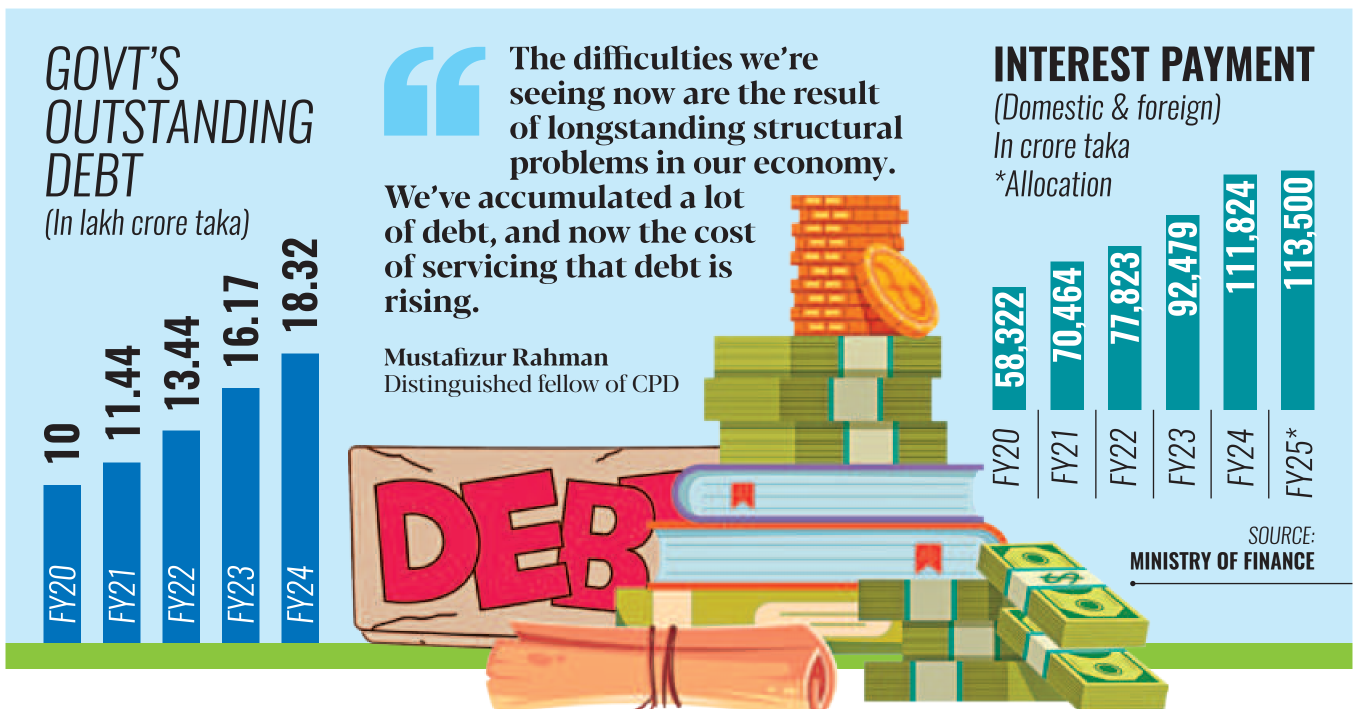
Star BUSINESS

Interest payments, subsidies soak up almost half of budget

These two areas of spending accounted for Tk 118,046cr, dwarfing most other priorities in the July-January period



REJAUL KARIM BYRON

Interest payments and subsidies have absorbed nearly half of Bangladesh's total budget expenditure in the first seven months of the current fiscal year, underscoring growing fiscal stress and raising concerns over public finances.

Between July and January, total government expenditure stood at Tk 246,583 crore, with Tk 118,046 crore -- roughly 48 percent -- channelled into interest servicing and subsidy payments, according to a January report from the finance ministry.

"This problem is structural," said Professor Mustafizur Rahman, a distinguished fellow at the local think tank Centre for Policy Dialogue (CPD).

