

# Star BUSINESS



## Budget a ‘litmus test’ for new govt as fiscal space tightens

Experts warn amid rising debt burden, revenue woes

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The upcoming FY27 budget will be a “litmus test” for the newly elected government, experts warned yesterday, as it faces mounting pressure to balance reforms, debt obligations and political promises within the tightest fiscal space in recent memory.

There is little room to manoeuvre for policymakers as they face weak revenue mobilisation, an underperforming ADP, rising debt costs and unaddressed corruption, they said at a pre-budget dialogue organised by Citizen’s Platform for SDGs at the Lakeshore Hotel in Dhaka.

Towhique Islam Khan, additional director (research) of the Centre for Policy Dialogue (CPD), said while presenting the keynote paper that the budget would be shaped by a series of difficult trade-offs.

“The first budget of the newly elected government faces dual pressures of balancing economic stability and reforms while meeting political demands to deliver quickly and prove legitimacy, all within the tightest fiscal space in recent memory,” he said.

Public financial management faces challenges on multiple fronts, he said, including streamlining tax expenditures, protecting investment, advancing reforms, managing subsidies for the marginalised, and addressing the ADP (annual development programme) backlog.



Khan noted that the National Board of Revenue’s tax-to-GDP ratio fell to the lowest in years at 6.6 percent in FY25. The country “forgoes roughly as much as it collects” through exemptions and tax expenditures.

The government’s planned Tk 6.95 lakh crore revenue target for the upcoming fiscal year would require at least a 42 percent jump in collection compared to the current fiscal year, according to Khan. The FY26 shortfall alone is expected to reach Tk 1 lakh crore.

“A Plan B will be required if revenue mobilisation does not keep pace,” he said, raising the question of where the government would cut if the gap proved too wide.

Mustafizur Rahman, CPD distinguished fellow, said a major component of the “litmus test” is whether the government can ensure redistribution of resources through the budget.

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## BB bought nearly \$6b so far this fiscal year

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Bangladesh Bank has purchased nearly \$6 billion from the foreign exchange market so far in the fiscal year 2025-26, reflecting continued efforts to manage liquidity and stabilise the exchange rate.

The central bank bought \$100 million from six commercial banks yesterday at a cut-off rate of Tk 122.75 per dollar. Total purchases in the current fiscal year (July to May 18) stood at \$5.98 billion, according to the latest data from the central bank.

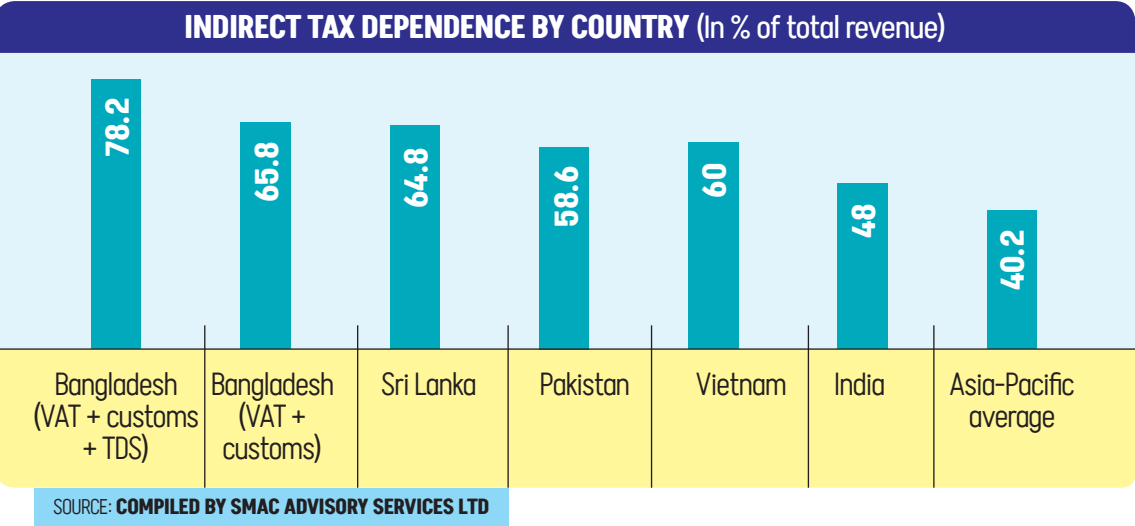
Bangladesh Bank has been buying US dollars since the beginning of this fiscal year amid improved inflows and easing pressure on the foreign exchange market.

Between FY21 and FY25, the BB sold more than \$25 billion from its foreign exchange reserves to meet import payments for fuel, fertiliser and food.

However, it resumed purchasing dollars at the beginning of the current fiscal year as supply increased on the back of higher export earnings and remittance inflows.

Building foreign exchange reserves is another reason behind the central bank’s continued dollar-buying spree.

## Bangladesh’s reliance on indirect tax highest among regional peers



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Bangladesh relies on indirect taxes far more heavily than its regional peers, raising fresh questions about the fairness of the country’s tax structure and its impact on ordinary citizens, according to a study presented yesterday.

