Smaller in size, larger in intent

It's a budget that tries to do more with less -- and do it differently. Faced with limited fiscal space and high expectations, the govt goes for people-first priorities

ARUN DEVNATH

Finance Adviser Salehuddin Ahmed has offered both empathy and arithmetic in his budget speech, laying out a vision that puts people, not just projects, at the heart of economic policy.

The first budget from the interim government is smaller in size but larger in intent. It's a symbolic break from bloated spending and inflated promises. Gone is the language of sky-high growth. In its place, Ahmed pushed for what he called "holistic development".

He spoke of the families of the July Mass Uprising -- of the martyrs, the injured, and those left behind. He described mothers unable to afford protein, farmers stranded by flash floods, and migrant workers searching for dignity abroad. He acknowledged the invisible labour of women whose unpaid work sustains households but goes uncounted in the national economy. The adviser also looked ahead, highlighting telemedicine, tech-adapted teaching, and a banking system on the mend.

In a clear shift from the past, the FY26 budget prioritises people over infrastructure. "Instead of highlighting the traditional physical infrastructure development, we have given priority to the people," he said. Ahmed underscored the importance of safeguarding fundamental rights and ensuring access to a dignified life. Without these, he warned, "any state becomes ineffective, and the foundation of a society is weakened."

The budget reflects a broader national ambition: to build a society free from poverty and unemployment, and committed to a zero-carbon future -- an echo of Chief Adviser Muhammad Yunus's "three-zero" vision.

The government has placed youth almost at the centre of its economic vision, rolling out initiatives focused on skills training and entrepreneurship. The finance adviser said the aim is to harness the energy and potential of young people to build a more self-reliant workforce. However, analysts argue that the budgetary allocations fall short of what's needed to meaningfully address the scale of youth unemployment.

Empathy for a wider society shapes the budget's tone, but beneath it lies a sober economic reality. In a year clouded by inflation fatigue, fragile policymaking, and the structural hangover of the past disgraced regime, Ahmed presented a budget grounded in restraint. And the people-first framing masks the harder constraints underpinning the budget: ballooning debt.

GDP growth is projected at 3.97 percent this fiscal year. While growth may pick up to 6.5 percent in the medium term ahead, the adviser warned that inflation, driven by the Russia-Ukraine war, remains tough to control. Still, tighter policies have brought it down to 9.05 percent in May from a peak of 11.66 percent last July.

FISCAL DISCIPLINE

The budget balances social spending with bold tax reforms, but its success depends on improbable revenue gains, a gamble that could backfire amid global economic headwinds.

The most significant structural reform comes from the elimination of corporate tax exemptions, a clear departure from the previous government's tendency to perpetually extend such benefits. This move, coupled with sweeping reductions in import duties across hundreds of items, suggests a genuine effort to broaden the tax base and improve competitiveness.

The success of these measures depends on two precarious assumptions: first, that removing exemptions will not trigger backlash from the business community; and second, that customs revenue losses will be offset by increased compliance. Historical precedent is not encouraging; the tax-to-GDP ratio has stagnated around 8 percent for years, well below regional peers.

The tax measures could lay the groundwork for a more rational system, but only if future governments resist pressure to reintroduce exemptions.

With the National Board of Revenue collecting just Tk 362,000 crore last fiscal year, the new target of Tk 499,000 crore for the upcoming year seems overly ambitious. So far, the NBR has raised only Tk 289,000 crore in the first 10 months of the current fiscal year.

The fundamental tension lies in how expenditures will be funded. With the budget deficit projected at 3.6 percent of GDP and likely to expand if revenue falls short, Bangladesh risks either compromising its development spending or accumulating more expensive debt. The lack of concrete plans to improve tax administration efficiency suggests the government may be relying on domestic borrowing, which could crowd out private investment and push interest rates higher.

Ultimately, Bangladesh's economic trajectory will depend less on budget proposals than on whether it can break its chronic cycle of weak revenue mobilisation and stopgap financing. Without deeper reforms in tax administration and public expenditure management, even the most well-intentioned fiscal plans will remain aspirational.