"The difficulties we're seeing now are the result of longstanding structural problems in our economy. We've accumulated a lot of debt, and now the cost of servicing that debt is rising," he said.

Interest payments alone rose 27 percent year-on-year to Tk 75,902 crore in the July-January period.

Although the 2024-25 budget earmarked Tk 113,500 crore for servicing domestic and foreign loans, finance officials now say the figure may need to be revised upward due to rising yields on treasury bills and bonds, higher foreign interest rates, and continued depreciation of the local currency taka.

"At times, we've had overcapitalisation, and because of that, we've had to incur even more debt," Rahman said. "That's why debt servicing costs are increasing now."

Rahman stressed the need for greater prudence in fresh borrowing. "But we can't escape the debt that's already accumulated -- we have to carry that burden. It will have to be managed by future generations," he said.

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Dollar remains stable as BB adopts market-based rate

STAR BUSINESS REPORT

The US dollar rate remained stable yesterday although Bangladesh adopted a market-based exchange rate regime the day before, giving some relief to businesses and importers.

The dollar rate, which has hovered between Tk 122 and Tk 122.50 for the past few months, did not change after the market-based exchange rate was introduced.

The move to a more flexible, market-oriented exchange rate system was made to ease pressure on foreign exchange reserves and meet a key condition tied to a $4.7 billion loan programme with the International Monetary Fund.

On May 14, the central bank lifted the Tk 1 spread between buying and selling rates of the US dollar by repealing a directive issued in January.

At the same time, it reinstated a circular issued in December 2024, allowing banks to "freely" negotiate the US dollar rate for both interbank and customer transactions.

That marked a formal return to a pricing framework driven by demand and supply.

Bankers say that banks are expected to have an adequate supply of dollars due to increased remittance inflows ahead of Eid-ul-Azha.

A treasury head of a private bank, speaking on condition of anonymity, said that the central bank and other authorities have instructed everyone to play a sensible role in the current situation.

Since Eid-ul-Azha is approaching, dollar flow is expected to increase. There is confidence among all parties regarding this, so there is no volatility in the market, the official said, opining that there will be no volatility in the country's dollar market in the coming days.

Over the past 15 days, the US dollar has been bought at Tk 121 to Tk 122 and sold at Tk 122.30 to Tk 122.50, he added.

At an event yesterday, Bangladesh Bank Deputy Governor Md Habibur Rahman said that if the rate rises beyond the desired level, Bangladesh Bank will intervene, and they have the tools to do so.

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Currency: BB overcomes the fear of floating

STAR BUSINESS REPORT

Bangladesh's long-delayed $1.3 billion IMF loan disbursement is now back on track, after the central bank cleared a major policy hurdle: moving towards a market-based exchange rate. The reform, long resisted due to fears of destabilisation, marks an important turning point in the country's macroeconomic management and sends a strong signal to domestic and international investors.

The International Monetary Fund had paused the fourth and fifth tranches of its $4.7 billion programme over concerns that Bangladesh was lagging behind on two structural benchmarks: reforming its antiquated tax administration and making its foreign exchange regime more flexible. In May, the government delivered on both counts, dissolving the National Board of Revenue and replacing it with two modernised wings under the finance ministry, and formally permitting banks to trade dollars based on market demand and supply.

While the IMF's executive board must still approve the review, the $1.3 billion release is expected in June. More importantly, the market

ANALYSIS

has already responded. Commercial banks -- long constrained by central directives and narrow trading bands -- welcomed the policy shift, which allows them to operate more freely in the interbank forex market.

This is not just about accessing IMF cash. Bangladesh needed the deal to restore credibility. The reforms unlock not only multilateral funds but also a broader confidence premium. Ratings agencies like Moody's and development partners such as the World Bank and Asian Development Bank are now more likely to work constructively with Bangladesh, easing the external financing squeeze.

