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Star BUSINESS

BUDGET SPECIAL

Budget to shrink amid fiscal strain

REJAUL KARIM BYRON *and* MAHMUDUL HASAN

Bangladesh's interim government is preparing to unveil a rare contractionary budget on June 2, driven by a sharp rise in interest payment that is crowding out fiscal space and forcing spending cuts.

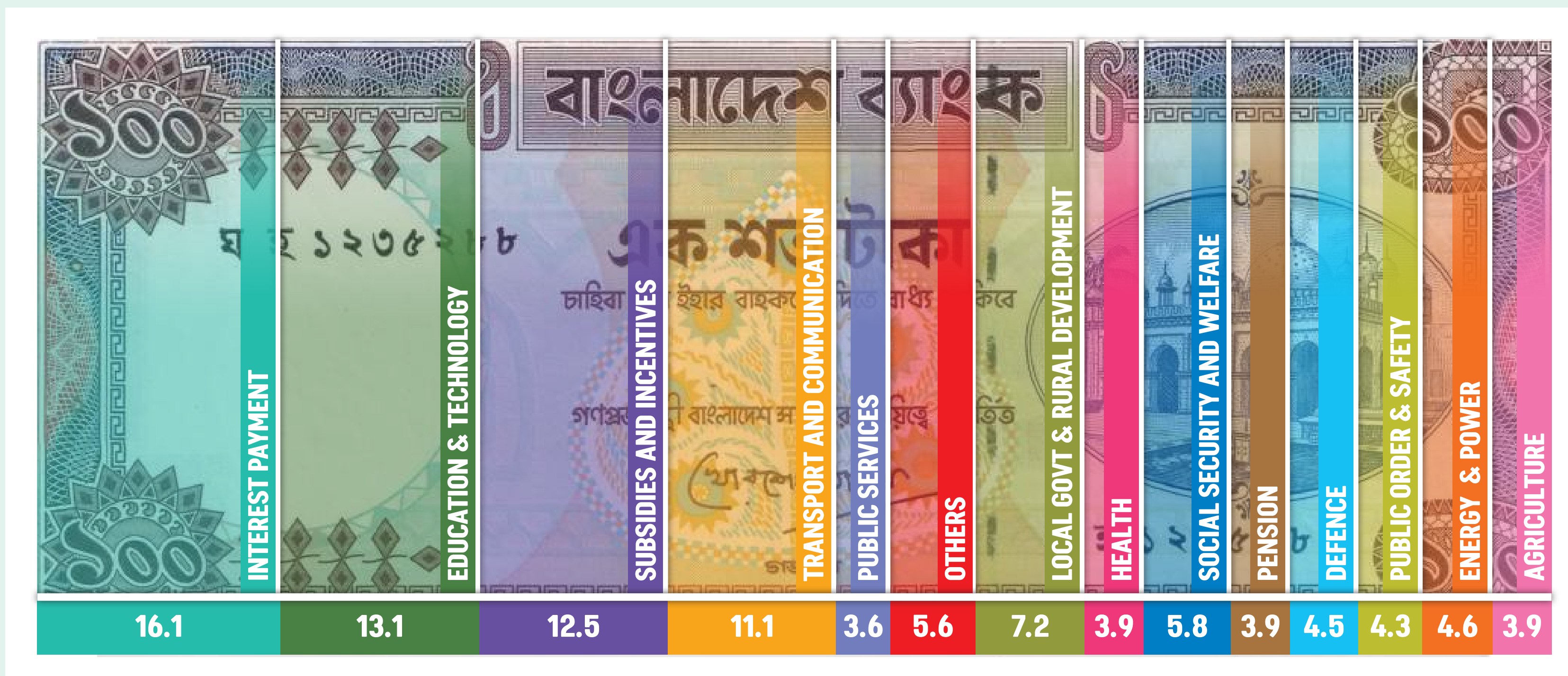
The national budget for fiscal year 2025-26 is set at Tk 7,90,000 crore -- Tk 7,000 crore lower than the original outlay for the current year -- marking the first time in recent memory that the overall budget will shrink.

In the current fiscal year, Tk 1,13,500 crore was earmarked for interest payments. With the continued devaluation of the local currency taka, this figure is expected to climb. Finance ministry officials say interest payments alone could rise by Tk 20,000 crore, pushing the total to over Tk 1,33,000 crore, or 16.8 percent of the proposed budget. The burden will rise further once principal repayments are included.

The mounting cost of debt servicing has left little room for discretionary spending. The development budget is expected to be slashed by Tk 35,000 crore to Tk 2,30,000 crore, while the non-development or operating budget will rise to Tk 5,60,000 crore, an increase of Tk 28,000 crore.

Core revenue expenditures, such as salaries, allowances, and subsidies, will remain unchanged, while the budget deficit is expected to stay below 5 percent of GDP.

Despite the tight fiscal envelope, the interim government aims to use the budget as a platform for structural reform. Finance Adviser Salehuddin Ahmed, who will present the budget in a televised address, said this would not be a routine fiscal exercise.



The graph is based on actual spending data of FY23 as statistics on the latest implementation are unavailable. Some 85% of the proposed outlay in FY23 was implemented.

"This budget is meant to leave a footprint for the next government," he said during recent pre-budget consultations. "We aim to leave behind a legacy of reform."

At the heart of the proposed reforms is an effort to boost domestic revenue, rather than expand spending. One key initiative is the separation of tax policy and tax administration within the National Board of Revenue (NBR), a move intended to minimise conflicts of interest and reduce corruption and abuse of power. The reform is also expected to improve institutional efficiency and reduce taxpayer harassment.

The government is also planning to broaden the application of the standard 15 percent value-added tax (VAT) rate, which is currently applied unevenly. Tax exemptions will be scaled back, with the NBR targeting an additional Tk 30,000 crore in revenue through new tax measures and administrative improvements.

For the fiscal year 2025-26, the NBR's revenue collection target has been set at Tk 4,99,000 crore, representing a 7.6 percent increase from the revised target for the current fiscal year.

Bangladesh's tax-to-GDP ratio remains one of the lowest in the world, at just 7.4 percent. The World Bank's latest Bangladesh Development Update warned that this low revenue mobilisation undermines the government's capacity to fund essential public investment. "This low collection has significantly constrained the ability of the government to fund critical public investments," the report said.

The World Bank has recommended a series of institutional and policy reforms, including a transparent tax expenditure framework, a uniform VAT rate, improved compliance, and reductions in tariff and non-tariff barriers under the National Tariff Policy.

Bangladesh continues to perform poorly in BUDGET TRANSPARENCY

SOHEL PARVEZ

Bangladesh has continued to showcase a weak performance in the open budget rankings among its South Asian peers, reflecting a lack of transparency and accountability in the formulation and implementation of fiscal measures.