The adviser insisted that measures are already in motion to expand the tax base, phase out exemptions, and modernise revenue systems.

One of the more contentious elements of the budget is the decision to impose an additional 7.5 percent tax on publicly traded companies that have issued less than 10 percent of their shares through a public offer. Critics argue the move is not only punitive but also discriminatory, especially in a market already struggling with low investor confidence.

Equally counterintuitive is the withdrawal of the reduced tax rate previously granted to companies conducting transactions through formal banking channels. At a time when the government is promoting financial transparency and digital payments, this measure undermines efforts to build a cashless economy.

Salaried taxpayers, too, are feeling the squeeze. While the hike in the tax-free threshold at the entry level offers some relief, the broader restructuring of tax slabs may ultimately place a greater burden on the middle class. That runs counter to the concept of equity and erodes disposable income in an already inflationary environment.

DEMOCRATIC TRANSITION

Macroeconomic stability was one pillar of the budget, and the other was democratic transition.

In one of the most politically resonant moments of his speech, Ahmed underscored the interim government's commitment to restoring electoral integrity. "One of our goals is to reestablish people's voting rights through a free and fair election and to hand over power to a democratic government," he said, adding that the country's electoral system had been "completely tampered with" over the past decade and a half.

The timing of the message was significant: the budget was unveiled on the same day Chief Adviser Muhammad Yunus resumed dialogue with political parties.

Ahmed said electoral reform had been given the "highest priority."

SEE PAGE 6 COL 3

MAJOR FEATURES

- First-ever downsized budget
- Commitment to holistic development
- Youth at the centre of economic strategy
- Targeted support for families of uprising victims
- Recognition of women's domestic work in GDP
- Tax reform push
- Fiscal discipline amid ambitious revenue goals
- Tackling inflation while tempering growth expectations
- Anchored in vision for zero poverty, zero carbon, zero unemployment

Stability takes priority over bold reforms

Say economists about budget

MAHMUDUL HASAN

Economists described the proposed FY26 budget as cautious and structurally conservative, with some commendable steps in taxation but lacking bold reforms or a clear roadmap for future development.

While acknowledging the budget's efforts to preserve macroeconomic stability, analysts warned that limited incentives and reliance on outdated frameworks may deter private investment and hinder economic transformation.

Zahid Hussain, former lead economist of the World Bank's Dhaka office, called the budget "a mixture of courage in the taxation measures and business as usual in the expenditure side".

Asked whether he found any element that aligned with Finance Adviser Salehuddin Ahmed's pledge to leave a mark through this budget, Hussain said, "Certainly, on the taxation side."

Hussain identified two major tax reforms that stand out, although whether they will stick remains to be seen. The first of these reforms is the removal of several exemptions in corporate tax and VAT, particularly those set to expire in June that are not being renewed in a break from past practice.

Secondly, supplementary and customs duties on hundreds of items have been reduced, significantly lowering import protection, while the exact fiscal impact depends on detailed calculations.

Hussain noted a lack of concrete direction for structural reform, particularly in banking or fiscal policy.

"There are references to work that has begun. For example, it mentions the enactment of the Bank Resolution Act, completion of asset quality reviews for several banks, a revision of NPL definitions, and the establishment of a single business window to reduce the cost of doing business.

"However, these are mostly existing reform initiatives. There is no specific roadmap -- nothing that says: 'As an interim government, here's what we'll complete before

SEE PAGE 6 COL 3

No immediate tax relief despite inflation woes

MD ASADUZ ZAMAN

There will be no tax relief for individuals in low- and middle-income brackets, at least in the next fiscal year, even though high inflation has significantly eroded their purchasing power over the last couple of years.

Tax rates on income will remain the same as in fiscal 2024-25. The tax-free income ceiling has not been raised, meaning every individual earning above Tk 350,000 must pay income tax.