"By tethering less to fixed policies and more to macroeconomic realities, the switch aligns with international practices, providing an avenue for greater integration into the global financial system," said Zahid Hussain, a former lead economist at the World Bank's Dhaka office.

Lessons from Sri Lanka

Bangladesh's cautious approach contrasts with Sri Lanka's more abrupt currency liberalisation in 2022. Faced with depleted reserves and a collapsing economy, Colombo allowed its rupee to float freely, leading to a sharp devaluation from 200 to over 360 against the dollar before eventually stabilising near 299.

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Economy on path to recovery: experts

STAR BUSINESS REPORT

ECONOMIC RECOVERY AND REFORMS

Experts say economy is on a recovery path by cautious optimism	Recent policy moves, including NBR split and Bank Resolution Order, hailed as bold and timely	Exchange rate liberalisation seen as key to long-term economic resilience	Macroeconomic stability restored; higher growth trajectory likely, says PRI chairman

POLICY AND INSTITUTIONAL CHALLENGES

- Reforms alone are not enough—policy coherence and long-term vision needed, warns special assistant to CA
- High interest rates and weak investor confidence hinder economic diversification
- Bangladesh must signal confidence internationally to maintain recovery momentum

SOCIAL AND STRUCTURAL ISSUES

- Erosion of social cohesion now a deeper threat than financial gaps, says an expert
- Bangladesh needs "hard reforms and honest reflection" to rebuild trust and direction

Bangladesh's economy is recovering after months of slowdown, with stability returning and confidence growing across various sectors, according to experts.

Speaking at the launch of the inaugural edition of the Monthly Macroeconomic Insights (MMI) by the Policy Research Institute of Bangladesh (PRI) at its Banani office yesterday, experts and economists expressed cautious optimism about the country's economic trajectory.

The MMI, a new analytical initiative by PRI's Center for Macroeconomic Analysis (CMEA), has been developed with support from the Australian Department of Foreign Affairs and Trade (DFAT).

"The economy is on a recovery path," said Ashikur Rahman, principal economist at PRI, calling it a pivotal phase marked by cautious optimism.

He termed the dissolution of the National Board of Revenue (NBR) and the Bank Resolution Order Ordinance 2025 as bold and timely steps by the interim government.

He said these reforms aim to ensure institutional clarity and long-term economic stability.

Addressing the event, Anisuzzaman Chowdhury, special assistant to the chief adviser, emphasised an urgent need to rebuild Bangladesh's social capital alongside reinforcing its economic foundations.

He remarked that while the country has progressed significantly in infrastructure and financial capacity, the erosion of social cohesion and public trust now poses a deeper, long-term threat.

"We need hard reforms and honest reflection," he said. "We are not poor in financial terms alone; our social fabric is also under strain."

Drawing from his early life experiences, Chowdhury reflected on how countries like South Korea and Japan overcame hardship through strategic vision, coordinated reforms, and long-term commitment.

"They didn't just push reforms -- they fixed goals and stayed the course. That's what we need."

Regarding Bangladesh's upcoming graduation from the least developed country (LDC) club, he called it both a challenge and an opportunity. "It's not just about metrics. Without a clear vision, reforms alone won't deliver. We need policy coherence."

He also pointed out that high interest rates, low investor confidence, and disjointed policies are hampering economic diversification. "Why invest in capital markets when banks offer 12 percent with less risk?"

Md Habibur Rahman, deputy governor of Bangladesh Bank, said Bangladesh's economic indicators are showing signs of gradual stability, driven by improvements in the current account and balance of payments.

"Exchange rate liberalisation will benefit Bangladesh on multiple fronts," he said.

He added that the macroeconomic situation has become more comfortable over the past nine months.

Rahman emphasised that despite recent turbulence, the country's fundamentals remain strong and resilient.

He stressed the importance of signalling confidence to the international community and said measures are in place to protect foreign exchange reserves and manage external pressures effectively, positioning Bangladesh for continued recovery.