The nation's budget, traditionally unveiled in the first week of June every year, suffers from very poor public participation at different stages of its formulation and weak oversight by the legislature and supreme audit institution on planning and spending.

The government also does not publish materials to support informed public debate on the budget, which ensures that taxpayers' money is spent on greater welfare and interest, according to the Open Budget Survey (OBS) conducted by non-profit organisation International Budget Partnership (IBP).

Bangladesh ranked 37th in the transparency rankings among 125 countries in 2023—just above Pakistan and on a par with Sri Lanka in South Asia—in the latest OBS.

Transparency, which assesses online availability, timeliness, and comprehensiveness, is measured on a scale of 0 to 100. A transparency score of 61 or above indicates that a country is likely publishing enough material to support informed public debate on the budget.

Bangladesh's score is below the global average score of 45, said Mohammad Abu Eusuf, a professor of development studies and director at the Centre on Budget and Policy at the University of Dhaka.

"Taxpayers have the right to know how public money is spent. Tracking the budget processing and spending is important to ensure value for money for taxpayers," he said.

Transparency starts with the preparatory phases of the budget.

Publishing the pre-budget statement that outlines the broad parameters of fiscal policies, an economic forecast, anticipated revenue, expenditures, and debt levels is an important part of budget transparency.

In Bangladesh, a pre-budget statement is not published. In many other countries, pre-budget statements are published to encourage discussion among people on budgetary measures.

"In our country, we see a lot of discussion before the formulation of the budget. But we remain in the dark about how much of the recommendations from the consultations are included in the budget," he said.

"Surprisingly, the proposed budget is printed in a large volume, and we see almost no qualitative change in the enacted budget. This practice turns the discussion on the proposed budget in parliament by spending public money futile," said Eusuf.

"Ultimately, the enacted budget becomes a rubber stamp for the initially proposed ones," he said.

As per international practice, the monthly report on budget implementation is published online, and this should be published within three months of the reporting quarter.

Bangladesh publishes a monthly fiscal report, but it is not made available within three months. However, there has been some improvement.

The Public Finance and Budget Management Act 2009 makes it compulsory to present quarterly budget implementation reports. The finance ministry releases the report, but the lag period is large.

A simplified version of the budget is published in many countries so that ordinary citizens can understand the fiscal measures. This is not done here.

An audit report on the implementation of the budget is also supposed to be published within 18 months of the year-end to inform citizens. Here, this is not yet done, he said.

"This is needed to ensure transparency and accountability. As a taxpayer, you have the right to know how your money is spent," said Eusuf.

The IBP said government budget decisions—which taxes to levy, which services to provide, and how much debt to take on—have important consequences for all people in society.

"When governments provide information and meaningful channels for the public to engage in these decisions, we can better ensure public money is spent on public interests," it said.

Eusuf said various countries ensure education and healthcare and provide elderly care and unemployment allowance for their citizens through tax money.

"We have no health cards in our country. None would come to Dhaka had there been large hospitals with adequate facilities in divisions," he said, adding that such facilities would have made taxpayers feel more interested in paying taxes.

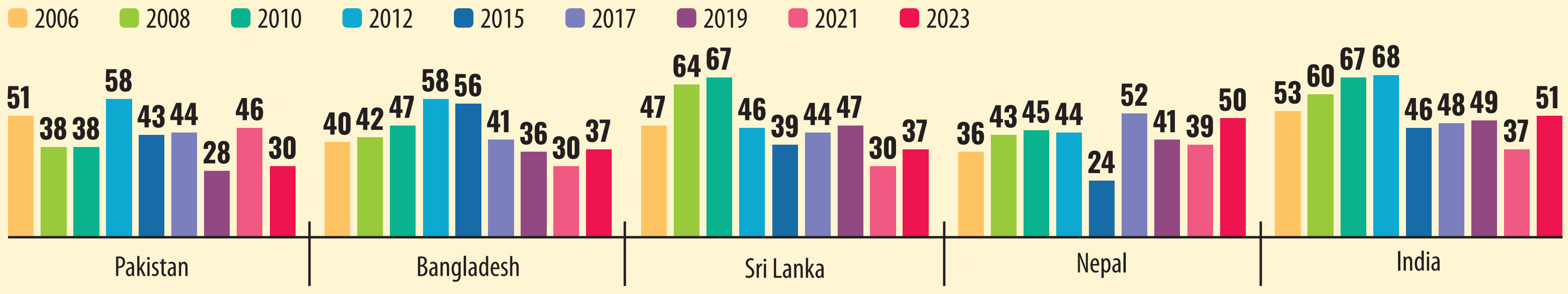
There are issues of corruption and a lack of accountability among public officials. "You see vehicles plying on the road even though those do not have fitness clearance," he said.

Taxpayers also feel discouraged when they see overestimations of project expenditures, he said.

Towfiqul Islam Khan, senior research fellow at the Centre for Policy Dialogue, said the finance ministry needs to prioritise the need for establishing transparency and accountability.

"In recent years, reporting to the parliament under the public money act was also very weak and ornamental. In absence of the parliament, the interim government must uphold the spirit of consultation and prepare to engage with stakeholders," he said.

RANKING OF SOUTH ASIAN COUNTRIES IN BUDGET TRANSPARENCY



SOURCE: OPEN BUDGET SURVEY

AK Enamul Haque

SHIFT FOCUS TO SERVICES from infrastructure spending

Referring to health and education budgets, BIDS DG AK Enamul Haque tells The Daily Star

AHSAN HABIB *and* REJAUL KARIM BYRON

Bangladesh's approach to budgeting for health and education has come under sharp scrutiny, as decades of allocations have primarily gone towards construction. Meanwhile, the core of these sectors, service delivery, has been historically neglected.

"If you really look into the allocation and eventual utilisation, most of these sectors failed to invest or at least spend what they were allocated, primarily because all of the allocation for the last almost 40-50 years was mostly for construction," Dr AK Enamul Haque, director general of the Bangladesh Institute of Development Studies (BIDS), said in an interview.

"So, it's not education – I would rather say it's a construction budget," he added.

Haque pointed to the example of a newly built hospital in Sylhet with over 200 beds that remains idle due to a lack of operational staff.

"The hospital is complete, but it is not running because allocation has not been given for doctors yet," he said.

He argued that the problem lies in a fundamental misunderstanding of what the education and health sectors are meant to deliver.

"These are service sectors, and service sector means someone is providing the service. These services are provided by doctors, nurses, and teachers. So, if you're allocating only for construction, that's not a budget allocation for the health sector as such."

