Banks cannot prepare in isolation; collaboration with Bangladesh Bank and the government is critical. Advocating for an extension of EBA benefits could save more than \$3 billion in export losses, buying time for diversification. Regional free trade agreements (FTAs) could offset EU tariff hikes. Banks can lobby for \$1 billion in export incentives, mirroring China's post-WTO subsidies, to bolster RMG and pharma.

Monetary policy support is vital. A 2% rate cut on export loans—from 10% to 8%—could free \$500 million in liquidity, per 2023 lending data. Bangladesh Bank's \$26 billion reserves can fund a \$2 billion stabilization fund, cushioning currency dips and import costs. Public-private partnerships to upgrade ports and logistics, costing \$5 billion, would ease trade bottlenecks. This advocacy aligns financial strategy with national goals, ensuring a resilient post-LDC transition.

7. IMPACT ON GLOBAL TRADE

7.1 Export Market Dynamics Post-Graduation

Bangladesh's LDC graduation in November 2026 will trigger a shift in its export market, reshaping trade relationships with key partners. The European Union represents 42% of Bangladesh's export earnings. Post-graduation, tariffs of 10-12% could erode this volume by 15-20%, translating to a \$3.5-4.5 billion annual loss, according to World Trade Organization (WTO) projections. The United States, importing \$9 billion in RMG, may see a 5-10% dip—\$450-900 million—as its Generalized System of Preferences (GSP) benefits, already restricted, fully lapse. India, offers growth potential if regional trade agreements like CEPA materialize, though tariff parity remains a hurdle.

This export contraction disrupts Bangladesh's ongoing trade deficit. A \$6-9 billion revenue drop could flip this into an approximate \$16 billion deficit by 2027, pressuring \$26 billion in foreign reserves. For banks, financing around \$100 billion in trade annually, this translates to a 20-30% reduction in transaction volumes concentrated in RMG letters of credit. Emerging markets like Africa and ASEAN, could offset 5-10% of losses if scaled, but their nascent \$500 million banking exposure limits short-term relief. This realignment demands strategic pivots to sustain Bangladesh's trade flows and banking stability.

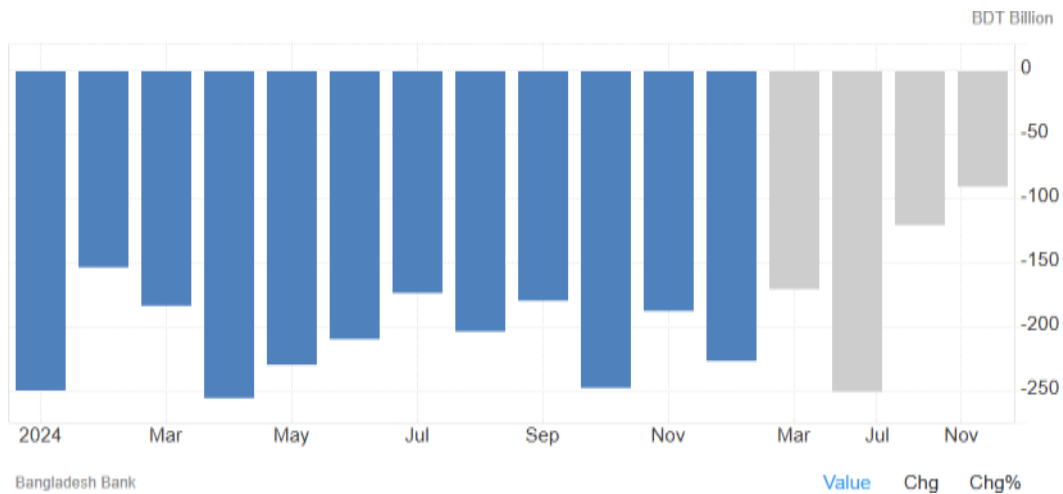
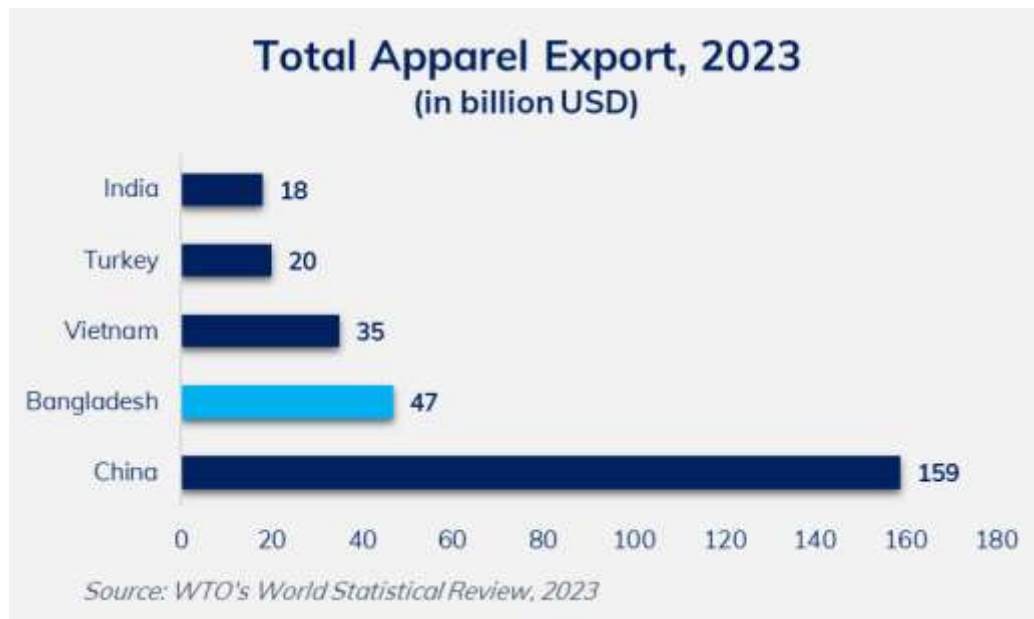