And the overall tax bill will rise further if VAT, an indirect tax paid by consumers, is taken into account. From plastic tableware to kitchen items to home appliances, taxpayers will have to pay more VAT amid high inflation that now hovers around 9 percent.

It'll cost more to build homes or buy refrigerators and locally made mobile phones, or do online shopping, leaving little breathing space for taxpayers.

However, they will get some respite from tax burden in fiscal 2026-27 when the tax-free threshold will go up to Tk 375,000, according to the budget proposal.

Besides, a first-time taxpayer may benefit from the minimum tax of Tk 1,000, instead of Tk 5,000, in FY27 given the taxable annual income is between Tk 375,000 and Tk 675,000.

Many taxpayers have voiced frustration that they'll have to wait for more than a year to get the much-needed relief from tax burden.

Mahmudul Hasan Suman, who works at a private organisation in the capital, said, "We are grappling with the rising prices of commodities. If we could get this tax-free benefit right now, it would have provided us with some sort of cushion."

Seeking anonymity, a government official based in Satkhira, said, "As a government employee with a fixed income, I'm already feeling the pinch of soaring inflation. It's disappointing that the raise in the tax-free income limit will not come into effect until fiscal 2026-27."

Towfiqul Islam Khan, a senior research fellow at the Centre for Policy Dialogue (CPD), said the raise starting from fiscal 2026-27 is unlikely to benefit taxpayers who need some relief now. There were no explanations about it in the budget proposal.

> **Tax rates on income will remain the same as fiscal 2024-25. The tax-free income ceiling has not been raised, meaning every individual earning above Tk 350,000 must pay income tax.**

Snehasish Barua, managing director of SMAC Advisory Services, said that instead of cracking down on tax evaders, the proposed Finance Ordinance 2025 unfairly burdens compliant taxpayers with steep taxes amid high inflation.

But there is good news as well.

The rules on mandatory submission of proof of tax return will be eased from fiscal 2025-26. Taxpayers will not need to show the proof for getting 33 services, including purchase of savings certificates worth above Tk 5 lakh. Only a copy of the Taxpayer Identification Number (TIN) certificate will be needed for getting 12 services.

However, the plan to phase out exemptions and tax benefits enjoyed by the various sectors will cause worries to many businesses.

Another matter of concern for them is the proposal for hiking corporate tax rate for non-listed companies to 27.5 percent from the existing 25 percent.

At present, non-listed firms are eligible for a reduced rate of 25 percent if they meet two conditions: they must use banking channels for receiving all their income and also for every expenditure above Tk 5 lakh. Otherwise, the rate is 27.5 percent.

From the next fiscal year, these conditions will no longer apply, and the flat rate of 27.5 percent will be applicable to all non-listed firms.

The corporate tax rate for merchant banks will be reduced to 27.5 percent from 37.5 percent. However, corporate tax rates for other entities, including mobile operators, cigarette companies, and private universities, will remain unchanged.

The income tax rate for those in the highest income bracket is likely to be reverted to 30 percent in fiscal 2025-26 as part of the government's prospective tax plan.

IMPACT OF INDIRECT TAX

The new budgetary measures will

SEE PAGE 6 COL 3

Not much for youth employment

Utilisation ability of scanty allocation remains a question

MD ABBAS

The proposed budget seeks to increase the youth loan ceiling to Tk 2 lakh for trained individuals and Tk 5 lakh for successful entrepreneurs and also allocate Tk 100 crore fund for youths, as part of the interim government's efforts to address youth unemployment.

An additional Tk 100 crore has been allocated for a project titled Tarunyer Utshob (Youth Festival).

The government also aims to train and provide credit support to 9 lakh youth by December 2028. Freelancing training has already begun in 48 districts, targeting 28,800 educated but unemployed individuals.

Syed Sultan Uddin Ahmed, executive director of the Bangladesh Institute of Labour Studies, welcomed the increased loan ceilings for youth, but said money alone will not solve the unemployment problem.

SEE PAGE 6 COL 3