Haque's remarks come ahead of the national budget for fiscal year 2025-26, to be tabled by the interim government.

He said that while the interim government's room to manoeuvre may be limited, it should seize the moment to set a new standard in budget formulation.

"As a new government, they should set a certain trend, and that this is how a budget should be made. I would be looking forward to seeing an ideal budget from them."

Haque stressed that an "ideal" budget is not about spending more money but about spending more effectively.

He highlighted numerous cases where hospitals are equipped with advanced machinery that sits idle for months or years.

"A lot of the time, we find that machines were purchased with public money, and many news reports have shown that while the machines are there, no operators were appointed."

Even when facilities exist, service delivery fails due to a lack of skilled human resources.

"I went to one school where I found out they have a six-storey building, but there's only one teacher. So, this is not a service."

He said that a part of the problem lies in the separation between the agencies building infrastructure and those delivering services.

Most schools and hospitals have little involvement in the planning or construction of their own facilities. In most cases, hospitals are built by the Public Works Department, while the Department of Public Health may take charge in rural areas. Similarly, school infrastructure is usually handled by a separate department, often without coordination with service providers.

This leads to a misalignment between what is built and what is needed.

QUALITY BUDGET

Haque repeatedly emphasised the need for a new understanding of "budget quality".

"Quality is not just money. Quality is a coordination between those who are providing the service and the facilities," he said.

He also pointed to the lack of attention to primary education.

"If you have 30 students in a class, it's impossible for a teacher to teach everything. Particularly at the primary level, where a teacher has to show students how to write."

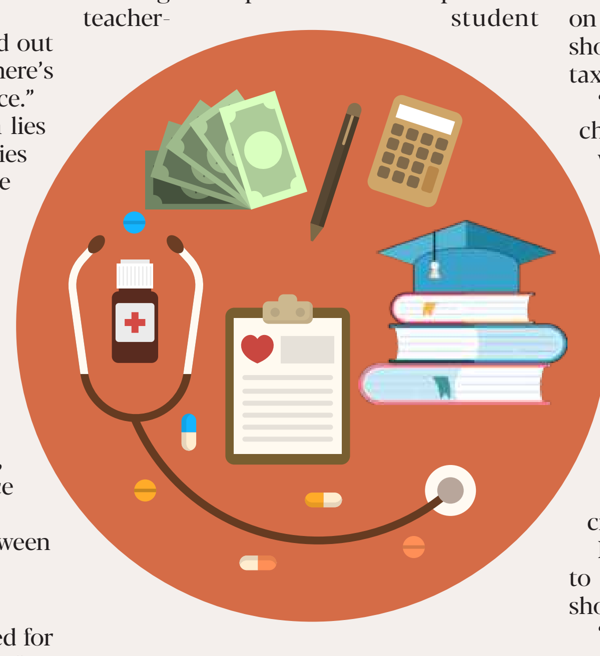
On health services, he cited India's example to argue for stricter rules regarding dual practice.

"If you are serving as a doctor in a government hospital, the Indian government does not allow you to go to a private hospital and practise," he said.

He said such a reform would strengthen service delivery and ensure that government hospitals are fully operational.

He warned against simply increasing budget sizes without reforming the underlying structure.

"We have constructed the buildings. The next logical step is to improve the teacher-student ratio and ensure that services are delivered."



The discussion also covered agriculture, where Haque cautioned against reducing subsidies, saying, "That's not a very good step."

"What multilateral lenders are trying to say is that you should improve your tax collection before offering subsidises," he said.

He also argued that the real challenge in revenue collection is the narrow base of taxpayers.

"Now if you raise taxes, honest taxpayers will simply leave the country. Those who are able will say, 'Forget about taxes. I will leave'," Haque said.

Against this backdrop, he warned of a growing trend among skilled professionals to leave the country.

"Remember, we now have what I have been saying is a nomad digital visa. An independent, able individual can go anywhere in the world now to work, and many countries are attracting them."

Haque said that instead of focusing on the tax-GDP ratio, the government should focus on expanding the number of taxpayers.

"I think the whole concept should be changed to tax net, which means asking where are the people who are supposed to pay taxes and why are they not paying taxes," he added.

He said the fault lies partly with the National Board of Revenue (NBR). "Their automation did not work. We have people who are supposed to register their cars with TIN numbers. But some did it with fake TIN numbers."

"Providing fake TIN numbers for vehicle registration is a crime. And a part of the BRTA is complicit in this crime."

Rather than expanding the tax network to rural areas, he argued that the NBR should first prove its success in Dhaka.

"Dhaka city has 1 crore people -- which means roughly 25 lakh households. At least 50 percent of them should actually pay taxes. Where are they?" Haque asked.

On energy, Haque criticised inefficiencies in the current system, including unused generation capacity and poor distribution.

"You have 28,000-megawatt production capacity. You don't have 16,000-megawatt above distribution capacity. Your first step is to improve the distribution capacity," he said.

He also said Bangladesh needs a rational energy policy that defines who gets uninterrupted electricity and at what cost.

"You cannot make the same quality of electricity everywhere in Bangladesh. That will be a very costly solution," he added.

Haque also challenged the current subsidy structure.

"Right now, we are subsidising producers. If you look at electricity, we should be subsidising consumers rather than producers. We have capacity charges. We're giving bills, unaccounted bills, and nobody is held accountable."

He said that contracts in the gas sector are particularly problematic.

"Bangladesh is purchasing Bangladeshi gas at an international price. Obviously, there will be a subsidy. We made contracts with the gas sector, which were not fair," Haque added.

On foreign-funded development projects, Haque said the real issue is not a lack of money, but poor implementation. "In the last 15 years, we spent more money than we could. In fact, we had the largest budget increase. We spent on average 85-86 percent of the budget."

He said the problem is poor project design, political manipulation, and a preference among officials for local funding.

"Many government officials were interested only in government funding because it's less restrictive. Donor funds come with conditions and you have to follow the rules."

Looking ahead, he said the interim government should not be burdened with unrealistic expectations over the next budget.

"A one-year budget cannot be used to change the economy. That will be the wrong expectation. What it can do is set a thinking process."

Haque said that above all, Bangladesh's path forward lies in building institutions and the rule of law. "We need to create an environment of the rule of law. That's very important. And we need a government where honest and good officers are protected."

Akhter U Ahmed

FIX SOCIAL PROTECTION FLAWS instead of expanding outlay

Says Akhter U Ahmed, country representative for IFPRI

STAR BUSINESS REPORT

Bangladesh must urgently redirect resources within its fragmented social protection system and scale up a handful of proven programmes that directly benefit the poorest, according to a leading economist.

