

Star BUSINESS



No room for illusory budgeting amid fiscal strain

Debapriya says in interview, calls for hard choices, tax reform, and a credible budgeting framework

MD ASADUZ ZAMAN

Bangladesh can no longer afford "surreal" budgets built on inflated projections and political convenience, warned eminent economist Debapriya Bhattacharya.

He urged the government to confront its fiscal realities through difficult but necessary reforms.

"Don't make a surreal budget – an illusory one that defies realities. Artificially inflated expenditures and income may be politically saleable at the moment, but everyone knows these numbers cannot be delivered," he said.

"However unpalatable it may sound, the government does not have the luxury of fiscal profligacy. The guiding factor must be the government's available fiscal space," he said.

In an interview with The Daily Star, the distinguished fellow of the Centre for Policy Dialogue (CPD) shared his perspectives on the government's upcoming budget for the fiscal year 2026-27.

He outlined potential avenues for revenue mobilisation, flagged concerns over public expenditure, and stressed the need for a credible and transparent fiscal framework to navigate mounting economic pressures.

At the core of the upcoming budget lies a critical challenge: how to mobilise adequate revenue without overburdening taxpayers.

According to Debapriya, a significant portion of potential revenue is lost through tax exemptions.

"Income tax exemptions alone account for around 3 percent of GDP. If you add VAT and customs exemptions, total tax expenditures rise to about 6.8 percent," he said, citing data from the National Board of Revenue (NBR).

But he cautioned against blanket removal.

"The priority should be rationalisation. We need to assess whether these exemptions are disproportionately benefiting certain business groups and whether they are actually improving productivity and competitiveness of the sector concerned," he said.

Ensuring that small and medium enterprises receive adequate tax support should also be part of that review, he added.

Beyond tax dispensations, the government faces growing fiscal pressure from demand for subsidies and incentives.

"Subsidies account for about 1.8 percent of GDP, with a large share going to the power sector. There are also significant export and agricultural incentives, Debapriya said.

"When you combine tax expenditures, subsidies, and fiscal incentives, the total fiscal exposure reaches around 9 to 10 percent of GDP. Including contingent liabilities, it exceeds 12 percent. That is substantial for an economy which collects less than 7 percent of GDP as total revenue."

To address the existing revenue gap, Debapriya stressed the importance of expanding the tax base. Out of 1.28 crore tax identification number (TIN) holders, less than 23 lakhs (18 percent) actually pay taxes.

"The principle should be low tax rates with high coverage," he said. "We need to bring more people into the tax net rather than increasing the burden on a small group."

He also highlighted the need to distinguish between taxable individuals and taxable income.

