



Budget to shrink amid fiscal strain

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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.

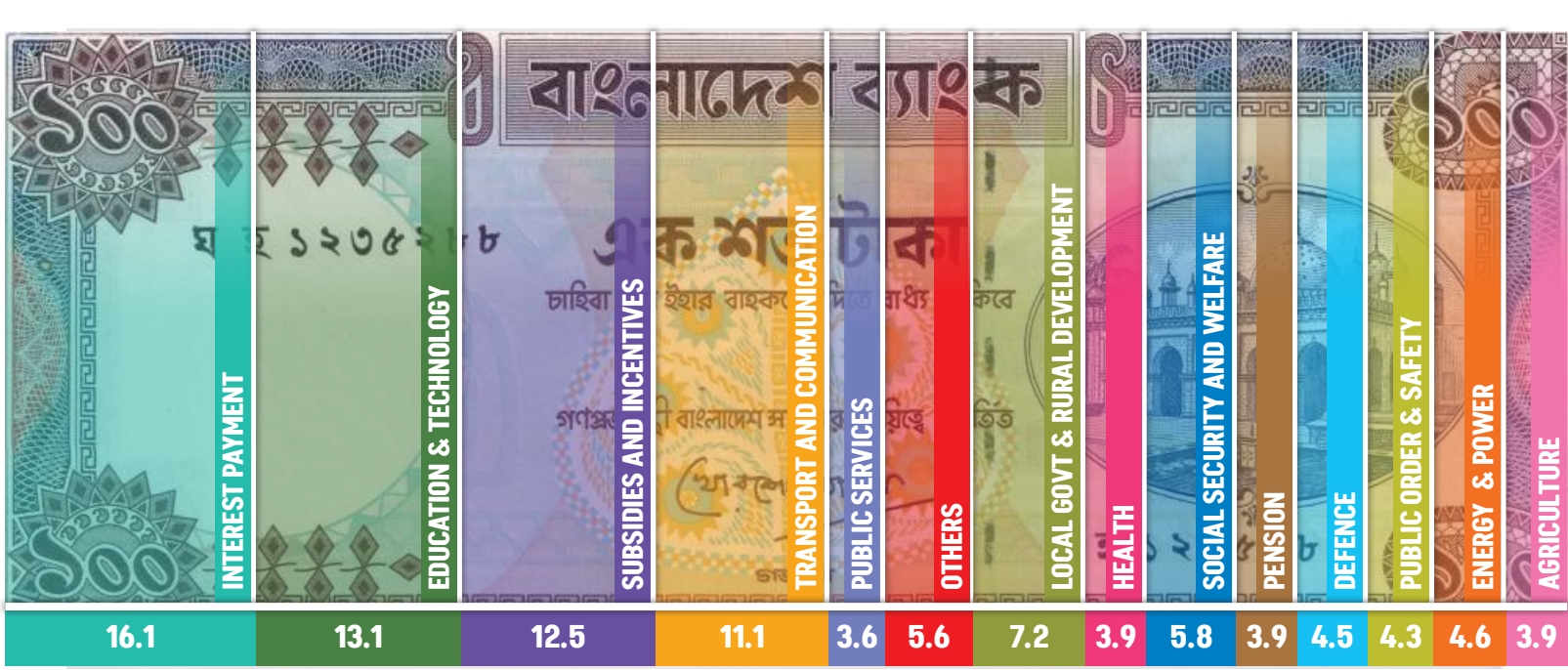
The mounting cost of debt servicing has left little room for discretionary spending. The development budget is expected to be slashed by Tk 35,000 crore to Tk 2,30,000 crore, while the non-development or operating budget will rise to Tk 5,60,000 crore, an increase of Tk 28,000 crore.

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.

WHERE WAS THE PUBLIC MONEY SPENT? Budget out of Tk 100: Use of resources

SOURCE: FINANCE MINISTRY



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.



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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.

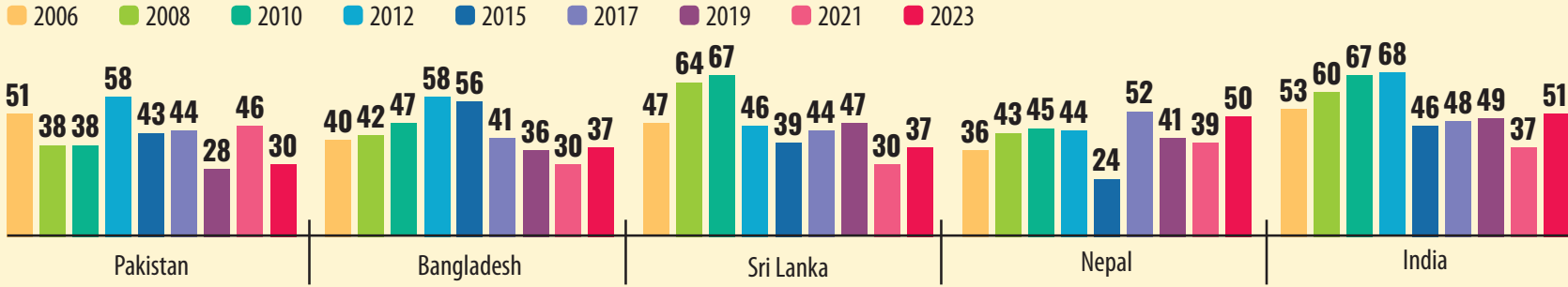
Taxpayers also feel discouraged when they see overestimations of project expenditures, he said.

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



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