As the government prepares its budget for the upcoming fiscal year, Akhter U Ahmed, the country representative for the International Food Policy Research Institute (IFPRI), has called for a decisive shift in how social safety net funds are allocated.

In an interview, Ahmed said that while social protection spending has expanded significantly in recent years, the effectiveness of that spending remains in question.

"Reallocation is critical," he said. "We must increase the benefit size, improve targeting, scale up successful programmes and phase out inefficient ones."

Drawing from over three decades of IFPRI policy evaluations and impact assessments in Bangladesh, Ahmed identified five programmes that, in his view, should receive increased allocations in the upcoming budget: the Vulnerable Group Development (VGD) programme, the Mother and Child Benefit Programme, the Old Age Allowance, the Allowance for the Financially Insolvent Disabled, and the Allowance for Widowed, Deserted, and Destitute Women.

"These five programmes together account for around 12 percent of the total social protection budget, excluding pensions, and they currently support about 13 million people," he said.

"If you want to improve the welfare of the most vulnerable, these are the programmes to scale up."

Although Bangladesh has steadily raised its social protection expenditure from Tk 35,975 crore in FY16 to Tk 126,272 crore in FY24, or roughly 2.5 percent of the GDP, experts argue that the structure of that spending has not been recalibrated to meet evolving needs.

According to Ahmed, the proliferation of programmes has diluted effectiveness.

In FY24, Bangladesh operated 115 social protection programmes, but 28 of them accounted for 91 percent of the budget. The top five consumed 58 percent while reaching only 6.2 percent of beneficiaries.

"That shows a significant disparity in allocation."

One of the most pressing concerns is the large share of the social protection budget that goes to pensions for government employees.

"Pensions for government employees and their families received 22 percent of the 2024 social protection budget," Ahmed said. "But most of these people are not among the poor. Social protection should target the poorest of the poor."

Continuing to support an unwieldy portfolio of programmes, many of them poorly designed or politically motivated, undermines the goals of poverty alleviation and food security, Ahmed said.

Only about 15 programmes out of the 115 are really performing well. "The rest either lack proper targeting, are underfunded, or offer benefits too small to matter."

The inadequacy of benefits is a recurring theme. Ahmed cited the long-running Primary Education Stipend Programme as an example.

"It started in the mid-1990s, offering Tk 100 per child attending school," he said. "Even in 2020, the average household was receiving only Tk 130 per month. That's less than 1 percent of a poor household's income."

In contrast, the VGD programme, which distributes 30 kilogrammes of rice per month to poor women, provides a more meaningful transfer. "The value of this rice is about Tk 1,500 per month, which is significant and impactful," he said. "That's the kind of support that improves food security."

Although Bangladesh has steadily raised its social protection expenditure from Tk 35,975 crore in FY16 to Tk 126,272 crore in FY24, the structure of the spending has not been recalibrated to meet evolving needs

He argued that other cash-based programmes, such as the Mother and Child Benefit Programme (currently Tk 800 per month), the Old Age Allowance (Tk 600), and the Allowance for Widowed Women (Tk 550), must raise their transfer amounts to at least Tk 1,500 if they are to deliver sustained benefits.

Urban poverty has become another blind spot in Bangladesh's social protection landscape.

"Urban people are particularly vulnerable during food price hikes because they don't produce their own food," Ahmed said. "They rely entirely on the market. When inflation hits, they suffer the most."

Citing figures from the government's 2015 Social Security Strategy, Ahmed said that 30 percent of rural households benefited from social protection, compared to only 9.4 percent of urban households. "That's a huge gap. Urban areas, especially low-income neighbourhoods and slums, need to be brought under the coverage of effective social protection schemes."

Ahmed called for a major expansion of the Open Market Sale (OMS) programme, which sells subsidised food grains to low-income groups. "OMS is a well-targeted programme because the long waits and low pricing make it unattractive to the non-poor," he said. "But right now, it's seasonal and operates mainly in Dhaka and Chattogram. It should be made year-round and rolled out to other towns."

In addition, he proposed new initiatives such as an employment programme focused on urban environmental cleaning. "This would be a self-targeted programme. Better-off people would not take part in cleaning roads and public spaces, so it would naturally reach the poor," he said.

Crucially, Ahmed stressed that these improvements can be made without increasing the total budget. "We are not asking to increase the budget. What we need is to reallocate existing resources to programmes that are proven to be effective."

He also raised concerns about programme redundancy and inefficiency. "Some of these programmes have been around for decades and no longer serve a useful purpose," he said.

"Others were created to serve narrow political goals. These should be dismantled. By reducing the number of programmes and reallocating funds, we can reach more poor people more effectively."

Ahmed also underscored the need for innovations that address chronic vulnerabilities. "Health shocks are the number one reason families fall into poverty," he said. "Even those who aren't poor fall deep into poverty when a breadwinner gets sick. Yet there is no health insurance in Bangladesh."

To address this gap, he recommended piloting a health voucher system. "It's simpler than social health insurance and can be rolled out faster," he said.

He also pointed to Bangladesh's high rate of adolescent marriage and pregnancy as a challenge that social protection could help address.

"We recommend introducing school feeding programmes for secondary school girls, particularly from poor households," he said. "This should include hot, nutritious lunches and take-home rations of fortified rice and pulses – conditional on the girls remaining unmarried. That can delay early marriage, improve birth weights, and support school retention."

Ahmed backed his proposals with evidence from IFPRI's Transfer Modality Research Initiative, which tested cash and food transfers combined with weekly training on nutrition and health. "We found that impacts were not only immediate but sustained," he said. "We followed up after four years and even after six and eight years – and the benefits persisted."

He also cited BRAC's Targeting the Ultra Poor programme, which provides assets and mentoring to the poorest women. "That model also showed long-lasting gains," he said. "These are the kinds of programmes that build resilience, not just consumption."

Be realistic, AVERT RISKS

Big budgets create unnecessary expectations, says former World Bank economist Zahid Hussain

Zahid Hussain

REJAUL KARIM BYRON

In a country weighed down by high inflation, dwindling fiscal space and weak investments, now is not the time for illusions.

The interim government, free from electoral compulsions, has a rare chance to reset the national budget on a rational footing. The coming fiscal year demands a departure from grand narratives and exaggerated promises. Instead, the focus must shift to what is financially feasible, credibly fundable, and economically responsible.

That is the central message from Zahid Hussain, former lead economist at the World Bank Dhaka office, who in an interview with The Daily Star urged the government to pursue a prudent and realistic national budget grounded in hard fiscal truths.

The total budget size, he contends, should avoid the excesses of political grandstanding. "The total size of the budget should not be overly ambitious," Hussain said. "Given the current financing constraints, a budget of around Tk 720,000 crore would be reasonable."