Figure: Bangladesh's Forecasted Trade Balance (in BDT Billions) (source: Trading Economics)

7.2 Competitive Edge at Stake

Bangladesh's 6.7% share of the \$480 billion global apparel market, is built on low-cost production and LDC trade preferences. Graduation jeopardizes this edge, exposing Bangladesh to fiercer competition. Vietnam, capitalized on FTAs post-WTO entry, boosting its share by 2% annually; Bangladesh,

lacking similar agreements, risks a 1-2% loss (\$4-9 billion) in redirected trade by 2028. Competitors like Cambodia and Ethiopia, retaining LDC status, could siphon 10-15% of Bangladesh's EU and US markets, leveraging lower labor costs and duty-free access.



Source: WTO's World Statistical Review, 2023

Banking exposure heightens this vulnerability. With \$10 billion in RMG loans, a 20% export decline could push non-performing loans higher, eroding \$2 billion in capital. Diversification into pharmaceuticals (\$200 million in exports) and leather (\$1 billion) offers a buffer. Yet, scaling these sectors requires \$1-2 billion in SME credit, straining banks' \$25 billion SME portfolio, where NPLs already hit 17%. TRIPS compliance costs—\$100-150 million annually—further complicate pharma's rise, demanding innovation loans at a time of liquidity pressure. Bangladesh's competitive positioning hinges on banks' ability to finance this transition.

7.3 Bangladesh's Role in Global Networks

Bangladesh's RMG factories, anchor the global apparel supply chain, supplying more than 10% of EU and US imports. A post-2026 export drop of \$6-9 billion can disrupt this ecosystem, prompting buyers to diversify. India and Vietnam could absorb 50- 60% of this shift—\$3-5 billion—while smaller LDCs like Myanmar and Cambodia, may claim 10-15%—\$1-1.5 billion—exploiting cost advantages. This rerouting elevates shipping and sourcing costs globally.



For banks, this unravels \$5 billion in supply chain financing tied to RMG. A 20% contraction cuts revenue by \$20-30 million annually. Global retailers may tighten payment terms from 60 to 30 days, draining liquidity as \$26 billion in reserves face export-led strain. Conversely, banks could pivot to logistics financing, retaining Chittagong's hub status, capturing trans-shipment trade. The apparel supply chain's annual flow from Asia to the West hinges on Bangladesh's resilience.