The data, which measures indirect tax dependence as a percentage of total revenue, places Bangladesh at the top of the regional ranking. When VAT, customs duties and supplementary duties are combined, Bangladesh’s indirect tax share reaches 78.2 percent – a staggering 28 percentage points above the regional average.

Even when calculated using VAT

and customs alone, Bangladesh still stands at 65.8 percent, nearly 17 percentage points higher than India’s 48 percent.

Snehasish Barua, managing director of SMAC Advisory Services Limited, presented the comparative study at a roundtable discussion held yesterday in Dhaka on the over-reliance on indirect taxes and their multidimensional impacts on the economy. The event was organised by Voice for Reform, a citizens’ platform in Bangladesh.

By contrast, the Asia-Pacific average sits at just 40.2 percent, according to OECD 2025 data. Vietnam records 60 percent, Pakistan 58.6 percent, and Sri Lanka 64.8 percent – all below Bangladesh’s figure.

its ADP in the July–March period of FY26, the lowest five-year rate both in percentage and absolute terms, even after the outgoing interim government slashed the plan by 14 percent, the steepest cut in recent memory, to contain inflation and shore up weak revenues.

According to the planning ministry, of the total allocation for FY27, government financing would be Tk 1.99 lakh crore, while the rest is expected to come from project loans and grants.

### TRANSPORT, EDUCATION, HEALTH LEAD

The new government is eyeing the most development in the transport and communication sectors, which has been given 16.7 percent of the total ADP fund.

Education has also been given high priority. The sector will get 15.86 percent of the total development fund, while the health sector’s allocation stands at 11.84 percent.

Allocation and implementation of the ADP in the two major sectors remained almost stagnant at low levels in recent years. The new development spending plan for the

education and health sectors is nearly double the original budget allocation for FY26.

The allocation falls in line with the government’s pledges. It has set a goal of gradually raising public healthcare spending to five percent of the gross domestic product (GDP) – the total value of all final goods and services produced within a country. It also announced plans to implement massive reforms in the education sector.

The Planning Commission said preferential allocations have been provided to the education, health and agriculture sectors to support discrimination-free socio-economic development.

“Special importance has been given to expanding quality and technology-based education, building skilled human resources, ensuring modern healthcare, empowering women, expanding social security, and promoting agricultural and environment-friendly development,” said the commission in a summary presented at the meeting.

“Simultaneously, initiatives have been undertaken to tackle the Fourth Industrial Revolution, advance technology-based industrialisation and ensure sustainable development,” it added.

The energy and power sector got the fourth-highest allocation of 10.9 percent of the total ADP. Bangladesh is facing growing pressure of energy bills, recently further

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## Economy under strain amid high inflation, weak investment

Say experts

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Despite achieving healthy economic growth over the past decade, Bangladesh’s economy is now showing signs of strain due to persistent inflation and slowing private investment, exposing underlying weaknesses, experts said at an event yesterday.

“Bangladesh faced the Middle East crisis with several existing vulnerabilities, including persistent inflation, weak investment growth and financial sector stress,” said Dhruv Sharma, senior economist at the World Bank.

He made the remark while presenting a keynote speech at the seminar on “Bangladesh Development Update: Special Focus - A Business Environment that Delivers Jobs” jointly organised by Policy Research Institute of Bangladesh (PRI) and the World Bank at the PRI auditorium.

Although Bangladesh Bank has succeeded in bringing inflation down from around 12.5 percent to nearly 9 percent, tighter monetary policy alone cannot fully address the inflationary pressures, which are being fuelled less by excess demand and more by inefficiencies in supply chains, distribution systems and market management, according to Sharma.

World Bank’s Bangladesh-Poverty and Equity Assessment 2025 showed that another 1.4 million people slipped below the poverty line, raising the national poverty rate to 21.4 percent. Sluggish job creation and external shocks, particularly the Middle East conflict, have added to the pressure on households.

He cautioned that prolonged tight monetary conditions are weighing on investment and employment as businesses continue to struggle with high borrowing costs.

Unless wider reforms are made to improve market governance, logistics and the investment climate, hiking interest rates risks further slowing economic growth while failing to substantially ease inflationary pressure, he said.

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## Banks, customs to stay partly open during Eid holidays

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Bangladesh Bank (BB) has directed all banks to keep their branches and sub-branches open on May 23 and 24 ahead of Eid-ul-Azha to facilitate financial transactions and salary payments for garment workers.

The central bank issued a circular in this regard, stating that all bank branches across the country will remain open during regular banking hours on the upcoming Saturday and Sunday.

Banks, however, will remain closed from May 25 to May 31 for the Eid holidays.

The directive follows a government notification regarding the upcoming Eid-ul-Azha holidays.

To ensure smooth payment of wages, bonuses, and other allowances for workers in the garment sector, BB instructed commercial bank branches in Dhaka, Ashulia, Tongi, Gazipur, Savar, Bhaluka, Narayanganj, and Chattogram to continue limited banking operations on May 25 and 26.

According to the circular, these branches will operate from 10am to 3pm, while customer transactions will be allowed from 10am to 1pm.

The central bank also said bank branches, sub-branches, and booths located in seaport, land port, and airport areas must continue limited operations during the Eid holidays, except on Eid day itself, to support import and export activities.

Officials and employees assigned duty during

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