He cautioned against a recurring pattern in budget cycles.

"Every year, right after the budget is announced, you hear the same familiar comment: the budget is overly ambitious." Political governments, he said, have traditionally used budget figures as a propaganda tool, aimed at showcasing artificial economic strength and justifying expanded spending.

"The interim government doesn't have to worry about those things. It doesn't have to create excessive expectations in the minds of the public," he said.

In determining the budget size, financing availability, and a manageable deficit must be the guiding principles. "It should be considered mainly in terms of financing. There are two components -- the size of the deficit and total revenue that can realistically be expected," said Hussain.

While Bangladesh has historically relied on domestic borrowing, this strategy has clear limits. "I don't think you can expect more than Tk 120,000 crore of domestic borrowing without creating pressure on interest rates and on the exchange rate," he cautioned. This pressure on the banking system would inevitably crowd out private sector credit.

Hussain emphasised the need for external financing to play a greater role, but warned against counting mere commitments. "The most important thing is a commitment of foreign financing, a commitment that is in the pipeline and disbursed," he said.

The economist estimated that with proper management, Tk 100,000 crore in external financing could be realised in fiscal 2026.

Even with strong external support, he warned that achieving Tk 500,000 crore in domestic revenue would be difficult, making deficit control even more urgent.

Hussain was adamant that monetising the deficit -- borrowing from the central bank -- must be avoided at all costs. "We are ruling out the option of borrowing from the Bangladesh Bank," he said. "The budget cannot be financed by printing money."

Drawing from experiences, he said devolving treasury bills to the central bank only "fed inflationary pressures. We did this in the past and paid for it."

Instead, deposit growth must be the backbone of sustainable domestic financing. "To get domestic financing without crowding out private credit, without creating pressure on interest rates and the exchange rate, deposits have to grow," he said. "Otherwise, the math won't add up, and you would need to cut the deficit."

NO ALTERNATIVE TO TAX REFORM

The broader fiscal situation, Hussain argued, highlights the urgent need for structural tax reform. Bangladesh's tax-to-GDP ratio remains far too low to sustain rising public spending. "We need to move towards greater reliance on direct taxes such as personal income tax, corporate income tax, and wealth taxes," he said. "Reliance on indirect taxes, particularly taxes based on import values, has to decline, given global situations and forthcoming LDC graduation."

> **"The total size of the budget should not be overly ambitious. Given the current financing constraints, a budget of around Tk 720,000 crore would be reasonable."**

He highlighted a deeply flawed tax structure riddled with exemptions and multiple rates, which facilitate evasion and abuse. "Multiple rates and exemptions create discretion, and discretion invites misclassification, evasion, and rent-seeking," he said.

Citing estimates from the local think tank Centre for Policy Dialogue (CPD), he said tax evasion cost Bangladesh Tk 226,236 crore in FY2023, with half stemming from corporate tax evasion. "If tax evasion exceeds half of actual tax collections, you have to ask yourself: how is this happening?" he said.

Among key reforms, simplifying the value-added tax (VAT) regime should be a priority. "I think the beginning point is to move towards a single VAT rate. Not necessarily 15 percent -- by international standards, it is on the high side," Hussain said, suggesting a 12.5 percent rate as more appropriate.

He called for eliminating special rates like turnover tax, truncated VAT, and package VAT. "These need to be rationalised, meaning they must eventually be eliminated," he said, noting that the reform cannot be done overnight but must steadily be attained to curb evasion.

Hussain also urged caution in raising personal income tax exemption thresholds, arguing that "we do not have the luxury of providing large revenue giveaways through exemption increases." He said such increases also benefit high-income groups and have minimal impact on the poor. However, an inflation adjustment could bring some relief to the middle class. If such an adjustment is made, the government would need to find ways of offsetting the resulting revenue loss.

REVIEW DEVELOPMENT PROJECTS

On the expenditure side, Hussain said that structural constraints limit the government's flexibility. Salaries, pensions, debt servicing, and subsidies consume a significant share of the budget. "When you look at the expenditure side, the government's space for reform is limited," he said.

Still, some rationalisation is possible. "We have to ask ourselves: where are we spending the money, and how do we divide it between the operating and development budgets?" he said, calling for greater strategic planning in resource allocation.

He lauded recent efforts to scrutinise the Annual Development Programme (ADP) and reduce non-essential spending such as on buildings, vehicles, and foreign travels within projects. The focus has shifted not only to reducing the number of projects, but also to identifying savings within project components.

On the subsidy front, Hussain noted that fertiliser subsidies offer little flexibility, but mechanisation subsidies in agriculture might be reconsidered.

He welcomed recent steps to renegotiate contracts with independent power producers and reduce Power Development Board subsidies by reducing costs, adding that "the government is under heavy pressure from the IMF on this."

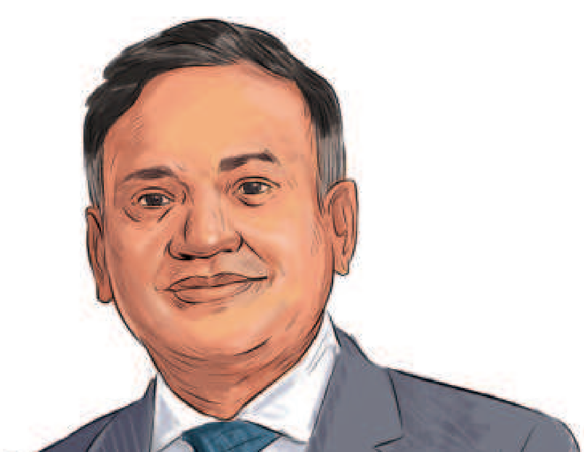
Timely disbursement of subsidies is also critical. "The release of subsidy funds must happen on time to prevent arrears from building up because of late payment penalties," he said.

Export and remittance subsidies should be re-evaluated. "Remittance subsidies have not achieved their intended effect," he said. "Recent remittance boom is attributable not to the subsidy but to a slump in illicit outflows."

Despite its limited tenure, the interim government has the opportunity to lay the groundwork for institutional reform, according to the economist.

A unique chance to reset FISCAL PRIORITIES

Economist Mohammad Abdur Razzaque tells The Daily Star that upcoming budget must be realistic, prioritise smooth LDC graduation



Mohammad Abdur Razzaque

REJAUL KARIM BYRON AND AHSAN HABIB

Bangladesh's upcoming national budget, set to be unveiled by the interim government in June, could mark a rare departure from past fiscal cycles. Free from electoral pressures, the interim government has an opportunity to frame a budget grounded in realism and focused on ensuring a smooth exit from the UN's group of least developed countries in 2026.