7.4 Trade Finance Under Pressure

Bangladesh's banks, managing about \$100 billion in total trade finance, are linchpins in its global trade connectivity. A \$6-9 billion export decline slashes transaction volumes by 20-30%, costing about \$200 million in fees. Letters of credit, 90% RMG-linked, face higher risk weights as exporter creditworthiness dips. Currency volatility, strains \$5 billion in forex hedges; doubling this could cost \$100-150 million yearly, squeezing margins.

Globally, this impacts correspondent banks settling Bangladesh's trade flows. A 15% drop—\$1.5 billion—shifts business to Hanoi or Mumbai, eroding Dhaka's financial standing. Trade finance costs could rise 10-15%—\$50-75 million—as risk premiums climb, per ADB projections. Digital solutions offer relief: blockchain platforms, adopted in Singapore, cut costs 20% (\$60 million); scaling this for \$5 billion in SME exports demands \$50 million in fintech upgrades. Islamic banking, could finance \$2 billion in Sharia-compliant trade, tapping Middle Eastern markets. Banks must innovate to sustain Bangladesh's trade engine, balancing global pressures with local realities.

8. STRATEGIC RECOMMENDATIONS

8.1 Short-Term Measures for Immediate Stability

Bangladesh's banking sector must act swiftly to cushion the immediate fallout of LDC graduation, particularly the \$6-9 billion export revenue drop projected post-2026. Strengthening export credit schemes is paramount. Expanding the current \$5 billion in export guarantees by 30% can offset tariff hikes of 10-12% on EU apparel exports, sustaining RMG cash flows. Banks handling a high proportion of RMG letters of credit, should offer 90-day grace periods on \$10 billion in trade loans, reducing defaults as exporters adjust.

Diversifying loan portfolios mitigates RMG reliance. Shifting \$2 billion from RMG exposure to pharmaceuticals and leather spreads risk, given their 10% annual growth potential. Bangladesh Bank could mandate a 5% portfolio reallocation, backed by \$500 million in subsidized SME loans at 6% interest (versus 10%), mirroring India's post-1991 SME push. Securing a temporary EBA extension, could save \$3 billion in losses and banks must lobby via the Bangladesh Association of Banks. These short-term fixes stabilize trade and banking liquidity through 2028.

8.2 Long-Term Strategies for Resilience

Sustainable growth post-LDC demands long-term strategies. Export diversification is critical to reduce RMG's 86% export

share. Investing in pharmaceuticals requires banks to fund R&D and TRIPS compliance. Leather goods and shipbuilding, at over \$1 billion combined, need \$1 billion in credit to double output, tapping ASEAN's \$5 billion market. Banks must offer 10-year loans at 8%, backed by government export incentives, to scale 200 factories.

Regional trade partnerships offset global tariff shocks. Finalizing CEPA with India by 2026 could unlock substantial apparel and pharma trade. Banks should finance \$1 billion in cross-border logistics to support this integration. Upskilling the financial workforce is equally vital. Training bankers in fintech and forex risk management ensures that banking expertise matches the demands a middle-income economy's needs.

8.3 Synergy in Action

Coordinated efforts between banks and the government are non-negotiable for a seamless LDC transition. Infrastructure upgrades for Chittagong port and Dhaka's power grid cut trade costs, sustaining \$50 billion in exports. Banks can co-finance such projects through public-private partnerships, leveraging their holdings of government securities.

Improving Bangladesh's Ease of Doing Business ranking—from 168th to top 100—requires \$1 billion in digital licensing and land reforms, funded by banks and the government. These improvements could attract \$5 billion, easing the \$26 billion reserve pressure. Monetary policy must align such as a \$2 billion stabilization fund, drawn from reserves, cushions Taka depreciation (5-7% post-2026), while a 2% rate cut on \$10 billion in export loans frees \$200 million in liquidity. This synergy amplifies banking resilience and trade competitiveness.

8.4 Innovative Funding Mechanisms

Innovative financing is essential, given post-LDC borrowing costs. Green bonds, can support sustainable RMG factories, cutting \$50 million in energy costs yearly, mirroring India's \$10 billion green market. Islamic finance instruments such as Sukuk offer cost-effective funding for trade and infrastructure by tapping Middle Eastern markets. Expanding digital lending platforms can unlock additional SME credit with limited balance-sheet pressure.

