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Can FY27 budget bring the economy back to life?

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As Finance Minister Amir Khosru Mahmud Chowdhury prepares the FY27 budget, the central question is whether new fiscal measures can restore confidence among businesses amid mounting economic pressure.

But the timing could hardly be worse.

His first budget for the new government comes against an economic backdrop that leaves little room for optimism, let alone ambition.

Private investment has sunk to historic lows, industrial output is faltering, inflation refuses to yield, and the country's debt obligations are quietly consuming a growing share of external receipts.

The budget, by all accounts, will be a large one. Whether the economy can bear it is another question entirely.

The most telling signal of the economy's fragility lies not in headline growth figures, but in what businesses are actually doing, or rather, not doing. Private sector credit growth fell to 4.72 percent in March, a historic low that speaks to something deeper than a temporary slowdown.

When businesses stop borrowing, they stop investing, stop expanding and stop hiring, all of which contribute to unemployment. Over time, that reluctance becomes self-reinforcing.

The numbers bear this out.

Economic growth slowed to 3.03 percent in the October-December quarter of FY2025-26, down from 3.53 percent a year earlier.

The more alarming figure sits beneath that headline. The industrial sector, long the engine of Bangladesh's growth model, slowed sharply to 1.27 percent from 5.78 percent a year earlier. That is not a slowdown but a near stall.

Before the new budget is even presented, the tax authority is already missing current targets. In the first ten months of FY2025-26, the National Board of Revenue (NBR) collected Tk 3.27 lakh crore, falling Tk 1.04 lakh crore short of its July-April target. That is not a marginal miss. It is a structural one.

To meet the target, the NBR would need to collect Tk 2.27 lakh crore in the remaining two months of the fiscal year. Officials themselves describe that prospect as a "herculean task" which is perhaps the most honest thing a revenue authority can say.

It signals not merely a bad stretch, but a fundamental mismatch between what the government expects to collect and what the economy is actually generating in tax receipts.

Faced with the shortfall, the government has turned increasingly to the banking system to finance its deficit, a shift that is beginning to affect private sector credit conditions.

In the July-February period of FY2025-26, net deficit financing rose 67 percent year-on-year to Tk 1.05 lakh crore, up from Tk 63,040 crore a year earlier. Of this, Tk 88,309 crore came from the banking system, according to Bangladesh Bank data.

When the government draws that heavily on the banking system, it competes directly with private borrowers for the same pool of credit.

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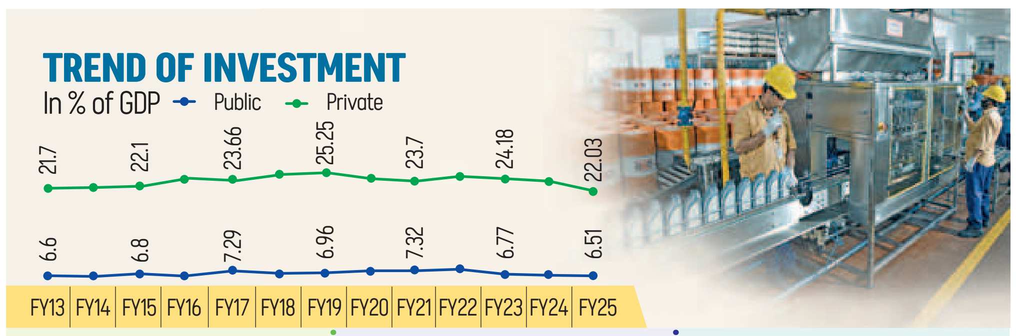

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25.25% Highest private investment as % of GDP recorded in FY19

PUBLIC INVESTMENT TRENDS
7.53% Highest public investment as % of GDP recorded in FY22

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How Bangladesh got caught in a rising debt burden

FY26 debt servicing to cost $30.59b, says IMF

REJAUL KARIM BYRON *and* AHSAN HABIB

At one time, it was possible to finance a portion of development expenditure through revenue surplus. However, in recent years, not only development expenditure but even the operational budget has had to be financed through borrowing.

The deterioration has been rapid since fiscal year 2022-23, when actual revenue fell Tk 463 crore short of what was needed just to cover operating expenditure. The gap was plugged through borrowing.

The following year, that shortfall shot up to Tk 3,630 crore. By FY25, the entire Annual Development Programme (ADP), the primary fiscal instrument for financing public sector development, had to be financed through loans.

The roots of the problem lie in a combination of the government taking up large mega-projects, expanding budgets, but failing to grow revenue collection as required. As the gaps between expenditure and revenue grew larger over the years, the necessary money came through loans.

By FY25, Bangladesh's total public debt reached $188.79 billion, equivalent to 41 percent of GDP, according to the IMF's latest Article IV Consultation Report. The rate was 39 percent in FY24.

The IMF, one of Bangladesh's biggest multilateral lenders, has responded by moving the country from a low-risk to a moderate-risk classification in its debt sustainability analysis, reflecting deteriorating metrics across debt volume, debt servicing relative to GDP, exports, and revenue earnings.

The mounting repayment obligations are emerging as one of the biggest challenges for the BNP-led government as it prepares its first budget since coming to power in February.

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