"This budget is going to be unique," Mohammad Abdur Razzaque, chairman of Research and Policy Integration for Development (RAPID), a think-tank, said in an interview with The Daily Star.

"There is no pressure on the government to go for populist measures. It's an opportunity to be realistic in terms of what the economy should try to achieve and what the most pragmatic policy goals are."

The interim administration, led by Nobel laureate Muhammad Yunus, is not bound by a political manifesto or a five-year development plan.

The Eighth Five-Year Plan has lapsed and the current regime has not proposed a new one.

"There is no prior commitment that needs to be fulfilled," Razzaque said. "That gives the government greater flexibility."

This, he argued, opens the door to an alternative approach: anchoring the budget in Bangladesh's LDC transition strategy.

The government recently adopted the UN-mandated "smooth transition strategy" as its post-LDC roadmap.

"This year's budget should be focused on how to start implementing this in an effective manner. It is also an excellent opportunity to think about this strategy considering a medium-term framework."

He said the interim government should identify a handful of clear actions for implementation now while outlining medium-term targets for the next administration.

"If they can set the direction, the elected government can also take this forward if they want to."

He added that restoring macroeconomic stability remains a top priority as the country grapples with persistent inflation.

"The inflation rate is quite high, close to 10 percent. Despite some of the macroeconomic stability that we have seen, inflation is not coming down at the rate that we anticipated.

"Without macroeconomic stability, we cannot improve export competitiveness in the post-LDC era. It's impossible."

Additionally, the fiscal space remains tight.

Bangladesh, grappling with one of the lowest tax-to-GDP ratios in the world, has witnessed a growing share of the national budget being swallowed by interest payments.

"We are becoming more and more dependent on foreign resources to implement the national budget," Razzaque warned. "Our annual development programme is now, I think, close to 40 percent dependent on foreign financing."

The most immediate risk from LDC graduation, Razzaque explained, is the erosion of preferential trade terms.

However, the UK has already pledged to maintain Bangladesh's market access and Razzaque added that there was a good chance to engage with the European Union to secure a similar level of market access after graduation.

"The UK plus EU account for almost 60 percent of our total exports."

The EU's current GSP regime expires in December 2027, and its new trade rules will shape Bangladesh's market access beyond the LDC transition window.

"This negotiation with the European Union needs settling immediately," he said, calling the next 12-18 months "a critical opportunity".

Bangladesh is expected to qualify for GSP+ status, but even under GSP+, readymade garments, which dominate the country's export basket, may be excluded due to their large market share.

"We need to negotiate a waiver," he said.

"This can be the single most effective way of minimising the impact of any potential LDC graduation-related consequences."

SUBSIDIES AND REFORMS

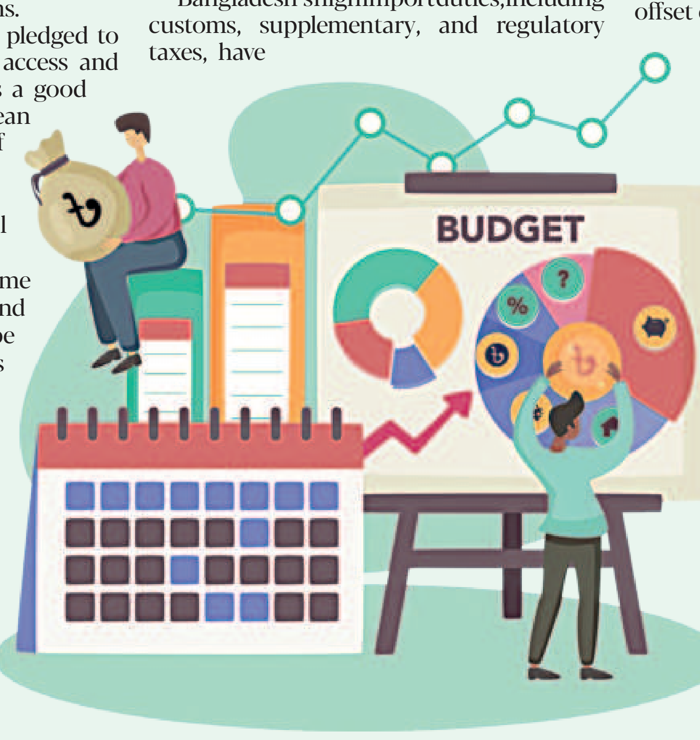
As World Trade Organization rules prohibit export subsidies after LDC graduation, phasing them out is another looming challenge.

"We should continue with the current policy that we have until our LDC graduation timeline, which is November 2026," Razzaque said. "We need to start thinking about how export support measures can be implemented after LDC graduation."

He also called for deeper structural reforms to address long-standing anti-export bias in the economy.

"We have been trying to diversify exports for the past 30 years and almost nothing has happened. We failed to tackle core policy problems."

Bangladesh's high import duties, including customs, supplementary, and regulatory taxes, have made the domestic market more attractive than export markets.



"High duties cause prices in the domestic market to be very high, making production for the domestic market lucrative. Some kind of tariff rationalisation could help investors make the right decision."

The lack of quality enforcement in the domestic market also hinders export readiness. "If we can enforce quality standards, the products we are selling to our domestic consumers will be ready for the international market," he said.

He pointed to the leather industry as a case in point.

"One concrete example is the leather industry. Because of a lack of facilities and other problems, leather goods made in Savar may not be accepted in international markets. Yet, they continue to be produced and sold in the domestic market. There is no restriction."

Razzaque stressed the importance of attracting foreign direct investment (FDI) to offset export shocks.

"Attracting FDI is best supported by negotiations of FTAs," he said. "Securing the Bangladesh-Japan trade agreement should be given maximum priority."

He called for the establishment of a chief trade negotiator's office to centralise and coordinate trade policy.

"We need to have a facility where the government can pool the right kind of expertise. They also need to be trained properly.

"Through that office, resource people, maybe sitting in the Bangladesh Bank, Bangladesh Bureau of Statistics, Planning Commission, commerce ministry and foreign affairs ministry can be brought together. Then we can develop a coherent trade policy."

CHRONIC IMPLEMENTATION FAILURES

Bangladesh's credibility is often undermined by poor implementation. "Normally, countries are able to implement their national budgets. We always struggle," Razzaque said. "Some of the commitments we undertake in the budget become aspirational rather than binding."

Even well-conceived projects suffer from chronic delays.

"The main problem was the implementation time. Especially at the beginning of projects. Recruiting the project director and planning how the project is going to be implemented -- that went on and on.

"More than $50 billion in aid money is sitting in the pipeline. That has happened because our absorptive capacity has been extremely low."

