BPDB's Debt Spiral Threatens Power Stability

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The financial position of the Bangladesh Power Development Board (BPDB) has deteriorated to an alarming level. Caught at the center of mounting sector-wide stress, BPDB—the sole intermediary between power generation and distribution—has been overwhelmed by escalating losses driven by high global fuel prices, currency devaluation, unpaid bills, and the growing burden of capacity payments. This situation has triggered a domino effect across the country's private power sector, threatening both operational viability and the investment climate that once underpinned Bangladesh's rapid expansion in generation capacity.

As of January 2026, BPDB remains trapped in a precarious financial position due to a persistent cycle of rising debt. The deficit stems largely from the widening gap between high power purchase costs and relatively low retail tariffs. To contain the crisis, the government allocated Tk 620 billion in subsidies in FY 2024–25 and Tk 370 billion in FY 2025–26. It also issued special bonds worth Tk 265 billion in an attempt to stabilize the sector and clear a portion of outstanding foreign liabilities. However, these measures provided only temporary relief. By late 2025 and into early 2026, declining revenues and the continued accumulation of capacity charges pushed BPDB into a renewed liquidity crunch.

Unpaid bills to Independent Power Producers (IPPs) have now become a serious threat to grid stability. In January 2026, the government faced a shortfall of more than Tk 200 billion in clearing outstanding dues—out of a total IPP bill of around Tk 270 billion—raising fears of widespread load-shedding during the coming summer. Although payment delays briefly improved in mid-2025, with arrears reduced to about 70 days, delays have since stretched to six to seven months and, in some cases, up to nine months. Meanwhile, BPDB's system loss has climbed to 10.13 percent, well above the global benchmark of around 8 percent.

The impact of BPDB's deficit has been a severe erosion of operational liquidity, creating what many describe as a "liquidity trap" for IPPs. BPDB's inability to settle dues within the 45-day payment window stipulated in Power Purchase Agreements has disrupted the financial cycle of private generators. Timely payments are essential for IPPs to open letters of credit for fuel imports. As a result, the sector now faces the risk of idle power plants—not due to technical faults, but

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because empty coffers have reduced stocks of furnace oil and coal.

IPPs are currently carrying billions of taka in receivables on their balance sheets, straining their cash flows and limiting their ability to procure fuel, spare parts, and specialized maintenance services. This situation has been further aggravated by BPDB's imposition of liquidated damages (LDs), which has become a major source of friction with private operators. While BPDB often delays payments by more than 180 days, it continues to penalize IPPs for "forced outages"—many of which are caused by fuel shortages directly linked to delayed payments. This contradiction has deepened mistrust in the sector and raised serious concerns about the sustainability of Bangladesh's power market under the current financial framework.

The crisis has now gone beyond the power grid and into the vaults of the banking system. The relationship between IPPs and commercial banks has always been reciprocal; however, BPDB's inability to pay has turned this relationship adversarial. The banking sector seems exposed to 'Power Sector Risk'. As IPPs fail to receive payments, they, in turn, struggle to pay back project loans. This has led to a tightening of credit lines, and banks are increasingly reluctant to issue new LCs or extend working capital. The result is a stagnant investment environment, where even viable renewable projects are examined through the lens of BPDB's insolvency.

The discourse of capacity charge paid to IPPs remains on standby. This charge is carefully designed to ensure huge investment security. The Government, pressured by BPDB, has begun to implement 'No Electricity, No Payment' clauses in newer contracts and is seeking to negotiate down existing obligations. Verily, this will further increase the purchase rate of electricity from IPPs. For the private sector, it signals a shifting of policy that may deter future foreign direct investment (FDI). Presently, the country has an installed capacity exceeding 28,000 MW, and the peak demand often hovers around 16,000-17,000 MW, while failing to generate maximum by the BPDB.

Type	Impact on the IPP Sector due to the BPDB's Financial Deficit
Financial	Severe liquidity crisis, inability to settle fuel bills or service debt, and banks are reluctant to issue new LCs or extend working capital.
Operational	Frequent 'forced outages' due to fuel shortages, maintenance delays
Legal	Conflicts over penalty deductions (LDs) and breach of the PPA
Strategic	Heightened risk for FDI, shift away from fossil-fuel IPPs

The impact on the IPP sector due to the BPDB's present financial deficit could be summarized with the following Matrix:

The financial stress of the BPDB has grown into a systemic threat to the IPP sector. The gap between production costs and retail prices sips liquidity, which ultimately hampers operational efficiency and strains the banking sector. Today, the integrity of the energy sector demands an all-inclusive approach: a transition away from expensive fossil-fuel-based power plants, maximum use of electricity as per installed capacity, restructuring of BPDB's debt, and, perhaps most importantly, a move towards a cost-reflective tariff management. Without these interventions, the private power sector, the engine of Bangladesh's industrial growth, risks an extreme financial imbalance and uncertainty. EP

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