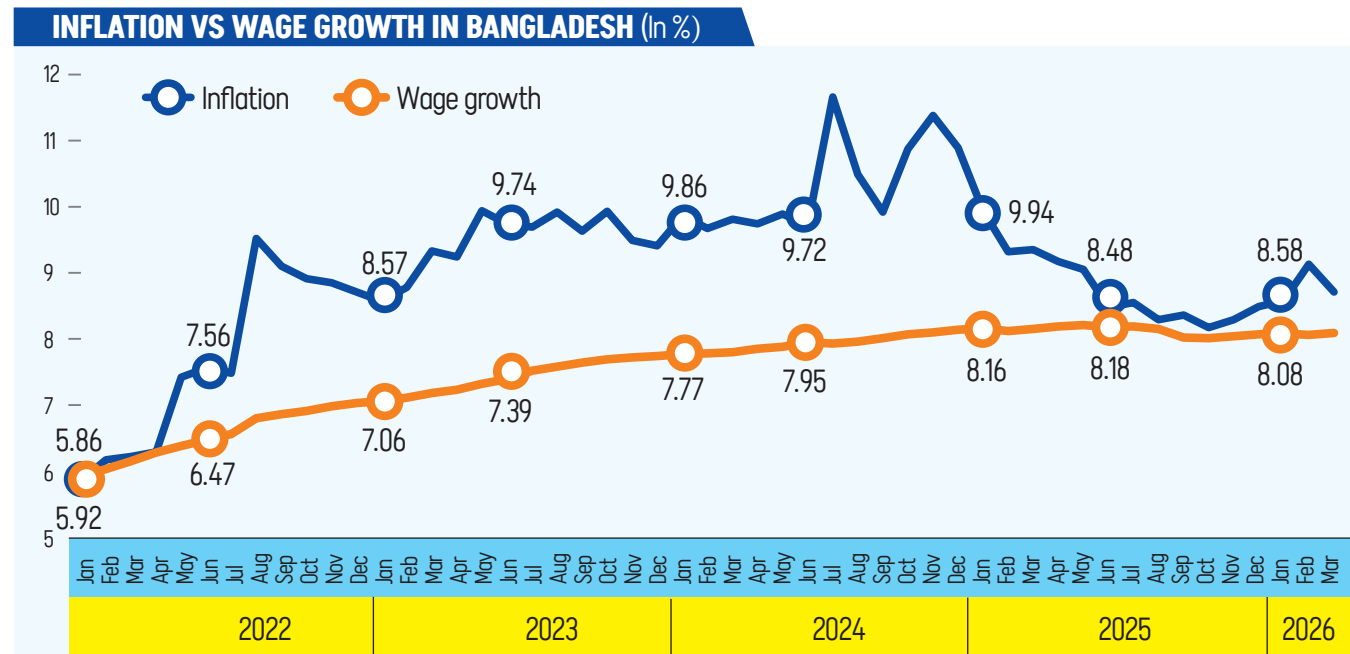
READ MORE ON B3



Debapriya Bhattacharya

Inflation outpaces wages for 50 months

For many, negative real incomes have pushed protein off plates and now threaten a heavier debt burden



SOURCE: BBS

MD ASADUZ ZAMAN and SOHRAB HOSSAIN

By fishing, Rafique Majhi earns about Tk 500 on a good day, if luck favours him. To manage daily expenses, he relies on borrowing almost every month. The upcoming fishing ban is also a major concern.

According to the Bangladesh Bureau of Statistics (BBS), inflation has outpaced wage growth for 50 consecutive months up to March, despite a gradual rise in pay since February 2022.

The wage growth rate stood at 8.09 percent in March, 0.62 percentage points below inflation of 8.71 percent, according to the Wage Rate Index. In the previous month, the gap between inflation and wage growth was 1.05 percentage points.

Unlike Rafique or Hossain, Prashanna Kumar Roy, a farm labourer at Rajpur union in Lalmonirhat, is not concerned about fishing bans. But his pressure comes from rising farming costs, which he said has reduced his income.

Roy, who used to earn Tk 15,000 to Tk 20,000 a month during the farming season, said it is now difficult to earn even Tk 14,000.

After cutting all possible expenses, including exhausting the very small family savings and skimping on nutritious food, the 45-year-old labourer said any emergency, such as medical

needs, now forces him to take loans, adding to existing debt.

These people belong to the country's informal sector, which makes up about 84 percent of the total employed population of 6.9 crore. A large share of them are now at risk of falling into poverty or is already below the poverty line.

COMPROMISING NUTRITION INVITES LASTING CONSEQUENCES

Mohammad Lutfor Rahman, professor of economics at Jahangirnagar University, said low income households are cutting back on protein-rich foods such as fish, meat, eggs, milk and fruit, relying instead on basic calorie intake just enough to work the next day.

He said such compromises could have long-term consequences. "A malnourished workforce cannot remain productive, and their physical capacity declines over time," Prof Rahman said, adding that children in low-income families risk falling behind in cognitive development.

He said weak labour demand is adding further pressure. Several sectors, including construction, have recorded weak or negative growth in recent months, reducing demand for labour.

"At the same time, more people are entering the labour force, creating excess supply and pushing wages down."

READ MORE ON B3

Pahela Baishakh sales bounce back after two lean years



Clothing sales have picked up ahead of Pahela Baishakh, the first day of Bangla new year. This photo of customers browsing through wares at a clothing store was taken yesterday from the capital's Bailey Road.

PHOTO: PALASH KHAN

SUKANTA HALDER

Sales of clothing items ahead of Pahela Baishakh, the first day of the Bengali new year and the second largest annual shopping season after Eid, have rebounded this year after two subdued seasons marked by overlapping festivities and political uncertainty.

Aside from clothing, sweetmeat and footwear traders are reporting improved sales centring the festival this year, though sales fell short of expectations.

Retailers from about half a dozen fashion brands said that business has picked up, as greater political stability has helped restore consumer confidence and improved footfalls. As Eid-ul-Fitr holidays fell in the third week of March, retailers as well as traditional

clothmakers and weavers had at least two weeks to restock and organise collections for Baishakh.

Soumik Das, chief executive officer of Rang Bangladesh, said this year's sales performance reflects a noticeable improvement compared to the immediate past two seasons.

The gap between Eid-ul-Fitr and Pahela Baishakh was somewhat short, so the fashion house made relatively moderate preparations. However, customer turnout has been encouraging, he said.