At the same time, accountability has been weak.

"Project audits have been very poor. No punitive action has been taken," he said, urging the government to engage think-tanks and civil society and support independent evaluations.

He also criticised the last regime's obsession with "visible" mega projects. "The most priority was given to projects that would be visible rather than those that would be most effective," he said.

"Cronyism and political favouritism skewed project selection."

With elections expected between December 2025 and June 2026, the interim government is expected to serve through a full implementation cycle, making this a chance to set a precedent, Razzaque said.

"This can be the time to set an example and show that the government should formulate a realistic budget and implement it in the most effective manner.

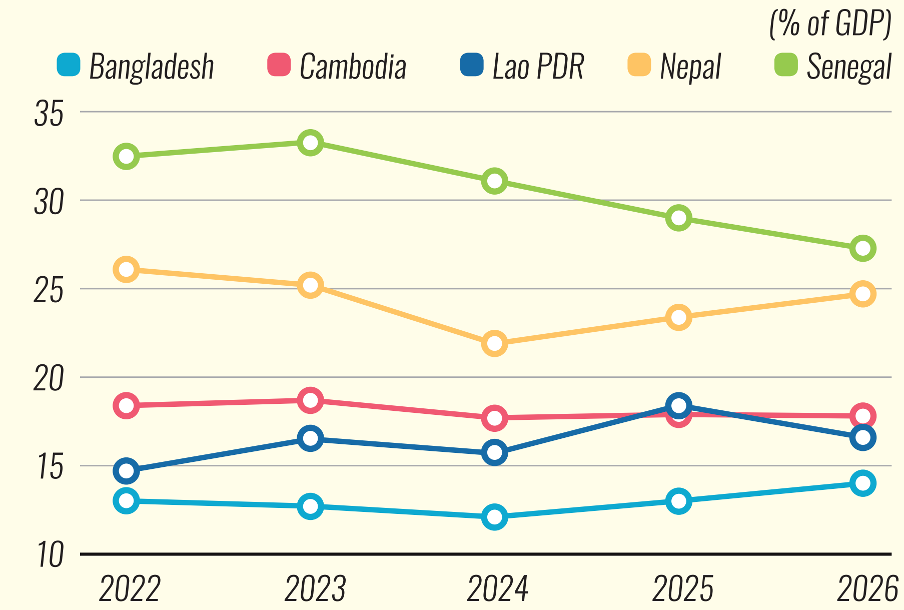
"There are no fundamental issues about which there are disagreements," he added.

"Macroeconomic stability, controlling inflation, generating jobs, preparing for LDC graduation -- these are the core areas. Whoever is elected in the next elections cannot disagree with that."

BANGLADESH LAGS BEHIND LDC-GRADUATING PEERS

in public spending and revenue mobilisation efforts

TREND OF GOVT EXPENDITURE



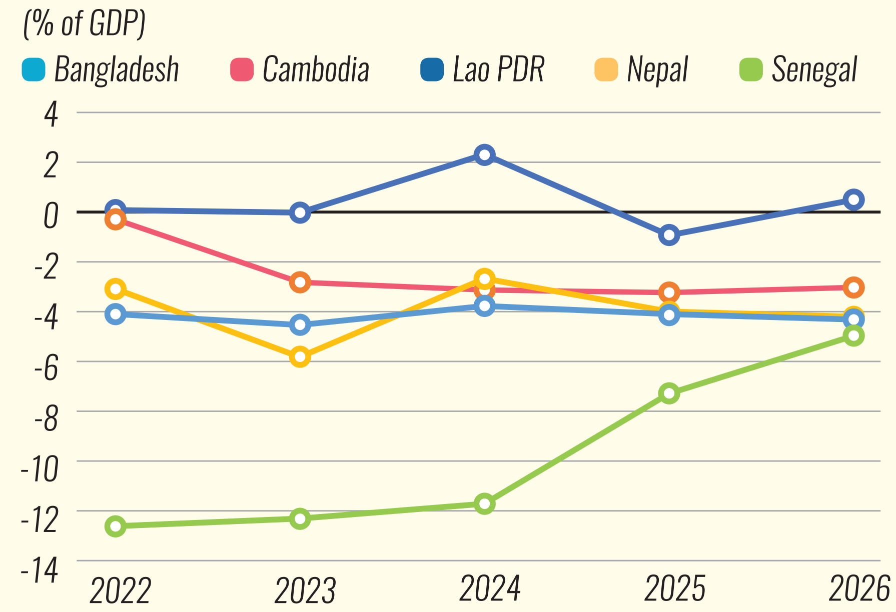
Bangladesh's fiscal deficit is projected to remain above 4 percent of GDP through 2026, as revenue growth continues to fall short of expanding public expenditure.

Despite rising development needs, the country allocates a significantly smaller share of its economic output to public spending than its South and Southeast Asian peers. In 2025, Bangladesh's public expenditure stood at just 13.0 percent of GDP, compared to 23.4 percent in Nepal, 18.4 percent in Lao PDR, and 17.9 percent in Cambodia. The trend is expected to persist in 2026, with Bangladesh projected to spend 14.0 percent of GDP.

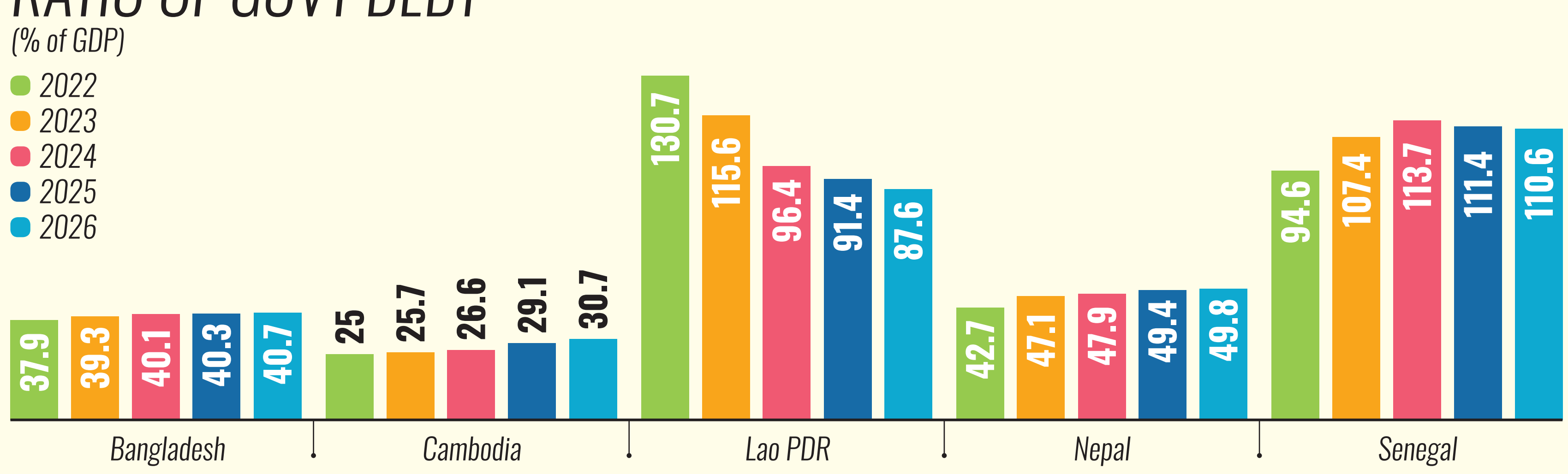
At the same time, Bangladesh's revenue mobilisation remains among the weakest in the region. Government revenue is forecast to rise to only 9.8 percent of GDP by 2026, well below levels seen in countries with comparable or even lower income levels.

