

Bangladesh's BDT 40,000 Crore Refinance Scheme

What it means for the banking sector, the stock market, and the wider economy

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Bangladesh Bank is preparing a Tk 40,000 crore refinance scheme to bring more than 1,200 closed factories back into operation. The immediate attention will fall on employment and exports, as it should. But the larger point is political economy: the scheme shows the policy direction the government is taking as it enters its first full year in office. Work on the facility has been underway since early April. According to *The Business Standard* on 4 May 2026, the proposal is now awaiting prime ministerial clearance before Bangladesh Bank issues the circular needed to begin disbursement.¹

Structure and allocation

The idea behind the refinance scheme is that Bangladesh Bank will lend to commercial banks at around 5 to 6 percent. Those banks will then lend to factory owners at rates above prevailing inflation but below the 10 percent policy rate, which means borrowers are likely to pay roughly 8 to 9 percent for working capital loans with tenures of twelve to eighteen months. The allocation across sectors is shown below.

Sector Allocation	Amount (Tk crore)	Share of Fund	Tenure
Large industries	20,000	50%	12 to 18 months
CMSMEs	10,000	25%	12 to 18 months
Agriculture	10,000	25%	12 to 18 months
Total scheme size	40,000	100%	

More than 1,200 closed industrial units have been identified through data collected from trade bodies and commercial banks. Separate lists have also been prepared for factories with outstanding loans above Tk 100 crore and those below that threshold. This suggests that the central bank is taking a tiered approach to risk assessment rather than applying a uniform treatment to all distressed units. *The Daily Star* reported on 2 May that an earlier version of the scheme was being designed at Tk 15,000 to Tk 20,000 crore, with a possible 5 percent subsidy. The upward revision to Tk 40,000 crore reflects the political weight the government is placing on industrial revival as a delivery mechanism for the BNP's electoral commitment to generate one crore jobs within the first eighteen months².

Three layers of significance to the Policy

The scheme is best understood first as a critical signal. For nearly two years, Bangladesh's macroeconomic management has been shaped by tight monetary conditions. That was not a policy accident. After the 2024 currency depreciation, inflation control became the central priority, and Bangladesh Bank had limited room to do otherwise. But tight money carries a cost of its own. It slows working capital, weakens investment appetite, and eventually begins to hurt firms that are not necessarily unviable, but are operating in a credit-starved environment.

¹ Prince, S. (2026, May 4). Cenbank plans Tk40,000cr refinance scheme to revive closed factories. *The Business Standard*. <https://www.tbsnews.net/economy/banking/bb-plans-tk40000cr-refinance-scheme-revive-closed-factories-1428751>

² The Daily Star. (2026, May 11). BB readying Tk 20,000cr factory revival fund. *The Daily Star*. <https://www.thedailystar.net/news/bangladesh/news/bb-readying-tk-20000cr-factory-revival-fund-4167031>

This is where the Tk 40,000 crore refinance scheme becomes important. It is not a formal easing cycle yet. The policy rate remains at 10 percent, and Bangladesh Bank has not announced a conventional rate cut. But in practical terms, this is selective easing. The central bank is creating a credit channel for productive sectors before moving on the headline policy rate. That is why the scheme matters beyond the factories it is intended to reopen. It suggests that the centre of policy is beginning to move away from pure stabilisation and towards a more managed recovery.

The second layer of significance has to do with scale. The fund size, ie., Tk 40,000 crore is the initial allocation, not necessarily the full economic effect. Once the money enters the banking system, it will move through firms, suppliers, workers, and deposit accounts. Some of it will remain idle. Some will be used to settle old obligations. Some will leak into imports. But some of it will also return to banks as deposits and support additional lending. That is the multiplier channel.

This is why the final credit impact could be much larger than the announced figure. Total credit creation of Tk 1.5 to 2 lakh crore over the eighteen-month life of the scheme is possible, although it should not be treated as automatic. Much will depend on banks' willingness to lend and on the quality of borrowers that enter the pipeline. That distinction is important. Liquidity does not become productive credit by itself. Banks still have to price risk, and many balance sheets remain cautious after a difficult period. Even then, in an economy where private sector credit growth slipped into single digits in 2025, this is a sizeable intervention by any reasonable measure.

The obvious risk is inflation. Bangladesh Bank is aware of this. A senior central bank official quoted by The Business Standard has already warned that financing the full amount through monetary expansion could multiply liquidity and add pressure on prices. That concern is real. If the scheme pushes money into the economy faster than firms can produce additional goods and services, inflation will rise.

Fahmida Khatun of CPD has made a useful point in this regard. A part of the fund could be mobilised from banks with stronger liquidity positions, while another part could be supported through the budget. That would reduce the pressure on Bangladesh Bank's balance sheet and make the programme less inflationary than a facility funded entirely through money creation³.