"When compared to recent years marked by political unrest, uncertainty, and shrunken consumer spending, this year shows a return toward normal retail behaviour."

Khalid Mahmood Khan, co-founder of Kay Kraft, a retailer of clothing, accessories,

home textiles, handicrafts, and handloom-based products, said this year's sales have seen encouraging customer turnout, with noticeably higher interest compared to last year.

However, limited shop hours remain a key constraint, he said.

Across the market, wholesalers and saree distributors are reporting an upward trend in sales. At the production level, weavers and artisans are also seeing positive responses from designers and retailers, indicating strong demand for Baishakh clothing, Khan added.

Shaheen Ahmed, owner of Anjan's, one of the leading fashion brands, said this year's Pahela Baishakh sales have shown improvement, particularly in terms of customer turnout.

READ MORE ON B2

Islamic banks' deposits rise 9.4% in Dec

STAR BUSINESS REPORT

Deposits in the country's Islamic banking system rose 9.42 percent year-on-year to Tk 4.81 lakh crore at the end of December 2025, marking a rebound in shariah-based banks after years of irregularities and weak governance.

By the end of 2025, deposits with Islamic banking increased by Tk 41,434 crore compared with the corresponding quarter of 2024, according to the Bangladesh Bank (BB).

The trend over the past few years has been uneven. Deposits stood at Tk 4.09 lakh crore at the end of 2022 and rose to Tk 4.43 lakh crore by late 2023. They then slipped before regaining momentum through 2024.

Even so, the central bank said that some full-fledged Islamic banks remain under severe liquidity pressure, weighed down by persistent irregularities and poor accountability.

In the "Quarterly Report on Islamic Banking in Bangladesh", the BB said that without good governance, the recovery will not last.

Islamic banks now hold 24.38 percent of total deposits across the banking sector and account for 29.10 percent of total investments, according to the report.

The number of deposit accounts in the Islamic banking system rose to 4.1 crore by the end of December 2025, from 4.04 crore a year earlier.

Of the total deposits, the 10 full-fledged Islamic banks held Tk 4.11 lakh crore, or 85.47 percent of the market share. Islamic branches of conventional banks held Tk 29,681 crore, while Islamic windows of regular banks held Tk 40,231 crore.

Among the full-fledged shariah-based lenders, Islami Bank Bangladesh PLC attracted the largest individual share of deposits at 37.44 percent, followed by Al-Arafah Islami Bank PLC at 10.41 percent and First Security Islami Bank PLC at 7.94 percent.

The BB report showed that investment by Islamic banks grew 9.55 percent year-on-year to Tk 5.25 lakh crore. This was equal to 29.10 percent of total loans and advances across the banking sector at the end of December 2025, according to the BB.

Large industries took the biggest slice at 40.18 percent of all Islamic bank investment, followed by trade and commerce at nearly 33 percent.

READ MORE ON B3

Trust Bank PLC.

VISA SIGNATURE CREDIT CARD

Privilege in Every Swipe

- Credit limit: Up to BDT 10 Lac
- Enjoy 2 complimentary visits to Balaka Lounge annually

To Know More 16201

Islami Bank MD sent on 1.5-month leave

STAR BUSINESS REPORT

Islami Bank Bangladesh PLC has sent its Managing Director, Md Omar Faruk Khan, on leave for more than one and a half months.

The decision was taken at a meeting of the board of directors of the country's largest shariah-based lender yesterday.

Md Altaf Hossain, an additional managing director, will serve as acting managing director during Khan's absence.

Several senior officials of the bank, speaking on condition of anonymity, said Khan had initially sought leave from April 28 to May 21 to visit his son in the United States.

However, the board approved leave from April 13 to May 31, which is a significantly longer period than requested, they added.

"I cannot say why I was granted leave for such a long period. I had requested leave starting from April 28," Khan told The Daily Star.

Khan was appointed as the managing director of Islami Bank on August 3 last year.

Prior to that, he had been serving as acting MD following the removal of former managing director Mohammed Monirul Molla in April last year over allegations of irregularities and fraud.

M Zubaidur Rahman, chairman of the bank, could not be reached for comment despite repeated attempts. Earlier last month, Bangladesh Bank removed Md Abdul Jalil, an independent director and chairman of Islami Bank's executive committee.

After the fall of the Awami League-led government in August 2024, S Alam Group's control over Islami Bank ended, as Bangladesh Bank dissolved the board of the country's largest private sector bank, which had been dominated by individuals linked to the conglomerate.