Public debt is rising gradually but remains modest relative to regional norms. Bangladesh's debt-to-GDP ratio is expected to reach 40.7 percent in 2026, up from 37.9 percent in 2022. Economists view the trajectory as broadly sustainable, though they caution that further borrowing capacity may depend on tangible improvements in tax collection and the efficiency of public investment.

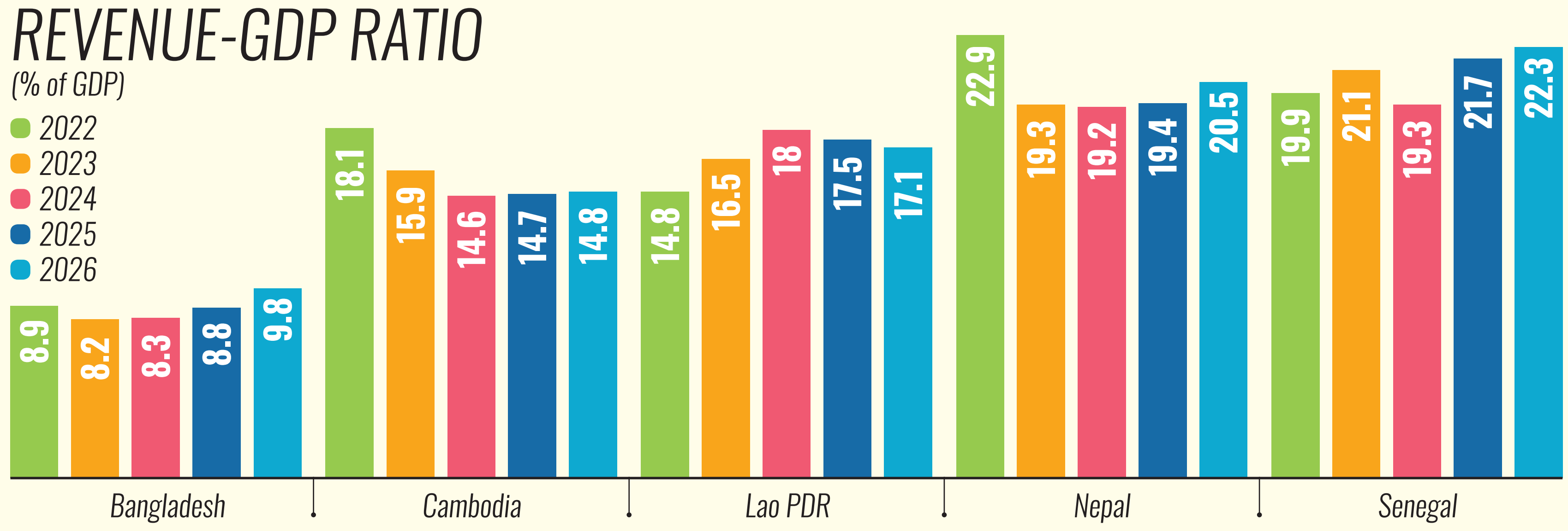
TREND OF BUDGET DEFICIT



RATIO OF GOVT DEBT



REVENUE-GDP RATIO



NATION	GRADUATION YEAR
Bangladesh	2026
Lao PDR	2026
Nepal	2026
Solomon Islands	2027
Cambodia	2029
Senegal	2029

SOURCE: UN

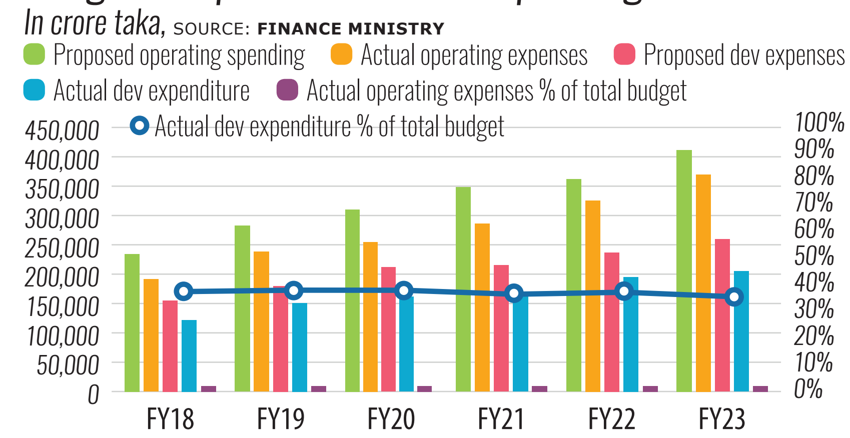
FISCAL YEAR DATA; SOURCE: IMF

RETREATING FROM PANDEMIC-ERA PEAK

Bangladesh's national budget is now shrinking in relative size even as the government struggles to deliver on its development commitments. The budget-to-GDP ratio, which peaked at 17 percent in FY2020, is estimated at 14 percent in FY2025, marking a gradual retreat from the expansionary stance seen during the Covid-19 era. Official data shows that the country's fiscal footprint has narrowed each year since FY2020, reflecting both constraints on resource mobilisation and rising economic pressures. At the same time, the government's ability to fully implement its development agenda remains constrained. In FY2023, operating expenses dominated the budget execution, comprising 64 percent of total actual spending, while development expenditure accounted for just 36 percent. The skewed distribution underscores Bangladesh's reliance on recurrent administrative costs over long-term capital investments, despite repeated policy pledges to prioritise development.

Budget: Proposed and actual spending

In crore taka, SOURCE: FINANCE MINISTRY



BANGLADESH'S BUDGET AND GDP

In crore taka and in %; SOURCE: FINANCE MINISTRY