My reading is that inflation will probably edge up in the second half of 2026. The more relevant question is whether that rise remains tolerable. If the loans reach genuinely productive firms, restore output, protect jobs, and support exports, then some liquidity-driven pressure may be an acceptable price. But if the money is poorly targeted, captured by politically connected borrowers, or used mainly to roll over old stress without restoring production, the scheme will add liquidity without adding enough supply. That is the main danger. The policy is defensible, but only if execution remains tight.

Transmission channels and sectoral impact

The table below maps the principal transmission channels through which the scheme will affect the banking sector, the equity market, and the broader macroeconomy across two horizons.

Channel	Near-term (0-12m)	Medium-term (12-24m)	Key risk variable
Bank net interest margin	Positive	Positive	Disbursement pace
Private credit growth	Positive	Strongly positive	Money multiplier effect
Inflation	Mixed	Mixed	Productive use of funds
Bank asset quality	Neutral	Neutral	Borrower selection rigour
IMF programme	Neutral	Neutral	Conditionality dialogue
Industrial output	Positive	Strongly positive	Order book recovery

³ Centre for Policy Dialogue. (2024, June 3). *Excessive bank borrowing to harm economy*. <https://cpd.org.bd/excessive-bank-borrowing-to-harm-economy/>

Stock market and banking sector implications

For the banking sector, the scheme is likely to be supportive in the first phase. Stronger banks will benefit most. BRAC Bank, City Bank, Pubali Bank, and Eastern Bank are better placed to screen borrowers, disburse quickly, and protect their balance sheets if the programme is implemented with discipline. The spread is also attractive. If Bangladesh Bank provides funds at around 5 to 6 per cent and banks on-lend at roughly 8 to 9 percent, the margin gives them a useful earnings cushion over the next several quarters.

That should lift net interest income and support loan-book growth at a time when private sector credit has been weak. For listed banks, this matters. Better margins, stronger credit growth, and a visible policy push toward industrial revival can improve investor sentiment, especially for banks with cleaner books and stronger governance.

But this is not risk-free income. Refinance schemes usually look safest at disbursement. The real test comes later. This scheme appears better designed than the 2020 stimulus rollout, particularly if eligibility is tied to confirmed orders, market demand, and evidence that factories can return to production. Still, some firms will recover, some will buy time, and some will fail despite support. By 2027 or 2028, part of this portfolio will likely show stress, requiring provisions.

For the stock market, the implication goes beyond banks. The DSE has been weighed down by inflation, high interest rates, weak liquidity, and repeated external shocks. A refinance scheme of this size changes the tone. It signals that the government and the central bank are moving from pure stabilisation toward a managed recovery of credit, production, employment, and earnings.

Bank stocks could move first. Investors respond quickly to loan growth, margin visibility, and the possibility of higher dividends from stronger banks. If execution is credible, the effect could extend to industrials, textiles, construction-linked businesses, and firms that benefit from renewed working capital. A wider market re-rating is possible, but not automatic. The market will need evidence that credit is turning into production and profits, not just more liquidity.

The IMF issue cannot be ignored. The Fund has reportedly raised concerns about expanding refinancing facilities while Bangladesh remains under a USD 5.5 billion programme. That concern is understandable. The government will have to show that the scheme is targeted, temporary, and linked to productive recovery rather than a broad liquidity injection through another channel.

My reading is that the policy is defensible, but only with tight execution. The government is choosing industrial revival, employment protection, and private credit recovery over a purely conservative anti-inflation stance. That is a real trade-off. Inflation may rise. Some loans may go bad. The question is whether the output and employment gains are large enough to justify those risks.

Much will depend on the plumbing. Banks need proper factory-level due diligence. Bangladesh Bank needs close monitoring of disbursement and repayment. The scheme also needs a clear exit point. If it becomes permanent, or if politically connected borrowers capture it, the banking sector will inherit another cleanup problem.

Given the state of the economy, the direction is not irrational. The scheme has more safeguards than critics may admit, but also more risks than supporters will want to discuss. It could support the first serious phase of recovery. Or it could become another round of directed credit that looks useful in year one and expensive later. The execution of the policy will determine its success.

Conclusion

The honest assessment is that this is a calculated bet by a government that has chosen industrial revival, employment generation, and a recovery in private credit growth as its central economic priorities, in exchange for accepting near-term inflation risk and medium-term asset quality risk. Whether the bet pays off depends on three things, which are the rigour of factory-level due diligence by lending banks, the discipline of the central bank in winding down the scheme once its work is done, and the cooperation of external conditions including oil prices and global trade flows. The direction of the policy is reasonable given the economic situation, and the design includes more safeguards than its critics will likely acknowledge in the coming weeks, although the execution will determine whether this becomes the turning point in the recovery cycle or not.

Sources

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8. Centre for Policy Dialogue. Commentary by Dr. Fahmida Khatun, Executive Director, and Dr. Mustafizur Rahman, Distinguished Fellow, on industrial revival financing. May 2026.