A more than \$1 billion export diversification fund, co-managed by banks and Bangladesh Bank, seeds \$500 million each into pharma and leather, yielding 10% export growth by 2029. Crowdfunding mechanisms can further support SME innovation. Together, these tools diversify funding sources and reduce reliance on traditional debt. By blending traditional and novel tools, banks can finance a post-LDC future without straining liquidity.

9. CONCLUSION

9.1 Key Takeaways from the Journey

Bangladesh's scheduled LDC graduation in November 2026 is a watershed moment, blending opportunity with financial and trade challenges. This paper has unpacked the core issues: the loss of



trade preferences threatens a \$6-9 billion drop in export revenue, with the ready-made garments (RMG) sector—84% of \$55 billion in exports—facing 10-12%. The shift from concessional loans at 1-2% to market rates of 5-7% adds \$500 million annually to debt costs, straining a banking sector already managing \$200 billion in assets. Non-performing loans (NPLs), at 16.9% in 2024, could rise even more eroding \$2 billion in capital as \$10 billion in RMG loans face default risks. Currency volatility and liquidity pressures further test banks, which facilitate over \$40 billion in trade finance annually.

Yet, the analysis reveals pathways to resilience. Short-term measures like \$6.5 billion in export credit guarantees and diversified SME loans can stabilize \$3 billion in immediate losses. Long-term strategies—\$2 billion in pharmaceutical investment, CEPA with India, and fintech scaling—position banks to sustain about trade flows. Globally, Bangladesh's over 7% apparel market share and supply chain role face disruption, but innovative financing can anchor its competitiveness. These findings underscore the banking sector's pivotal role as both a shock absorber and growth enabler.

9.2 Implications for Bangladesh and the World

The implications of LDC graduation extend beyond Bangladesh, reshaping its economic trajectory and global trade dynamics. Domestically, success hinges on banking agility. Mitigating a \$6-9 billion export hit can preserve the \$17 billion trade deficit shrinking further and \$26 billion in reserves, cementing Bangladesh's middle-income status by 2030. Failure risks a \$2-4 billion deficit, reserve depletion, and a Taka depreciation beyond 5-7%, undermining decades of 6.5% GDP growth. For banks, this is a \$200 billion asset stress test—\$100-150 million in trade finance revenue and \$500 million in provisions hang in the balance. Strategic execution—\$1.5 billion in port upgrades, \$50 million in digital banking—can elevate Bangladesh from an RMG hub to a diversified trade player, mirroring Vietnam's post-WTO ascent.

Globally, Bangladesh's graduation ripples through the \$450 billion apparel market and the Asian supply chain. Market share loss shifts trade to competitors, raising sourcing costs for EU and US retailers. Banks' trade finance ecosystem influences correspondent flows, with a 15% drop redirecting business to Hanoi or Mumbai. Yet, resilience sustains Bangladesh as a logistics node—\$1 billion in Chittagong upgrades captures \$500 million in transshipment trade. This dual narrative—risk and reinvention—positions Bangladesh as a case study for LDC transitions, with banks as linchpins in global trade stability.

9.3 Directions for Future Research

While this paper maps the financial and trade terrain of LDC graduation, gaps remain. Real-time data post-2026 will clarify tariff impacts on exports and bank loan quality, refining NPL projections. Longitudinal studies could assess diversification success. The role of Islamic banking, with \$40 billion in assets in 2023, warrants deeper scrutiny; \$2 billion in Sukuk could tap

GCC markets, but its scalability is untested. Regional FTAs like CEPA, potentially unlocking \$10 billion in Indian trade, need empirical validation as tariff offsets.

Geopolitical variables—trade wars, climate shocks—could amplify the Taka's 5-7% depreciation or \$26 billion reserve strain, meriting scenario analysis. Fintech's \$60 million cost-saving potential, via blockchain, awaits adoption metrics; a 20% trade finance shift could redefine banking efficiency. Finally, comparative analyses with Maldives or Sri Lanka could benchmark Bangladesh's \$5 billion infrastructure synergy, offering lessons for late LDC graduates. These avenues, grounded in banking and trade finance, promise to enrich understanding of Bangladesh's post-LDC journey and its global imprint.

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