Upon reviewing the economic growth scenario, Zaidi Sattar, chairman of PRI, pointed out that in the current year, macroeconomic stability has been restored, and the economy is poised to return to a higher growth trajectory.

"Our export potential is hobbled by a highly protective tariff regime that creates a persistent anti-export bias in policy incentives," he added.

Clinton Pobke, deputy head of mission at the Australian High Commission in Bangladesh, emphasised Australia's commitment to strengthening economic engagement with Bangladesh through a multi-pronged approach encompassing policy reform, trade and investment, and support for public policy discourse.

Speaking at the launch of the new initiative in collaboration with the PRI, Pobke expressed his appreciation for the quality of economic analysis presented.

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'Govt to act if telcos don't cut internet prices'

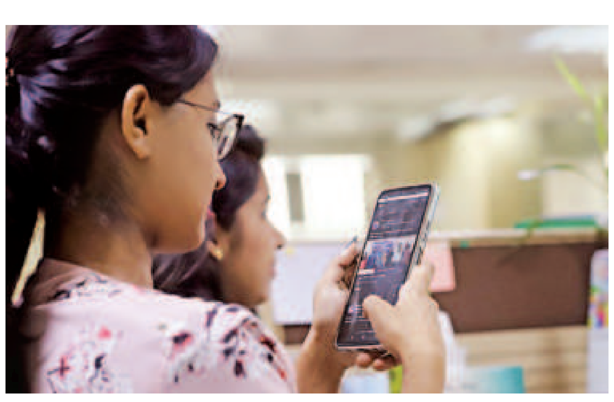
STAR BUSINESS REPORT

The government will take measures if mobile operators fail to reduce internet prices, said Faiz Ahmad Taiyeb, the special assistant to the chief adviser with executive authority over the Ministry of Posts, Telecommunications and ICT.

He made the remarks yesterday at a press conference held at the office of the Bangladesh Telecommunication Regulatory Commission (BTRC) in Dhaka, marking World Telecommunication and Information Society Day 2025.

In response to a question about why mobile operators have not yet lowered internet prices, Taiyeb said that bandwidth prices at the gateway and transmission levels have already been reduced.

"We have already taken necessary regulatory and practical steps to ensure mobile operators reduce internet charges. Stakeholders have participated in this process. Those who haven't should get involved," he said.



"Since we have reduced prices at the gateway and transmission levels, we deserve internet prices to decrease at the user level."

Calling on mobile companies to cooperate, he warned that if they fail to respond, the government would bring unresolved financial issues and key performance indicators (KPIs) to the negotiation table.

"If they don't cooperate, we will raise pending dues and performance matrices in bilateral talks," he added.

"We do not want to block anyone's path," Taiyeb emphasised. "But we want to reach a point, through dialogue with stakeholders, where citizens can access quality internet at an affordable price. We will remain steadfast for that."

He added that the government is ready to offer waivers in logical cases and challenge any irrational ones.

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NBR officials vow to continue strike

STAR BUSINESS REPORT

Protesting officials and employees of the National Board of Revenue (NBR) yesterday vowed to continue their pen-down strike on Saturday, pressing a three-point demand, including the repeal of a new ordinance on restructuring the revenue administration.

The other two demands are the public disclosure of a state advisory committee's report on reforms for the NBR, which was submitted to the finance ministry, and inclusive, consultative, sustainable reforms for the revenue administration.

They made the announcement at a press briefing at the NBR's headquarters following a three-hour work abstention throughout the country for a second consecutive day.

However, as before, international passenger services, export activities, and preparations for the national budget remained outside the purview of the strike.

"We want a comprehensive, inclusive, and sustainable reform of the revenue system, based on open discussion on the advisory report," said Sefat-E-Mariam, additional commissioner of the NBR, at the press conference.

"...and a white paper on the country's economic situation, engaging stakeholders, business associations, civil society, political leadership, and all relevant parties," she said.

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